

FINAL OFFICIAL STATEMENT DATED NOVEMBER 17, 2022

RENEWALS

BOND ANTICIPATION NOTES MOODY'S RATING: "MIG 1"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual alternative minimum tax. We observe that, for tax years beginning after December 31, 2022, interest on the Notes included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel is also of the opinion that such interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivisions thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes. See "TAX MATTERS" herein.

The Notes will NOT be deemed designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

CITY SCHOOL DISTRICT OF THE CITY OF MIDDLETOWN ORANGE COUNTY, NEW YORK (the "School District")

\$20,825,000

BOND ANTICIPATION NOTES, 2022 (RENEWALS) (the "Notes")

Interest Rate: 3.75% CUSIP #597103XF2 Reoffered @ 2.90%

OPPENHEIMER & CO.

Dated: December 1, 2022

Maturity Date: November 30, 2023

Security and Source of Payment: The Notes are general obligations of the School District and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Notes. Unless paid from other sources, all the taxable real property within the School District is subject to the levy of ad valorem taxes to pay the principal and interest thereon. (See "NATURE OF OBLIGATION" and "REAL PROPERTY TAX INFORMATION - Tax Levy Limitation Law," herein).

Prior Redemption: The Notes WILL be subject to prior redemption, in whole or in part, on or after June 1, 2023 upon 30 days prior written notice to the registered owner(s) thereof.

Form and Denomination: The Notes may be issued in denominations of \$5,000 each or multiples thereof, as may be determined by the purchaser(s), as stated below. The Notes will be issued in book-entry form only, the Notes will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as the securities depository for the Notes. Noteholders will not receive certificates representing their ownership interest in the Notes purchased. Payment of the principal of and interest on the Notes to the Beneficial Owner of the Notes will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices. Payment will be the responsibility of DTC, subject to any statutory and regulatory requirements as may be in effect from time to time. See "THE NOTES - Book-Entry-Only System," herein.

Interest on the Notes will be calculated on a 30-day month and a 360-day year basis, payable at maturity (or earlier redemption) in Federal Funds.

The Notes are offered when, as and if issued and received by the purchaser thereof and subject to the receipt of the approving legal opinion as to the validity of the Notes of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, of New York, New York, and certain other conditions. It is anticipated that the Notes will be available for delivery in Jersey City, New Jersey (through the facilities of DTC), on or about December 1, 2022.

FOR A DESCRIPTION OF THE SCHOOL DISTRICT'S UNDERTAKING TO PROVIDE NOTICE OF CERTAIN MATERIAL EVENTS AS DEFINED IN THE RULE, (SEE "MATERIAL EVENT NOTICES," HEREIN).

THIS OFFICIAL STATEMENT IS DATED AS OF NOVEMBER 17, 2022, AND HAS BEEN SUPPLEMENTED SOLELY WITH THE RATING PROVIDED HEREIN IN THE "RATINGS" SECTION AS OF NOVEMBER 21, 2022.

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ORANGE COUNTY, NEW YORK**

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* * *

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

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OFFICIAL STATEMENT

CITY SCHOOL DISTRICT OF THE CITY OF MIDDLETOWN ORANGE COUNTY, NEW YORK (the “School District”)

\$20,825,000 BOND ANTICIPATION NOTES, 2022 (RENEWALS) (the “Notes”)

This Official Statement, which includes the cover page and appendices hereto, (the “Official Statement”), presents certain information relating to the City School District of the City of Middletown, in the County of Orange, in the State of New York (the “School District,” “County” and “State,” respectively) in connection with the sale of the School District’s \$20,825,000 Bond Anticipation Notes, 2022 (Renewals) (the “Notes”).

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

This Official Statement should be read with the understanding that the ongoing COVID-19 global pandemic has created prevailing economic conditions (at the global, national, State and local levels) that are uncertain, generally negative, and continually changing. These conditions are expected to continue for an indefinite period of time. Accordingly, the School District’s overall economic situation and should be carefully reviewed, evaluated and understood in the full light of this unprecedented world-wide event, the effects of which are extremely difficult to predict and quantify.

NATURE OF OBLIGATION

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

Holders of any series of notes of the School District may bring an action or commence a proceeding in accordance with the civil practice law and rules to enforce the rights of the holders of such series of notes.

The Notes will be general obligations of the School District and will contain a pledge of the faith and credit of the School District for the payment of the principal thereof and the interest thereon as required by the Constitution and laws of the State. For the payment of such principal and interest, the School District has power and statutory authorization to levy ad valorem taxes on all real property within the School District subject to such taxation by the School District, without limitation as to rate or amount.

Although the State Legislature is restricted by Article VIII, Section 12 of the State Constitution from imposing limitations on the power to raise taxes to pay “interest on or principal of indebtedness theretofore contracted” prior to the effective date of any such legislation, the New York State Legislature may from time to time impose additional limitations or requirements on the ability to increase a real property tax levy or on the methodology, exclusions or other restrictions of various aspects of real property taxation (as well as on the ability to issue new indebtedness). On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (as amended, the “Tax Levy Limitation Law”). The Tax Levy Limitation Law applies to local governments and school districts in the State (with certain exceptions) and imposes additional procedural requirements on the ability of municipalities and school districts to levy certain year-to-year increases in real property taxes.

Under the Constitution of the State, the School District is required to pledge its faith and credit for the payment of the principal of and interest on the Notes and is required to raise real property taxes, and without specification, other revenues, if such levy is necessary to repay such indebtedness. While the Tax Levy Limitation Law imposes a statutory limitation on the School District’s power to increase its annual tax levy with the amount of such increase limited by the formulas set forth in the Tax Levy Limitation Law, it also provides the procedural method to surmount that limitation. See “REAL PROPERTY TAX INFORMATION - Tax Levy Limitation Law,” herein.

The Constitutionally-mandated general obligation pledge of municipalities and school districts in New York State has been interpreted by the Court of Appeals, the State's highest court, in Flushing National Bank v. Municipal Assistance Corporation for the City, 40 N.Y.2d 731 (1976), as follows:

"A pledge of the City's faith and credit is both a commitment to pay and a commitment of the City's revenue generating powers to produce the funds to pay. Hence, an obligation containing a pledge of the City's "faith and credit" is secured by a promise both to pay and to use in good faith the City's general revenue powers to produce sufficient funds to pay the principal and interest of the obligation as it becomes due. That is why both words, "faith" and "credit" are used and they are not tautological. That is what the words say and this is what the courts have held they mean . . . So, too, although the Legislature is given the duty to restrict municipalities in order to prevent abuses in taxation, assessment, and in contracting of indebtedness, it may not constrict the City's power to levy taxes on real property for the payment of interest on or principal of indebtedness previously contracted. ...While phrased in permissive language, these provisions, when read together with the requirement of the pledge and faith and credit, express a constitutional imperative: debt obligations must be paid, even if tax limits be exceeded."

In addition, the Court of Appeals in the Flushing National Bank (1976) case has held that the payment of debt service on outstanding general obligation bonds and notes takes precedence over fiscal emergencies and the police power of political subdivisions in New York State.

The pledge has generally been understood as a promise to levy property taxes without limitation as to rate or amount to the extent necessary to cover debt service due to language in Article VIII Section 10 of the Constitution which provides an exclusion for debt service from Constitutional limitations on the amount of a real property tax levy, insuring the availability of the levy of property tax revenues to pay debt service. As the Flushing National Bank (1976) Court noted, the term "faith and credit" in its context is "not qualified in any way". Indeed, in Flushing National Bank v. Municipal Assistance Corp., 40 N.Y.2d 1088 (1977) the Court of Appeals described the pledge as a direct constitutional mandate. In Quirk v. Municipal Assistance Corp., 41 N.Y.2d 644 (1977), the Court of Appeals stated that, while holders of general obligation debt did not have a right to particular revenues such as sales tax, "with respect to traditional real property tax levies, the bondholders are constitutionally protected against an attempt by the State to deprive the city of those revenues to meet its obligations." According to the Court in Quirk, the State Constitution "requires the city to raise real property taxes, and without specification other revenues, if such a levy be necessary to repay indebtedness."

In addition, the Constitution of the State requires that every county, city, town, village, and school district in the State provide annually by appropriation for the payment of all interest and principal on its serial bonds and certain other obligations, and that, if at any time the respective appropriating authorities shall fail to make such appropriation, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. In the event that an appropriating authority were to make an appropriation for debt service and then decline to expend it for that purpose, this provision would not apply. However, the Constitution of the State does also provide that the fiscal officer of any county, city, town, village, or school district may be required to set apart and apply such first revenues at the suit of any holder of any such obligations.

In Quirk v. Municipal Assistance Corp., the Court of Appeals described this as a "first lien" on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in New York State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy to pay debt service on such obligations, but that such pledge may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues.

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

The financial condition of the School District, as well as the market for the Notes, could be affected by a variety of factors, some of which are beyond the control of the School District. See "MARKET AND RISK FACTORS," herein.

THE NOTES

Description of the Notes

The Notes are general obligations of the School District and will contain a pledge of its faith and credit for the payment of the principal thereof and interest thereon as required by the Constitution and laws of the State of New York (State Constitution, Article VIII, Section 2; Local Finance Law, Section 100.00). Unless paid from other sources, all the taxable real property within the School District is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, sufficient to pay such principal and interest as the same become due, without limitation as to rate or amount. See “NATURE OF OBLIGATION” and “REAL PROPERTY TAX INFORMATION - Tax Levy Limitation Law,” herein.

The Notes are dated December 1, 2022 and will bear interest from that date until maturity on November 30, 2023 at the annual rate specified by the purchaser(s). The Notes are WILL be subject to redemption, in whole or in part, on or after June 1, 2023. Interest on the Notes shall be payable at maturity (or earlier redemption).

The Notes will be issued in either: (i) registered non-book entry form only (registered certificated), in denominations of \$5,000 each or multiples thereof, as may be determined by the successful bidder(s) with principal and interest payable at the principal corporate trust office of such bank(s) or trust company(ies) located and authorized to do business and to act as a fiscal agent in the State of New York to be named by the winning bidder(s), at the expense thereof or (ii) in book-entry form, and, if so issued, registered in the name of Cede & Co. as nominee for The Depository Trust Company (“DTC”), New York, New York which will act as securities depository for the Notes. See “Book-Entry Only System,” herein. A single note will be issued for all Notes bearing the same rate of interest and CUSIP number. Purchasers will not receive certificates representing their interest in the Notes. Principal and interest will be paid in lawful money of the United States of America (Federal Funds) by the School District directly to DTC for its nominee, Cede & Co.

Optional Redemption

The Notes WILL be subject to prior redemption, in whole or in part, on or after June 1, 2023 upon 30 days prior written notice to the registered owner(s) thereof.

Authorizations and Purposes

The Notes are being issued pursuant to the Constitution and Laws of the State of New York, including among others, the Education Law and the Local Finance Law, and pursuant to two propositions approved by the voters on i) December 4, 2018 and a bond resolution dated October 18, 2018 authorizing the issuance of up to \$17,000,000 of serial bonds for the construction of an addition to the High School and the reconstruction of various School District buildings (\$14,095,000 of this issue); and ii) May 21, 2019 and a bond resolution dated April 4, 2019 authorizing the issuance of up to \$8,100,000 of serial bonds for the reconstruction of air conditioning systems at various School District buildings (\$6,730,000 of this issue).

The proceeds of the Notes, along with \$1,275,000 of available funds of the School District, will be used to redeem and renew, in part, an outstanding bond anticipation note dated December 2, 2021 and maturing on December 1, 2022.

Book-Entry-Only System

If DTC acts as securities depository for the Notes, the Notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC’s designated nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered note certificate will be issued for each note bearing the same CUSIP number and interest rate and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through

electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC may be obtained from the website of The Depository Trust Company. Reference to the website implies no warranty of the accuracy of the information therein.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the School District or Agent on payable date in accordance with their respective holdings shown on DTC's records.

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

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

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

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

Source: The Depository Trust Company, New York.

THE SCHOOL DISTRICT CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE NOTES: (1) PAYMENTS OF PRINCIPAL OF OR INTEREST OR REDEMPTION PREMIUM ON THE NOTES; (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE NOTES; OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE NOTES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THE OFFICIAL STATEMENT.

THE SCHOOL DISTRICT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR REDEMPTION PREMIUM ON THE NOTES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER OF THE NOTES.

THE INFORMATION CONTAINED HEREIN CONCERNING DTC AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC AND THE SCHOOL DISTRICT MAKES NO REPRESENTATION AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

Certificated Notes in Certain Circumstances

If DTC is initially utilized, DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the School District and discharging its responsibilities with respect thereto under applicable law, or the School District may terminate its participation in the system of book-entry-only system transfers through DTC at any time. In the event that such book-entry-only system is discontinued and has been utilized by the purchaser(s), the following provisions will apply: the Notes will be issued in registered certificated form in denominations of \$5,000 each or any integral multiple thereof, as may be designated by the purchaser(s). Principal of and interest on the Notes when due will be payable at the principal corporate trust office of a bank or trust company located and authorized to do business and to act as a fiscal agent in the State of New York to be named by the School District. In all other respects, the terms of the Notes will remain the same.

Special Provisions Affecting Remedies Upon Default

State Aid Intercept for School Districts. In the event of a default in the payment of the principal of and/or interest on the Notes, the State Comptroller is required to withhold, under certain conditions prescribed by Section 99-b of the State Finance Law, state aid and assistance to the School District and to apply the amount thereof so withheld to the payment of such defaulted principal and/or interest, which requirement constitutes a covenant by the State with the holders from time to time of the Notes. The covenant between the State of New York and the purchasers and the holders and owners from time to time of the notes and bonds issued by the school districts in the State for school purposes provides that it will not repeal, revoke or rescind the provisions of Section 99-b, or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby.

Said section provides that in the event a holder or owner of any bond issued by a school district for school purposes shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof

or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and to serve a copy thereof by registered mail upon the chief fiscal officer of the school district which issued the bond. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding bonds of such school district issued for school purposes and the statement prepared and filed by the State Comptroller shall set forth a description of all such bonds of the school district found to be in default and the amount of principal and interest thereon past due.

Upon the filing of such a certificate in the office of the State Comptroller, he shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of such State aid or assistance due to such school district such amount thereof as may be required to pay (a) the school district's contribution to the State teachers retirement system, and (b) the principal of and interest on such bonds of such school district then in default. In the event such State aid or assistance initially so withheld shall be insufficient to pay said amounts in full, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such State aid or assistance due such school district such amount or amounts thereof as may be required to cure such default. Allotments, apportionments and payments of such State aid so deducted or withheld by the State Comptroller for the payment of principal and interest on bonds shall be forwarded promptly to the paying agent or agents for the bonds in default of such school district for the sole purpose of the payment of defaulted principal of and interest on such bonds. If any of such successive allotments, apportionments or payments of such State Aid so deducted or withheld shall be less than the amount of all principal and interest on the bonds in default with respect to which the same was so deducted or withheld, then the State Comptroller shall promptly forward to each paying agent an amount in the proportion that the amount of such bonds in default payable to such paying agent bears to the total amount of the principal and interest then in default on such bonds of such school district. The State Comptroller shall promptly notify the chief fiscal officer of such school district of any payment or payments made to any paying agent or agents of defaulted bonds pursuant to said Section 99-b.

General Municipal Law Contract Creditors' Provision. Each note when duly issued and paid for will constitute a contract between the School District and the holder thereof. Under current law, provision is made for contract creditors of the School District to enforce payments upon such contracts, if necessary, through court action. Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the School District upon any judgment or accrued claim against it on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might be construed to have application to the holders of the Notes in the event of a default in the payment of the principal of and interest on the Notes.

Execution/Attachment of Municipal Property. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. In accordance with the general rule with respect to municipalities, judgments against the School District may not be enforced by levy and execution against property owned by the School District.

Authority to File for Municipal Bankruptcy. The Federal Bankruptcy Code allows public bodies, such as counties, cities, towns and villages, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State or its emergency control board to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. While this Local Finance Law provision does not apply to school districts, there can be no assurance that it will not be made so applicable in the future.

State Debt Moratorium Law. There are separate State law provisions regarding debt service moratoriums enacted into law in 1975.

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

As a result of the Court of Appeals decision in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law as described below, enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the School District

Right of Municipality or State to Declare a Municipal Financial Emergency and Stay Claims Under State Debt Moratorium Law. The State Legislature is authorized to declare by special act that a state of financial emergency exists in any county, city, town or village. (The provision does not by its terms apply to school districts or fire districts.) In addition, the State Legislature may authorize by special act establishment of an “emergency financial control board” for any county, city, town or village upon determination that such a state of financial emergency exists. Thereafter, unless such special act provides otherwise, a voluntary petition to stay claims may be filed by any such municipality (or by its emergency financial control board in the event said board requests the municipality to petition and the municipality fails to do so within five days thereafter). A petition filed in supreme court in county in which the municipality is located in accordance with the requirements of Title 6-A of the Local Finance Law (“Title 6-A”) effectively prohibits the doing of any act for ninety days in the payment of claims, against the municipality including payment of debt service on outstanding indebtedness.

This includes staying the commencement or continuation of any court proceedings seeking payment of debt service due, the assessment, levy or collection of taxes by or for the municipality or the application of any funds, property, receivables or revenues of the municipality to the payment of debt service. The stay can be vacated under certain circumstances with provisions for the payment of amounts due or overdue upon a demand for payment in accordance with the statutory provisions set forth therein. The filing of a petition may be accompanied with a proposed repayment plan which upon court order approving the plan, may extend any stay in the payment of claims against the municipality for such “additional period of time as is required to carry out fully all the terms and provisions of the plan with respect to those creditors who accept the plan or any benefits thereunder.” Court approval is conditioned, after a hearing, upon certain findings as provided in Title 6-A.

A proposed plan can be modified prior to court approval or disapproval. After approval, modification is not permissible without court order after a hearing. If not approved, the proposed plan must be amended within ten days or else the stay is vacated and claims including debt service due or overdue must be paid. It is at the discretion of the court to permit additional filings of amended plans and continuation of any stay during such time. A stay may be vacated or modified by the court upon motion of any creditor if the court finds after a hearing, that the municipality has failed to comply with a material provision of an accepted repayment plan or that due to a “material change in circumstances” the repayment plan is no longer in compliance with statutory requirements.

Once an approved repayment plan has been completed, the court, after a hearing upon motion of any creditor, or a motion of the municipality or its emergency financial control board, will enter an order vacating any stay then in effect and enjoining of creditors who accepted the plan or any benefits thereunder from commencing or continuing any court action, proceeding or other act described in Title 6-A relating to any debt included in the plan.

Title 6-A requires notice to all creditors of each material step in the proceedings. Court determinations adverse to the municipality or its financial emergency control board are appealable as of right to the appellate division in the judicial department in which the court is located and thereafter, if necessary, to the Court of Appeals. Such appeals stay the judgment or appealed from and all other actions, special proceedings or acts within the scope of Section 85.30 of Title 6-A pending the hearing and determination of the appeals.

Whether Title 6-A is valid under the Constitutional provisions regarding the payment of debt service is not known. However, based upon the decision in the Flushing National Bank case described above, its validity is subject to doubt.

While the State Legislature has from time to time adopted legislation in response to a municipal fiscal emergency and established public benefit corporations with a broad range of financial control and oversight powers to oversee such municipalities, generally such legislation has provided that the provisions of Title 6-A are not applicable during any period of time that such a public benefit corporation has outstanding indebtedness issued on behalf of such municipality.

Fiscal Stress and State Emergency Financial Control Boards. Pursuant to Article IX Section 2(b)(2) of the State Constitution, any local government in the State may request the intervention of the State in its “property, affairs and government” by a two-thirds vote of the total membership of its legislative body or on request of its chief executive officer concurred in by a majority of such membership. This has resulted in the adoption of special acts for the establishment of public benefit corporations with varying degrees of authority to control the finances (including debt issuance) of the cities of Buffalo, Troy and Yonkers and the County of Nassau. The specific authority, powers and composition of the financial control boards established by these acts varies based upon circumstances and needs. Generally, the State legislature has granted such boards the power to approve or disapprove budget and financial plans and to issue debt on behalf of the municipality, as well as to impose wage and/or hiring freezes and approve collective bargaining agreements in certain cases. Implementation is left to the discretion of the board of the public benefit corporation. Such a State financial control board was first established for New York City in 1975. In addition, on a certificate of necessity of the governor reciting facts which in the judgment of governor constitute an emergency requiring enactment of such laws, with the concurrences of two-thirds of the members elected in each house of the State legislature the State is authorized to intervene in the “property, affairs and governments” of local government units. This occurred in the case of the County of Erie in 2005. The authority of the State to intervene in the financial affairs of local government is further supported by Article VIII, Section 12 of the Constitution which declares it to be the duty of the State legislature to restrict, subject to other provisions of the Constitution, the power of taxation, assessment, borrowing money and contracting indebtedness and loaning the credit of counties, cities, towns and villages so as to prevent abuses in taxation and assessment and in contracting indebtedness by them.

In 2013, the State established a new state advisory board to assist counties, cities, towns and villages in financial distress. The Financial Restructuring Board for Local Governments (the “FRB”), is authorized to conduct a comprehensive review of the finances and operations of any such municipality deemed by the FRB to be fiscally eligible for its services upon request by resolution of the municipal legislative body and concurrence of its chief executive. The FRB is authorized to make recommendations for, but cannot compel improvement of fiscal stability, management and delivery of municipal services, including shared services opportunities and is authorized to offer grants and/or loans of up to \$5,000,000 through a Local Government Performance and Efficiency Program to undertake certain recommendations. If a municipality agrees to undertake the FRB recommendations, it will be automatically bound to fulfill the terms in order to receive the aid.

The FRB is also authorized to serve as an alternative arbitration panel for binding arbitration.

Although from time to time, there have been proposals for the creation of a statewide financial control board with broad authority over local governments in the State, the FRB does not have emergency financial control board powers to intervene such as the public benefit corporations established by special acts as described above.

Several municipalities in the State are presently working with the FRB. School districts and fire districts are not eligible for FRB assistance.

Constitutional Non-Appropriation Provision. There is in the Constitution of the State, Article VIII, Section 2, the following provision relating to the annual appropriation of monies for the payment of due principal of and interest on indebtedness of every county, city, town, village and school district in the State: “If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness.” This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service, but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. See “General Municipal Law Contract Creditors’ Provision” herein.

The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes, such as the Notes.

Default Litigation. In prior years, certain events and legislation affecting a holder's remedies upon default have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of bondholders, such courts might hold that future events including financial crises as they may occur in the State and in political subdivisions of the State require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service. See "NATURE OF OBLIGATION" and "State Debt Moratorium Law," herein.

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

Other Information

The statutory authority for the power to spend money for the object or purpose, or to accomplish the object or purpose, for which the Notes are to be issued is the Education Law, General Municipal Law, the Public Officers Law, the Local Finance Law and the Real Property Tax Law.

The School District is in compliance with the procedure for the validation of the Notes provided in Title 6 of Article 2 of the Local Finance Law.

No principal or interest upon any obligation of the School District is past due.

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

Except as set forth in "INDEBTEDNESS OF THE SCHOOL DISTRICT – Calculation of Estimated Overlapping and Underlying Indebtedness", this Official Statement does not include the financial data of any other political subdivisions of the State having power to levy taxes within the School District.

THE SCHOOL DISTRICT

General Information

The School District, located in the central-west portion of the County approximately 60 miles northwest of New York City, encompasses a land area of 20 square miles and has an estimated population of 45,299. The School District includes all of the City of Middletown as well as portions of the towns of Wallkill, Wawayanda and Goshen (hereafter, the "Towns," each a "Town"). The City of Middletown comprises almost half of the School District's total full property values while the towns of Wallkill, Wawayanda and Goshen comprise the remainder.

The largest private employers in the School District include the US Military Academy at West Point with 4,000 employees and the Garnet Health Medical Center (formerly, the Orange Regional Medical Center) with 2,524 employees. Residential housing consists primarily of single-family homes. There have been significant development activities in the School District in the residential and commercial sectors.

The City of Middletown and the various town governments provide general municipal services including water, sewer, police and fire protection, property assessment and recreation. The County provides various social and health services such as aid to families with dependent children, Medicaid and home relief. The County also operates a community college located in the City of Middletown.

Source: School District Officials.

School District Organization

The School District is an independent entity governed by an elected Board of Education (the "Board") comprised of nine members. School District operations are subject to the provisions of the State Education Law affecting city school districts and school districts in general; other statutes applicable to the School District include the Education Law, General Municipal Law, the Public Officers Law, the Local Finance Law and the Real Property Tax Law.

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

The Board appoints the Superintendent of Schools, who serves under a written contract which, by statute, must be of no less than three and no more than five years in duration. The Superintendent is the chief executive officer of the school district and the educational system. In addition, the Superintendent is typically given the right, by contract, to speak on all matters before the Board but not to vote. It is the responsibility of the Superintendent to enforce all provisions of law and all rules and regulations relating to the management of the school and other educational, social and recreational activities under the direction of the Board. Certain other administrative and financial duties are performed by the Assistant Superintendent for Administration, who is appointed by the Board.

Source: School District Officials.

Employees

The School District provides services through approximately 1146 full-time and 180 part-time employees, some of whom are represented by the following units of organized labor:

<u>Unions</u>	<u>No. of Members</u>	<u>Contract Expiration Date</u>
Middletown Teachers Association	725	June 30, 2026
CSEA	89	June 30, 2027
Middletown Educational Clerical Association	96	June 30, 2027
Middletown School Administrators Association	46	June 30, 2027
Middletown Teaching Assistants Organization	69	June 30, 2026
Nurses/LPN	20	June 30, 2024
Food Service	67	June 30, 2028
Liaisons, Aides & Monitors	147	June 30, 2028
Middletown Directors' and Supervisors' Association	19	June 30, 2023

Source: School District Officials.

Note * Currently under negotiation.

Additionally, there are 48 employees that are not affiliated with any bargaining unit.

Enrollment

<u>School Year</u>	<u>K-12 Enrollment</u>
2018-19	7,588
2019-20	7,673
2020-21	7,545
2021-22	7,503
2022-23	7,525

Enrollment Projections

<u>School Year</u>	<u>Projected Enrollment</u>
2023-24	7,373
2024-25	7,350
2025-26	7,350
2026-27	7,525
2027-28	7,530

School District Facilities

<u>Name</u>	<u>Student Capacity</u>	<u>Date of Construction/ Last Alteration</u>	<u>Insured Value</u>
Presidential Park Elementary	1,425	2014/2021	\$58,910,108
Carter Elementary	950	1925/2021	36,095,856
Maple Hill Elementary	1100	1997/2021	46,431,927
Monhagen Middle School	1,300	1997/2021	46,490,250
Twin Towers Middle School	1,172	1940/2021	57,544,677
Senior High	2,400	1959/2022	125,559,844
Administration Building	----	1981/2018	2,949,859
Maple Hill Annex at Truman Moon ¹	540	1955/2022	16,964,585
Clemson Park – Offices	---		1,076,981

Source: School District Officials.

Note: ¹ This building currently houses the School District's special education program and related service providers.

DEMOGRAPHIC AND STATISTICAL INFORMATION

The following tables present certain comparative demographic and statistical information regarding the School District, the County, the State and the United States.

Population

<u>Year</u>	<u>School District</u>	<u>County</u>	<u>State</u>	<u>United States</u>
1990	33,581	307,647	17,990,455	249,632,692
2000	36,174	341,367	18,976,457	281,421,906
2010	40,892	372,813	19,378,102	308,745,538
2020	45,299	401,310	20,201,249	331,449,281

Source: US Census Bureau.

Median Household Income

<u>Year</u>	<u>School District</u>	<u>County</u>	<u>State</u>	<u>United States</u>
1990	\$31,881	\$39,198	\$32,965	\$30,056
2000	41,126	52,058	43,393	41,994
2016 - 2020	62,015	80,816	71,117	64,994

Source: US Census Bureau, American Community Survey (2016 - 2020).

Per Capita Income

<u>Year</u>	<u>School District</u>	<u>County</u>	<u>State</u>	<u>United States</u>
1990	\$13,796	\$15,198	\$16,501	\$14,420
2000	19,757	21,597	23,389	21,587
2016 - 2020	30,967	35,616	40,898	35,384

Source: US Census Bureau, American Community Survey (2016 - 2020).

Unemployment Rate Statistics

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

<u>Annual Averages:</u>	<u>County</u>	<u>State</u>	<u>United States</u>
2017	4.5%	4.6%	4.4%
2018	3.9	4.1	3.9
2019	3.6	3.8	3.7
2020	8.0	9.9	8.1
2021	4.7	6.9	5.3

2022 Monthly Rates:

January	3.6%	5.3%	4.4%
February	3.8	5.1	4.1
March	3.6	4.7	3.8
April	3.0	4.2	3.3
May	3.0	4.1	3.4
June	3.2	4.3	3.8
July	3.5	4.8	3.8
August	3.5	4.9	3.8
September	2.9	3.9	3.3

Source: Department of Labor, State of New York. Information not seasonally adjusted.

Note: Figures in this section are historical and do not speak as to current or projected employment rates. Unemployment had drastically increased starting in March 2020 due to the COVID-19 global pandemic but has since declined. See “MARKET AND RISK FACTORS” herein.

Selected Listing of Larger Employers

<u>Name</u>	<u>Type</u>	<u>Estimated No. of Employees</u>
US Military Academy at West Point	US Government	4,000
Garnet Health Medical Center	Healthcare	2,524
Crystal Run Healthcare	Healthcare	2,050
Access: Supports for Living	Non-Profit Organization	1,400
Middletown City School District	Public Education	1,326
St. Luke's Hospital/Cornwall Hospital	Healthcare	1,247
Elant, Inc.	Healthcare	1,200
Amscan, Inc.	Manufacturing	800
C&S Wholesale Grocers, Inc.	Food Distribution	800
Empire Blue Cross/Blue Shield	Health Insurance Processing	795

Source: School District Officials.

SCHOOL DISTRICT INDEBTEDNESS

Constitutional Requirements

The State Constitution and the Local Finance Law limits the power of the School District to issue obligations and to otherwise contract indebtedness. Such constitutional limitations, in summary form and as generally applicable to the School District and the Notes, include the following:

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

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

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the periods of probable usefulness of the objects or purposes as determined by statute or the weighted average maturity thereof; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the School District has elected to issue indebtedness with substantially level or declining annual debt service. The School District is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization of its serial bonds and notes and such required annual installments on its bonds.

There is no constitutional limitation on the amount that may be raised by the School District by tax on real property in any fiscal year to pay interest and principal on all indebtedness. See "NATURE OF OBLIGATION" and "REAL PROPERTY TAX INFORMATION - Tax Levy Limitation Law," herein.

General. The School District is further subject to constitutional limitation by the general constitutionally imposed duty of the State Legislature to restrict the power of taxation, assessment, borrowing money, contracting indebtedness and loaning the credit of the School District so as to prevent abuses in taxation and assessments and in contracting indebtedness; however, the State Legislature is prohibited by a specific constitutional provision from restricting the power of the School District to levy taxes on real property for the payment of interest on or principal of indebtedness theretofore contracted. See "NATURE OF OBLIGATION" and "REAL PROPERTY TAX INFORMATION - Tax Levy Limitation Law," herein.

Statutory Procedure

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

Pursuant to the Local Finance Law, the School District authorizes the issuance of bonds by the adoption of a bond resolution, approved by at least two-thirds of the members of the Board, the finance board of the School District. Customarily, the Board has delegated to the President of the Board of Education, as chief fiscal officer of the School District, the power to authorize and sell bond anticipation notes in anticipation of authorized bonds.

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

- (1) Such obligations are authorized for a purpose for which the School District is not authorized to expend money, or
- (2) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations and an action contesting such validity is commenced within twenty days after the date of such publication, or
- (3) Such obligations are authorized in violation of the provisions of the Constitution.

Except on rare occasions, the School District typically complies with this estoppel procedure. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement. The School District has complied with the estoppel procedure with respect to the Notes.

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

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first issuance of such notes and provided, generally, that such renewals do not exceed five years beyond the original date of borrowing. Additionally, in response to the COVID-19 pandemic, legislation has been adopted that allows certain bond anticipation notes originally issued between 2015 and 2021 to be renewed up to seven years prior to the issuance of serial bonds. (See "Payment and Maturity" under "Constitutional Requirements" herein, and the "Details of Short-Term Indebtedness Outstanding," herein.)

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

Debt Limit

Pursuant to the Local Finance Law, the School District has the power to contract indebtedness for any school district purpose authorized by the Legislature of the State provided the aggregate principal amount thereof shall not exceed five per centum of the average full valuation of the taxable real property of the School District and subject to certain enumerated deductions such as cash or appropriations for current debt service. The Constitutional and statutory method for determining full valuation consists of dividing the total assessed valuation of taxable real property for a specified assessment roll by the final equalization ratio established for such assessment roll by the State Office of Real Property Services (the "State Office"). The State Legislature is required to prescribe the manner by which such ratio shall be determined.

The following pages present certain details with respect to the indebtedness of the School District as of the date of the Official Statement.

Details of Short-Term Indebtedness Outstanding

As of the date of this Official Statement, the School District has the following short-term indebtedness outstanding:

<u>Type</u>	<u>Maturity</u>	<u>Purpose</u>	<u>Amount</u>
Bond Anticipation Note	12/01/22	Capital Project	\$22,100,000 ¹
		Total	<u>\$22,100,000</u>

Source: Note Records of the School District.

Note: ¹ To be redeemed and renewed, in part, with the proceeds of this Note and \$1,275,000 of available funds of the School District.

Revenue and Tax Anticipation Notes

The School District has not found it necessary to borrow in anticipation of taxes or revenues in recent years. The School District is continually evaluating the impacts of COVID-19 on revenues, expenditures and cashflow. As of the date of this Official Statement, District officials do not anticipate the need to issue any revenue or tax anticipation notes nor budget notes or deficiency notes in the near future.

Status of Outstanding Bond Issues

Year of Issue:	2012 ¹	2013 ²	2015 ³
Amount of Issue:	\$5,000,000	\$10,150,000	\$22,830,000
Last Maturity:	6/15/2031	8/15/2025	9/15/2025
Interest Rate/Instrument:	Various - QSCB	Various - Ref SB	Various - Ref SB
Purpose:	Building	Building	Building
Balance Principal 06-30-22:	\$2,840,000	\$1,120,000	\$8,960,000

Fiscal Year						
<u>Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$265,000	\$129,250	\$270,000 *	\$23,250	\$2,085,000 *	\$370,750
2024	275,000	118,319	280,000	17,400	2,185,000	277,125
2025	285,000	106,631	280,000	10,750	2,290,000	165,250
2026	300,000	94,163	290,000	3,625	2,400,000	54,000
2027	315,000	80,663				
2028	325,000	66,094				
2029	340,000	51,063				
2030	360,000	34,913				
2031	375,000	17,813				
Totals:	<u>\$2,840,000</u>	<u>\$698,906</u>	<u>\$1,120,000</u>	<u>\$55,025</u>	<u>\$8,960,000</u>	<u>\$867,125</u>

Notes: ¹ Issued as Qualified School Construction Bonds. The School District will receive direct payments from the United States Treasury equal to the amount of interest payable, thereby resulting in an effective 0% interest rate. However, since March 1, 2013 the subsidy payments have been subject to certain automatic reductions pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, commonly known as federal sequestration. The School District was notified by the Department of Treasury that the subsidy payments due to the School District between October 1, 2020 and September 30, 2030 will be reduced by 5.7%. This follows cuts of 5.9% in 2020, 6.2% in 2019, 6.6% in 2018, 6.9% in 2017, 6.8% in 2016, 7.3% in 2015 and 7.2% in 2014. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise affects the sequester, at which time the sequestration rate is subject to change.

² Refunded the School District's 2002A&B Bonds, which were called and redeemed in full on April 15, 2013.

³ Refunded the School District's 2004, 2005A and 2006 Bonds, which were called and redeemed in full on June 1, 2015, December 1, 2015 and September 15, 2016, respectively.

* Principal payment made prior to the date of this Official Statement.

Status of Outstanding Bond Issues

Year of Issue:	2016	2017 ⁴	2019
Amount of Issue:	\$48,871,000	\$5,640,000	\$25,805,000
Last Maturity:	6/15/2042	6/15/2023	6/15/2038
Interest Rate/Instrument:	Various - SB	Various - Ref SB	Various - DASNY SB
Purpose:	Building	Building	Building
Balance Principal 06-30-22:	\$38,900,000	\$1,210,000	\$22,405,000

Fiscal Year Ending June 30:	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$1,600,000	\$1,050,163	\$1,210,000	\$60,500	\$1,370,000	\$1,010,150
2024	1,635,000	1,018,163			1,435,000	941,650
2025	1,665,000	985,463			1,505,000	869,900
2026	1,700,000	952,163			1,580,000	794,650
2027	1,730,000	918,163			1,660,000	715,650
2028	1,770,000	883,563			1,745,000	632,650
2029	1,810,000	848,163			1,830,000	545,400
2030	1,850,000	809,700			1,925,000	453,900
2031	1,775,000	754,200			2,020,000	357,650
2032	1,805,000	700,950			2,080,000	297,050
2033	1,880,000	646,800			1,715,000	234,650
2034	1,940,000	590,400			730,000	148,900
2035	1,990,000	532,200			770,000	112,400
2036	2,050,000	472,500			800,000	81,600
2037	2,115,000	411,000			840,000	49,600
2038	2,180,000	347,550			400,000	16,000
2039	2,245,000	282,150				
2040	2,315,000	214,800				
2041	2,385,000	145,350				
2042	2,460,000	73,800				
Totals:	<u>\$38,900,000</u>	<u>\$12,637,238</u>	<u>\$1,210,000</u>	<u>\$60,500</u>	<u>\$22,405,000</u>	<u>\$7,261,800</u>

Note: ⁴ Refunded the School District's 2008 Bonds, which were called and redeemed in full on June 15, 2018.

Status of Outstanding Bond Issues

Year of Issue:	2020	
Amount of Issue:	\$4,775,000	
Last Maturity:	6/15/2035	
Interest Rate/Instrument:	2.00% - SB	
Purpose:	Building	
Balance Principal 06-30-22:	\$4,200,000	
<hr/>		
Fiscal Year		
<u>Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2023	\$295,000	\$84,000
2024	300,000	78,100
2025	310,000	72,100
2026	310,000	65,900
2027	320,000	59,700
2028	330,000	53,300
2029	335,000	46,700
2030	345,000	40,000
2031	355,000	33,100
2032	365,000	26,000
2033	370,000	18,700
2034	380,000	11,300
2035	<u>185,000</u>	<u>3,700</u>
Totals:	<u><u>\$4,200,000</u></u>	<u><u>\$592,600</u></u>

Total Annual Bond Principal and Interest Due

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>	<u>% Paid</u>
2023	\$7,095,000	\$2,728,063	\$9,823,063	8.91%
2024	6,110,000	2,450,756	8,560,756	16.58%
2025	6,335,000	2,210,094	8,545,094	24.54%
2026	6,580,000	1,964,500	8,544,500	32.80%
2027	4,025,000	1,774,175	5,799,175	37.85%
2028	4,170,000	1,635,606	5,805,606	43.09%
2029	4,315,000	1,491,325	5,806,325	48.51%
2030	4,480,000	1,338,513	5,818,513	54.13%
2031	4,525,000	1,162,763	5,687,763	59.82%
2032	4,250,000	1,024,000	5,274,000	65.15%
2033	3,965,000	900,150	4,865,150	70.13%
2034	3,050,000	750,600	3,800,600	73.96%
2035	2,945,000	648,300	3,593,300	77.66%
2036	2,850,000	554,100	3,404,100	81.24%
2037	2,955,000	460,600	3,415,600	84.95%
2038	2,580,000	363,550	2,943,550	88.19%
2039	2,245,000	282,150	2,527,150	91.01%
2040	2,315,000	214,800	2,529,800	93.92%
2041	2,385,000	145,350	2,530,350	96.91%
2042	2,460,000	73,800	2,533,800	100.00%
Totals:	<u>\$79,635,000</u>	<u>\$22,173,194</u>	<u>\$101,808,194</u>	

Source: Bond Records of the School District.

Other Obligations

The School District currently has an outstanding energy performance contract lease purchase financing. The energy performance contract financing has an outstanding principal amount of \$1,561,719.49. Payments of \$142,527.31 (principal and interest) are due semi-annually until the final maturity on June 23, 2028.

Trend of Outstanding Debt

	<u>Fiscal Year Ending June 30:</u>				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Bonds	\$79,085,000	\$98,495,000	\$93,125,000	\$86,495,000	\$79,635,000
Bond Anticipation Notes	35,060,000	5,180,000	0	25,100,000	22,100,000
Energy Performance Contracts ¹	<u>3,999,417</u>	<u>3,411,255</u>	<u>2,809,146</u>	<u>2,192,752</u>	<u>1,561,719</u>
Total Debt Outstanding	<u>\$118,144,417</u>	<u>\$107,086,255</u>	<u>\$95,934,146</u>	<u>\$113,787,752</u>	<u>\$103,296,719</u>

Source: Audited Annual Financial Reports of the School District.

Notes: This table is NOT audited.

¹ Not debt for Local Finance Law or Constitutional purposes but does count towards debt limit of the School District. It should be noted that the School District has received voter authorization to exceed the debt limit for certain heretofore authorized capital projects.

Computation of Debt Limit and Calculation of Net Indebtedness

(As of November 11, 2022)

Fiscal Year <u>Ending June 30:</u>	Taxable Assessed <u>Valuation</u>	Special State Equalization Ratio ¹	Taxable <u>Full Valuation</u>
2019	\$594,374,140	Various	\$3,131,030,510
2020	601,216,628	Various	3,530,772,180
2021	607,901,551	Various	3,649,648,042
2022	615,707,453	Various	3,762,071,414
2023	<u>619,849,914</u>	Various	<u>3,845,870,970</u>
Total	<u>\$3,039,049,686</u>		<u>\$17,919,393,116</u>
Five-Year Average Full Valuation			\$3,583,878,623
Debt Limit: 5% of Average Full Valuation			\$179,193,931
Inclusions:			
Bonds			\$77,280,000
Bond Anticipation Notes			<u>22,100,000</u>
Total Inclusions			<u>\$99,380,000</u>
Exclusions:			
Budgeted Appropriations ²			<u>\$6,015,000</u>
Total Exclusions:			<u>\$6,015,000</u>
Total Net Indebtedness ^{3&4}			<u>\$93,365,000</u>
Net Debt-Contracting Margin ⁵			\$85,828,931

Notes: ¹ Equalization ratios used for computation of constitutional debt limit are "special ratios" as established by the State Office of Real Property Services. Therefore, full values shown here are not comparable to those of other municipalities. Pursuant to Article 12-B of the Real Property Tax Law, the constitutional debt limit has been computed using special equalization ratios established by the State Office of Real Property Services. Regular State equalization rates are established by said State Office of Real Property Services and are used for all other purposes.

² Budgeted appropriations are automatically excluded pursuant to provisions of Article VIII, Section B of the State Constitution and Section 136.00 of the Local Finance Law.

³ Represents 52.10% of the School District's Debt Limit.

⁴ Energy performance contracts ("EPCs") and other installment purchase obligations, while not debt, do count towards a school district's debt limit. The principal amount of the School District's outstanding EPCs has not been included in this debt limit computation table in order to be consistent with the State Comptroller's official debt statement filing instructions. For a summary of outstanding principal, see "Other Obligations", herein.

⁵ It should be noted that the School District has received voter authorization to exceed the debt limit for certain heretofore authorized capital projects; however, it is not expected it will be necessary to do so.

Building Aid Estimate

Although city school districts are prohibited from excluding estimated building aid when computing their debt limits, city school districts do receive building aid. Based on conditions as of the date of this Official Statement, School District officials reasonably expect the following building aid will be received:

	Assumed Outstanding Principal 6/30/2022:	Aid Ratio	Estimated Aid
1995A Serial Bonds (Refunded)	\$43,142	78.40%	\$33,823
1995B Serial Bonds (Refunded)	486,900	78.40%	381,730
1996A Serial Bonds (Refunded)	896,340	78.40%	702,730
2002 Serial Bonds (Refunded)	65,708	78.40%	51,515
2005A Serial Bonds (Refunded)	5,585,000	87.40%	4,881,290
2006 Serial Bonds (Refunded)	4,310,000	87.40%	3,766,940
2008 Serial Bonds (Refunded)	1,295,000	91.20%	1,181,040
2010 Serial Bonds (Redeemed)	2,135,000	91.20%	1,947,120
2012 Qualified School Construction Bonds	2,840,000	91.20%	2,590,080
2016 Serial Bonds	38,900,000	91.20%	35,476,800
2019 DASNY Serial Bonds	22,405,000	91.20%	20,433,360
2020 Serial Bonds	4,200,000	91.20%	3,830,400
2022 Bond Anticipation Notes	22,100,000	91.20%	20,155,200
Energy Performance Contract	1,561,719	78.40%	1,224,388
Aid for Refinancing Costs	90,107	100.00%	90,107
Total	<u>\$106,913,915</u>		<u>\$96,746,522</u>

Source: State Education Department.

As part of the State's 2001-02 budget process, a fundamental reform of building aid was enacted as Chapter 383 of the Laws of 2001. The provisions legislated, among other things, an "assumed amortization" payout schedule for State building aid payments based on an annual "average interest rate" and mandatory periods of probable usefulness with respect to the allocation of building aid. The School District has no reason to believe that it will not ultimately receive all of the building aid it anticipates; however, no assurance can be given as to when and how much building aid the School District will receive in relation to the School District's outstanding bonds.

Authorized and Unissued Indebtedness

As of the date of the Official Statement, the School District has \$36,937,489 of authorized and unissued indebtedness pursuant to a bond resolution adopted by the Board on October 21, 2021, and approved by voters on December 14, 2021, to finance additions, renovations and improvements to Twin Towers Middle School and the Maple Hill Annex at Truman Moon Elementary School.

Capital Project Plans and Anticipated Future Borrowings

The School District currently has a number of ongoing or planned capital projects.

The School District is undertaking two capital improvement projects that were approved by the qualified voters of the School District on May 15, 2018 for a) Fallers Field stadium complex improvements consisting of the replacement of the turf field, resurfacing of the track and replacement of the video board. The estimated cost for the stadium improvements is \$1,975,000 and b) the renovation and reconstruction of, and improvements to, the high school library media center. The estimated cost for the media center improvements is \$2,200,000. These projects are being funded with available funds of the School District.

The School District is also undertaking a project related to construction of an addition to the High School and reconstruction of various School District buildings approved by the voters on December 4, 2018 in the amount of \$32,680,000. The project is being financed with \$15,680,000 of available funds of the School District and a portion of the proceeds of the Notes.

Further, the School District is undertaking a \$9,500,000 capital project approved by the voters on May 21, 2019, which involves air conditioning upgrades in four school buildings. The project is being financed with \$1,400,000 of available funds and the remaining portion of the Notes.

Additionally, the School District is undertaking a \$9,470,000 capital project, which was approved by the voters on December 10, 2019, involving various school building renovations and sitework improvements. This project is being financed wholly with available funds of the School District.

The School District is also undertaking an \$83,232,000 capital project involving various school building renovations, additions and sitework improvements to the Twin Towers Middle School and the Maple Hill Annex at Truman Moon Elementary School, approved by the voters on December 14, 2021. This project will be financed with \$13,507,449 of Federal American Rescue Plan Elementary and Secondary School Emergency Relief funding, \$5,017,658 of Federal Coronavirus Response and Relief Supplemental Appropriations Act funding, \$17,396,881 of capital reserve funds, \$10,372,523 of other available funds of the School District and \$36,937,489 of future borrowings.

Lastly, the School District will be undertaking a number of projects at a total estimated aggregate cost of \$15,585,000 including:

- High School and William A. Carter Elementary School roofing replacements (\$2,640,000)
- High School athletic field and lighting upgrades and improvements (\$5,160,000)
- High School, Twin Towers Middle School, and Monhagen Middle School performance space improvements (\$1,750,000)
- Monhagen Middle School and William A. Carter Elementary School flooring replacements (\$1,620,000)
- Presidential Park Elementary School bus loop canopy and infrastructure and improvements (\$2,125,000)
- Maple Hill Elementary School playground and infrastructure improvements (\$2,290,000)

These projects will all be wholly funded with available funds of the School District.

It should also be noted that in October 2022, the voters within the Orange-Ulster BOCES, of which the School District is a component, approved a \$158,825,054 capital project. The component districts will be responsible for a proportionate share of the project costs. The BOCES, through the Dormitory Authority of the State of New York, will finance the project and charge each component school district for their prorated share of annual debt service costs. It is anticipated the School District's aggregate share of the project costs will be \$24,077,284.

Direct and Overlapping Indebtedness

In addition to the School District, the political subdivisions in the following table have the power to issue bonds and to levy taxes or cause taxes to be levied on taxable real property in the School District.

The real property taxpayers of the School District are responsible for a proportionate share of outstanding debt obligations of the political subdivisions located within the School District's boundaries. Such taxpayers' share of this overlapping debt is based upon the amount of the School District's equalized property values taken as a percentage of each separate unit's total values. The table below sets forth both the total outstanding principal amount of debt issued by the School District and the appropriate magnitude of the burden on taxable property of the School District of the debt issued and outstanding by such overlapping entities, as of the dates shown.

Calculation of Estimated Overlapping and Underlying Indebtedness

Overlapping Units	Date of Report	Applicable Total Indebtedness	Exclusions ¹	Applicable Net Indebtedness	Full Value of School District in Municipality	Total Full Value of Municipality	% Within School District	Estimated Applicable Overlapping Debt
County:								
Orange	2022	\$247,000,656	\$6,195,000	\$240,805,656	\$4,207,800,936	\$45,386,328,333	9.27%	\$22,325,275
Towns:								
Goshen	2022	3,335,000	0	3,335,000	834,990	1,839,826,445	0.05%	1,514
Wallkill	2022	22,900,510	9,512,225	13,388,285	2,028,949,782	3,833,315,787	52.93%	7,086,335
Wawayanda	2021	3,560,002	0	3,560,002	120,322,284	905,155,761	13.29%	473,231
City:								
Middletown	2022	88,477,303	45,237,444	43,239,859	2,057,693,880	2,057,693,880	100.00%	43,239,859
Total Net Overlapping Debt:								\$73,126,213
Total Net Direct Debt:								93,365,000
Net Direct and Overlapping Debt:								<u>\$166,491,213</u>

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

Note: ¹ Exclusions consist of indebtedness deductible from gross indebtedness for debt limit purposes pursuant to constitutional and statutory provisions (including water and sewer debt and revenue anticipation notes).

Debt Ratios

The following table presents certain debt ratios relating to the School District's net direct and overlapping indebtedness as of November 11, 2022.

	Amount	Debt Per Capita ¹	Debt Full Value ²
Net Direct Debt	\$93,365,000	\$2,061.08	2.22%
Total Direct & Applicable Total Overlapping Debt	166,491,213	3,675.38	3.96%

Notes: ¹ The population of the School District's is 45,299 according to the 2020 US Census Bureau.

² The full valuation of real property located in the School District for the 2022-23 fiscal year is \$4,207,800,936.

FINANCES OF THE SCHOOL DISTRICT

Independent Audit

The financial statements of the District are audited each year by an independent certified public accountant. The last such audit covers the fiscal year ended June 30, 2022. A copy of such report is attached hereto as APPENDIX B.

The Statement of Revenues, Expenditures and Changes in Fund Balances and Balance Sheet presented in APPENDIX A of this Official Statement are based on the audited financial reports of the School District for the 2018 – 2022 fiscal years.

The School District complies with the Uniform System of Accounts as prescribed for school districts in the State by the State Education Department and the Department of Audit and Control. This system differs from generally accepted accounting principles as prescribed by the American Institute of Certified Public Accountants' Industry Audit Guide, "Audits of State and Local Governmental Units" and codified in Government Accounting, Auditing and Financial Reporting (GAAFR), published by the Governmental Accounting Standards Board ("GASB").

The financial affairs of the School District are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the School District has complied with the requirements of various state and federal

statutes. The last such audit conducted by the State Comptroller was released February 16, 2018. The purpose of the audit was to determine whether the Board and District officials effectively managed the School District's financial condition for the period from July 1, 2016 through June 30, 2017. A full copy of the report, including the School District's response, may be accessed at the website of the Office of the State Comptroller. Reference to the website implies no warranty of the accuracy of the information therein, not inclusion herein by reference.

Fund Structure and Accounts

The General Fund is the general operating fund for the School District and is used to account for substantially all revenues and expenditures of the School District. The School District also maintains Special Revenue Funds which are used to account for special aid and school lunch programs. A capital projects fund is used to record capital transactions while a trust and agency fund accounts for moneys received by the School District in a fiduciary capacity.

Basis of Accounting

The School District's governmental funds are accounted for on a modified accrual basis whereby revenues, other than those susceptible ("measurable" and "available" to finance current operations) to accrual, are recorded when received in cash. Revenues susceptible to accrual include real property taxes and State aid. The School District generally records expenditures on the accrual basis when fund liabilities are incurred, except for interest on general obligation debt which is recorded when it becomes due. Pension costs billed to the School District by the State are recorded as expenditures in full in the fiscal year billed. The estimated unbilled portion of these pension costs for governmental funds are shown as a liability on the balance sheet of the general long-term debt accounts group. Accumulated vacation and sick leave are also accounted for in the general long-term debt account group. Inventories are generally not recorded but expensed at the time of purchase; food and supplies in the school lunch fund are inventoried and carried at values which approximate market. Fixed assets are recorded at replacement costs as determined by appraisal; all capital assets, except land, are depreciated on a straight-line basis over their estimated useful lives.

Investment Policy

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

The primary objectives of the School District's investment policy are, in priority order, as follows:

- To conform to all applicable federal, State and other legal requirements.
- To adequately safeguard principal.
- To provide sufficient liquidity to meet all operating requirements.
- To obtain a reasonable rate of return on invested funds.

Pursuant to State law, including Sections 10 and 11 of the General Municipal Law (the "GML"), the School District is generally permitted to deposit moneys which are not required for immediate expenditure in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

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

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the School District, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML. The School District is not presently investing in repurchase agreements and is not authorized to invest in reverse repurchase obligations or similar derivative-type investments.

Collateral is required for demand deposit, money market accounts and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Budget Process

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

Pursuant to Chapter 97 of 2011 Laws of New York, beginning with the School District's 2012-13 fiscal year, if the proposed budget requires a tax levy increase that, after permissible exemptions are applied, that does not exceed the lesser of 2% (subject to certain allowed adjustments) or the increase in a designated measure of the consumer price index ("CPI") commonly referred to as the "Tax Cap," a simple majority affirmative vote is required for approval. If the proposed budget requires a tax levy increase that exceeds the Tax Cap, the budget proposition must include special language and a 60% affirmative vote is required for approval. Any separate budgetary proposition that would cause the School District to exceed the Tax Cap also must receive at least 60% voter approval. The School District has not exceeded the Tax Cap in any year.

If the proposed budget is not approved by the required margin, the Board may resubmit the original budget or submit a revised budget to the voters on the third Tuesday in June or adopt a contingency budget (which would provide for ordinary contingent expenses, including debt service) that levies a tax no greater than that of the prior fiscal year.

If the resubmitted or revised budget is not approved by the required margin, the Board must adopt a budget that requires a tax levy no greater than that of the prior fiscal year. For a complete discussion of Chapter 97 of the Laws of 2011, see "REAL PROPERTY TAX INFORMATION – Tax Levy Limitation Law," herein.

The School District's budget for the 2022-23 fiscal year was approved by voters on May 17, 2022.

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

Revenues

The School District receives most of its revenue from a real property tax on all non-exempt real property situated within the School District and State aid. A summary of such revenues for the last five fiscal years and the budget year ending June 30, 2023 may be found in APPENDIX A.

Real Property Taxes

See “REAL PROPERTY TAX INFORMATION,” herein.

State Aid

The School District is dependent to a significant degree on financial assistance from the State in the form of State aid for both operating and capital purposes. If the State should not adopt its budget in a timely manner in any year, municipalities and school districts in the State, including the School District, may be affected by a delay in the payment of State aid.

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

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

Litigation continued, however, as a case related to the *CFE* case was heard on appeal on May 30, 2017 in *New Yorkers for Students’ Educational Rights (“NYSER”) v. State of New York* and a consolidated case on the right to a sound basic education. The *NYSER* lawsuit asserted that the State had failed to comply with the original decision in the Court of Appeals in the *CFE* case, and asked the Court of Appeals to require the State to develop new methodologies, formulas and mechanisms for determining State aid, to fully fund the “foundation aid” formula, to eliminate the supermajority requirement for voter approval of budgets which increase school district property tax levies above the property tax cap limitation, and related matters. On June 27, 2017, the Court of Appeals held that the plaintiff’s causes of action were properly dismissed by the earlier Appellate Division decision except insofar as two causes of action regarding accountability mechanisms and sufficient state funding for a “sound basic education” as applicable solely to the school districts in New York City and Syracuse. The Court emphasized its previous ruling in the *CFE* case that absent “gross educational inadequacies”, claims regarding State funding for a “sound basic education” must be made on a district-by-district basis based on the specific facts therein.

On October 14, 2021, Governor Hochul announced a settlement was reached in the *NYSER* lawsuit. The new settlement requires the State to fully fund the foundation aid owed to school districts by the State’s 2024 fiscal year budget through a phased implementation. The State anticipates covering 30% in the 2022 fiscal year budget, 50% of the shortfall in the 2023 fiscal year budget and the remaining balance in the 2024 fiscal year.

The State’s adopted budget for the fiscal year that ended March 31, 2017, included a total of approximately \$24.2 billion for school aid, which represented an increase of \$1.35 billion, or 5.9%, in total education spending over the prior year. Included within the budget was a \$627 million increase in Foundation Aid, \$342 million for expense-based aids, and \$100 million set aside for Community Schools Aid, to transform failing and high-needs schools into “community schools” to help to provide mentoring, summer learning activities, and health support to students. This budget also eliminated the Gap Elimination Adjustment (“GEA”) instituted in the State’s 2010-2011 to 2012-2013 fiscal years. The GEA “Deficit Reduction Assessment” was introduced as a way to help close the State’s then \$10 billion budget deficit. Under the legislation, a portion of the funding shortfall at the State level was divided among all school districts across the State, resulting in a reduction in school district general aid funds. The GEA is an aid reduction number that is deducted from the aid originally due to school districts.

The State's adopted budget for the fiscal year that ended March 31, 2018, increased Education Aid by \$1.1 billion, including a \$700 million increase in Foundation Aid, without revision to the formula, bringing the new Education Aid total to \$25.8 billion or an increase of 4.4%. Approximately \$3.6 billion in Foundation Aid continued to be due in order to fully phase-in and implement the existing formula. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as has been customary in recent years. Transportation Aid increased 5.5 % and Building Aid increased 4.8%. The budget continued to link school aid increases for 2017-18 and 2018-19 with teacher and principal evaluation plans approved by September 1 of the current year in compliance with Education Law Section 3012-d. The budget included a provision to permit school districts to authorize and establish conditions for the partial payment of property taxes.

The State's adopted budget for the fiscal year that ended March 31, 2019, increased Education Aid by \$859 million, including a \$619 million increase in Foundation Aid, without revision to the formula, bringing the new Education Aid total to \$26 billion or an increase of 3.4%. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as has been customary in recent years.

The State's adopted budget for the fiscal year that ended March 31, 2020, increased Education Aid by more than \$1 billion, including a \$618 million increase in Foundation Aid, without revision to the formula, bringing the new Education Aid total to \$27.9 billion or an increase of 3.8%. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as has been customary in recent years.

The State's adopted budget for the fiscal year that ended March 31, 2021, froze the Foundation aid payable to school districts at the 2019-20 levels, resulting in a flat amount of \$27.9 billion of Educational Aid. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as has been customary in recent years. In addition, the enacted budget allowed for a reduction in aid as a "Pandemic Adjustment" equal to the amount of Federal stimulus sent to school districts to help offset increased expenditures due to the COVID-19 pandemic.

The State's adopted budget for the fiscal year that ended March 31, 2022 includes large-scale increases in State aid to school districts, including a \$105 million expansion of full-day prekindergarten that will provide funding to 200 school districts that didn't previously receive state funding for such full-day prekindergarten programs. In contrast to the 2020-21 budget, this budget provides that additional federal aid would supplement, not supplant, State funding. Most notably, Foundation Aid is increased by \$1.4 billion (7.6%), and the State has committed to a three-year phase-in of the restoration of the full Foundation Aid formula to finally fulfill the State's commitments from the *CFE* case from the early 2000s.

The City of New York was an early epicenter of the COVID-19 pandemic in the United States, and as a result the State suffered significant revenue shortfalls and unanticipated expenses beginning at the end of the State's 2019-2020 fiscal year, and continuing during the State's 2020-21 fiscal year.

In response, the enacted State budget for the 2020-21 fiscal year allowed the State to reduce expenditures (including aid to local school districts and municipalities) if tax receipts were lower than anticipated. Accordingly, in June 2020 the State Division of the Budget ("DOB") began withholding 20 percent of most local aid payments, although such aid was restored in full later in that same fiscal year.

Many of the State's 2020-2021 budget decisions were based on the uncertainty of future federal aid. In the period of time since such decisions were made, the \$1.9 trillion American Rescue Plan Act was signed into law (on March 11, 2021), which legislation includes almost \$24 billion in funding for various levels of government in the State, including approximately \$12.5 billion for the State, \$6 billion for New York City, and \$4 billion to be divided among counties in the State; another \$12 billion was intended to be used toward the safe reopening of K-12 schools as well as colleges and universities.

The State enacted budget for the fiscal year ending March 31, 2023, increases Education Aid by more than \$2.1 billion, including a \$1.5 billion increase in Foundation Aid, bringing the new Education Aid total to \$31.5 billion or an increase of 7.2%. This budget continues to implement the three-year phase in of full funding of the current Foundation Aid formula for those districts that were due additional aid in prior years, and includes a 3% minimum increase to districts that had previously been fully funded, which would not have otherwise been owed additional Foundation Aid under current law. The budget also provides for \$125 million of additional funding for full-day prekindergarten programs. Expense-

based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as has been customary in recent years.

Although the State’s 2021-2022 and 2022-2023 budgets contained additional aid for school districts and municipalities, it is uncertain whether the State will have future budget shortfalls necessitating cuts to State aid. Reductions in the payment of State aid could adversely affect the financial condition of school districts in the State, including the School District. See “COVID-19,” herein, for further details on the COVID-19 pandemic and its effects on the State.

There can be no assurance that the State appropriation for State aid to school districts will not be reduced or delayed in future fiscal years, as the State is not constitutionally obligated to maintain or continue State aid to the School District. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget. In any event, State aid appropriated and apportioned to the School District can be paid only if the State has such monies available therefor.

A summary of State aid payments received by the School District for the last five fiscal years and the amounts budgeted for the 2022-23 fiscal year are as follows:

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Total</u> <u>General Fund</u> <u>State Aid</u>	<u>Total</u> <u>General Fund</u> <u>Revenues</u>	<u>Percentage of</u> <u>Total Revenues</u> <u>Consisting of</u> <u>State Aid</u>
2018	\$92,950,598	\$173,582,536	53.55%
2019	99,490,273	183,259,351	54.29%
2020	106,569,386	189,417,199	56.26%
2021	107,714,176	194,949,045	55.25%
2022	124,491,937	208,096,136	59.82%
2023 (Budgeted)	144,812,671	223,888,792	64.68%

Source: Audited Annual Financial Statements and Adopted Budget of the School District.

Note: This table is NOT audited.

Expenditures

The major categories of expenditure for the School District are General Support, Instruction, Employee Benefits, Pupil Transportation and Debt Service. A summary of the expenditures for the five most recently completed fiscal years and the amounts budgeted for the 2023 fiscal year may be found in APPENDIX A – Financial Information.

The State Comptroller’s Fiscal Stress Monitoring System

The Office of the State Comptroller has developed a Fiscal Stress Monitoring System (“FSMS”) to provide independent, objectively measured and quantifiable information to school district and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State’s school districts and municipalities are operating.

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

The most current applicable report of the State Comptroller lists the School District's current fiscal stress score as 3.3%, putting it in the "No Designation" category.

For a complete list of school district and municipal fiscal stress scores, visit the State Comptroller's website. For further information on the fiscal stress rating system can be found on the State Comptroller's website, where recent audits and reports may also be found. Reference to the website implies no warranty of the accuracy of the information therein, nor inclusion herein by reference. See also "Independent Audits" herein regarding audits by the State Comptroller.

Employee Pension Benefits

Professional employees (teachers and administrators) of the School District are members of the State Teachers' Retirement System ("TRS"). Payments to the TRS are generally deducted from State aid payments. All nonprofessional employees of the School District eligible for pension or retirement benefits are members of the State and Local Employees' Retirement System ("ERS," and collectively with the TRS, the "Systems"). Both the TRS and ERS are non-contributory with respect to the members hired prior to July 1, 1976. All members of the respective systems hired on or after July 1, 1976 and before April 2, 2012 contribute 3% (ERS) or 3.5% (TRS) of their gross annual salary toward the cost of retirement programs. Chapter 86 of the Laws of 2000 eliminated the 3% contribution for Tier 3 and Tier 4 members with 10 years of service credit.

On December 10, 2009, former Governor Paterson signed into law pension reform legislation. The legislation created a new Tier 5 pension level, the then-most significant reform of the State's pension system in more than a quarter-century. Key components of Tier 5 included raising the minimum age at which most civilians can retire without penalty from 55 to 62 and imposing a penalty of up to 38% for any civilian who retires prior to age 62; requiring employees to continue contributing 3% of their salaries toward pension costs so long as they accumulate additional pension credits, increasing the minimum years of service required to draw a pension from five years to 10 years; capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police and firefighters at 15% of non-overtime wages; and increasing the vesting period from five years to 10 years. Tier 5 applies to public employees hired on or after January 1, 2010 and on or before April 1, 2012.

Members of the TRS have a separate Tier 5 benefit structure that achieves equivalent savings as other civilian public employees. It includes: raising the minimum age an individual can retire without penalty from 55 to 57 years; contributing 3.5% of their annual wages to pension costs rather than 3.0% and continuing this increased contribution so long as they accumulate additional pension credits and increases the two percent multiplier threshold for final pension calculations from 20 to 25 years.

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

The State's enacted budget for the 2022-23 fiscal year, which was signed into law on April 9, 2022, reduced the number of years of service credit required to vest from ten years to five years for Tier 5 and Tier 6. In addition, the enacted budget changed the contribution rate to the system for Tier 6 members from April 1, 2022 through March 31, 2024 to be determined on only the base pay, not including any overtime compensation, earned between April 1, 2020 through March 31, 2022, so as to not penalize those members that worked overtime to provide essential services during the COVID-19 pandemic. Further, the annual earnings limit of \$35,000 has been waived for any retiree working in a public school through June 30, 2023.

The actual ERS and TRS amounts paid for the last five fiscal years and budgeted amounts for fiscal year 2022-23 are as follows:

<u>Fiscal Year Ending June 30:</u>	<u>ERS</u>	<u>TRS</u>
2018	\$1,803,978	\$6,091,987
2019	1,857,780	7,055,301
2020	1,900,870	7,770,514
2021	2,146,634	8,427,387
2022	2,356,529	7,798,532
<u>2023 (Budgeted)</u>	<u>2,569,733</u>	<u>8,395,571</u>

Note: This table is NOT audited.

The School District's contributions made to the Systems were equal to 100% of the contributions required for each year. The School District prepays its pension obligations in December of each year to take advantage of the discounted payment amount offered by the Systems for paying pension obligations in advance of the February 1 due date.

Pursuant to Chapter 49 of the Laws of 2003, the School District is required to contribute a minimum contribution of 4.50% of payroll every year, including years in which the investment performance of the fund would make a lower contribution possible.

Due to significant capital market declines in the wake of the 2008 and 2009 financial crisis, the Retirement System's portfolio experienced negative investment performance and severe downward trends in market earnings. As a result, State Comptroller Thomas DiNapoli announced that the employer contribution rate for the State's Retirement System in 2012 and subsequent years would be higher than the minimum contribution rate established by Chapter 49. For fiscal year 2023-24 average ERS contributions will increase from 11.6% to 13.1% of payroll. Due to the COVID-19 pandemic, financial markets initially experienced great volatility. Although markets have generally stabilized, it is impossible to predict how employer contribution rates may change in the future. The System posted a 9.51% return for the fiscal year that ended March 31, 2022.

TRS Administrative Bulletin, Issue No. 2022-7, August 2022, reports that the Retirement Board adopted an Employer Contribution Rate (ECR) of 10.29% of member payroll to be collected in the 2023-24 fiscal year, an increase from the 2022-23 rate of 9.80%. This rate applies to fiscal year 2022-23 TRS member salaries and will be collected in the fall of 2023. An estimated rate for the 2024-25 ECR will be released in November 2022. The one-year rate of return on the System's assets for the fiscal year that ended June 30, 2021 was 29.0%.

Chapter 57 of the Laws of 2010 (Part TT) amended the Retirement and Social Security Law to authorize participating local government employers, if they so elect, to amortize an eligible portion of their annual required contributions to the SRS, when employer contribution rates rise above certain levels. The option to amortize the eligible portion began with the annual contribution due February 1, 2011. The amortizable portion of an annual required contribution is based on a "graded" rate by the State Comptroller in accordance with installments over a ten-year period but may be prepaid at any time. Interest is to be charged on the unpaid amortized portion at a rate to be determined by the State Comptroller, which approximates a market rate of return on taxable fixed rate securities of a comparable duration issued by comparable issuers. The interest rate is established annually for that year's amortized amount and then applies to the entire ten years of the amortization cycle of that amount. When in any fiscal year, the participating employer's graded payment eliminates all balances owed on prior amortized amounts, any remaining graded payments are to be paid into an employer contribution reserve fund established by the State Comptroller for the employer, to the extent that such amortizing employer has no currently unpaid prior amortized amount, for future use.

The enacted 2013-14 State Budget established an Alternative Contribution Stabilization Program (ACSP) which allowed local governments and school districts to lessen the cash impact of current increases in pension contributions, while repaying the deferrals with interest as well as contributing to a reserve account to dampen future rate increases. Eligible participating employers would have had the opportunity to make a one-time election in the 2013-14 fiscal year to the ACSP. Interest rates charged on deferrals to participants in the ACSP program were charged a rate comparable to a 10-

year treasury bond adjusted to a 12-year duration plus one percent. Once a participating employer elects into the program deferred contributions could be amortized over a period of up to 12 years using the ACSP. A participant cannot withdraw from the program; however, a participant does not have to amortize for the full 12-year term of the program. There is no penalty for prepayment of amortized amounts.

The School District did not participate in this program nor does it amortize pension obligations.

The State's 2019-2020 Enacted Budget, which was signed into law as Chapter 59 of the Laws of 2019, includes a provision that will allow school districts in the State to establish a reserve fund for the purpose of funding the cost of TRS contributions, as a sub-fund of retirement contribution reserve funds presently authorized for amounts payable to the ERS by a school district. School districts will be permitted to pay into such reserve fund during any particular fiscal year, an amount not to exceed two percent of the total compensation or salaries of all district-employed teachers who are members of the TRS paid during the immediately preceding fiscal year; provided that the balance of such fund may not exceed ten percent of the total compensation or salaries of all district-employed teachers who are members of the TRS paid during the immediately preceding fiscal year. The School District has established such a fund.

The investment of monies and underlying assumptions of the Retirement Systems covering the School District's employees are not subject to the direction of the School District. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAAL"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAAL could be substantial in the future, requiring significantly increased contributions from the School District which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

Other Post-Employment Benefits

In June 2004, GASB released Statement No. 45 ("GASB 45"), which required state and local governments to account for and report their costs associated with post-employment benefits and other non-pension benefits ("OPEB"), as it accounts for vested pension benefits. OPEB consists primarily of health care benefits and may include other benefits such as disability benefits and life insurance. It requires them to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") was determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributed an amount less than the ARC, a net OPEB obligation would result, which was required to be recorded as a liability on its financial statements. Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

GASB 45 did not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district accounted for its unfunded accrued liability and its compliance in meeting its ARC.

In June 2015 the Governmental Accounting Standards Board issued GASB Statement 75 ("GASB 75"), which superseded and eliminated GASB 45. This Statement established new standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Municipalities or school districts are required to account for OPEB within the financial statements rather than only noted in the footnotes as previously required by GASB 45. GASB 75 was required to be implemented for all municipalities and school districts in the fiscal year beginning after June 2017. Actuarial valuations are required every two years under GASB 75.

Under GASB 75, the School District's annual net change in OPEB liability and the total year-end OPEB liability for the past five fiscal years are as follows:

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Net Change In OPEB</u>	<u>Ending OPEB Liability</u>
2018	(\$14,661,720)	\$158,611,996
2019	(34,851,390)	123,760,606
2020	17,174,761	140,935,367
2021	7,646,957	148,582,324
2022	19,984,720	168,567,044

There is no authority in current state law to establish a reserve fund to meet this liability. While State Comptroller Thomas P. DiNapoli proposed a bill in April of 2015, and again in 2016, that would create an optional investment pool to help local governments fund their OPEB liabilities, such legislation did not advance past the committee stage.

The School District continues to meet this liability on a pay-as-you-go basis.

School districts and boards of cooperative education services, unlike other municipal units of government in the State, have been prohibited from reducing retiree health benefits or increasing health care contributions received or paid by retirees below the level of benefits or contributions afforded to or required from active employees since the implementation of Chapter 729 of the Laws of 1994. This protection from unilateral reduction of benefits has been extended permanently pursuant to Part B (Section 14) of Chapter 504 of the laws of 2009. Legislative attempts to provide similar protection to retirees of other local units of government in the State have not succeeded as of this date. Nevertheless, many such retirees of all varieties of municipal units in the State do presently receive such benefits.

REAL PROPERTY TAX INFORMATION

Real Property Taxes

The School District derives its power to levy an *ad valorem* real property tax from the State Constitution. Methods and procedures to levy, collect and enforce this tax are governed by the Real Property Tax Law. Real property assessment rolls used by the School District are prepared by the various town assessors. Assessment valuations are determined by the town assessors and the State Office of Real Property Services which is responsible for certain utility and railroad property. In addition, the State Office of Real Property Services annually establishes State Equalization Rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain State aids and are used by many localities in the calculation of debt contracting and real property taxing limitations.

Tax Collection Record

	<u>Fiscal Year Ended June 30:</u>				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Tax Levy for All Purposes ¹	\$69,499,104	\$70,790,801	\$71,929,815	\$72,607,808	\$68,177,371
Total Taxes Collected	<u>62,617,318</u>	<u>65,108,195</u>	<u>68,134,066</u>	<u>69,430,918</u>	<u>58,433,873</u> ²
Uncollected Returned to County	<u>\$6,881,786</u>	<u>\$5,682,605</u>	<u>\$3,795,749</u>	<u>\$3,176,889</u>	<u>\$9,743,498</u>
Percentage Collected Prior to Return	90.10%	91.97%	94.72%	95.62%	85.71%

Notes: ¹ Does not include STAR reimbursements.

² As of November 2, 2022.

Uncollected taxes are relieved with the City and County, which reimburses the School District in whole, hence the School District is assured 100% collection of its tax levy.

Percentage of Revenues - Real Property Taxes

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Total</u> <u>General Fund</u> <u>Real Property Taxes</u>	<u>Total</u> <u>General Fund</u> <u>Revenues</u>	<u>Percentage of</u> <u>Total Revenues</u> <u>Consisting of</u> <u>Real Property Taxes</u>
2018	\$67,233,682	\$173,582,536	38.73%
2019	70,052,577	183,259,351	38.23%
2020	70,544,856	189,417,199	37.24%
2021	72,349,095	194,949,045	37.11%
2022	72,593,191	208,096,136	34.88%
2023 (Budgeted)	67,604,150	223,888,792	30.20%

Source: Audited Annual Financial Reports and Adopted Budget of the School District.

Notes: This table is NOT audited.

Tax Collection Procedure

School taxes are levied by the Board of Education upon the adoption of the final budget and completion of the assessment rolls by the City and Towns. The School District's collector receives such taxes penalty-free during the month of October and with a 2% penalty in November, 3% in December, 4% in January and a 5% penalty in February. A certified list of unpaid taxes, compiled as of March 1, is provided to the City of Middletown (City residents only) and the County (Town residents only) which are responsible for the enforcement of unpaid school taxes. Interest accrues at a rate of 1% a month after February. Unpaid taxes are turned over to the City and County on March 1. The City and County are required to remit moneys received from the collection of unpaid school taxes at least once each month. The Real Property Tax Law provides for additional remittances for unpaid school taxes and properties included in a tax sale conducted by either the City or County. In general, the School District receives the full amount of its unpaid taxes within two years within two years of being turned over to the City and County.

Tax Levy Limitation Law

On June 24, 2011, Chapter 97 of the 2011 Laws of New York was signed into law by former Governor Andrew Cuomo ("Chapter 97"). Chapter 97 applies to all local governments, including school districts (with the exception of New York City, and the counties comprising New York City and school districts in New York City, Buffalo, Rochester, Syracuse, and Yonkers.

On June 25, 2015, Chapter 20 of the 2015 Laws of New York ("Chapter 20") amended the Tax Levy Limitation Law to extend its expiration from June 15, 2016 to June 15, 2020. The State's enacted budget for the fiscal year ending March 31, 2020 made the Tax Levy Limitation Law permanent. Chapter 20 also affects the calculation of tax base growth factor as outlined below.

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

Chapter 97 restricts, among other things, the amount of real property taxes that may be levied by or on behalf of a school district in a particular year. Pursuant to the Tax Levy Limitation Law, the tax levy of a school district cannot increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the CPI, over the amount of the prior year's tax levy. Certain adjustments would be permitted for taxable real property full valuation increases or changes in physical or quantity growth in the real property base as defined in Section 1220 of the Real Property Tax Law. Chapter 20 additionally allows the State Commissioner of Taxation and Finance to adjust for changes in the real property base to reflect development on tax exempt real property.

Beginning with the 2012-2013 fiscal year, school districts have had to submit their proposed tax levies to the voters each year. A school district could exceed the tax levy limitation for the coming fiscal year only if the voters of such school district first approve a tax levy by at least 60% affirmative vote of those voting to override such limitation for such coming fiscal year only. Tax levies that do not exceed the limitation will only require approval by at least 50% of those voting. In the event that the voters reject a tax levy and the school district does not go out for a second vote, or if a second vote is likewise defeated, Chapter 97 provides that the tax levy for the new fiscal year may not exceed the tax levy for the prior fiscal year.

A school district's calculation of each fiscal year's tax levy limit is subject to review by the Commissioner of Education and the Commissioner of Taxation and Finance prior to adoption of each fiscal year budget.

There are exceptions for school districts to the tax levy limitation provided in Chapter 97, including expenditures made on account of certain tort settlements and certain increases in the average actuarial contribution rates of the New York State and Local Employees' Retirement System, and the Teachers' Retirement System. School districts are also permitted to carry forward a certain portion of their unused levy limitation from a prior year.

There is also an exception for school districts for "Capital Local Expenditures" subject to voter approval where required by law. This term is defined in a manner that does not include certain items for which a school district may issue debt including the payment of judgments or settled claims, including tax certiorari payments, and cash flow borrowings including tax anticipation notes, revenue anticipation notes and budget notes. "Capital Local Expenditures", are defined as "the taxes associated with budgeted expenditures resulting from the financing, refinancing, acquisition, design, construction, reconstruction, rehabilitation, improvement, furnishing and equipping of or otherwise providing for school district capital facilities or school district capital equipment, including debt service and lease expenditures, and transportation capital debt service, subject to the approval of the qualified voters where required by law". The portion of the tax levy necessary to support "Capital Local Expenditures" is defined as the "Capital Tax Levy", and this is an exclusion from the tax levy limitation. Chapter 20 also allows the State Commissioner of Taxation and Finance to adjust the exclusion to reflect a school district's share of capital expenditures related to projects funded through a board of cooperative educational services.

STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. School districts are reimbursed by the State for real property taxes exempted pursuant to the STAR Program. Beginning in 2016, new homeowners received the STAR credit in the form of a check rather receiving a property tax exemption.

Homeowners over 65 years of age with household incomes of \$93,200 or less (an increase from 92,000 in the 2022-23 year) are eligible for a "full value" exemption for the first \$81,400 of the homeowner's primary residence from school property taxes in the 2023-24 school year (increased from \$74,900 in the 2022-23 school year). Other homeowners where the owner's total income is less than \$500,000 are eligible for at least a \$30,000 "full value" exemption or credit on their primary residence. Beginning with school taxes for the 2011-12 school year, legislation caps STAR savings increases at 2% of the prior year's savings. The School District typically receives full reimbursement of such exempt taxes from the State by the first business day of January in each year.

Part A of Chapter 60 of the Laws of 2016 of the State of New York ("Chapter 60") gradually converts the STAR program from a real property tax exemption to a personal income tax credit. The dollar benefit to eligible taxpayers will not change. However, for any homeowner that owned his or her home after the taxable status date for the assessment roll used to levy taxes for the 2015-2016 school year, such homeowner will receive a check from the State equal to the amount by which the STAR exemption would have reduced his or her school tax bill.

The State's enacted budget for the fiscal year ended March 31, 2020 included changes to the STAR program. For those homeowners with incomes over \$250,000, the STAR exemption benefit was capped at the 2019 fiscal year level, rather than allowed to grow by up to 2% annually under the STAR credit program. Those homeowners with incomes between \$250,000 and \$500,000 are able to convert to the credit program to maintain the full STAR benefit.

The details of the STAR exemption formulas are available from the website of the State Department of Taxation and Finance. Reference to the website implies no warranty of the accuracy of the information therein, nor inclusion herein by reference.

Assessed and Full Valuations					
Valuations Based on Regular Equalization Ratios					
Fiscal Year Ending June 30:					
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Assessed Valuations:					
Town of Goshen	\$413,320	\$413,320	\$413,320	\$413,320	\$413,320
Town of Wallkill	308,164,008	312,759,691	317,937,115	318,966,754	325,037,755
Town of Wawayanda	60,303,295	59,858,270	60,631,606	61,060,478	61,364,365
City of Middletown	232,336,005	234,870,270	236,725,412	239,409,362	240,750,184
Total	<u>\$601,216,628</u>	<u>\$607,901,551</u>	<u>\$615,707,453</u>	<u>\$619,849,914</u>	<u>\$627,565,624</u>
Equalization Rates:					
Town of Goshen	62.00%	61.00%	56.00%	56.00%	49.50%
Town of Wallkill	21.00%	19.75%	18.00%	18.00%	16.02%
Town of Wawayanda	68.00%	65.50%	61.50%	59.50%	51.00%
City of Middletown	16.35%	15.25%	13.45%	13.00%	11.70%
Full Valuations:					
Town of Goshen	\$666,645	\$677,574	\$738,071	\$738,071	\$834,990
Town of Wallkill	1,467,447,657	1,583,593,372	1,766,317,306	1,772,037,522	2,028,949,782
Town of Wawayanda	88,681,316	91,386,672	98,587,977	102,622,652	120,322,284
City of Middletown	1,421,015,321	1,540,132,918	1,760,040,238	1,841,610,477	2,057,693,880
Total	<u>\$2,977,810,940</u>	<u>\$3,215,790,536</u>	<u>\$3,625,683,592</u>	<u>\$3,717,008,723</u>	<u>\$4,207,800,936</u>
Valuations Based on Special Equalization Ratios					
Fiscal Year Ending June 30:					
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Assessed Valuations:					
Town of Goshen	\$413,320	\$413,320	\$413,320	\$413,320	\$413,320
Town of Wallkill	304,350,307	308,164,008	312,759,691	317,937,115	318,966,754
Town of Wawayanda	59,326,442	60,303,295	59,858,270	60,631,606	61,060,478
City of Middletown	230,284,071	232,336,005	234,870,270	236,725,412	239,409,362
Total	<u>\$594,374,140</u>	<u>\$601,216,628</u>	<u>\$607,901,551</u>	<u>\$615,707,453</u>	<u>\$619,849,914</u>
Equalization Rates:					
Town of Goshen	61.27%	56.19%	56.14%	55.93%	54.65%
Town of Wallkill	20.18%	18.32%	18.32%	18.34%	17.83%
Town of Wawayanda	65.64%	61.42%	61.63%	61.74%	58.15%
City of Middletown	15.24%	13.47%	13.35%	13.22%	12.27%
Full Valuations:					
Town of Goshen	\$674,588	\$735,576	\$736,231	\$738,995	\$756,304
Town of Wallkill	1,508,177,934	1,682,117,948	1,707,203,553	1,733,572,056	1,788,933,001
Town of Wawayanda	90,381,539	98,181,854	97,125,215	98,204,739	105,005,121
City of Middletown	1,511,050,335	1,724,840,423	1,759,327,865	1,790,661,210	1,951,176,544
Total	<u>\$3,110,284,395</u>	<u>\$3,505,875,801</u>	<u>\$3,564,392,865</u>	<u>\$3,623,177,000</u>	<u>\$3,845,870,970</u>

Source: School District Officials.

Tax Rate / \$1,000 Assessed Value:

	Fiscal Year Ending June 30:				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Town of Goshen	\$41.10	\$39.01	\$37.18	\$37.18	\$34.76
Town of Wallkill	121.63	120.76	116.60	116.60	108.83
Town of Wawaynda	37.62	36.47	35.39	35.37	33.74
City of Middletown	155.94	156.12	160.22	160.22	147.07

Source: School District Officials.

Ten Largest Taxpayers

2022 Assessment Roll used for 2022-23 Taxes

<u>Name</u>	<u>Type</u>	Estimated <u>Full Valuation</u>
Orange & Rockland Utilities	Public Utility	\$156,317,348
Middletown I. Resources LP	Shopping Center	98,315,900
Crystal Run Newco LLC	Retail	52,453,858
Dunning Farms, LLC	Shopping Center	34,604,900
Wal-Mart	Retail	24,968,800
Sutton Hill II LLC	Apartments	20,648,700
Ivey 95	Commercial	20,302,100
BRE Retail	Shopping Center	18,726,600
Southgate at Middletown, LLC	Apartments	18,256,400
Inland Western Middletown	Shopping Center	16,848,500
Total		<u><u>\$461,443,106</u></u> ¹

Source: School District Officials.

Note: ¹ Represents 10.97% of the School District's 2022-23 full valuation of \$4,207,800,936.

LITIGATION

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

On February 14, 2019, the Child Victims Act (“CVA”) was signed into law in New York. The CVA created a window for victims of childhood sexual abuse to file previously time-barred claims until August 14, 2020 (later extended to August 14, 2021). The CVA has resulted in lawsuits against entities such as schools, churches, and youth organizations.

The School District has been named in six (6) cases for which there is no insurance coverage. In one of those cases, the alleged sexual abuse occurred at a foster care facility that has no connection to the School District. The School District will be moving to dismiss this case.

One case involves alleged sexual abuse that took place in 2006 through 2010 by a former teaching assistant. The District has moved to dismiss the complaint and is awaiting a decision on its motion.

The four other cases involve alleged sexual abuse that occurred in the early 1980's by the school physician. To date, the plaintiffs have not produced admissible evidence demonstrating that the School District had knowledge of such abuse or knowledge that the school physician had a propensity to commit such abuse. It is likely that at the close of discovery in these cases the School District will make pre-trial motions for summary judgment.

There is no action, suit, proceedings or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the School District, threatened against or affecting the School District to restrain or enjoin the issuance, sale or delivery of the Notes or the levy and collection of taxes or assessments to pay same, or in any way contesting or affecting the validity of the Notes or any proceedings or authority of the School District taken with respect to the authorization, issuance or sale of the Notes or contesting the corporate existence or boundaries of the School District.

Source: School District Officials.

MARKET AND RISK FACTORS

There are various forms of risk associated with investing in the Notes. The following is a discussion of certain events that could affect the risk of investing in the Notes. In addition to the events cited herein, there are other potential risk factors that an investor must consider. In order to make an informed investment decision, an investor should be thoroughly familiar with the entire Official Statement, including its appendices, as well as all areas of potential investment risk.

The financial and economic condition of the School District as well as the market for the Notes could be affected by a variety of factors, some of which are beyond the School District's control. There can be no assurance that adverse events in the State and in other jurisdictions, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Notes. If a significant default or other financial crisis should occur in the affairs of the State or another jurisdiction or any of its agencies or political subdivisions thereby further impairing the acceptability of obligations issued by borrowers within the State, both the ability of the School District to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Notes could be adversely affected.

The School District is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, including the School District, in any year, the School District may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the School District. In some years, the School District has received delayed payments of State aid which resulted from the State's delay in adopting its budget and appropriating State aid to municipalities and school districts, and consequent delay in State borrowing to finance such appropriations. (See also "FINANCES OF THE SCHOOL DISTRICT – State Aid," herein).

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

If a holder elects to sell his investment prior to its scheduled maturity date, market access or price risk may be incurred. If and when a holder of any of the Notes should elect to sell a Note prior to its maturity, there can be no assurance that a market shall have been established, maintained and be in existence for the purchase and sale of any of the Notes. Recent global financial crises have included limited periods of significant disruption. In addition, the price and principal value of the Notes is dependent on the prevailing level of interest rates; if interest rates rise, the price of a note will decline, causing the noteholder to incur a potential capital loss if such note is sold prior to its maturity.

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

The Tax Levy Limitation Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the School District and continuing technical and constitutional issues raised by its enactment and implementation could have an impact upon the finances and operations of the School District and hence upon the market price of the Notes. See “REAL PROPERTY TAX INFORMATION – Tax Levy Limitation Law,” herein.

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

COVID-19. The spread of COVID-19, a respiratory disease caused by a new strain of coronavirus has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally and is widely expected to affect economic growth worldwide.

While the virus might affect revenue streams supporting revenue bond debt of some public authorities, as compared to general obligation debt, it is not possible to determine or reasonably predict at this time whether there could also be a material impact on local municipal and school district budgets, or state and local resources to meet their obligations supporting same. See also, “FINANCES OF THE SCHOOL DISTRICT – Revenues”, herein for further detail regarding the State’s budget and State aid payments to the School District.

Uncertainty regarding the short, medium and long-term effects of the COVID-19 pandemic initially caused extreme volatility across all financial markets, including the primary and secondary markets for municipal bonds. In the United States, Congress and the Federal Reserve have taken significant steps to backstop those markets and to provide much-needed liquidity, and markets have since generally stabilized. Still, given these conditions, it is possible that the process of trading the Notes in the secondary market could be affected in ways that are difficult to predict.

The degree of any such impact to the School District’s operations and finances, is extremely difficult to predict due to the dynamic nature of the COVID-19 outbreak, including uncertainties relating to its (i) duration, and (ii) severity, as well as with regard to what actions may be taken by governmental and other health care authorities to contain or mitigate its impact. The continued spread of the outbreak could have a material adverse effect on the School District and its economy.

The School District is monitoring the situation and will take such proactive measures as may be required to maintain its operations and meet its obligations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Bond Counsel is of the further opinion that interest on the Notes is not a specific preference item for purposes of the federal individual alternative minimum tax. We observe that, for tax years beginning after December 31, 2022, interest on the Notes included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in “APPENDIX C”.

To the extent the issue price of any maturity of the Notes is less than the amount to be paid at maturity of such Notes (excluding amounts stated to be interest and payable at least annually over the term of such Notes), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated

as interest on the Notes which is excluded from gross income for federal income tax purposes and exempt from State of New York personal income taxes. For this purpose, the issue price of a particular maturity of the Notes is the first price at which a substantial amount of such maturity of the Notes is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Notes accrues daily over the term to maturity of such Notes on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Notes. Owners of the Notes should consult their own tax advisors with respect to the tax consequences of ownership of Notes with original issue discount, including the treatment of owners who do not purchase such Notes in the original offering to the public at the first price at which a substantial amount of such Notes is sold to the public.

Notes purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Notes, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel is of the further opinion that the amount treated as interest on the Notes and excluded from gross income will depend upon the taxpayer's election under Internal Revenue Notice 94-84. Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the stated interest payable at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes should be treated (i) as qualified stated interest or (ii) as part of the stated redemption price at maturity of the short-term debt obligation, resulting in treatment as accrued original issue discount (the "original issue discount"). The Notes will be issued as short-term debt obligations. Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat the stated interest payable at maturity either as qualified stated interest or as includable in the stated redemption price at maturity, resulting in original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of Notes if the taxpayer elects original issue discount treatment.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The School District has covenanted to comply with certain restrictions designed to ensure that interest on the Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Notes being included in gross income for federal income tax purposes possibly from the date of original issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the value of, or the tax status of interest on, the Notes. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Notes.

Certain requirements and procedures contained or referred to in the Arbitrage Certificate, and other relevant documents may be changed and certain actions (including, without limitation, economic defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted.

Although Bond Counsel is of the opinion that interest on the Notes is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the owner or the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Notes to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Notes for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the School District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The School District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Notes ends with the issuance of the Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the School District or the owners regarding the tax-exempt status of the Notes in the event of an audit examination by the IRS. Under current procedures, owners would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt Notes is difficult, obtaining an independent review of IRS positions with which the School District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Notes for audit, or the course or result of such audit, or an audit of Notes presenting similar tax issues may affect the market price for, or the marketability of, the Notes, and may cause the School District or the owners to incur significant expense.

Payments on the Notes generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate owner of Notes may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Notes and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Notes. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against an owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Notes are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, New York, New York. Bond Counsel's opinion will be substantially in the form attached hereto as APPENDIX C.

MATERIAL EVENT NOTICES

In accordance with the requirements of the Securities and Exchange Commission Rule 15c2-12, as the same may be amended or officially interpreted from time to time (the "Rule"), promulgated by the Securities and Exchange Commission (the "Commission"), the School District has agreed to provide, or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the event, during the period in which the Notes are outstanding, to the Electronic Municipal Market Access ("EMMA") System established and operated by the Municipal Securities Rulemaking Board ("MSRB") or such other similar system established and operated by the MSRB, notice of the occurrence of any of the following events with respects to the Notes:

- (a) principal and interest payment delinquencies;

- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Notes;
- (g) modifications to rights of Note holders, if material;
- (h) note calls, if material;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Notes; and
- (k) rating changes.
- (l) bankruptcy, insolvency, receivership or similar event of the School District;
- (m) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (o) incurrence of a “financial obligation” (as defined in the Rule) of the School District, if material, or agreements to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the School District, any of which affect note holders, if material; and
- (p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the School District, any of which reflect financial difficulties.

Event (c) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (c) is not applicable, since no “debt service reserves” will be established for the Notes.

With respect to event (d), the School District does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

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

With respect to events (o) and (p), the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

The School District reserves the right to terminate its obligation to provide the aforescribed notices of material events, as set forth above, if and when the School District no longer remains an obligated person with respect to the Notes within the meaning of the Rule.

The School District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the School District's obligations under its material event notices undertaking and any failure by the School District to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

An "Undertaking to Provide Notice of Certain Material Events" to this effect shall be provided to the purchaser(s) at closing.

During the previous five years the School District has been in compliance, in all material respects, with its obligations under previous undertakings entered into in accordance with the Rule.

RATING

Moody's Investors Service has assigned a rating of "MIG 1" to the Notes. The Notes were sold as non-rated. The purchaser has chosen to have the Notes rated after the sale at the expense of the purchaser.

Moody's Investors Service currently rates the outstanding long-term debt of the School District "Aa3". Such rating will reflect only the view of such rating agency and any desired explanation of the significance of such rating should be obtained from such rating agency. Generally, rating agencies base their ratings on rating investigation, studies and assumptions they have made in addition to the information and materials provided by the issuer. There is no assurance that a particular rating will apply for any given period of time or that it will be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such rating could have an adverse effect on the market price of the Notes. Such rating should not be taken as a recommendation to buy or hold the Notes.

MUNICIPAL ADVISOR

Municipal Solutions, Inc. is an independent municipal advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities. In preparing this Official Statement, Municipal Solutions, Inc. has relied upon School District officials and other sources, whom have access to relevant data to provide accurate information for this Official Statement. Municipal Solutions, Inc. has not been engaged, nor has it undertaken to, independently verify the accuracy, completeness or fairness of such information. Municipal Solutions, Inc. is not a firm of certified public accountants and has not been engaged by the issuer to compile, review, examine or audit any information in this Official Statement in accordance with accounting standards and principles.

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the School District Business Office, 223 Wisner Avenue, Middletown, New York, 10940, telephone number 845-326-1157, or from the office of Municipal Solutions, Inc., 2528 State Route 21, Canandaigua, New York 14424, telephone number 585-394-4090, fax number 585-394-4092, and website at: <http://www.municipalsolution.com>.

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

This Official Statement is submitted only in connection with the sale of the Notes by the School District and may not be reproduced or used in whole or in part for any other purpose.

So far as any statements made in this Official Statement, and the documents included by specific reference, that are not historical facts are forward-looking statements, which are based on the School District's management's beliefs as well as assumptions made by, and information available to, the School District management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that the School District files with the repositories. When used in School District documents or oral presentations, the words "anticipate", "estimate", "expect", "objective", "projection", "forecast", "goal", or similar words are intended to identify forward-looking statements.

Municipal Solutions, Inc. will place a copy of this Official Statement on its website: <http://www.municipalsolution.com>. Unless the Official Statement specifically indicated otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Municipal Solutions, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the School District nor Municipal Solutions, Inc. assumes any liability or responsibility for errors or omissions on such website.

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Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the School District, expresses no opinion as to the accuracy or completeness of information in any documents prepared by or on behalf of the School District for use in connection with the offer and sale of the Notes, including but not limited to, the financial or statistical information in this Official Statement.

CITY SCHOOL DISTRICT OF THE CITY OF MIDDLETOWN

November 17, 2022
Middletown, New York

By: Rose Tobiassen
President of the Board of Education
and Chief Fiscal Officer

Additional copies of the Notice of Sale and Official Statement may be obtained upon request
from the office of Municipal Solutions, Inc., 2528 State Route 21,
Canandaigua, New York 14424, telephone (585) 394-4090
Website: www.municipalsolution.com

APPENDIX A

FINANCIAL INFORMATION

Statement of Revenues, Expenditures and Fund Balances
General Fund - City School District of the City of Middletown

	Fiscal Year Ending June 30:				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Revenues:					
Real Property Taxes	\$67,233,682	\$70,052,577	\$70,544,856	\$72,349,095	\$72,593,191
Real Property Tax Items	7,872,293	7,753,471	6,946,946	6,720,823	5,883,684
Non-Property Taxes	1,950,171	1,875,736	2,096,259	2,180,701	2,237,832
Charges for Services	621,967	782,320	803,684	965,781	723,412
Use of Money & Property	417,624	433,691	319,539	62,011	127,610
Sale of Property & Comp. for Loss	182,856	345,176	49,660	104,710	61,472
Miscellaneous Local Sources	1,762,525	1,791,949	1,513,513	1,889,240	1,491,909
Interfund Revenues	18,786	15,739	18,131	14,408	21,531
State Aid	92,950,598	99,490,273	106,569,386	107,714,176	124,491,937
Federal Aid	<u>572,034</u>	<u>718,419</u>	<u>555,225</u>	<u>2,948,100</u>	<u>463,558</u>
Total Revenues	<u>\$173,582,536</u>	<u>\$183,259,351</u>	<u>\$189,417,199</u>	<u>\$194,949,045</u>	<u>\$208,096,136</u>
Expenditures:					
General Support	\$15,810,450	\$17,218,954	\$16,813,825	\$20,472,485	\$22,098,251
Instruction	92,936,982	101,367,490	106,363,295	108,489,039	119,872,663
Pupil Transportation	8,466,482	9,110,916	7,887,326	8,227,561	10,082,327
Community Service	17,700	7,850	950	0	5,950
Employee Benefits	28,223,770	30,441,365	33,896,443	35,626,908	36,687,502
Debt Service	<u>16,780,265</u>	<u>16,458,458</u>	<u>15,111,637</u>	<u>10,518,507</u>	<u>13,893,191</u>
Total Expenditures	<u>\$162,235,649</u>	<u>\$174,605,033</u>	<u>\$180,073,476</u>	<u>\$183,334,500</u>	<u>\$202,639,884</u>
Excess (Deficit) of Revenues over Expenditures	<u>\$11,346,887</u>	<u>\$8,654,318</u>	<u>\$9,343,723</u>	<u>\$11,614,545</u>	<u>\$5,456,252</u>
Other Financing Sources (Uses):					
Operating Transfers In	\$190,625	\$652,444	\$724,474	\$675,103	\$500,000
Operating Transfers (Out) ¹	<u>(3,365,506)</u>	<u>(22,518,596)</u>	<u>(10,705,657)</u>	<u>(1,015,753)</u>	<u>(26,716,905)</u>
Total Other Financing Sources (Uses)	<u>(\$3,174,881)</u>	<u>(\$21,866,152)</u>	<u>(\$9,981,183)</u>	<u>(\$340,650)</u>	<u>(\$26,216,905)</u>
Excess (Deficit) of Revenues & Other Sources Over Expenditures & Other (Uses)	<u>\$8,172,006</u>	<u>(\$13,211,834)</u>	<u>(\$637,460)</u>	<u>\$11,273,895</u>	<u>(\$20,760,653)</u>
Fund Balances Beg. of Fiscal Year	<u>\$58,696,106</u>	<u>\$66,868,112</u>	<u>\$53,656,278</u>	<u>\$53,018,818</u>	<u>\$64,292,713</u>
Fund Balances End of Fiscal Year	<u><u>\$66,868,112</u></u>	<u><u>\$53,656,278</u></u>	<u><u>\$53,018,818</u></u>	<u><u>\$64,292,713</u></u>	<u><u>\$43,532,060</u></u>

Source: Audited Annual Financial Reports of the School District.

Notes: This table is NOT audited.

¹ Largely due to a transfer to the capital projects fund to help finance the projects approved by voters. See "Capital Project Plans and Anticipated Future Borrowings" herein for more details.

Balance Sheet
General Fund - City School District of the City of Middletown

	Fiscal Year Ending June 30:				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Assets:					
Cash	\$66,393,103	\$47,434,061	\$52,863,589	\$61,606,889	\$47,569,264
Accounts Receivable	11,183	111,016	159,565	148,985	171,475
Taxes Receivable	3,892,954	3,278,013	3,842,192	3,143,409	3,596,724
State & Federal Aid Receivable	3,908,412	3,239,823	2,854,704	3,327,371	3,702,529
Due from Other Governments	3,257,168	4,370,575	3,008,654	4,730,549	4,190,256
Due from Other Funds	4,010,113	9,529,734	4,490,327	5,722,533	2,281,771
Total Assets	<u>\$81,472,933</u>	<u>\$67,963,222</u>	<u>\$67,219,031</u>	<u>\$78,679,736</u>	<u>\$61,512,019</u>
Liabilities:					
Accounts Payable	\$1,972,529	\$1,821,946	\$1,873,978	\$1,143,934	\$2,241,808
Accrued Liabilities	236,328	120,386	324,767	503,712	323,089
Due to Other Governments	973,946	1,147,965	988,684	1,337,825	3,195,656
Due to Other Funds	667,446	11,829	486,909	455,596	581,998
Due to Teachers' Retirement System	6,782,729	7,770,514	6,904,550	7,795,533	8,644,926
Due to Employees' Retirement System	518,245	518,830	548,886	625,543	489,243
Unearned Revenue	0	58,717	58,717	58,717	58,716
Deferred Tax Revenues	3,453,598	2,856,757	3,013,722	2,466,163	2,444,523
Total Liabilities	<u>\$14,604,821</u>	<u>\$14,306,944</u>	<u>\$14,200,213</u>	<u>\$14,387,023</u>	<u>\$17,979,959</u>
Fund Balances:					
Restricted	\$34,284,860	\$25,644,611	\$31,774,901	\$47,285,044	\$29,017,271
Assigned	13,101,896	12,861,873	11,192,501	5,444,707	7,133,070
Unassigned	19,481,356	15,149,794	10,051,416	11,562,962	7,381,719
Total Fund Balances	<u>\$66,868,112</u>	<u>\$53,656,278</u>	<u>\$53,018,818</u>	<u>\$64,292,713</u>	<u>\$43,532,060</u>
Total Liabilities & Fund Balances	<u>\$81,472,933</u>	<u>\$67,963,222</u>	<u>\$67,219,031</u>	<u>\$78,679,736</u>	<u>\$61,512,019</u>

Source: Audited Annual Financial Reports of the School District.

Note: This table is NOT audited.

Budget Summary
General Fund -
City School District of the City of Middletown
Fiscal Year Ending June 30, 2023

Revenues:

Real Property Taxes	\$67,604,150
Real Property Tax Items	5,973,221
Non-Property Taxes	2,100,000
Charges for Services	890,000
Use of Money & Property	32,000
Sale of Property & Comp. for Loss	78,750
Miscellaneous Local Sources	1,925,000
State Aid	144,812,671
Federal Aid	473,000
Interfund Transfers	500,000
Use of Reserves	<u>4,252,938</u>
Total Revenues	<u><u>\$228,641,730</u></u>

Expenditures:

General Support	\$21,208,971
Instruction	127,005,526
Pupil Transportation	10,659,582
Community Services	5,985
Employee Benefits	40,800,796
Debt Service	12,633,970
Interfund Transfers	<u>16,326,900</u>
Total Expenditures	<u><u>\$228,641,730</u></u>

Source: Proposed Budget of the School District.

Notes: This table is NOT audited.

APPENDIX B

**CITY SCHOOL DISTRICT OF THE CITY OF MIDDLETOWN
ORANGE COUNTY, NEW YORK**

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND/OR UPDATED BY THE SCHOOL DISTRICT'S AUDITORS IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT. CONSENT OF THE AUDITORS FOR INCLUSION OF THE AUDITED FINANCIAL REPORTS IN THIS OFFICIAL STATEMENT HAS NEITHER BEEN REQUESTED NOR OBTAINED.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN

***GENERAL PURPOSE
FINANCIAL STATEMENTS***

JUNE 30, 2022

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
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INDEPENDENT AUDITORS' REPORT

To The Board of Education of the
Enlarged City School District of Middletown
Middletown, New York

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Enlarged City School District of Middletown, New York, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 aggregate remaining fund information of the Enlarged City School District of Middletown, New York, as of June 30, 2022, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Enlarged City School District of Middletown, New York, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Enlarged City School District of Middletown, New York's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Enlarged City School District of Middletown, New York's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information on pages 5 through 14 and 55 through 60, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Enlarged City School District of Middletown, New York's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

The prior year summarized comparative information was derived from the District's June 30, 2021 financial statements and, in our report dated October 8, 2021, we expressed an unmodified opinion on the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2022 on our consideration of the Enlarged City School District of Middletown, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Enlarged City School District of Middletown, New York's internal control over financial reporting and compliance.

Cooper Arias, LLP

Mongaup Valley, New York
October 14, 2022

Management's Discussion and Analysis

Enlarged City School District of Middletown

Year Ended June 30, 2022

**Middletown City School District
223 Wisner Avenue
Middletown, New York 10940**

Enlarged City School District of Middletown

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2022. This section is a summary of the School District's financial activity based on currently known facts, decisions or conditions. Additionally, based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

Financial Highlights

Key financial highlights for 2022 are as follows:

District-Wide Statements

- Total net position - end of year was \$89,095,803 at June 30, 2022, increase of \$16,785,244 from the prior year's net position. The main reason for the increase was \$7.5 million in debt proceeds and the increase in the net pension assets in the ERS and TRS GASB 68 calculations.
- Real property tax revenues accounted for \$72,571,551 or 32% of total revenues. State, local and federal sources accounted for \$157,096,766, or 68% of total revenues. The percentage of tax revenues, as well as State, local and federal funding, remained consistent from last year to the current year.

General Fund Financial Statements

- Among major funds, the General Fund had \$208,096,136 in total revenues, exclusive of \$500,000 in interfund transfers, of which \$72,593,191 or 34% comprised of real property tax revenues and \$135,502,945 or 66% comprised of State, local and federal sources. The General Fund expenditures totaled \$202,639,884, exclusive of \$26,716,905 in interfund transfers, for the year ended June 30, 2022. The General Fund's fund balance decreased from \$64,292,713 at June 30, 2021 to \$43,532,060 at June 30, 2022. Of the total fund balance, \$2,702,938 appropriated to reduce the subsequent year's tax levy and \$4,430,132 assigned for year-end encumbrances. Amounts restricted totaled \$29,017,271, leaving \$7,381,719 as unassigned. A Capital Reserve Fund established in May 2018 & 2021 by voters and currently funded with \$3,005,298. The decrease in the General Fund balance was mainly due to voter approved transfers of \$25,269,404 to the Capital Projects Fund.

Using this Comprehensive Annual Report

This comprehensive and annual financial report consists of a series of financial statements and notes to those statements. The statements organized so readers can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment and facility conditions in arriving at their consultation regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

Government Funds

The District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The District as a Whole

The information below provides a comparison with the prior year information for the District as whole.

<i>Statement of Net Position</i>	2022	2021
<i>Current Assets</i>	103,020,088	103,930,619
<i>Net Pension Assets</i>	78,598,427	0
<i>Capital Assets, net</i>	263,035,488	261,389,528
<i>Total Assets</i>	444,654,003	365,320,147
<i>Pensions</i>	51,508,064	49,607,766
<i>OPEB Liability</i>	20,478,519	11,391,919
<i>Total Deferred Outflows of Resources</i>	71,986,583	60,999,685
<i>Current Liabilities</i>	39,545,165	38,504,882
<i>Long Term Liabilities</i>	257,990,772	257,533,361
<i>Total Liabilities</i>	297,535,937	296,038,243
<i>Pensions</i>	100,614,977	22,865,856
<i>OPEB Liability</i>	29,393,869	35,105,174
<i>Total Deferred Inflows of Resources</i>	130,008,846	57,971,030
<i>Net Investment in Capital Assets</i>	157,666,259	148,145,774
<i>Restricted</i>	29,746,123	48,019,301
<i>Unrestricted</i>	(98,316,579)	(123,854,516)
<i>Total Net Position</i>	89,095,803	72,310,559

GENERAL REVENUES

	2022	2021
<i>Real Property Taxes</i>	72,571,551	71,801,536
<i>Other Tax Items</i>	5,883,684	6,720,823
<i>Non-Property Taxes</i>	2,237,832	2,180,701
<i>Investment Earnings</i>	80,845	93,333
<i>Sale of Property and Compensation for Loss</i>	61,472	104,710
<i>Miscellaneous Local Sources</i>	1,633,011	1,889,240
<i>Premium on Obligations</i>	269,181	271,833
<i>State Sources</i>	124,491,937	107,801,066
<i>Federal Sources</i>	318,085	315,867
Total General Revenues	207,547,598	191,179,109

General Expenditures	2022	2021
<i>General Support</i>	(29,682,222)	(28,216,500)
<i>Instruction</i>	(150,334,643)	(158,456,099)
<i>Pupil Transportation</i>	(10,164,911)	(8,248,287)
<i>Community Service</i>	(5,950)	0
<i>Debt Service</i>	(2,886,302)	(2,990,626)
<i>School Lunch Program</i>	2,311,674	1,394,653
Total Net Program (Expenditures)/Revenues	(190,762,354)	(196,516,859)
CHANGE IN NET POSITION	16,785,244	(5,424,640)

Governmental Activities

The laws in New York State require the need to seek voter approval for the general fund-operating budget. Without voter approval, School Districts' are placed on a contingency budget, which limits expenditures to those considered essential to maintain an educational program, preserve property and assure the health and safety of students and staff. The voters approved the District's budget in May. This allows the District to purchase necessary equipment and sustain instructional programs.

School Districts' are dependent upon property taxes as a primary source of revenue. Since the District must rely heavily on voter approval for funding levels, management of resources is of paramount concern to District Administration and the voting public.

The District's Funds

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and Other Sources of \$262,428,393 and total expenditures of \$264,411,511. The District's governmental fund balances decreased \$1,983,118 across all funds.

<i>Fund Balance</i>	2022	2021	Change
<i>General</i>	43,532,060	64,292,713	(20,760,653)
<i>Special Aid</i>	-	-	-
<i>School Lunch</i>	4,540,848	4,897,047	(356,199)
<i>Capital Projects</i>	8,636,405	(10,716,303)	19,352,708
<i>Non-Major</i>	4,730,298	4,949,272	(218,974)
<i>Total Governmental Funds</i>	61,439,611	63,422,729	(1,983,118)

General Fund Budget Information

The District's budget is prepared in accordance with New York State law and based on the modified accrual basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant fund is the General Fund.

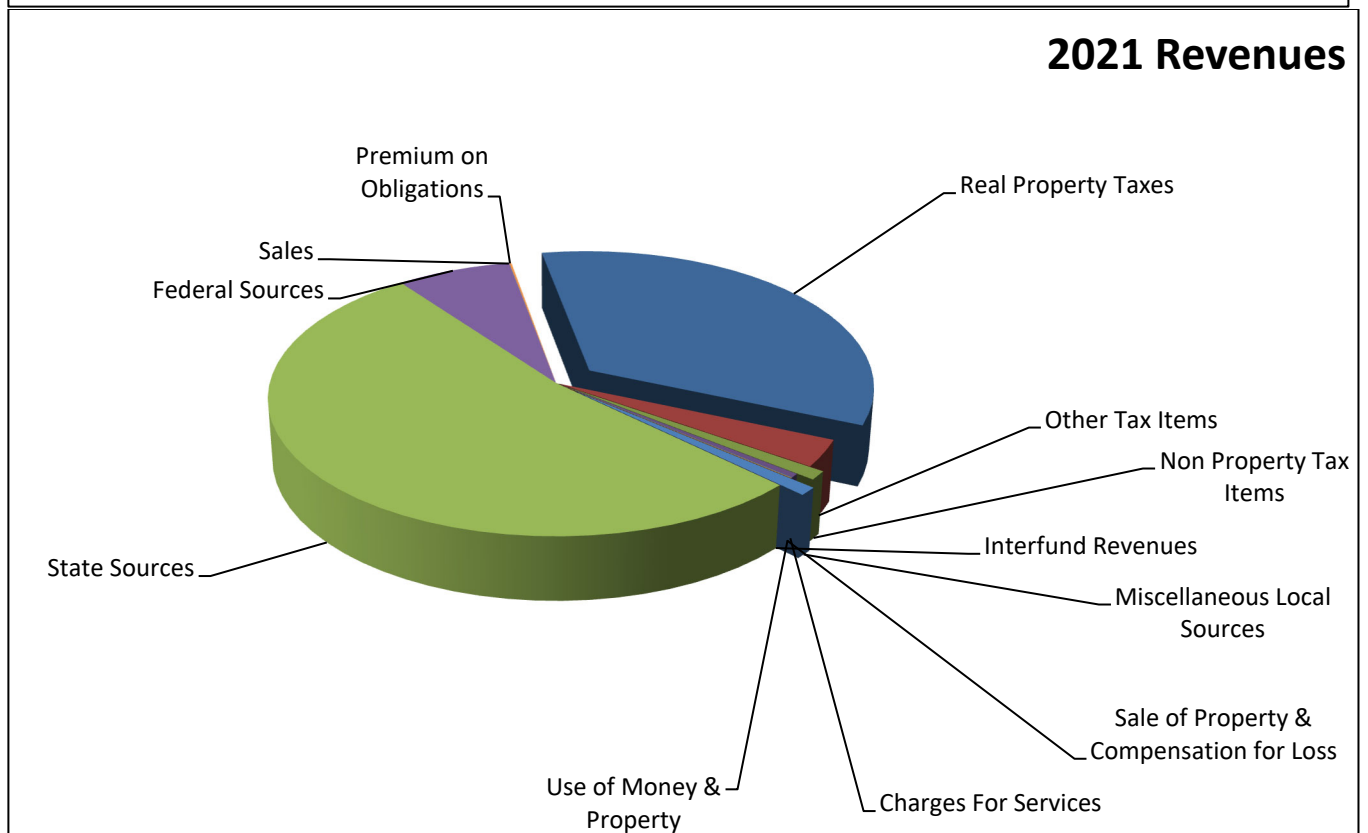
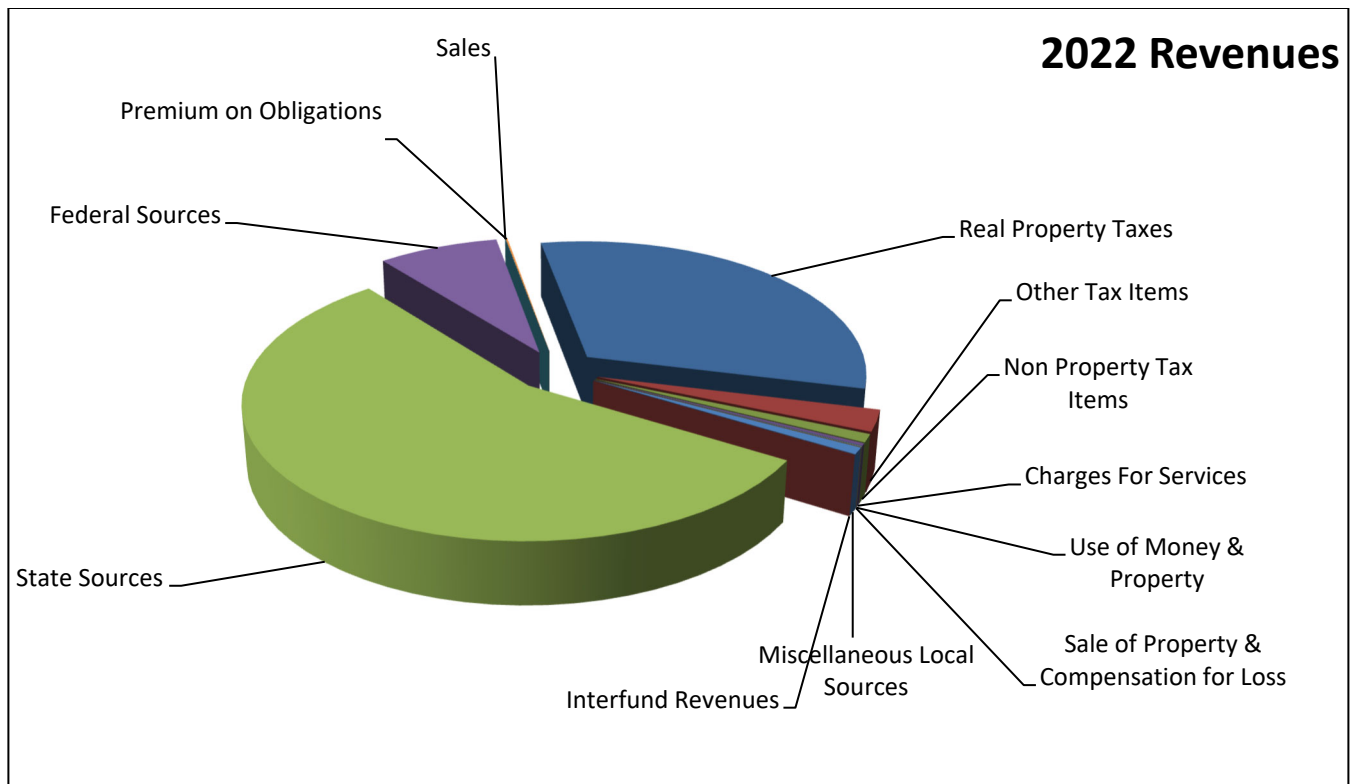
Governmental Fund Activity

The tables and graphs that follow assist in illustrating the financial activities of the Total Governmental Funds.

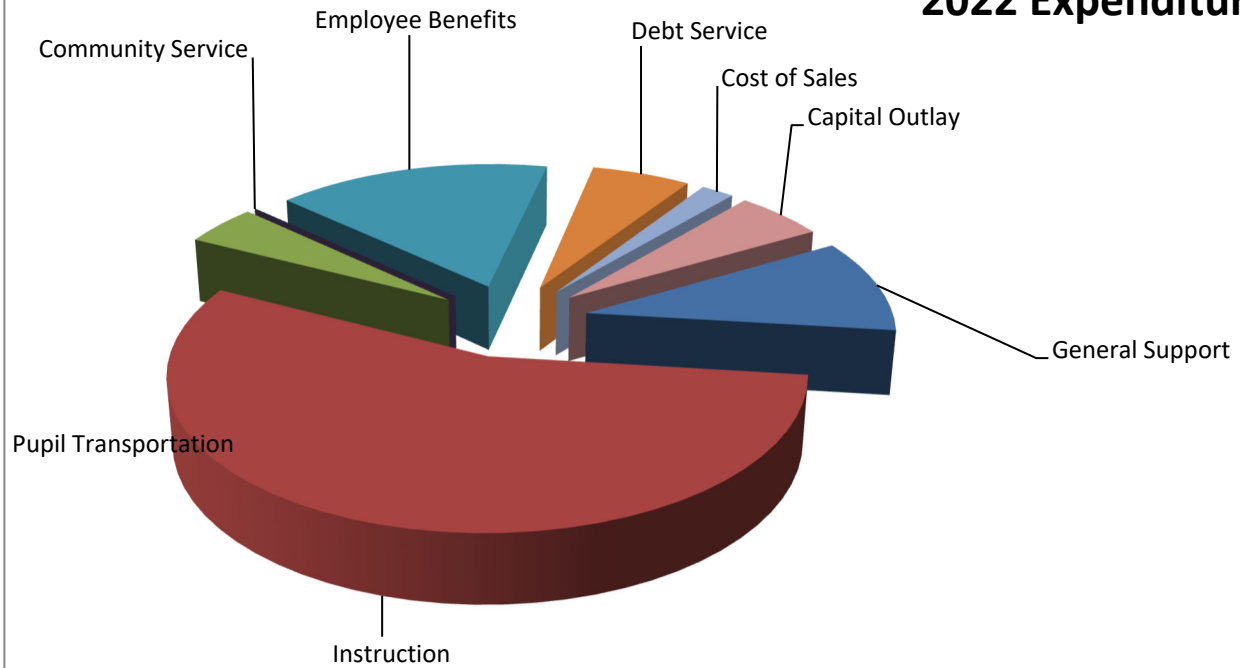
<i>Revenues</i>	2022	2021
<i>Real Property Taxes</i>	72,593,191	72,349,095
<i>Other Tax Items</i>	5,883,684	6,720,823
<i>Non-Property Tax Items</i>	2,237,832	2,180,701
<i>Charges for Services</i>	723,412	965,781
<i>Use of Money & Property</i>	140,434	93,332
<i>Sale of Property & Compensation for Loss</i>	61,472	104,710
<i>Miscellaneous Local Sources</i>	1,861,459	2,007,830
<i>Interfund Revenues</i>	21,531	14,408
<i>State Sources</i>	127,861,738	111,392,530
<i>Federal Sources</i>	18,018,687	15,129,213
<i>Sales</i>	38,867	31,160
<i>Interfund Transfers</i>	29,716,905	1,690,857
<i>Proceeds of Long-Term Debt</i>	0	0
<i>BAN's Redeemed</i>	3,000,000	0
<i>Premium on Obligations</i>	269,181	271,833
<i>Total Revenues and Other Sources</i>	262,428,393	212,952,273

Overall revenues increased significantly from the prior year mainly due to increases in State and Federal Aid, and large transfers into the Capital Projects Fund to finance an ongoing project. The property tax revenue, exclusive of STAR revenues, was up 0.34%. Revenues and expenditures are depicted on the graphs on the succeeding pages. Expenditures increased mainly as a result of the same transfers to the Capital Fund noted above.

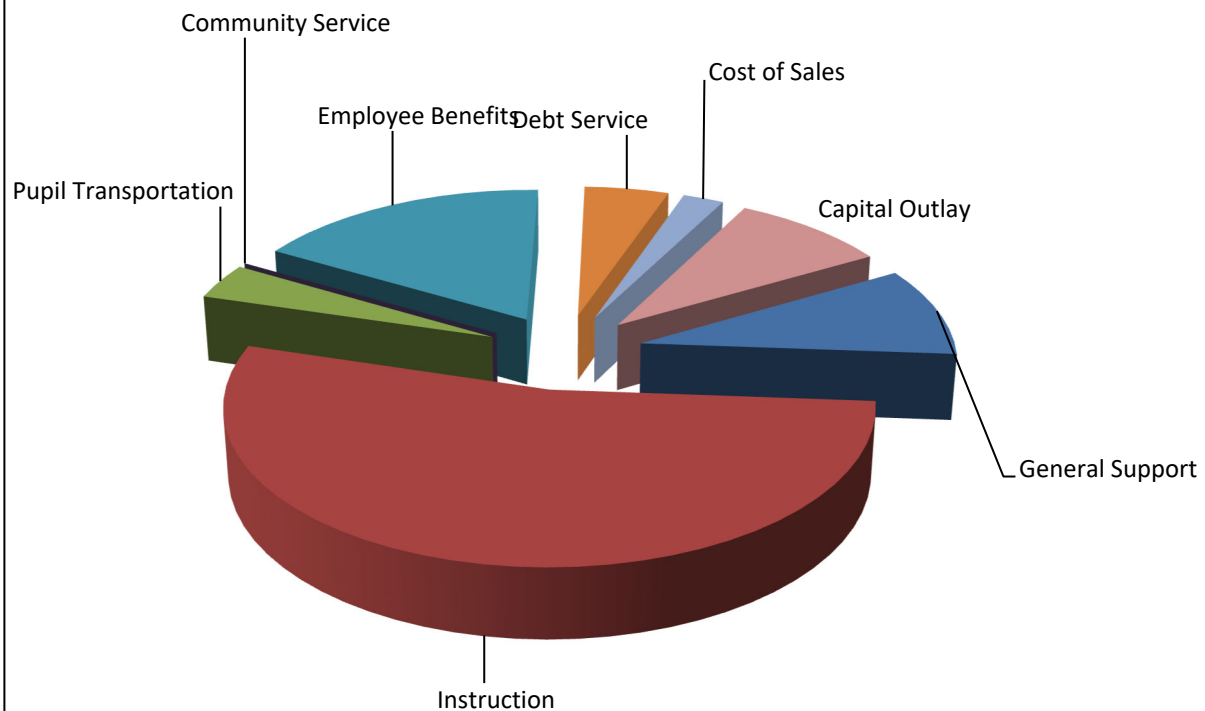
<i>Expenditures</i>	2022	2021
<i>General Support</i>	23,964,435	20,499,581
<i>Instruction</i>	130,482,153	115,706,063
<i>Pupil Transportation</i>	10,422,630	8,237,907
<i>Community Service</i>	5,950	0
<i>Employee Benefits</i>	38,581,785	36,928,084
<i>Debt Service</i>	13,893,191	10,518,507
<i>Cost of Sales</i>	4,676,476	5,110,066
<i>Capital Outlay</i>	12,667,986	19,467,335
<i>Interfund Transfers</i>	29,716,905	1,690,856
<i>Total Expenditures and Other Uses</i>	264,411,511	218,158,399



2022 Expenditures



2021 Expenditures



School Food Service Highlights

The School Food Service had an operating deficit of \$356,199, and a year-end fund balance of \$4,540,848. The main reason for the deficit was a voter approved \$2.5 million transfer to the Capital Fund to finance a portion of the ongoing project.

Capital Assets

As of June 30, 2022, the District has \$263,035,488 invested in capital assets, net of \$140,677,423 in accumulated depreciation, and depreciation expense was \$12,702,608.

Debt

As of June 30, 2022, the District has \$79,635,000 in outstanding bonds, \$20,100,000 in outstanding bond anticipation notes and \$1,561,722 outstanding an energy performance contract. The District paid \$2,668,893 in long term debt expense and \$349,206 in short term debt expense.

Moody's Investors Service latest assigned rating for the District is Aa3 on the new scale instituted in May 2021. The rating reflects the District's levels of financial reserves: a moderate debt burden further mitigated by state aid; and a diverse tax base in close proximity to Metropolitan New York and regional employment centers.

Factors Bearing on the District's Future

There are critical socioeconomic concerns that presently bear factor on the Enlarged City School District of Middletown's future. The first and highest priority is any residual effects of COVID-19 and stability of State Aid projections. Also, the restrictions of the foundation aid formula, which directly influences the amount that taxes need to be levied when preparing the budget. New York State continues to have fiscal concerns and state aid is one of the largest revenue components for the District. The second factor is the stability of student enrollment in the District, which has increased over the past couple of years. We continue to see growth in the high school and the voters authorized an addition to the high school in December of 2014 and 2018. Additionally, we have voter authorization for \$83.2 million addition and renovations at Twin Towers Middle School. The third factor is the state legislation that requires a 2% cap on the tax levy of the District. The tax cap is calculated using formulas based on current years levy, growth in tax base and inflation rates. The District has been very successful with voting as community confidence is high. The voters can approve a tax levy over the cap if the budget is passed by 60% plus one by voters.

Contacting the District's Financial Management

It is the intent of this report to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Business Office at Enlarged City School District of Middletown, 223 Wisner Ave. Middletown, New York 10940.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
STATEMENT OF NET POSITION
JUNE 30,

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash	\$ 54,393,930	\$ 32,376,208
Cash - Restricted	31,599,568	53,028,726
Taxes Receivable	3,596,724	3,143,409
Accounts Receivable	185,811	154,912
State And Federal Aid Receivable	8,320,640	10,294,022
Due From Other Governments	4,398,907	4,730,549
Inventory	<u>524,508</u>	<u>202,793</u>
Total Current Assets	<u>103,020,088</u>	<u>103,930,619</u>
Non-Current Asset		
Net Pension Asset	78,598,427	-
Capital Assets, net	<u>263,035,488</u>	<u>261,389,528</u>
Total Non-Current Assets	<u>341,633,915</u>	<u>261,389,528</u>
TOTAL ASSETS	<u>444,654,003</u>	<u>365,320,147</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	51,508,064	49,607,766
OPEB Liability	<u>20,478,519</u>	<u>11,391,919</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>71,986,583</u>	<u>60,999,685</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
STATEMENT OF NET POSITION
JUNE 30,

(Continued)

	<u>2022</u>	<u>2021</u>
LIABILITIES		
Accounts Payable	\$ 2,881,009	\$ 2,468,275
Accrued Liabilities	800,161	1,045,087
Bond Anticipation Notes	22,100,000	25,100,000
Due To Other Governments	3,213,770	1,357,827
Due To TRS	8,644,926	7,795,533
Due To ERS	489,243	625,543
Unearned Revenues	<u>1,416,056</u>	<u>112,617</u>
 Total Current Liabilities	 <u>39,545,165</u>	 <u>38,504,882</u>
 Non-Current Liabilities		
Due Within One Year:		
Serial Bonds	7,095,000	6,860,000
Unamortized Bond Premium	330,118	330,118
Energy Performance Contract	242,202	631,030
Total OPEB Liability	3,200,000	3,200,000
Due Beyond One Year:		
Serial Bonds	72,540,000	79,635,000
Unamortized Bond Premium	3,315,793	3,645,911
Energy Performance Contract	1,319,520	1,561,722
Compensated Absences	4,581,095	4,919,557
Total OPEB Liability	165,367,044	145,382,324
Net Pension Liability	<u>-</u>	<u>11,367,699</u>
 Total Non-Current Liabilities	 <u>257,990,772</u>	 <u>257,533,361</u>
 TOTAL LIABILITIES	 <u>297,535,937</u>	 <u>296,038,243</u>
 DEFERRED INFLOWS OF RESOURCES		
Pensions	100,614,977	22,865,856
OPEB Liability	<u>29,393,869</u>	<u>35,105,174</u>
 TOTAL DEFERRED INFLOWS OR RESOURCES	 <u>130,008,846</u>	 <u>57,971,030</u>
 NET POSITION		
Net Investment In Capital Assets	157,666,259	148,145,774
Restricted	29,746,123	48,019,301
Unrestricted	<u>(98,316,579)</u>	<u>(550,174,348)</u>
 TOTAL NET POSITION	 <u>\$ 89,095,803</u>	 <u>\$ 72,310,559</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

FUNCTIONS/ PROGRAM	<u>PROGRAM REVENUES</u>				<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION</u>	
	<u>EXPENSES</u>	<u>CHANGES FOR SERVICES</u>	<u>OPERATING GRANTS AND DONATION</u>	<u>CAPITAL GRANTS AND CONTRIBUTION</u>	<u>2022</u>	<u>2021</u>
General Support	\$ 31,586,824	\$ 59,949	\$ 1,844,653	\$ -	\$ (29,682,222)	\$ (28,216,500)
Instruction	162,534,736	723,412	11,180,391	296,290	(150,334,643)	(158,542,989)
Pupil Transportation	10,437,153	-	272,242	-	(10,164,911)	(8,248,287)
Community Service	5,950	-	-	-	(5,950)	-
Debt Service	3,018,099	-	131,797	-	(2,886,302)	(2,990,626)
School Lunch Program	<u>5,300,311</u>	<u>38,867</u>	<u>7,573,118</u>	<u>-</u>	<u>2,311,674</u>	<u>1,394,653</u>
TOTAL FUNCTIONS AND PROGRAMS	<u>212,883,073</u>	<u>822,228</u>	<u>21,002,201</u>	<u>296,290</u>	<u>(190,762,354)</u>	<u>(196,603,749)</u>
GENERAL REVENUES						
Real Property Tax					72,571,551	71,801,536
Other Tax Items					5,883,684	6,720,823
Non-Property Taxes					2,237,832	2,180,701
Investment Earnings					80,845	93,333
Premium on Obligations					269,181	271,833
Sale Of Property and Compensation For Loss					61,472	104,710
Miscellaneous Local Sources					1,633,011	1,889,240
State Sources					124,491,937	107,801,066
Federal Sources					<u>318,085</u>	<u>315,867</u>
TOTAL GENERAL REVENUES					<u>207,547,598</u>	<u>191,179,109</u>
CHANGE IN NET POSITION					16,785,244	(5,424,640)
TOTAL NET POSITION- Beginning of Year					<u>72,310,559</u>	<u>77,735,199</u>
TOTAL NET POSITION- End of Year					<u>\$ 89,095,803</u>	<u>\$ 72,310,559</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	<u>GENERAL</u>	<u>SPECIAL AID</u>	<u>SCHOOL LUNCH</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>	<u>2021 TOTALS</u>
ASSETS							
Cash	\$ 18,551,993	\$ 1,725,766	\$ 2,404,387	\$ 27,712,972	\$ 3,998,812	\$ 54,393,930	\$ 32,376,208
Cash - Restricted	29,017,271	-	-	1,853,445	728,852	31,599,568	53,028,726
Taxes Receivable	3,596,724	-	-	-	-	3,596,724	3,143,409
Accounts Receivable	171,475	1,729	12,607	-	-	185,811	154,912
Due From Other Funds	2,281,771	556,700	16,506	8,792	2,634	2,866,403	6,191,054
Due From State and Federal	3,702,529	1,490,186	1,652,483	1,475,442	-	8,320,640	10,294,022
Due From Other Governments	4,190,256	208,651	-	-	-	4,398,907	4,730,549
Inventories	-	-	524,508	-	-	524,508	202,793
TOTAL ASSETS	<u>\$ 61,512,019</u>	<u>\$ 3,983,032</u>	<u>\$ 4,610,491</u>	<u>\$ 31,050,651</u>	<u>\$ 4,730,298</u>	<u>\$ 105,886,491</u>	<u>\$ 110,121,673</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 2,241,808	\$ 303,573	\$ 24,016	\$ 311,612	\$ -	\$ 2,881,009	\$ 2,468,275
Accrued Liabilities	323,089	29,688	38,173	-	-	390,950	581,932
Bond Anticipation Notes	-	-	-	22,100,000	-	22,100,000	25,100,000
Due To Other Funds	581,998	2,281,206	565	2,634	-	2,866,403	6,191,054
Due To Other Governments	3,195,656	18,114	-	-	-	3,213,770	1,357,827
Due To Teachers' Retirement System	8,644,926	-	-	-	-	8,644,926	7,795,533
Due To Employees' Retirement System	489,243	-	-	-	-	489,243	625,543
Unearned Revenues	58,716	1,350,451	6,889	-	-	1,416,056	112,617
TOTAL LIABILITIES	<u>15,535,436</u>	<u>3,983,032</u>	<u>69,643</u>	<u>22,414,246</u>	<u>-</u>	<u>42,002,357</u>	<u>44,232,781</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred Tax Revenues	<u>2,444,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,444,523</u>	<u>2,466,163</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,444,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,444,523</u>	<u>2,466,163</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	<u>GENERAL</u>	<u>SPECIAL AID</u>	<u>SCHOOL LUNCH</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>	<u>2021 TOTALS</u>
FUND BALANCES							
Non-spendable:							
Inventory	\$ -	\$ -	\$ 524,508	\$ -	\$ -	\$ 524,508	\$ 202,793
Restricted:							
Tax Certiorari	5,847,379	-	-	-	-	5,847,379	8,011,630
Unemployment Insurance	608,042	-	-	-	-	608,042	615,207
Retirement Contribution - ERS	4,289,737	-	-	-	-	4,289,737	4,784,503
Retirement Contribution - TRS	2,008,136	-	-	-	-	2,008,136	2,505,593
Employee Benefit Accrued Liability	3,940,529	-	-	-	-	3,940,529	4,164,909
Liability Claims	1,370,417	-	-	-	-	1,370,417	1,368,766
Property Loss	542,519	-	-	-	-	542,519	541,866
Workers Compensation	2,389,376	-	-	-	-	2,389,376	2,885,895
Capital	3,005,298	-	-	-	-	3,005,298	17,396,881
Insurance	5,015,838	-	-	-	-	5,015,838	5,009,794
Capital Projects	-	-	-	379,546	-	379,546	1,484,992
Scholarships	-	-	-	-	728,852	728,852	734,257
Assigned:							
Encumbrances	4,430,132	-	-	-	-	4,430,132	5,444,707
Appropriated	2,702,938	-	-	-	-	2,702,938	-
Unappropriated	-	-	4,016,340	29,167,964	4,001,446	37,185,750	19,242,841
Unassigned	<u>7,381,719</u>	<u>-</u>	<u>-</u>	<u>(20,911,105)</u>	<u>-</u>	<u>(13,529,386)</u>	<u>(10,971,905)</u>
TOTAL FUND BALANCES	<u>43,532,060</u>	<u>-</u>	<u>4,540,848</u>	<u>8,636,405</u>	<u>4,730,298</u>	<u>61,439,611</u>	<u>63,422,729</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 61,512,019</u>	<u>\$ 3,983,032</u>	<u>\$ 4,610,491</u>	<u>\$ 31,050,651</u>	<u>\$ 4,730,298</u>	<u>\$ 105,886,491</u>	<u>\$ 110,121,673</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	<u>2022</u>	<u>2021</u>
Total Governmental Fund Balances	\$ 61,439,611	\$ 63,422,729
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of capital assets and accumulated depreciation at June 30, are \$403,712,911 and \$140,677,423 respectively.	263,035,488	261,389,528
Proportionate share of long-term asset and liability associated with participation in State Retirement Systems are not current financial resources or obligations and are not reported in the governmental funds		
Net Pension Asset	78,598,427	
Deferred Outflows of Resources	51,508,064	
Net Pension Liability	-	
Deferred Inflows of Resources	<u>(100,614,977)</u>	29,491,514
		15,374,211
Long-term asset and liability associated with the Total OPEB Liability are not current financial resources or obligations and are not reported in the governmental funds		
Deferred Outflows of Resources	20,478,519	
Deferred Inflows of Resources	(29,393,869)	
Total OPEB Liability	<u>(168,567,044)</u>	(177,482,394)
		(172,295,579)
In the governmental funds, taxes receivable are offset by deferred inflows of resources representing taxes that will not be collected in the first 60 days of the subsequent year. In the statement of net position the receivable is fully recognized regardless of when received.	2,444,523	2,466,163
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds Payable	(79,635,000)	
Unamortized Bond Premium	(3,645,911)	
Energy Performance Contract	(1,561,722)	
Compensated Absences	<u>(4,581,095)</u>	(89,423,728)
		(97,583,338)
Accrued interest on debt is reported in the statement of net position, regardless of when due. In the governmental funds, interest is not reported until it is due.	<u>(409,211)</u>	<u>(463,155)</u>
Net Position of Governmental Activities	<u>\$ 89,095,803</u>	<u>\$ 72,310,559</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	GENERAL	SPECIAL AID	SCHOOL LUNCH	CAPITAL PROJECTS	NON-MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS	2021 TOTALS
REVENUES							
Real Property Taxes	\$ 72,593,191	\$ -	\$ -	\$ -	\$ -	\$ 72,593,191	\$ 72,349,095
Other Tax Items	5,883,684	-	-	-	-	5,883,684	6,720,823
Non-Property Tax Items	2,237,832	-	-	-	-	2,237,832	2,180,701
Charges For Services	723,412	-	-	-	-	723,412	965,781
Use of Money and Property	127,610	-	876	-	11,948	140,434	93,332
Sale of Property and Compensation For Loss	61,472	-	-	-	-	61,472	104,710
Miscellaneous Local Sources	1,491,909	219,793	-	5,000	144,757	1,861,459	2,007,830
Interfund Revenues	21,531	-	-	-	-	21,531	14,408
State Sources	124,491,937	2,934,151	139,360	296,290	-	127,861,738	111,392,530
Federal Sources	463,558	10,121,371	7,433,758	-	-	18,018,687	15,129,213
Sales	-	-	38,867	-	-	38,867	31,160
TOTAL REVENUES	208,096,136	13,275,315	7,612,861	301,290	156,705	229,442,307	210,989,583
OTHER FINANCING SOURCES							
Operating Transfers In	500,000	458,101	39,400	28,719,404	-	29,716,905	1,690,857
BANs Redeemed from Appropriations	-	-	-	3,000,000	-	3,000,000	-
Premium on Obligations	-	-	-	-	269,181	269,181	271,833
TOTAL REVENUES AND OTHER FINANCING SOURCES	208,596,136	13,733,416	7,652,261	32,020,694	425,886	262,428,393	212,952,273
EXPENDITURES							
General Support	22,098,251	1,866,184	-	-	-	23,964,435	20,499,581
Instruction	119,872,663	10,464,630	-	-	144,860	130,482,153	115,706,063
Pupil Transportation	10,082,327	340,303	-	-	-	10,422,630	8,237,907
Community Services	5,950	-	-	-	-	5,950	-
Employee Benefits	36,687,502	1,062,299	831,984	-	-	38,581,785	36,928,084
Debt Service:							
Principal	10,491,030	-	-	-	-	10,491,030	7,246,396
Interest	3,402,161	-	-	-	-	3,402,161	3,272,111
Cost of Sales	-	-	4,676,476	-	-	4,676,476	5,110,066
Capital Outlay	-	-	-	12,667,986	-	12,667,986	19,467,335
TOTAL EXPENDITURES	202,639,884	13,733,416	5,508,460	12,667,986	144,860	234,694,606	216,467,543
OTHER USES							
Operating Transfers Out	26,716,905	-	2,500,000	-	500,000	29,716,905	1,690,856
TOTAL EXPENDITURES AND OTHER USES	229,356,789	13,733,416	8,008,460	12,667,986	644,860	264,411,511	218,158,399
NET CHANGE IN FUND BALANCE	(20,760,653)	-	(356,199)	19,352,708	(218,974)	(1,983,118)	(5,206,126)
FUND BALANCE - Beginning of Year	64,292,713	-	4,897,047	(10,716,303)	4,949,272	63,422,729	68,628,855
FUND BALANCE - End of Year	\$ 43,532,060	\$ -	\$ 4,540,848	\$ 8,636,405	\$ 4,730,298	61,439,611	\$ 63,422,729

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

		<u>2022</u>	<u>2021</u>
Total Net Change in Fund Balances – Governmental Funds		\$ (1,983,118)	\$ (5,206,126)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.			
Depreciation Expenses	(12,702,608)		
Capital Outlay	<u>14,348,568</u>	1,645,960	9,932,010
Repayments of principal on long term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.			
Serial Bonds	6,860,000		
Energy Performance Contract	<u>631,030</u>	7,491,030	7,246,396
In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid).			
Compensated Absences		338,462	(413,433)
(Increases) decreases in proportionate share of net pension asset/liability reported in the statement of activities do not provide for, or require the use of, current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.			
Teachers' Retirement System	12,175,715		
Employees' Retirement System	<u>1,941,588</u>	14,117,303	(7,163,131)

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

(Continued)

	<u>2022</u>	<u>2021</u>
(Increases) decreases in the Total OPEB Liability reported in the statement of activities do not provide for, or require the use of, current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.		
Total OPEB Liability	\$ (5,186,815)	\$ (9,413,532)
Bond premiums are reported in the governmental funds as revenues in the year received. However, in the statement of activities, the premium is added to the outstanding debt and amortized as a reduction of interest expense over the life of the bond.		
Amortization Expense	330,118	330,118
In the governmental funds, taxes receivable are only recognized as an asset in the amount that will be received in the first sixty days of the subsequent year. In the statement of activities, the full amount is recognized as an asset. Therefore, current year tax revenues are adjusted for amounts that were accrued and recognized in past years.		
	(21,640)	(547,559)
In the statement of activities, interest on long-term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due.		
Current Year Accrued Interest	(409,211)	
Prior Year Accrued Interest	<u>463,155</u>	<u>53,944</u>
		<u>(189,383)</u>
Change in Net Position of Governmental Activities	<u>\$ 16,785,244</u>	<u>\$ (5,424,640)</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Enlarged City School District of Middletown have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Financial Reporting Entity

The Enlarged City School District of Middletown is governed by the Education Law and other laws of the State of New York. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise School District operations, and are governed by, or significantly influenced by, the Board of Education.

Essentially, the primary function of the School District is to provide education for pupils. Services such as transportation of pupils, administration, finance, and plant maintenance support the primary function.

The financial reporting entity includes all funds, account groups, functions and organizations over which the School District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of the financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

1. Included in the Reporting Entity

Based on the foregoing criteria and the significant factors presented below, the following organizations, functions or activities are included in the reporting entity:

a. The Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the Enlarged City School District of Middletown represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions, and the designation of student management. The cash balances are reported in the Miscellaneous Special Revenue Fund of the School District. Separate audited general purpose financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the School District's business office.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Joint Venture

The Enlarged City School District of Middletown is a component school district in the Orange-Ulster Board of Cooperative Educational Services (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. All BOCES property is held by the BOCES Board as a corporation (Section 1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of the General Municipal Law.

A BOCES budget is comprised of separate budgets for administrative, program and capital costs. Each component school district's share of administrative and capital costs is determined by resident public school district's 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. 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.

Separate financial statements for the BOCES are available from the BOCES' administrative office.

C. Basis of Presentation

1. District-wide statements:

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

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program 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. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operation or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund financial statements

The fund statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds each displayed in a separate column. The District reports the following major Governmental Funds:

a. General Fund

The General Fund is the principal operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

b. Special Revenue Fund

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes. Special revenue funds include the following funds:

1. Special Aid Fund – used to account for special operating projects or programs supported in whole, or in part, with federal funds or state or local grants.
2. School Lunch Fund – used to account for transactions of the School District lunch, breakfast, and milk programs.

c. Capital Projects Fund

The Capital Projects Fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District reports the following non-major governmental funds.

a. *Debt Service Fund*

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

b. *Miscellaneous Special Revenue Fund*

This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

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

The District-wide 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.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. **Property Taxes**

1. Calendar

Real property taxes are levied annually by the Board of Education no later than October 1st, and became a lien on October 1st. Taxes are collected during the period from October 1st through February 28th.

2. Enforcement

Uncollected real property taxes are enforced by the County of Orange, City of Middletown and Town of Wallkill. An amount representing uncollected real property taxes is transmitted to the District on a monthly basis and all uncollected taxes are eventually transmitted to the District within two years from the return of unpaid taxes.

F. **Budgetary Procedures And Budgetary Accounting**

1. **Budget Policies**

The budget policies are as follows:

- a. The School District administration prepares a proposed budget for approval by the Board of Education for the following governmental fund types:

I. General Fund

- b. The proposed appropriation budget for the General Fund is approved by the voters within the District.
- c. Appropriations are adopted at the program level.
- d. Appropriations established by adoption of the budget constitute a limitation on expenditures and encumbrances which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need which exists which was not determined at the time the budget was adopted. The following supplemental appropriations occurred during the year:

Transfers to Capital Projects	<u>\$ 8,722,523</u>
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ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Encumbrances

Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as assigned fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

3. Budget Basis of Accounting

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

G. Cash and Cash Equivalents

For financial statement purposes, the District considers all highly liquid investments of three months or less as cash equivalents.

H. Inventory

Inventories of food and/or supplies in the School Lunch Fund are recorded at cost on a first-in, first-out basis or, in the case of surplus food, at stated value, which approximates market. Purchases of inventory items in other funds are recorded as expenditures at the time of purchase.

I. Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would be immaterial.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. **Capital Assets**

The District has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The School District does not possess any infrastructure. The capitalization threshold used by the District is \$5,000.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>ASSET CLASS</u>	<u>ESTIMATED USEFUL LIVES</u>
Buildings & Improvements	20-50
Machinery & Equipment	5-20

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

K. **Unearned Revenue**

Unearned revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when sources are received by the School District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the School District has legal claim to the resources, the liability for unearned revenues is removed and revenues are recognized.

L. **Vested Employee Benefits**

The District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods. Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consistent with GASB Statement 16, Accounting for Compensated Absences, an accrual for accumulated sick leave is included in the compensated absences liability at year-end. The compensated absences liability is calculated on the pay rates in effect at year-end.

For the District-wide Statements, the current portion is the amount estimated to be used in the following year, in accordance with GAAP. For the governmental funds, in the fund financial statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and District-wide presentations.

District employees participate in the New York State Employees' Retirement System and the New York State Teachers' Retirement System. In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the District's employees may become eligible for these benefits if they reach 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 in the fund financial statements by recording its share of insurance premiums as an expenditure in the year paid. In the District-wide statements, the liability is reported at actuarially calculated amounts (See Note 11).

M. Interfund Activity

The amounts reported on the Statement of Net Position for due to and due from other funds represents amounts due between different fund types (governmental activities, and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these Notes.

N. Equity Classifications

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

Net investment in capital assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Order of Use of Net Position:

When an expense is incurred for which both restricted and unrestricted resources are available, the Board will assess the current financial condition of the District and determine which classification of net position will be charged.

In the fund basis statements there are five classifications of fund balance:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the School Lunch Fund of \$524,508.

Restricted – includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The District has established the following restricted fund balances:

Tax Certiorari

Used to accumulate funds to pay judgements and claims anticipated from tax certiorari proceedings. Any excess monies must be returned to the General Fund on or before the first day of the fourth fiscal year after the deposit of the monies. This reserve is accounted for in the General Fund.

Unemployment Insurance

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. This reserve is accounted for in the General Fund.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee Benefit Accrued Liability

Used to reserve funds for the payment of any accrued employee benefit due to an employee upon termination. The reserve is established by a majority vote of the Board of Education and is funded by budgetary appropriations and such other funds that may be legally appropriated. This reserve is accounted for in the General Fund.

Workers' Compensation

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. This reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. This reserve is accounting for in the General Fund.

Retirement Contribution

Used to reserve funds to finance contributions to the NYS Employees Retirement System and NYS Teachers Retirement System. This reserve is accounted for in the General Fund.

Liability Claims and Property Loss

Used to reserve funds to pay for liability claims and property loss incurred. Separate funds for liability claims and property loss are required, and these reserves may not exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may only be utilized by school districts with a population under 125,000. This reserve is accounted for in the General Fund.

Capital

Used to pay the cost of any object or purpose for which bonds may be issued. Voter authorization is required for both establishment of the reserve and payments from the reserve. This reserve is accounted for in the General Fund.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insurance

Used to pay for any loss, claim, action or judgment for which the municipal corporation is authorized or required to purchase or maintain insurance. The District received approval from the NYS Legislature to utilize this reserve to plan for unexpected expenses related to its self-funded health insurance plan. The reserve is established by Board action and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated but annual contributions may not exceed the greater of \$33,000 or 5% of the budget. This reserve is accounted for in the General Fund.

Capital Projects

Proceeds of debt that are restricted for use per the specifics of the debt issue. This reserve is accounted for in the Capital Projects Fund.

Scholarships

Used to pay scholarships with funds stipulated by donors for that purpose. This reserve is accounted for in the Miscellaneous Special Revenue Fund.

Committed – includes amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the District's highest level of decision making authority before the end of the fiscal year, and requires the same level of formal action to remove the constraint. The Board of Education is the decision making authority that can, by resolution prior to the end of the fiscal year, commit fund balance. The District has no committed fund balances as of June 30, 2022.

Assigned – includes amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision making authority, or by their designated official. 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 generally includes encumbrances in the General Fund and appropriated fund balance. The Board of Education is the decision making authority that can, by resolution, assign fund balance. The District reported encumbrances of \$4,430,132 as assigned fund balance in the General Fund as of June 30, 2022.

Unassigned – represents the residual classification for the General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the district's General Fund budget for the ensuing fiscal year. Non-spendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

Order of Use of Fund Balance:

When resources are available from multiple fund balance classifications, the Board will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged.

O. 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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

P. New Accounting Standards

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2022, the District implemented the following new standards issued by GASB:

GASB 87 – *Leases*

GASB 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*

GASB 92 – *Omnibus*

GASB 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No.32*

Q. Future Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following standards that will become effective in future fiscal years:

GASB 91 – *Conduit Debt Obligations*, effective for the year ending June 30, 2023.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB 93 – *Replacement of Interbank Offered Rates*, effective for the year ending June 30, 2022, except for the removal of LIBOR as an appropriate benchmark interest rate, which is effective for the year ending June 30, 2023.

GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the year ending June 30, 2023

GASB 96 – *Subscription-Based Information Technology Arrangements*, effective for the year ending June 30, 2023

The District will evaluate the impact of each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

R. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has three items that qualify for reporting in this category. The first item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The second item is the District contributions to the pension systems (TRS and ERS Systems) and OPEB subsequent to the measurement date. The third item relates to OPEB reporting in the district-wide Statement of Net Position. This represents the effect of the net change in the actual and expected experience. The District reports \$51,508,064 in deferred outflows of resources related to pensions and \$20,478,519 in deferred outflows of resources related to the Total OPEB Liability as of June 30, 2022.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) 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. The first arises only under a modified accrual basis of accounting and is reported as unavailable property taxes. The District recognized \$2,444,523 in deferred inflows of resources in the governmental fund financial statements for deferred tax revenues in the General Fund as of June 30, 2022. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the District's contributions and its proportionate share of total

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

contributions to the pension system not included in 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. The District reports \$100,614,977 in deferred inflows of resources related to pensions and \$29,393,869 in deferred inflows of resources related to the Total OPEB Liability as of June 30, 2022.

The reporting of deferred outflows of resources and deferred inflows of resources related to pensions resulted in a net decrease of \$49,106,913 to unrestricted net position as of June 30, 2022.

The reporting of deferred outflows of resources and deferred inflows of resources related to the Total OPEB Liability resulted in a net decrease of \$8,915,350 to unrestricted net position as of June 30, 2022.

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL
FUND STATEMENTS AND DISTRICT-WIDE STATEMENT

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 differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds. These differences are reconciled in the financial statements.

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

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

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

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

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL
FUND STATEMENTS AND DISTRICT-WIDE STATEMENT (Continued)

a) Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered “available”, whereas the Statement of Activities report revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

b) Capital related differences:

Capital related differences include the differences between proceeds for the sale of capital assets reported on governmental 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 governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

c) Long-term debt transaction differences:

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

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Fund Balance

The District had a deficit unassigned fund balance of \$20,911,105 in the Capital Projects Fund as of June 30, 2022. The deficit was caused by the accounting treatment of bond anticipation notes and will be eliminated when the notes are converted to long term financing.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – PARTICIPATION IN BOCES

During the year ended June 30, 2022, the Enlarged City School District of Middletown was billed \$32,580,097 for BOCES administrative and program costs. General purpose financial statements for the BOCES are available at the BOCES' administrative office.

The School District's share of BOCES income amounted to \$6,833,871.

NOTE 5 – CASH AND INVESTMENTS

The Enlarged City School District of Middletown investment policies are governed by State statutes. In addition, the District has its own written investment policy. District monies must be deposited in FDIC-Insured commercial banks or trust companies located within the State. The Treasurer is authorized to use demand accounts and certificates of deposit. 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 time deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and states other than New York and their municipalities and school districts.

The District's aggregate cash balances include balances not covered by depository insurance at year end, collateralized as follows:

Collateralized with securities held by the pledging financial
institution, or its trust department, but not in the District's name. \$ 87,744,578

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 – CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2022 were as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS/ RECLASSIFICATIONS</u>	<u>ENDING BALANCE</u>
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 37,085,707	-	-	37,085,707
Construction In Progress	<u>1,767,541</u>	<u>-</u>	<u>(1,767,541)</u>	<u>-</u>
Total non-depreciable historical cost	<u>38,853,248</u>	<u>-</u>	<u>(1,767,541)</u>	<u>37,085,707</u>
Capital assets that are depreciated:				
Building and Improvements	331,619,422	12,070,680	4,724,084	348,414,186
Furniture and Equipment	<u>18,891,673</u>	<u>2,277,888</u>	<u>(2,956,543)</u>	<u>18,213,018</u>
Total depreciable historical cost	<u>350,511,095</u>	<u>14,348,568</u>	<u>1,767,541</u>	<u>366,627,204</u>
Less accumulated depreciation:				
Building and Improvements	118,148,506	11,356,171	1,071,744	130,576,421
Furniture and Equipment	<u>9,826,309</u>	<u>1,346,437</u>	<u>(1,071,744)</u>	<u>10,100,002</u>
Total Accumulated Depreciation	<u>127,974,815</u>	<u>12,702,608</u>	<u>-</u>	<u>140,677,423</u>
Total historical cost, net	<u>\$ 261,389,528</u>	<u>\$ 1,645,960</u>	<u>\$ -</u>	<u>\$ 263,035,488</u>
Depreciation expense was charged to				
Governmental functions as follows:				
General Support		\$ 4,794,958		
Instruction		7,823,353		
School Lunch		<u>84,297</u>		
		<u>\$ 12,702,608</u>		

NOTE 7 – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2022 are as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>	<u>INTERFUND REVENUES</u>	<u>INTERFUND EXPENDITURES</u>
General Fund	\$ 2,281,771	\$ 581,998	\$ 500,000	\$ 26,716,905
Special Aid Fund	556,700	2,281,206	458,101	-
School Lunch Fund	16,506	565	39,400	2,500,000
Capital Fund	8,792	2,634	28,719,404	-
Debt Service Fund	<u>2,634</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total Governmental Activities	<u>2,866,403</u>	<u>2,866,403</u>	<u>29,716,905</u>	<u>29,716,905</u>
TOTALS	<u>\$ 2,866,403</u>	<u>\$ 2,866,403</u>	<u>\$ 29,716,905</u>	<u>\$ 29,716,905</u>

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position.

The District typically transfers funds from the General Fund to the School Lunch Fund to cover the shortfall in the annual budget, to the Special Aid Fund to cover expenses that are not reimbursed by Federal or State Grants, and to the Debt Service Fund to make principal and interest payments on outstanding debt.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – INTERFUND TRANSACTIONS (Continued)

The District transfers investment income earned in the Capital Projects Fund to the Debt Service Fund for the purpose of making future debt service payments.

The District typically loans resources between funds for the purpose of relieving cash flow issues.

NOTE 8 – INVENTORY

Inventory in the School Lunch Fund at June 30, 2022 consisted of the following:

Food and Supplies	<u>\$ 524,508</u>
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NOTE 9 – LIABILITIES

A. Pension Plans and Post-Employment Benefits

1. General Information

The Enlarged City School District of Middletown participates in New York State and Local Employee's Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These Systems are cost sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

2. Plan Descriptions

a. Teachers' Retirement System (TRS)

As an employer, you make contributions to the NYS Teachers' Retirement System, a cost sharing, multiple employer defined benefit pension plan administered by the NYS Teachers' Retirement Board. The System provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and Retirement and Social Security Law of the State of New York. The System issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 – LIABILITIES (Continued)

b. Employees' Retirement System (ERS)

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees are governed by the New York State Retirement and Social Security Law (NYRSSL). The system issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

3. Funding Policy

Plan members who joined the Systems before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and prior to January 1, 2010, with less than ten years of service, are required to contribute 3% of their salary.

Those joining the NYSERS on or after January 1, 2010 and before April 1, 2012, contribute 3% of their salary throughout their entire working career. Those joining after April 1, 2012 contribute 3% of their salary through March 31, 2013, and beginning April 1, 2013, contribute at rates ranging from 3% to 6%, dependent upon their salary, for their entire working career.

Those joining the NYSTRS on or after January 1, 2010 and before April 1, 2012 contribute 3.5% of their salary throughout their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent on their salary, for their entire working career.

For the NYSTRS, employers are required to contribute at an actuarially determined rate, currently 9.80% of the annually covered payroll for the fiscal year ended June 30, 2022. Rates applicable to the fiscal years ended June 30, 2021 and 2020 were 9.53% and 8.86%, respectively.

For the NYSERS, the NYS Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 – LIABILITIES (Continued)

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>ERS</u>	<u>TRS</u>
2022	\$ 2,219,854	\$ 7,528,457
2021	2,074,841	6,892,196
2020	1,932,500	6,158,482

B. Indebtedness

1. Long-Term Debt

Long-Term Debt Interest

Interest Expense on long-term debt consisted of the following:

Interest Paid	\$ 3,026,707
Less: Interest Accrued in the Prior Year	(243,543)
Amortization of Bond Premium	(330,118)
Plus: Interest Accrued in the Current Year	<u>215,847</u>
Total Expense	<u>\$ 2,668,893</u>

Changes

The changes in the School District's indebtedness during the year ended June 30, 2022 are summarized as follows:

	BALANCE <u>07/01/21</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE <u>06/30/22</u>	AMOUNTS DUE WITHIN <u>ONE YEAR</u>
Serial Bonds – General Obligations	\$ 62,785,000	\$ -	\$ 5,555,000	\$ 57,230,000	\$ 5,725,000
Serial Bonds – Direct Placement	23,710,000	-	1,305,000	22,405,000	1,370,000
Unamortized Bond Premium	3,976,029	-	330,118	3,645,911	330,118
Energy Performance Contract –					
Direct Borrowing	2,192,752	-	631,030	1,561,722	242,202
Compensated Absences	4,919,557	-	338,462	4,581,095	-
Total OPEB Liability	<u>148,582,324</u>	<u>23,129,282</u>	<u>3,144,562</u>	<u>168,567,044</u>	<u>3,200,000</u>
TOTAL	<u>\$ 246,165,662</u>	<u>\$ 23,129,282</u>	<u>\$ 11,304,172</u>	<u>\$ 257,990,772</u>	<u>\$ 10,867,320</u>

Additions and deletions to compensated absences are shown net since it is impractical to determine those amounts separately.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 – LIABILITIES (Continued)

Maturity

The following is a summary of maturity of indebtedness:

<u>DESCRIPTION</u>	<u>ISSUE DATE</u>	<u>FINAL MATURITY</u>	<u>INTEREST RATE</u>	<u>OUTSTANDING 06/30/22</u>
Refunding Serial Bond	2013	2026	2.00%-3.00%	\$ 1,120,000
Refunding Serial Bond	2015	2026	2.00%-5.00%	8,960,000
Refunding Serial Bond	2018	2023	2.00%-5.00%	1,210,000
Serial Bond	2020	2035	2.00%	4,200,000
Serial Bond	2012	2031	1.70%-4.75%	2,840,000
Serial Bond	2016	2042	2.00%-3.00%	38,900,000
Serial Bond	2019	2038	3.00%-5.00%	22,405,000
Energy Performance Contract	2014	2028	2.85%	<u>1,561,722</u>

\$ 81,196,722

<u>YEAR</u>	<u>Direct Borrowings and Direct Placements</u>		<u>General Obligations</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2023	\$ 1,612,202	\$ 1,053,003	\$ 5,725,000	\$ 1,717,912
2024	1,684,163	977,541	4,675,000	1,509,107
2025	1,761,325	898,630	4,830,000	1,340,193
2026	1,843,692	816,013	5,000,000	1,169,851
2027	1,931,271	729,434	2,365,000	1,058,525
2028-2032	9,879,069	2,292,637	12,140,000	4,365,555
2033-2037	4,855,000	627,150	10,910,000	2,686,600
2038-2042	<u>400,000</u>	<u>16,000</u>	<u>11,585,000</u>	<u>1,063,650</u>
 TOTAL	 <u>\$ 23,966,722</u>	 <u>\$ 7,410,408</u>	 <u>\$ 57,230,000</u>	 <u>\$ 14,911,393</u>

2. Short-Term Debt

a. Short-Term Debt Interest

Interest expense on short-term debt consisted of the following:

Interest Paid	\$ 375,454
Less: Interest Accrued in the Prior Year	(219,612)
Plus: Interest Accrued in the Current Year	<u>193,364</u>
Total Expense	<u>\$ 349,206</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 9 – LIABILITIES (Continued)

b. Summary

Transactions in short-term debt for the year ended June 30, 2022 are summarized below:

<u>Purpose</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Capital Projects	12/22	1.5%	<u>\$ 25,100,000</u>	<u>\$ _____</u>	<u>\$ 3,000,000</u>	<u>\$ 20,100,000</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. **Risk Financing and Related Insurance**

The Enlarged City School District of Middletown is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties.

Self-Funded Medical Insurance Plan

The District is self-insured for medical and prescription drug benefits for all eligible employees, retirees and their dependents. The plan is designed to provide hospital, surgical, medical, major medical, prescription and related benefits. Plan benefits are funded solely from the general assets of the Middletown City School District and contributions from covered persons. INDECS Corporation is the third-party administrator for the plan. To provide protection against unexpected large claims, the District has purchased stop loss coverage through QBE Insurance that assumes all risk for individual claims in excess of \$250,000

B. **Other Items**

The School District has received grants that are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and request a return of funds. Based on prior audits, the School District's administration believes disallowances, if any, will be immaterial.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

C. **COVID - 19**

In the early months of 2020, the COVID – 19 pandemic spread quickly around the world, causing significant shutdowns of economic activity in fiscal 2020 and 2021. As a result, the District had to switch to remote learning and incurred unanticipated costs related to the conversion. Additionally, the District recognized some savings related to budgeted activity that was no longer needed. Although the District has returned to in-person learning, the ultimate cost of the pandemic and the effect, if any, on future tax levies and State and Federal funding sources cannot be determined at this time.

NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS

The District provides post-employment coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the District’s contractual agreements.

General Information about the OPEB Plan

Plan Description - The healthcare plan is a defined benefit OPEB plan that provides benefits for employees of the District who have reached certain levels of employment with the District. The plan is a pay as you go funding plan. 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 benefits for retirees and their dependents. The benefit terms vary based on the union contract that governs the employee and years of service with the District. The District also reimburses the cost of Medicare Part B premiums to both retirees and covered spouses. For most retirees, the District contributions towards health insurance premiums are 50% for the retiree and 35% for the spouse. Administrators, directors and supervisors are entitled to 100% health insurance coverage upon retirement subject to years of service requirements. Retirees receiving benefits from the Teachers’ Retirement System have increased levels of District contributions up to 65% for retiree and 55% for spouse based on years of service.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS (Continued)

Employees Covered by Benefit Terms – At July 1, 2020 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	535
Active Employees	<u>940</u>
	<u>1,475</u>

Total OPEB Liability

The District's total OPEB liability of \$168,567,044 was measured as of June 30, 2021, using an actuarial valuation as of July 1, 2020.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Measurement Date	June 30, 2021
Salary Increases	3.80%
Discount Rate	2.16%
Initial Healthcare Cost Trend Rate	8.68%
Ultimate Healthcare Cost Trend Rate	4.50%

The actuarial cost method used was Entry Age Normal – Level Percentage of Payroll.

The discount rate was based on the Bond Buyer 20 GO Bond Index closest to the Measurement Date.

Mortality rates were based on the PUB-2010 Headcount Weighted Mortality Table with projection scale MP-2020 varying based on bargaining unit classification.

The District recently moved from OUSDHP to their own plan. As there is not enough experience under the new plan and OUSDHP are substantially the same, the claims were developed based on adjustments to the old plan.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS (Continued)

Changes in the Total OPEB Liability

Balance at June 30, 2021		\$ 148,582,324
Changes for the Year -		
Service Cost	8,742,556	
Interest	3,442,321	
Changes of Benefit Terms	-	
Differences between expected and actual experience	755,333	
Changes in assumptions or other inputs	10,189,072	
Benefit Payments	<u>(3,144,562)</u>	
Net Changes		<u>19,984,720</u>
Balance at June 30, 2022		<u>\$ 168,567,044</u>

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 (1.16%) or 1 – percentage point higher (3.16%) than the current discount rate:

	1% Decrease <u>(1.16%)</u>	Current Assumption <u>(2.16%)</u>	1% Increase <u>(3.16%)</u>
Total OPEB Liability	<u>\$ 204,090,328</u>	<u>\$ 168,567,044</u>	<u>\$ 140,877,854</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trends 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 healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease <u>1%</u>	Current Assumption <u>Assumption</u>	1% Increase <u>1%</u>
Total OPEB Liability	<u>\$ 134,267,077</u>	<u>\$ 168,567,044</u>	<u>\$ 215,334,641</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11 – POST EMPLOYMENT HEALTH INSURANCE BENEFITS (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the District recognized OPEB expense of \$8,623,277. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,837,349	\$ 1,825,099
Changes of assumptions or other inputs	15,204,708	27,568,770
Contributions subsequent to the measurement date	<u>3,436,462</u>	<u>-</u>
Total	<u>\$ 20,478,519</u>	<u>\$ 29,393,869</u>

Contributions subsequent to the measurement date of \$3,436,462 will be reorganized as a reduction of the total OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2023	\$ (3,561,600)
2024	(3,561,600)
2025	(3,561,600)
2026	(3,561,600)
2027	(1,668,360)
Thereafter	<u>3,562,948</u>
TOTAL	<u>\$ (12,351,812)</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED
OUTFLOWS/INFLOWS OF RESOURCES

Pension Plan Descriptions and Benefits Provided

Detailed descriptions of the New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) are included in Note 9-A to the financial statements.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred
Inflows of Resources Related to Pensions

At June 30, 2022, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2022 for ERS and June 30, 2021 for TRS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS and TRS Systems in reports provided to the District.

	<u>ERS</u>	<u>TRS</u>
Actuarial valuation date	April 1, 2021	June 30, 2020
Net pension asset/(liability)	\$ 4,761,916	\$ 73,836,511
District's portion of the Plan's total net pension asset/(liability)	0.0582527%	0.426508%

For the year ended June 30, 2022, the District recognized pension expense of \$282,401 for ERS and \$(4,643,464) for TRS. At June 30, 2022, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 360,627	\$ 10,177,580	\$ 467,753	\$ 383,612
Changes of assumptions	7,947,103	24,286,372	134,099	4,300,759
Net difference between projected and actual earnings on pension plan investments	-	-	15,593,279	77,277,548
Changes in proportion and differences between the District's contributions and proportionate share of contributions	587,144	122,322	338,797	2,119,130
District's contributions subsequent to the measurement date	<u>498,459</u>	<u>7,528,457</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,393,333</u>	<u>\$ 42,114,731</u>	<u>\$ 16,533,928</u>	<u>\$ 84,081,049</u>

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED
OUTFLOWS/INFLOWS OF RESOURCES (Continued)

District contributions subsequent to the measurement date of \$498,459 to ERS and \$7,528,457 to TRS will be recognized as a reduction of the net pension liability in the year June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>ERS</u>	<u>TRS</u>
2022	\$ -	\$ (9,941,842)
2023	(1,147,566)	(11,678,977)
2024	(1,698,894)	(14,584,096)
2025	(4,012,481)	(18,973,480)
2026	(780,113)	3,302,982
2027	-	-
Thereafter	<u>-</u>	<u>2,380,638</u>
TOTAL	<u>\$ (7,639,054)</u>	<u>\$ (49,494,775)</u>

Actuarial Assumptions

The total pension liability as of the measurement date was measured 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 valuations used the following significant actuarial assumptions:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2022	June 30, 2021
Actuarial valuation date	April 1, 2021	June 30, 2020
Interest rate	5.90%	6.95%
Salary scale	4.4%	1.95%-5.18%
Inflation rate	2.5%	2.40%

For ERS, annuitant mortality rates are based on April 1, 2015-March 31, 2020 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2020. For TRS, annuitant mortality rates are based on plan member experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2020, applied on a generational basis.

For ERS, the actuarial assumptions used in the April 1, 2021 valuation are based on the results of an actuarial experience study for the period April 1, 2015-March 31, 2020. For TRS, the actuarial assumptions used in the June 30, 2020 valuation are based on the results of an actuarial experience study for the period July 1, 2015-June 30, 2020.

The long term 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 returns net of investment expense and inflation) are developed for each major asset class.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED
OUTFLOWS/INFLOWS OF RESOURCES (Continued)

These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2022	June 30, 2021
Asset Type:		
Domestic Equity	3.30%	6.8%
International Equity	5.85	7.6
Real Estate	5.00	6.5
Real Assets	5.80	-
Domestic Fixed Income	-	1.3
Global Bonds	-	0.8
Global Equities	-	7.1
Opportunistic/ARS Portfolio	4.10	-
Credits	3.78	-
Private Equities	6.50	10.0
Private Debt	-	5.9
High Yield Bonds	-	3.8
Real Estate Debt	-	3.3
Cash Equivalents	(1.00)	(0.2)
Fixed Income	-	-

Discount Rate

The discount rate used to calculate the total pension liability was 5.90% for ERS and 6.95% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employees will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.90% for ERS and 6.95% for TRS, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentage point lower (4.90% for ERS and 5.95% for TRS) or 1-percentage point higher (6.90% for ERS and 7.95% for TRS) than the current rate:

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12 – PENSION REPORTING FOR ASSETS/LIABILITIES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

<u>ERS</u>	1% Decrease <u>(4.90%)</u>	Current Assumption <u>(5.90%)</u>	1% Increase <u>(6.90%)</u>
Employer's proportionate share of the net pension asset (liability)	\$ (12,257,119)	\$ 4,761,916	\$ 18,997,517

<u>TRS</u>	1% Decrease <u>(5.95%)</u>	Current Assumption <u>(6.95%)</u>	1% Increase <u>(7.95%)</u>
Employer's proportionate share of the net pension asset (liability)	7,748,065	73,836,511	129,379,054

Pension Plan Fiduciary Net Position

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

	<u>ERS (in thousands)</u>	<u>TRS</u>
Valuation date	April 1, 2021	June 30, 2020
Employers' total pension liability	\$ (223,874,888)	\$ (130,819,415,417)
Plan Net Position	<u>232,049,473</u>	<u>148,148,457,363</u>
Employer's net pension asset/(liability)	<u>\$ 8,174,585</u>	<u>\$ 17,329,041,946</u>

Ration of plan net position to the Employer's total pension asset/(liability)	103.65%	113.20%
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Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30 represent the projected employer contribution for the period of April 1 through June 30 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2022 amounted to \$489,459.

For TRS, employer and employee contributions for the fiscal year ended June 30 are paid to the System in September, October, and November through a state aid intercept. Accrued retirement contributions represent employee and employer contributions for the fiscal year ended June 30 based on paid TRS wages multiplied by the employer's contribution rate by tier, and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2022 amounted to \$8,644,926.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 13 – TAX ABATEMENTS

The District is subject to tax abatement agreements entered into by the Orange County Industrial Development Agency, City of Middletown Industrial Development Agency and Town of Wallkill Industrial Development Agency, pursuant to Title I of Article 18-A of the General Municipal Law of the State of New York. For the year ended June 30, 2022, the District received \$416,456 in tax abatement payments, which resulted in abated property taxes totaling \$3,803,108.

NOTE 14 – EVENTS OCCURRING AFTER REPORTING DATE

The District has evaluated events and transactions that occurred between June 30, 2022 and October 14, 2022, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES, OTHER USES AND CHANGES IN FUND BALANCE -
BUDGET TO ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE ACTUALS FOR THE YEAR ENDED JUNE 30, 2021)

	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	2021 ACTUAL
REVENUES					
Local Sources:					
Real Property Taxes	\$ 72,118,441	\$ 72,118,441	\$ 72,593,191	\$ 474,750	\$ 72,349,095
Other Tax Items	6,349,956	6,349,956	5,883,684	(466,272)	6,720,823
Non Property Taxes	1,900,000	1,900,000	2,237,832	337,832	2,180,701
Charges For Services	794,000	794,000	723,412	(70,588)	965,781
Use of Money and Property	181,000	181,000	127,610	(53,390)	62,011
Sale of Property and Compensation					
For Loss	78,750	78,750	61,472	(17,278)	104,710
Miscellaneous Local Sources	1,518,000	1,518,000	1,491,909	(26,091)	1,889,240
Interfund Revenues	-	-	21,531	21,531	14,408
State Sources:					
Basic Formula	100,452,122	100,449,308	102,171,090	1,721,782	84,233,062
Lottery Aid	15,263,234	15,263,234	14,721,301	(541,933)	15,045,213
BOCES	7,487,842	7,487,842	6,833,871	(653,971)	6,941,540
Other	1,464,836	1,464,836	765,675	(699,161)	1,581,251
Federal Sources	563,020	565,834	463,558	(102,276)	2,948,100
TOTAL REVENUES	208,171,201	208,171,201	208,096,136	(75,065)	195,035,935
OTHER FINANCING SOURCES					
Operating Transfers In	500,000	500,000	500,000	-	675,103
TOTAL REVENUES AND OTHER FINANCING SOURCES	208,671,201	208,671,201	208,596,136	\$ (75,065)	195,711,038
FUND BALANCE					
Appropriated Fund Balance	-	8,722,523			
Appropriated Reserves	1,550,000	19,349,290			
Prior Year Encumbrances	-	5,444,707			
TOTAL FUND BALANCE	1,550,000	33,516,520			
TOTAL REVENUES, OTHER FINANCING SOURCES AND FUND BALANCE	\$ 210,221,201	\$ 242,187,721			

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, OTHER SOURCES, EXPENDITURES, OTHER USES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE ACTUALS FOR THE YEAR ENDED JUNE 30, 2021)

	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	ENCUMBRANCES	VARIANCE FAVORABLE (UNFAVORABLE)	2021 ACTUAL
EXPENDITURES						
General Support:						
Board of Education	\$ 138,771	\$ 145,778	\$ 144,297	\$ -	\$ 1,481	\$ 107,952
Central Administration	371,238	565,540	550,912	12,850	1,778	335,641
Finance	1,055,467	1,080,501	1,018,271	25,946	36,284	1,044,270
Staff	1,211,227	1,810,121	1,392,011	113,396	304,714	933,434
Central Services	17,143,170	20,004,233	16,633,183	2,901,827	469,223	15,209,709
Special Items	2,487,889	2,364,661	2,359,577	-	5,084	2,841,479
Instructional:						
Instruction, Administration and Improvement	8,840,684	8,350,251	8,033,113	-	317,138	7,824,570
Teaching:						
Regular School	59,144,960	58,752,758	56,392,000	401,341	1,959,417	51,693,731
Programs For Children With Handicapped Conditions	35,340,865	36,721,055	34,673,268	473,465	1,574,322	30,724,000
Occupational Education	5,194,173	5,624,885	5,624,885	-	-	5,165,189
Special Schools	-	92,129	92,129	-	-	645,542
Instructional Media	5,345,641	8,577,363	8,264,305	181,699	131,359	6,503,712
Pupil Services	7,756,182	7,396,470	6,792,963	174,109	429,398	6,019,185
Pupil Transportation	10,469,627	10,113,689	10,082,327	31,362	-	8,227,561
Community Services	5,985	5,985	5,950	-	35	-
Employee Benefits	41,251,474	39,792,806	36,687,502	114,137	2,991,167	35,626,908
Debt Service:						
Principal	10,406,031	10,491,031	10,491,030	-	1	7,246,396
Interest	3,280,917	3,402,161	3,402,161	-	-	3,272,111
TOTAL EXPENDITURES	209,444,301	215,291,417	202,639,884	4,430,132	8,221,401	183,421,390
OTHER USES						
Operating Transfers Out	776,900	26,896,304	26,716,905	-	179,399	1,015,753
TOTAL EXPENDITURES AND OTHER USES	\$ 210,221,201	\$ 242,187,721	229,356,789	\$ 4,430,132	\$ 8,400,800	184,437,143
NET CHANGE IN FUND BALANCE			(20,760,653)			11,273,895
FUND BALANCE - Beginning of Year			64,292,713			53,018,818
FUND BALANCE - End of Year			\$ 43,532,060			\$ 64,292,713

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
YEAR ENDED JUNE 30, 2021

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service Cost	\$ 8,742,556	\$ 7,074,247	\$ 6,123,729	\$ 7,111,727	\$ 8,712,950
Interest	3,442,321	5,140,800	4,968,093	5,877,888	5,144,536
Changes of Benefit Terms	-	4,986,110	-	(24,441,913)	-
Differences Between Expected and Actual Experience	755,333	1,134,249	375,764	(3,199,935)	-
Changes of Assumptions	10,189,072	(7,565,390)	8,755,800	(17,098,070)	(25,545,040)
Benefit Payments	<u>(3,144,562)</u>	<u>(3,123,059)</u>	<u>(3,048,625)</u>	<u>(3,101,087)</u>	<u>(2,974,166)</u>
Net Change in Total OPEB Liability	19,984,720	7,646,957	17,174,761	(34,851,390)	(14,661,720)
Beginning Total OPEB Liability	<u>148,582,324</u>	<u>140,935,367</u>	<u>123,760,606</u>	<u>158,611,996</u>	<u>173,273,716</u>
Ending Total OPEB Liability	<u>\$ 168,567,044</u>	<u>\$ 148,582,324</u>	<u>\$ 140,935,367</u>	<u>\$ 123,760,606</u>	<u>\$ 158,611,996</u>
Covered Employee Payroll	<u>\$ 81,726,998</u>	<u>\$ 78,549,788</u>	<u>\$ 75,496,095</u>	<u>\$ 70,642,541</u>	<u>\$ 62,902,623</u>
Total OPEB Liability as a Percentage of Covered Payroll	206.26%	189.16%	186.68%	175.19%	252.15%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

Changes of Benefit Terms

None

Changes of Methods, Assumptions or Other Inputs

The discount rate was updated from 2.21% to 2.16%

Trust Assets

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET/LIABILITY
YEAR ENDED JUNE 30, 2022

TRS System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The District's proportion of the net pension asset (liability)	0.426085%	0.409522%	0.398009%	0.381629%	0.370552%	0.370956%	0.380979%	0.372463%
The District's proportionate share of the net pension asset (liability)	\$ 73,836,511	\$ (11,316,196)	\$ 10,340,289	\$ 6,900,864	\$ 2,816,565	\$ (3,973,099)	\$ 39,571,540	\$ 41,490,078
The District's covered employee payroll	72,320,349	69,508,831	66,434,098	62,163,128	58,724,492	57,797,975	57,228,163	55,018,321
The District's proportionate share of the net pension asset (liability) as a percentage of covered employee payroll	102.10%	16.28%	15.56%	11.10%	4.80%	6.87%	69.15%	75.42%
Plan Fiduciary net position as a percentage of the total pension liability	113.20%	97.8%	102.17%	101.53%	100.66%	99.01%	110.46%	111.48%

ERS System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
The District's proportion of the net pension liability	0.0582527%	0.0517238%	0.0515246%	0.0484994%	0.0483928%	0.0471587%	0.0473699%	0.049347%
The District's proportionate share of the net pension asset (liability)	\$ 4,761,916	\$ (51,503)	\$ (13,644,011)	\$ (3,436,328)	\$ (1,561,850)	\$ (4,431,132)	\$ (7,603,002)	\$ (1,667,063)
The District's covered employee payroll	15,801,366	14,624,738	13,922,461	13,286,744	12,752,647	12,252,462	12,284,218	12,230,543
The District's proportionate share of the net pension liability as a percentage of covered employee payroll	30.14%	00.35%	98.00%	25.86%	12.25%	36.17%	61.90%	13.63%
Plan Fiduciary net position as a percentage of the total pension liability	103.65%	99.95%	86.39%	96.27%	98.24%	94.7%	90.7%	97.9%

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2022

TRS System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 7,528,457	\$ 6,892,196	\$ 6,158,482	\$ 7,055,301	\$ 6,091,987	\$ 6,882,510	\$ 7,664,011	\$ 10,032,097	\$ 8,940,477	\$ 5,904,413
Contribution in relation to the contractually required contribution	<u>7,528,457</u>	<u>6,892,196</u>	<u>6,158,482</u>	<u>7,055,301</u>	<u>6,091,987</u>	<u>6,882,510</u>	<u>7,664,011</u>	<u>10,032,097</u>	<u>8,940,477</u>	<u>5,904,413</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution as a percentage of covered employee payroll	9.80%	9.53%	8.86%	10.62%	9.80%	11.72%	13.26%	17.53%	16.25%	11.84%

ERS System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 2,219,854	\$ 2,074,841	\$ 1,932,500	\$ 1,857,780	\$ 1,803,978	\$ 1,896,426	\$ 2,021,960	\$ 2,129,500	\$ 2,437,734	\$ 1,922,745
Contribution in relation to the contractually required contribution	<u>2,219,854</u>	<u>2,074,841</u>	<u>1,932,500</u>	<u>1,857,780</u>	<u>1,803,978</u>	<u>1,896,426</u>	<u>2,021,960</u>	<u>2,129,500</u>	<u>2,437,734</u>	<u>1,922,745</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution as a percentage of covered employee payroll	14.05%	14.19%	13.88%	13.98%	14.15%	15.48%	16.46%	16.54%	N/A	N/A

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2022

	<u>DEBT SERVICE</u>	<u>MISCELLANEOUS SPECIAL REVENUE</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash	\$ 3,775,554	\$ 223,258	\$ 3,998,812
Cash - Restricted	-	728,852	728,852
Due From Other Funds	<u>2,634</u>	<u>-</u>	<u>2,634</u>
 TOTAL ASSETS	 <u>\$ 3,778,188</u>	 <u>\$ 952,110</u>	 <u>\$ 4,730,298</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL LIABILITIES	 <u>-</u>	 <u>-</u>	 <u>-</u>
 FUND BALANCES			
Restricted:			
Scholarships	-	728,852	728,852
Assigned:			
Unappropriated	<u>3,778,188</u>	<u>223,258</u>	<u>4,001,446</u>
 TOTAL FUND BALANCES	 <u>3,778,188</u>	 <u>952,110</u>	 <u>4,730,298</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 3,778,188</u>	 <u>\$ 952,110</u>	 <u>\$ 4,730,298</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2022

	<u>DEBT SERVICE</u>	<u>MISCELLANEOUS SPECIAL REVENUE</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Use of Money and Property	\$ 11,698	\$ 250	\$ 11,948
Miscellaneous Local Sources	<u>-</u>	<u>144,757</u>	<u>144,757</u>
TOTAL REVENUES	11,698	145,007	156,705
OTHER FINANCING SOURCES			
Premium on Obligations	<u>269,181</u>	<u>-</u>	<u>269,181</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>280,879</u>	<u>145,007</u>	<u>425,886</u>
EXPENDITURES			
Instruction	<u>-</u>	<u>144,860</u>	<u>144,860</u>
TOTAL EXPENDITURES	-	144,860	144,860
OTHER USES			
Interfund Transfers Out	<u>500,000</u>	<u>-</u>	<u>500,000</u>
TOTAL EXPENDITURES AND OTHER USES	<u>500,000</u>	<u>144,860</u>	<u>644,860</u>
NET CHANGE IN FUND BALANCE	(219,121)	147	(218,974)
FUND BALANCE - Beginning of Year	<u>3,997,309</u>	<u>951,963</u>	<u>4,949,272</u>
FUND BALANCE - End of Year	<u>\$ 3,778,188</u>	<u>\$ 952,110</u>	<u>\$ 4,730,298</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET
GENERAL FUND
YEAR ENDED JUNE 30, 2022

ADOPTED BUDGET	\$ 210,221,201
ADDITIONS:	
Encumbrances From Prior Year	5,444,707
Appropriated Reserves	17,799,290
Supplemental Appropriations	<u>8,722,523</u>
FINAL BUDGET	<u>\$ 242,187,721</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
REAL PROPERTY TAX LIMIT
YEAR ENDED JUNE 30, 2022

SECTION 1318 OF REAL PROPERTY TAX LAW CALCULATION

Subsequent Year's Voter Approved Expenditure Budget		<u>\$ 228,641,730</u>
Maximum allowed (4% Budget)		<u>\$ 9,145,669</u>
General Fund Balance subject to Section 1318 of Real Property Tax Law:		
Unrestricted Fund Balance:		
Assigned Fund Balance	\$ 7,133,070	
Unassigned Fund Balance	<u>7,381,719</u>	
Total Unrestricted Fund Balance		14,514,789
Less:		
Appropriated Fund Balance	2,702,938	
Encumbrances included in Assigned Fund Balance	<u>4,430,132</u>	
Total Adjustments		<u>7,133,070</u>
General Fund Balance subject to Section 1318 of Real Property Tax Law:		<u>\$ 7,381,719</u>
Actual Percentage		3.23%

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
SCHEDULE OF PROJECT EXPENDITURES
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2022

<u>PROJECT TITLE</u>	<u>I EXPENDITURES I</u>					<u>I METHODS OF FINANCING I</u>					<u>FUND BALANCE JUNE 30, 2022</u>
	<u>ORIGINAL APPROPRIATIONS</u>	<u>REVISED APPROPRIATIONS</u>	<u>PRIOR YEARS</u>	<u>CURRENT YEAR</u>	<u>TOTAL</u>	<u>UNEXPENDED BALANCE</u>	<u>STATE AID</u>	<u>PROCEEDS OF OBLIGATIONS</u>	<u>LOCAL SOURCES</u>	<u>TOTAL</u>	
Carter Site Improvements	9,625,000	9,625,000	8,047,088	\$ 1,198,366	\$ 9,245,454	379,546	-	5,530,000	4,095,000	9,625,000	\$ 379,546
Smart Schools Bond Act	6,897,920	6,897,920	5,593,890	297,439	5,891,329	1,006,591	5,886,366	-	-	5,886,366	(4,963)
Capital Project - 2018	35,340,000	35,340,000	33,191,016	1,541,607	34,732,623	607,377	-	2,031,873	18,340,000	20,371,873	(14,360,750)
HS Track/Field/Scoreboard	1,975,000	2,375,000	2,178,399	87,295	2,265,694	109,306	-	-	2,375,000	2,375,000	109,306
Security Film	500,000	500,000	315,925	-	315,925	184,075	-	-	500,000	500,000	184,075
DW Air Conditioning	9,500,000	9,500,000	6,675,872	2,237,647	8,913,519	586,481	-	968,127	1,400,000	2,368,127	(6,545,392)
Capital Project – 2019	9,470,000	9,010,000	1,859,757	6,752,321	8,612,078	397,922	-	-	9,010,000	9,010,000	397,922
HS Sidewalk Repair	175,000	425,000	23,145	21,437	44,582	380,418	-	-	175,000	175,000	130,418
TM Emergency Fire Alarm	250,000	250,000	131,287	100,999	232,286	17,714	-	-	250,000	250,000	17,714
Wall of Fame	40,000	40,000	-	-	-	40,000	-	-	40,000	40,000	40,000
TT Masonry	100,000	100,000	-	100,000	100,000	-	-	-	100,000	100,000	-
PPK Fire Alarm	500,000	500,000	-	7,722	7,722	492,278	-	-	500,000	500,000	492,278
Capital Project - 2021	83,232,000	83,232,000	-	97,504	97,504	83,134,496	-	-	27,769,404	27,769,404	27,671,900
Clemson House Renovation	350,000	350,000	-	<u>225,649</u>	225,649	124,351	-	-	350,000	124,351	<u>124,351</u>
				<u>\$ 12,667,986</u>							<u>\$ 8,636,405</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2022

Capital Assets, Net	\$ 263,035,488
Less: Outstanding Bonds	(79,635,000)
Unamortized Bond Premiums	(3,645,911)
Outstanding Energy Performance Contract	(1,561,722)
Outstanding Bond Anticipation Notes	(22,100,000)
Plus: Unspent Debt Proceeds	<u>1,573,404</u>
Net Investment in Capital Assets	<u>\$ 157,666,259</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

<u>GRANTOR AGENCY</u>	<u>ASSISTANCE LISTING NUMBER</u>	<u>PASS- THROUGH GRANTORS NUMBER</u>	<u>EXPENDITURES CURRENT YEAR</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through State Dept. of Education:			
School Lunch Program	10.555	N/A	\$ 4,152,115
School Breakfast Program	10.553	N/A	1,246,595
Snack Program	10.555	N/A	68,966
Summer Food Service Program	10.559	N/A	1,045,504
Fresh Fruit and Vegetables	10.582	N/A	245,910
COVID-19 - Emergency Operating Cost Reimbursement	10.555	N/A	<u>286,207</u>
Total Child Nutrition Cluster			<u>7,045,297</u>
COVID-19 - Pandemic EBT Food Benefits	10.542	N/A	13,402
Passed Through State Dept. of Health:			
Child and Adult Care Food Program	10.558	N/A	19,415
Passed Through State Dept. of Health and Human Services:			
Commodity Supplement Food Program (Non-cash)	10.565	N/A	<u>355,644</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>7,433,758</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
IDEA, Part B	84.027A	032-22-0683	1,750,803
COVID-19 - ARP - IDEA, Part B	84.027X	5532-22-0683	451,971
IDEA, Pre-School	84.173A	033-22-0683	55,476
COVID-19 - ARP - IDEA, Pre-School	84.173X	5533-22-0683	<u>50,336</u>
Total Special Education Cluster			<u>2,308,586</u>
Title I	84.010A	021-21-2255	87,481
Title I	84.010A	021-22-2255	2,042,604
Title IIA	84.367A	147-22-2255	303,960
Title IIIA	84.365A	293-21-2255	10,451
Title IIIA	84.365A	293-22-2255	167,210
Title IIIA, Immigrant Education	84.365A	149-22-2255	61,116
Title IV	84.424A	204-21-2255	31,933
Title IV	84.424A	204-22-2255	28,099
Homeless Children	84.196A	212-21-3011	372
Homeless Children	84.196A	212-22-3011	119,129
COVID-19 - Cares Act – ESSER I	84.425D	5890-21-2255	11,336
COVID-19 – CRRSA - ESSER II	84.425D	5891-21-2255	1,653,188
COVID-19 – Cares Act – GEER I	84.425C	5895-21-2255	2,340
COVID-19 - ARP-ESSER III	84.425U	5880-21-2255	2,468,593
COVID-19 - ARP-ESSER-Learning Loss	84.425U	5884-21-2255	807,153
COVID-19 - ARP-ESSER-Extended Day	84.425U	5883-21-2255	21,200
COVID-19 - ARP-ESSER-Summer Enrichment	84.425U	5882-21-2255	7,316
COVID-19 - ARP- Homeless	84.425W	5212-21-3011	<u>2,980</u>
TOTAL DEPARTMENT OF EDUCATION			<u>10,135,047</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 17,568,805</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2022

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the Enlarged City School District of Middletown. The Enlarged City School District of Middletown's reporting entity is defined in Note 1 to the District's financial statements. All federal financial assistance passed through other governmental agencies are included on the schedule.

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements.

3. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance revenues are reported in the District's financial statements as follows:

Governmental Funds:	
Special Aid Fund	\$ 10,121,371
School Lunch Fund	7,433,758
General Fund	<u>13,676</u>
TOTAL	<u>\$ 17,568,805</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 of the
Enlarged City School District of Middletown
Middletown, New York

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Enlarged City School District of Middletown, New York as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Enlarged City School District of Middletown, New York's basic financial statements and have issued our report thereon dated October 14, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Enlarged City School District of Middletown, New York's internal control over financial reporting (internal control) as a basis for designing 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 Enlarged City School District of Middletown, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Enlarged City School District of Middletown, New York'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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, as defined above. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Cooper Arias, LLP

Mongaup Valley, New York
October 14, 2022

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education of the
Enlarged City School District of Middletown
Middletown, New York

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the Enlarged City School District of Middletown, New York's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Enlarged City School District of Middletown, New York's major federal programs for the year ended June 30, 2022. The Enlarged City School District of Middletown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on School Lunch Program and Summer Food Service Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Enlarged City School District of Middletown, New York complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the School Lunch Program and the Summer Food Service Program for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Enlarged City School District of Middletown, New York complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Enlarged City School District of Middletown, New York and to meet our ethical requirements, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Enlarged City School District of Middletown, New York's compliance with the requirements referred to above.

Matter(s) Giving Rise to Qualified Opinion on School Lunch Program and Summer Food Service Program

As described in the accompanying schedule of findings and questioned costs, the Enlarged City School District of Middletown, New York did not comply with requirements regarding the School Lunch Program – Assistance Listing No. 10.555 and Summer Food Service Program – Assistance Listing No. 10.559 as described in finding number 2022-001 for Reporting.

Compliance with such requirements is necessary, in our opinion, for the Enlarged City School District of Middletown, New York to comply with the requirements applicable to those programs.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Enlarged City School District of Middletown, New York's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Enlarged City School District of Middletown, New York's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Enlarged City School District of Middletown, New York's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Enlarged City School District of Middletown, New York's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Enlarged City School District of Middletown, New York's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Enlarged City School District of Middletown, New York's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the Enlarged City School District of Middletown, New York's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Enlarged City School District of Middletown, New York's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cooper Arias, LLP

Mongaup Valley, New York
October 14, 2022

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022

Summary of Auditors' Results:

1. The auditors' report expresses an unmodified opinion on the financial statements of the Enlarged City School District of Middletown.
2. There were no significant deficiencies disclosed during the audit of the financial statements of the Enlarged City School District of Middletown.
3. No instances of non-compliance material to the financial statements of the Enlarged City School District of Middletown, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies disclosed during the audit of internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Enlarged City School District of Middletown expresses a qualified opinion on two major programs and an unmodified opinion on all other major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported on this schedule.
7. The programs tested as major programs included:

Title I	84.010A
COVID-19 - Cares Act – ESSER I	84.425D
COVID-19 – CRRSA – ESSER II	84.425D
COVID-19 - Cares Act – GEER I	84.425C
COVID-19 - ARP-ESSER III	84.425U
COVID-19 - ARP-ESSER-Learning Loss	84.425U
COVID-19 - ARP-ESSER-Extended Day	84.425U
COVID-19 - ARP-ESSER-Summer Enrichment	84.425U
COVID-19 - ARP-Homeless	84.425W
School Lunch Program	10.555
School Breakfast Program	10.553
Summer Food Service Program	10.559
COVID-19 - Emergency Operating Cost	10.555
Fresh Fruit & Vegetables	10.582
School Snack Program	10.555
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Enlarged City School District of Middletown was determined to be a low-risk auditee.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022

Findings – Financial Statements Audit

None

Findings and Questioned Costs – Major Federal Awards Program Audit

Department of Agriculture

2022-001 School Lunch Program – Assistance Listing No. 10.555; Grant period – Year ending June 30, 2022; Summer Food Service Program – Assistance Listing No. 10.559; Grant period – Year ending June 30, 2022

Condition: We noted several instances in which the documentation justifying the meals claimed could not be located at the time of testing.

Criteria: Accurate records must be maintained justifying all meals claimed.

Cause: The District was not able to locate the required documentation.

Effect: Failure to maintain the required documentation may be grounds for denial of reimbursement for meals served and/or administrative costs claimed during the period covered by the records in question.

Recommendation: The District should ensure that all records are filed in a secure location for three years after submission of the final claim for reimbursement for the fiscal year.

Views of Responsible Officials and Planned Corrective Action: The District has implemented new procedures related to the retention of production records in the Child Nutrition Program. The procedures include, but are not limited, to the following:

- 1) Detailed instructions as to which documents are to be retained and where they are to be filed.
- 2) Review of the production records daily by the on-site supervisors.
- 3) Training and retraining of employees when necessary.
- 4) Evaluation of the overall procedures on a triennial basis.
- 5) Disposition guidelines once the retention period has passed.

The Director of FNS is responsible for the implantation and oversight of document retention procedures.

The new procedures will be implemented on October 18, 2022.

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2022

There were no findings in the prior year.

INDEPENDENT AUDITORS' REPORT

To the Board of Education of the
Enlarged City School District of Middletown
Middletown, New York

Opinions

We have audited the accompanying statements of assets, liabilities and fund balance – cash basis, of the Extraclassroom Activity Funds of the Enlarged City School District of Middletown as of June 30, 2022, and the related statements of cash receipts, disbursements and changes in fund balance – cash basis for the year then ended, and the related notes to the financial statements, which collectively comprise the financial statements of the Extraclassroom Activity Funds of the Enlarged City School District of Middletown as listed in the table of contents.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position – cash basis, of the Extraclassroom Activity Funds of the Enlarged City School District of Middletown as of June 30, 2022, and the changes in financial position – cash basis, for the year then ended in accordance with the basis of accounting described in Note 2.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the entity, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter—Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2, and for determining that the

cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Cooper Arias, LLP

Mongaup Valley, New York
October 14, 2022

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
EXTRACLASSROOM ACTIVITY FUND
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE-CASH BASIS
JUNE 30, 2022

ASSETS	
Cash-High School	\$ 143,593
Cash-Middle School	63,649
Cash-Elementary	<u>16,016</u>
 TOTAL ASSETS	 <u>\$ 223,258</u>
 FUND BALANCE	 <u>\$ 223,258</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
EXTRACLASSROOM ACTIVITY FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE- CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2022

<u>ACTIVITY</u>	<u>CASH & FUND BALANCE 7/1/21</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH & FUND BALANCE 6/30/22</u>
<u>HIGH SCHOOL</u>				
Class of 2021	\$ 18,842	\$ -	\$ 18,842	\$ -
Class of 2022	948	36,841	25,668	12,121
Class of 2023	-	39,849	35,888	3,961
Class of 2024	-	412	-	412
Class of 2025	-	333	-	333
Student Council	11,224	1,371		12,595
MHS Choirs Club	5,850	-	-	5,850
Graduate-Service Account	50,721	240	280	50,681
Epilogue	16,970	290	8,039	9,221
Softball Club	8,196	3,053	5,336	5,913
Art Honor Society	354	-	-	354
MHS Band	1,585	-	-	1,585
Tennis Club	3,735	1,421	-	5,156
Science Club	1,572	-	-	1,572
Drama Club	4,251	3,226	4,428	3,049
MAC-Athletes	333	-	-	333
Girls Lacrosse	341	564	495	410
MHS Musical	2,292	2,503	2,484	2,311
Youth In Government	213	-	-	213
Boys Basketball Club	4,166	2,568	4,986	1,748
Dance Club	209	-	208	1
Girls Soccer	6,646	-	805	5,841
Sports Medicine	905	-	-	905
Friends of Rachel/SADD	495	1,747	736	1,506
Wrestling	1,915	1,750	2,552	1,113
Boys Swimming	4,159	1,169	1,888	3,440
Girls Swimming	538	3,721	1,139	3,120
Middie Ambassadors	4,154	-	317	3,837
National Honor Society	2,789	13,804	11,342	5,251
Track Club	737	-	681	56
Interact Club	705	-	-	705
TOTALS	<u>154,845</u>	<u>114,862</u>	<u>126,114</u>	<u>143,593</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
EXTRACLASROOM ACTIVITY FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE- CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2022

<u>ACTIVITY</u>	<u>CASH & FUND BALANCE 7/1/21</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH & FUND BALANCE 6/30/22</u>
<u>MIDDLE SCHOOL</u>				
Monhegan, Other Expenses	\$ 11,931	\$ 1,750	\$ 334	\$ 13,347
Yearbook	601	2,026	1,503	1,124
Drama	20,036	4,672	2,539	22,169
Twin Towers, Other Expenses	17,948	2,958	3,784	17,122
Yearbook	<u>5,940</u>	<u>4,628</u>	<u>681</u>	<u>9,887</u>
	-			
TOTAL MIDDLE SCHOOL	<u>56,456</u>	<u>16,034</u>	<u>8,841</u>	<u>63,649</u>
<u>ELEMENTARY SCHOOL</u>				
Presidential Park, Other	32	-	-	32
Other Expenses	672	-	-	672
Maplehill	679	567	564	682
JROTC	<u>5,022</u>	<u>10,000</u>	<u>392</u>	<u>14,630</u>
TOTAL ELEMENTARY SCHOOL	<u>6,405</u>	<u>10,567</u>	<u>956</u>	<u>16,016</u>
TOTAL	<u>\$ 217,706</u>	<u>\$ 141,463</u>	<u>\$ 135,911</u>	<u>\$ 223,258</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S OPINION

ENLARGED CITY SCHOOL DISTRICT OF MIDDLETOWN
HIGH SCHOOL EXTRACLASSROOM ACTIVITY FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - DESCRIPTION OF OPERATIONS

Student activity funds are defined by the New York State Education Department as “funds raised other than by taxation, or through charges of a Board of Education, for, by or in the name of a school, student body or any subdivision thereof.”

Activity funds are raised and expended by student bodies to promote the general welfare, education, and morale of all pupils, and to finance the normal, legitimate extracurricular activities of the student body organization.

The Superintendent of the District has responsibility and authority to implement all policies and rules pertaining to the supervision and administration of school activity funds in accordance with established policies and rules of the District’s Board of Education.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The books and records of the High School Extraclassroom Activity Fund of Enlarged City School District of Middletown are maintained on the cash basis of accounting. Consequently, receipts and related assets are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligation is incurred.

Interest Income

Interest earned from the investment of the activity fund is distributed pro-rata to all activities having a cash balance.

Bank Charges

All bank service charges have been charged to the respective activity fund.

Inactive Accounts

The District’s policy is to transfer account balance of inactive clubs to the Student Council Fund.

APPENDIX C

FORM OF BOND COUNSEL'S LEGAL OPINION

December 1, 2022

City School District of the City of Middletown,
County of Orange,
State of New York

Re: City School District of the City of Middletown, Orange County, New York
\$20,825,000 Bond Anticipation Notes, 2022 (Renewals)

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of an issue of \$20,825,000 Bond Anticipation Notes, 2022 (Renewals) (the "Obligations"), of the City School District of the City of Middletown, County of Orange, State of New York (the "Obligor") dated December 1, 2022, numbered ____, of the denomination of \$_____, bearing interest at the rate of ____% per annum, payable at maturity (or earlier redemption) and maturing November 30, 2023.

Ladies and Gentlemen:

We have examined:

- (1) the Constitution and statutes of the State of New York;
- (2) the Internal Revenue Code of 1986, including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder (collectively, the "Code");
- (3) an arbitrage certificate executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligations that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligations not to be includable in the gross income of the owners thereof for Federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligations and investment earnings thereon, making required payments to the Federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligations to be includable in the gross income of the owners thereof for Federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligations and investment earnings thereon on certain specified purposes (the "Arbitrage Certificate"); and
- (4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or resolution applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligations, including the form of the Obligations. In rendering the opinions expressed herein we have assumed (i) the accuracy and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or certified by public officials acting within the scope of their official capacities, and have not verified the accuracy or truthfulness thereof, and (ii) compliance by the Obligor with the covenants contained in the Arbitrage Certificate. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

- (a) The Obligations have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the Obligor, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Obligations and interest thereon, without limitation as to rate or amount; provided however, that the enforceability (but not the validity) of the Obligations: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said State or the

Federal government affecting the enforcement of creditors' rights, and (ii) may be subject to the exercise of judicial discretion in appropriate cases.

- (b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligations; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said State or the Federal government affecting the enforcement of creditors' rights.
- (c) Interest on the Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Interest on the Obligations is not a specific preference item for purposes of the federal individual alternative minimum tax. We observe that, for tax years beginning after December 31, 2022, interest on the Obligations included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount accrual or receipt of interest on, the Obligations.

Certain agreements, requirements and procedures contained or referred to in the Arbitrage Certificate and other relevant documents may be changed and certain actions (including, without limitation, economic defeasance of the Obligations) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, efforts or matters. Our engagement with respect to the Obligations has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Arbitrage Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Obligations to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Obligations and the Arbitrage Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations such as the Obligor in the State of New York. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents.

The scope of our engagement in relation to the issuance of the Obligations has extended solely to the examination of the facts and law incident to rendering the opinions expressed herein. Such opinions are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the Obligor, together with other legally available sources of revenue, if any, will be sufficient to enable the Obligor to pay the principal of or interest on the Obligations as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligations for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligations, has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

Orrick, Herrington & Sutcliffe LLP