



VILLAGE OF EAST HAMPTON

Settled 1648 - Incorporated 1920

Basic Financial Statements

For the Year Ended July 31, 2017

INCORPORATED VILLAGE OF EAST HAMPTON
Financial Statements and Supplementary Information
For the Year Ended July 31, 2017

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (MD&A) (Unaudited)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities and Changes in Net Position	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Statement of Fiduciary Net Position – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	19
Notes to Basic Financial Statements	20
Required Supplementary Information Other Than MD&A	
Other Post-Employment Benefits Plan Schedule of Funding Progress (Unaudited)	49
Budgetary Comparison Schedule – General Fund (Unaudited)	50
Schedule of the Village's Proportionate Share of the Net Pension Asset/Liability (Unaudited)	51
Schedule of the Village's Contributions (Unaudited)	53
Independent Auditors' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55



SATTY, LEVINE & CIACCO, CPAs, P.C.

Certified Public Accountants & Business Advisors

Since 1949...People...Relationships...Results.

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Board of Trustees of the
Incorporated Village of East Hampton:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Incorporated Village of East Hampton, New York (the "Village"), as of and for the year ended July 31, 2017 and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Incorporated Village of East Hampton, New York as of July 31, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, the schedule of funding progress other postemployment benefits on page 49, budgetary comparison information on page 50, the schedule of the Village's proportionate share of the net pension liability on page 51, the schedule of the Village's contributions – ERS and PFRS on page 53, be presented to supplement the basic financial statements. Such information, although are not 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 methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Village's internal control over financial reporting and compliance.

Satty, Levine & Ciacco CPAs PC

Satty, Levine & Ciacco, CPAs P.C.
Jericho, New York
January 19, 2018

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

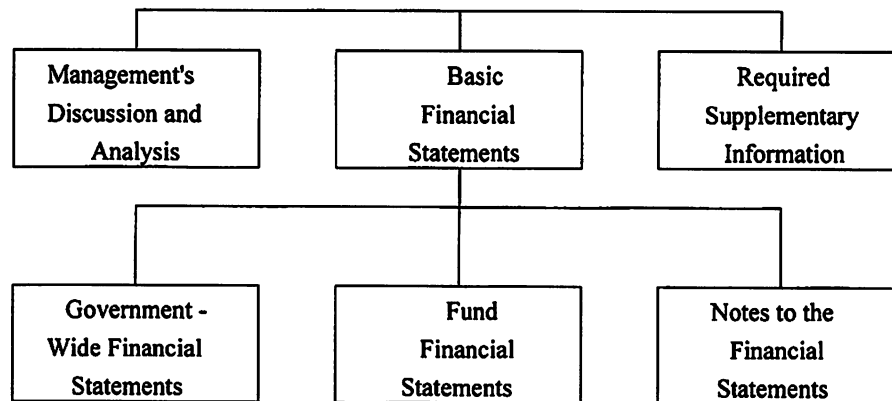
This section of the Village of East Hampton's (the "Village") annual financial report presents a discussion and analysis of the Village's financial performance during the fiscal year ended July 31, 2017. Please read it in conjunction with the Village's financial statements.

1. FINANCIAL HIGHLIGHTS

- The Village's total net position, as reflected in the government-wide financial statements, decreased by \$617,493 (6.21%).
- The Village's total net position at July 31, 2016 was restated and decreased by \$5,418,117 as a result of the required implementation of the new GASB accounting standards during the 2017 fiscal year. These new GASB accounting standards have no impact on the governmental funds financial statements.
- The Village's general fund balance, as reflected in the fund financial statements, increased by \$518,322 (6.73%).
- Long-term debt of \$5,740,000 decreased from \$6,635,000 due to principal payments of \$895,000 made during the year. Long-term debt of \$5,740,000 is 1.38% of the statutory limit. Total annual debt service of \$1,073,181 represents 5.47% of general fund expenditures.
- Under the accrual basis of accounting, the Village is required to record, as a current year expense, the cost of providing health retirement benefits to active and retired employees. During the year ended July 31, 2017 the Village recorded an increase in the net OPEB obligation of \$981,276 relating to these benefits resulting in a total net OPEB obligation of \$5,860,404.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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



INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

A. Government-Wide Financial Statements

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

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

The Statement of Net Position

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

The Statement of Activities

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

B. Fund Financial Statements

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

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

Governmental Funds

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

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

The Village maintains two individual governmental funds; general fund and capital fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Village in its capacity as agent or trustee. All of the Village's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The fiduciary activities have been excluded from the Village's government-wide financial statements because the Village cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

A. Net Position

The Village's total net position decreased by \$617,493 between fiscal year 2017 and 2016. A summary of the Village's Statement of Net Position follows. The July 31, 2016 net position has been decreased by \$5,418,117 resulting from the implementation of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Additionally, the July 31, 2016 balances reflect net pension assets and liabilities and deferred outflows of resources in accordance with the new GASB statements.

	<u>2017</u>	<u>As Restated 2016</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 8,737,476	\$ 8,021,733	\$ 715,743	8.92%
Capital Assets, Net	<u>24,887,682</u>	<u>25,099,853</u>	<u>(212,171)</u>	-0.85%
Total Assets	<u>33,625,158</u>	<u>33,121,586</u>	<u>503,572</u>	1.52%
Deferred Outflows of Resources	<u>3,485,933</u>	<u>6,648,286</u>	<u>(3,162,353)</u>	-47.57%
Liabilities:				
Current and Other Liabilities	2,582,155	2,477,045	105,110	4.24%
Long-Term Liabilities	8,959,687	9,559,782	(600,095)	-6.28%
Net Other Postemployment Benefit Obligation	5,860,404	4,879,128	981,276	20.11%
Net Pension Liability - Proportionate Share	<u>8,769,308</u>	<u>11,928,250</u>	<u>(3,158,942)</u>	-26.48%
Total Liabilities	<u>26,171,554</u>	<u>28,844,205</u>	<u>(2,672,651)</u>	-9.27%
Deferred Inflows of Resources	<u>1,610,614</u>	<u>979,251</u>	<u>631,363</u>	100.00%
Net Position:				
Net Investment in Capital Assets	19,147,682	18,464,853	682,829	3.70%
Restricted	1,063,799	642,555	421,244	65.56%
Unrestricted Net Position (Deficit)	<u>(10,882,558)</u>	<u>(9,160,992)</u>	<u>(1,721,566)</u>	18.79%
	<u>\$ 9,328,923</u>	<u>\$ 9,946,416</u>	<u>\$ (617,493)</u>	-6.21%

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

Current and other assets increased by \$715,743, as compared to the prior year. This increase is evidenced by an increase in the Village's Cash balances \$460,500, an increase in prepaid expenses \$32,000, and an increase in Due from Other Governments \$224,000.

Capital assets, net decreased by \$212,171, as compared to the prior year. This decrease was due to capital additions primarily made through the capital projects fund of \$1,177,020, net of the current year's depreciation expense of \$1,389,191.

Deferred outflows of resources represents contributions to the retirement plan subsequent to the measurement dates and actuarial adjustments at the plan level that will be amortized in future years.

Current and other liabilities increased by \$105,110, as compared to the prior year. This increase is primarily due to an increase in accounts payable \$7,000, a decrease in accrued interest \$6,000, an increase in due to retirement system \$30,000, and an increase in collections in advance \$75,000.

Long-term liabilities decreased by \$600,095, as compared to the prior year. This decrease is primarily due to the current year bond principal payments \$895,000 and a net increase in the compensated absences liability of approximately \$295,000.

Net other postemployment benefits (OPEB) increased by \$981,276 as compared to the prior year. This increase was the result of the current year unfunded OPEB costs on the full accrual basis of accounting in excess of the amount reflected in the governmental funds on the modified accrual basis (pay as you go). The accompanying notes to the financial statements, Note 13 "Post-Employment Benefits" provides additional information.

Net pension liability – proportionate share decreased by \$3,158,942 in the current year. This liability represents the Village's share of the New York State and Local Employees' Retirement System's and the New York State and Local Police and Fire Retirement System's collective net pension liability at March 31, 2017 and the Ambulance and Fire Losap net pension liability at December 31, 2016, the measurement dates. The accompanying notes to the financial statements, Note 10 "Pension Plans and Service Award Programs" provides additional information.

Deferred inflows of resources represents actuarial adjustments at the pension plan level that will be amortized in future years.

The net assets invested in capital assets, net of related debt, relates to the investment in capital assets at cost such as: land, construction in progress, buildings, artwork, land improvements, machinery and equipment, furniture and fixtures, and infrastructure, net of depreciation and related debt. This number increased over the prior year by \$682,829 as follows:

	Increase (Decrease)
Capital Asset Additions Financed by Local	
Source Revenue	\$ 1,177,020
Net Construction Bonds Principal Payments Made	895,000
Depreciation Expenses	<u>(1,389,191)</u>
	<u>\$ 682,829</u>

The restricted amount of \$1,063,799 represents the Village's insurance, employee benefits and capital projects reserves. This number increased from the prior year by \$421,244 mainly due to the increase in the employee benefits reserve \$270,000, interest income \$4,127, and reserves for capital projects \$147,117.

The unrestricted deficit of \$(10,882,558) represents the deficit net position as a result of unfunded compensated absences and OPEB obligations. This amount increased from the prior year by \$1,721,566.

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

B. Changes in Net Position

Government activities. Government activities decreased the Village's assets by \$617,493. Expenses for the year exceeded revenues by this amount. The following table indicates the changes in net position for governmental activities:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Program Revenues				
Charges for Services	\$ 7,843,029	\$ 7,998,506	\$ (155,477)	-1.94%
General Revenues				
Property Taxes	12,668,017	12,514,155	153,862	1.23%
Utilities Gross Receipts Tax	231,225	135,070	96,155	71.19%
Franchise Fee	141,234	129,640	11,594	8.94%
Mortgage Tax	679,121	575,119	104,002	18.08%
Unrestricted Investment Earnings	13,947	8,995	4,952	55.05%
Insurance Recoveries	24,370	20,283	4,087	20.15%
Federal, State, Local Sources	335,341	366,897	(31,556)	-8.60%
Miscellaneous	2,916	3,917	(1,001)	-25.56%
Total Revenues	<u>21,939,200</u>	<u>21,752,582</u>	<u>186,618</u>	0.86%
Expenses				
General Government Support	5,004,813	4,036,012	968,801	24.00%
Public Safety	11,126,739	11,605,767	(479,028)	-4.13%
Health	512,797	710,539	(197,742)	-27.83%
Transportation	2,275,038	2,152,207	122,831	5.71%
Culture and Recreation	2,110,202	1,390,180	720,022	51.79%
Home and Community Services	1,355,083	1,260,332	94,751	7.52%
Debt Services - Interest	172,021	195,976	(23,955)	-12.22%
Total Expenses	<u>22,556,693</u>	<u>21,351,013</u>	<u>1,205,680</u>	5.65%
Increase (Decrease) in Net Position	<u>\$ (617,493)</u>	<u>\$ 401,569</u>	<u>\$ (1,019,062)</u>	-253.77%

INCORPORATED VILLAGE OF EAST HAMPTON

Management's Discussion and Analysis (Unaudited)

For the Year Ended July 31, 2017

The Village's net position decreased by \$617,493 for the year ended July 31, 2017 and increased by \$401,569 for the year ended July 31, 2016.

The Village's revenues increased by \$186,618 (0.86%). This increase is due to the net effect of approximate increases in real property taxes \$154,000, utilities gross receipts tax \$96,000, franchise fee \$12,000, and mortgage tax \$104,000 and a decrease in charges for services \$155,500 and Federal, state and local source income \$31,000.

The Village's expenses increased by \$1,205,680 (5.65%). The increase was mainly the result of approximate net increases in general government support \$969,000, transportation \$123,000, culture and recreation \$720,000, home and community services \$95,000, and a decrease in public safety \$478,000, health \$197,000, and debt service interest \$24,000.

Business-type activities. The Village does not have any business type activities.

4. FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

At July 31, 2017, the Village's governmental funds reported a combined fund balance of \$8,417,241, which is an increase of \$666,269 from the prior year. A summary of the change in fund balance is as follows:

	2017	2016	Changes
Nonspendable:			
Prepaid Expenses	\$ 281,577	\$ 249,620	\$ 31,957
Restricted:			
Insurance	93,309	93,215	94
Capital Projects	196,672	48,725	147,947
Employee Benefits	773,818	500,614	273,204
Assigned:			
Appropriated Fund Balance	600,000	600,000	-
Unappropriated Fund Balance	657,537	462,543	194,994
Unassigned: Fund Balance	<u>5,814,328</u>	<u>5,796,255</u>	<u>18,073</u>
Total Fund Balance	<u>\$ 8,417,241</u>	<u>\$ 7,750,972</u>	<u>\$ 666,269</u>

The net change in the governmental fund-fund balance is an increase of \$666,269, as revenues and other sources of \$22,008,704 exceeded expenditures and other uses of \$21,342,435 mainly due to an increase in revenues from property taxes, non-property taxes, and state and county aid in the current year. In 2016, the net change was an increase of \$1,162,592.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2016-2017 Budget

The Village's general fund adopted budget for the year ended July 31, 2017 was \$20,408,291. This amount was increased by encumbrances carried forward from the prior year in the amount of \$462,543, prior year surplus of \$600,000 and budget revisions of \$1,559,000 for a total budget of \$23,029,834.

The budget was funded through a combination of revenues and designated fund balance. The major funding sources were real property taxes \$12,592,446, intergovernmental charges \$2,807,800, use of money and property \$1,215,167 and licenses and permits \$1,682,000.

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

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

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

Opening, Unassigned Fund Balance	\$ 5,796,255
Appropriated Fund Balance for Budget Revisions	(989,000)
Revenues Over Budget	1,600,366
Expenditures and Encumbrances Under Budget	612,745
Prepaid Expenses	(31,957)
Interest Transferred into Reserves	(4,081)
Transfer to Employee Benefits Reserve	(270,000)
Transfer to Capital Reserve - Unappropriated	(300,000)
Appropriated for July 31, 2017 Budget	<u>(600,000)</u>
Closing - Unassigned Fund Balance	<u><u>\$ 5,814,328</u></u>

Opening – Unassigned Fund Balance

The \$5,796,255 shown in the table is the portion of the Village's July 31, 2016, fund balance that was retained as undesignated fund balance.

Appropriated Fund Balance for Budget Revisions

The Village appropriated an additional \$989,000 of unassigned fund balance during 2016-2017 to fund the transfer to the capital projects fund for the purchase of property.

Revenues Over Budget

The 2016-2017 final budgets for revenues were \$20,408,291. Actual revenues received for the year were \$22,008,657. The excess of actual revenue over estimated or budgeted revenue was \$1,600,366. This excess is primarily due to the Village receiving additional State aid \$290,000, departmental income \$28,000, intergovernmental charges \$110,000, licenses and permits of \$783,000, fines and forfeitures \$194,000, non property taxes of \$117,000, and miscellaneous revenue of \$41,000.

Expenditures and Encumbrances Under Budget (GAAP Basis)

The 2016-2017 final budget for expenditures, including prior year encumbrances and budget revisions as of July 31, 2017, was \$22,459,834. Actual expenditures as of July 31, 2017, were \$21,490,335 and outstanding encumbrances were \$356,754. Combined, the expenditures plus encumbrances for 2016-2017 were \$21,847,089. The final budget was under expended by \$612,745.

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

Prepaid Expenses

Prepaid expenses are a current use of resources, however, they relate to a period beyond the current fiscal year and, therefore, decrease the unassigned portion of the general fund-fund balance.

Interest Transferred Into Reserves

Revenues such as interest earned in a general fund reserve increases the reserve and, therefore, decreases the undesignated portion of the general fund – fund balance. \$94 of interest was earned in the Insurance Reserve, \$3,204 of interest was earned in the Employee Benefits Reserve, and \$783 of interest was earned in the Capital Reserve.

Employee Benefit Reserve

The Village has chosen to fund \$270,000 to partially fund this liability.

Capital Reserve - Unappropriated

The Village has chosen to fund \$300,000 to fund future capital expenditures.

Assigned – Appropriated Fund Balance

The Village has chosen to use \$600,000 of its available July 31, 2017 fund balance to partially fund its 2016-2017 operating budget. As such, the unassigned portion of the July 31, 2017, fund balance must be reduced by this amount.

Closing – Unassigned Fund Balance

Based upon the summary of changes shown in the above table, the unassigned fund balance at July 31, 2017 is \$5,814,328. This is an increase of \$18,074 from the unassigned fund balance as of July 31, 2016.

6. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Village's investment in capital assets for its governmental activities includes land, artwork, infrastructure, buildings and equipment. The net increase in the Village's investment in capital assets was due to capital asset additions for the year ended July 31, 2017. A summary of the Village's capital assets, net of depreciation at July 31, 2017 and 2016 is as follows:

	2017	2016	Increase (Decrease)
Land	\$ 9,494,179	\$ 8,504,562	\$ 989,617
Buildings	7,180,902	7,383,667	(202,765)
Land improvements	615,439	681,978	(66,539)
Machinery and Equipment	2,568,636	2,329,185	239,451
Furniture and Fixtures	27,033	25,088	1,945
Artwork	371,200	371,200	-
Infrastructure	4,630,293	5,010,954	(380,661)
Construction in Progress	-	793,219	(793,219)
	<u>\$ 24,887,682</u>	<u>\$ 25,099,853</u>	<u>\$ (212,171)</u>

INCORPORATED VILLAGE OF EAST HAMPTON
Management's Discussion and Analysis (Unaudited)
For the Year Ended July 31, 2017

B. Short-Term Debt

At July 31, 2017, the Village did not have any bond anticipation notes (BAN's) outstanding.

C. Long-Term Debt

At July 31, 2017, the Village had total bonds payable of \$5,740,000. The bonds were issued for Village improvements. The decrease in outstanding debt represents the pay down of prior year bonds. A summary of the outstanding long-term debt at July 31, 2017 and 2016 is as follows:

Issue Date	Interest Rate	2017	2016	Increase (Decrease)
11/1/2008	4.500 - 4.750%	\$ 900,000	\$ 1,150,000	\$ (250,000)
7/18/2013	2.000 - 4.125%	2,415,000	2,645,000	(230,000)
6/27/2014	1.000 - 3.000%	2,425,000	2,840,000	(415,000)
		<u>\$ 5,740,000</u>	<u>\$ 6,635,000</u>	<u>\$ (895,000)</u>

The Village's latest credit rating from Moody's Investors Services is an Aa1. The Village's total outstanding indebtedness is significantly less than its debt limit. The debt limit is 7% of its five-year valuation of the taxable real property within the Village.

7. Economic Factors and Next Year's Budget and Rates

The 2017-2018 budget appropriations are \$568,986 (2.7%) more than the current year's budget and reflect increased revenue expectations and the positive variance in the current year's expenditures to budget. Every major category of the appropriations budget is about equal to the prior year. Revenue other than property taxes is expected to increase by \$270,000 (3.4%). This is the result of increases in building permit fees \$20,000, rent \$49,000, parking permits \$115,000, public utility tax \$15,000, franchise fees \$10,000, fines returned by state \$5,000, and services provided to fire districts for emergency communications \$56,000. Property tax collections will increase by \$298,000, approximately 2.4%. The economy has stabilized with small increases in economic based revenue anticipated in the coming year.

8. Contacting the Village's Financial Management

This financial report is designed to provide the reader with a general overview of the Village's finances and to demonstrate the Village's accountability for the funds it receives. Any questions about this report or need for any additional information should be directed to:

Rebecca Molinaro Hansen
Village Administrator
Incorporated Village of East Hampton
86 Main Street
East Hampton, New York 11937

INCORPORATED VILLAGE OF EAST HAMPTON

Statement of Net Position

July 31, 2017

ASSETS

Cash	
Unrestricted	\$ 6,324,825
Restricted	1,364,582
Accounts Receivable	105,719
Prepaid Expenses	281,577
Due From Other Governments	660,773
Capital Assets Not Being Depreciated	9,865,379
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>15,022,303</u>
Total Assets	<u>33,625,158</u>

DEFERRED OUTFLOWS OF RESOURCES

Pensions	<u>3,485,933</u>
----------	------------------

LIABILITIES

Accounts Payable and Accrued Expenses	261,488
Accrued Bond Interest	37,108
Due to Retirement System	545,217
Unearned Credits:	
Collections in Advance	1,738,342
Long-Term Liabilities:	
Due and Payable Within One Year	
Bonds Payable	840,000
Compensated Absences	160,984
Due and Payable After One Year	
Bonds Payable	4,900,000
Compensated Absences	3,058,703
Net Other Postemployment Benefits Obligation	5,860,404
Net Pension Liability - Proportionate Share	<u>8,769,308</u>
Total Liabilities	<u>26,171,554</u>

DEFERRED INFLOWS OF RESOURCES

Pensions	1,573,114
Grants	<u>37,500</u>
Total Deferred Inflows of Resources	<u>1,610,614</u>

NET POSITION

Net Investment in Capital Assets	19,147,682
Restricted	1,063,799
Unrestricted Net Position (Deficit)	<u>(10,882,558)</u>
Total Net Position	<u>\$ 9,328,923</u>

INCORPORATED VILLAGE OF EAST HAMPTON
Statement of Activities and Changes in Net Position
For the Year Ended July 31, 2017

		Program Revenues			Net (Expenses)
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
PROGRAMS / FUNCTIONS					
General Government Support	\$ 5,004,813	\$ 49,657	\$ 15,984	\$	\$ (4,939,172)
Public Safety	11,126,739	6,356,921	254,807		(4,515,011)
Health	512,797	1,060			(511,737)
Transportation	2,275,038				(2,275,038)
Culture and Recreation	2,110,202	1,385,756			(724,446)
Home and Community Service	1,355,083	49,635	64,550		(1,240,898)
Debt Service - Interest	172,021				(172,021)
Total Programs and Functions	\$ 22,556,693	\$ 7,843,029	\$ 335,341	\$ -	(14,378,323)

GENERAL REVENUES

Taxes:

Property Taxes, Levied for General Purposes	12,668,017
Utilities Gross Receipts Tax	231,225
Franchise Taxes	141,234
Insurance Recoveries	24,370
Mortgage Tax	679,121
Miscellaneous	2,916
Unrestricted Investment Earnings	13,947

Total General Revenues	<u>13,760,830</u>
------------------------	-------------------

Change in Net Position	(617,493)
------------------------	-----------

Net Position - Beginning of Year, as Restated	<u>9,946,416</u>
---	------------------

Net Position - End of Year	<u>\$ 9,328,923</u>
----------------------------	---------------------

INCORPORATED VILLAGE OF EAST HAMPTON

Balance Sheet
Governmental Funds
July 31, 2017

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash			
Unrestricted	\$ 6,324,825	\$	\$ 6,324,825
Restricted	1,167,910	196,672	1,364,582
Accounts Receivable	84,472		84,472
Due From Other Governments	660,773		660,773
Prepaid Expenses	<u>281,577</u>		<u>281,577</u>
Total Assets	<u>\$ 8,519,557</u>	<u>\$ 196,672</u>	<u>\$ 8,716,229</u>
LIABILITIES			
Accounts Payable	\$ 261,488	\$	\$ 261,488
Collections in Advance	<u>37,500</u>		<u>37,500</u>
Total Liabilities	<u>298,988</u>	<u>-</u>	<u>298,988</u>
FUND BALANCES			
Nonspendable: Prepaid Expenses	281,577		281,577
Restricted:			
Insurance	93,309		93,309
Capital		196,672	196,672
Employee Benefits	773,818		773,818
Assigned:			
Appropriated	600,000		600,000
Unappropriated	657,537		657,537
Unassigned: Fund balance	<u>5,814,328</u>		<u>5,814,328</u>
Total Fund Balances	<u>8,220,569</u>	<u>196,672</u>	<u>8,417,241</u>
Total Liabilities and Fund Balances	<u>\$ 8,519,557</u>	<u>\$ 196,672</u>	<u>\$ 8,716,229</u>

INCORPORATED VILLAGE OF EAST HAMPTON
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
July 31, 2017

Total Governmental Fund Balances	\$ 8,417,241
----------------------------------	--------------

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

The cost of building and acquiring capital assets (land, buildings, roads, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the Village as a whole, and their original costs are expensed annually over their useful lives.

Original Cost of Capital Assets	\$ 45,832,612	
Accumulated Depreciation	(20,944,930)	
		24,887,682

Certain accounts receivable are not considered available in the current period and therefore are not reported in the funds	21,247
--	--------

Proportionate share of long-term asset and liability, and deferred outflows and inflows associated with participation in the state retirement systems are not current financial resources or obligations and are not reported in the funds.

Deferred Outflows of Resources	3,485,933	
Net Pension Liability - ERS and PFRS	(8,769,308)	
Deferred Inflows of Resources	(1,610,614)	
		(6,893,989)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued Bond Interest	(37,108)	
Due to Retirement System	(545,217)	
Collections in Advance	(1,700,842)	
Compensated Absences	(3,219,687)	
Bonds Payable	(5,740,000)	
Net Other Postemployment Benefits Obligation	(5,860,404)	
		(17,103,258)

Total Net Position	\$ 9,328,923
--------------------	--------------

INCORPORATED VILLAGE OF EAST HAMPTON
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended July 31, 2017

	General Fund	Capital Projects	Total Governmental Funds
REVENUES			
Real Property Taxes	\$ 12,566,134	\$	\$ 12,566,134
Payment in Lieu of Taxes	101,883		101,883
Non-Property Taxes	367,441		367,441
Departmental Income	406,523		406,523
Intergovernmental Charges	2,917,542		2,917,542
Use of Money and Property	1,248,780	47	1,248,827
Licenses and Permits	2,464,615		2,464,615
Fines and Forfeitures	844,454		844,454
Sale of Property and Compensation for Loss	27,286		27,286
State and County Aid	1,014,462		1,014,462
Miscellaneous	49,537		49,537
	<u>22,008,657</u>	<u>47</u>	<u>22,008,704</u>
Total Revenues			
	<u>22,008,657</u>	<u>47</u>	<u>22,008,704</u>
EXPENDITURES			
General Government	2,533,095	989,617	3,522,712
Public Safety	7,123,617		7,123,617
Health	425,451		425,451
Transportation	1,117,986	656,710	1,774,696
Culture and Recreation	884,421	92,883	977,304
Home and Community Service	891,547		891,547
Employee Benefits	5,553,927		5,553,927
Debt Service:			
Principal	895,000		895,000
Interest	178,181		178,181
	<u>19,603,225</u>	<u>1,739,210</u>	<u>21,342,435</u>
Total Expenditures			
	<u>19,603,225</u>	<u>1,739,210</u>	<u>21,342,435</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,405,432</u>	<u>(1,739,163)</u>	<u>666,269</u>
OTHER FINANCING SOURCES AND (USES)			
Operating Transfers In		1,887,110	1,887,110
Operating Transfers Out	(1,887,110)		(1,887,110)
	<u>(1,887,110)</u>	<u>1,887,110</u>	<u>-</u>
Total Other Financing Sources and (Uses)			
	<u>(1,887,110)</u>	<u>1,887,110</u>	<u>-</u>
Net Change in Fund Balances	518,322	147,947	666,269
Fund Balance - Beginning of Year	7,702,247	48,725	7,750,972
	<u>7,702,247</u>	<u>48,725</u>	<u>7,750,972</u>
Fund Balance - End of Year	<u>\$ 8,220,569</u>	<u>\$ 196,672</u>	<u>\$ 8,417,241</u>

INCORPORATED VILLAGE OF EAST HAMPTON
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended July 31, 2017

Net change in fund balances - total governmental funds		\$ 666,269
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital Asset Purchases Capitalized	\$ 1,177,020	
Depreciation Expense	<u>(1,389,191)</u>	
		(212,171)
Unearned credits in the Statement of Activities that provide current financial resources are reported as revenues in the funds:		
Increase in Unearned Credits From the Prior Year		(74,522)
The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. The issuance/repayment increases/decreases long term liabilities in the Statement of Net Position:		
Bond Principal Payments		895,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in government funds:		
(Increase) Decrease From the Prior Year:		
Due to Retirement System	(29,792)	
Accrued Bond Interest	6,160	
Compensated Absences	(294,905)	
Other Postemployment Benefits Obligation	<u>(981,276)</u>	
		(1,299,813)
The increase in the proportionate share of the collective pension expense of the state retirement and Losap plans reported in the Statement of Activities did not affect current financial resources and, therefore, is not reported in the governmental funds.		
Police and Fire Retirement System	(297,745)	
Employees' Retirement System	(300,329)	
Ambulance Losap	(14,434)	
Fire Department Losap	<u>15,234</u>	
		(597,274)
Some accounts receivable will not be collected for several months after the Village's fiscal year end, they are not considered available revenues in the governmental funds:		
Increase in Accounts Receivable From the Prior Year		<u>5,018</u>
Change in Net Position of Governmental Activities		<u>\$ (617,493)</u>

See Accompanying Notes and Independent Auditor's Report.

INCORPORATED VILLAGE OF EAST HAMPTON
Statement of Fiduciary Net Position
Fiduciary Funds
July 31, 2017

	<u>Agency Funds</u>	<u>Employee Retirement Plans</u>	<u>Private Purpose Trust</u>
ASSETS			
Cash	\$ 175,188	\$ 3,109	\$ 391,622
Investments		<u>12,019,089</u>	
Total Assets	<u>\$ 175,188</u>	<u>\$ 12,022,198</u>	<u>\$ 391,622</u>
LIABILITIES			
Bid Deposits Payable	\$ 175,188	\$	\$
Held in Trust For Pension Benefits and Other Purposes		<u>12,022,198</u>	<u>391,622</u>
Total Liabilities	<u>\$ 175,188</u>	<u>\$ 12,022,198</u>	<u>\$ 391,622</u>

INCORPORATED VILLAGE OF EAST HAMPTON**Statement of Changes in Fiduciary Net Position****Fiduciary Funds****For the Year Ended July 31, 2017**

	<u>Employee Retirement Plans</u>	<u>Private Purpose Trust</u>
ADDITIONS		
Contributions:		
Employer	\$ 284,505	\$
Plan Members	472,683	
Donations		25,000
Total Contributions	<u>757,188</u>	<u>25,000</u>
Investment Earnings:		
Net Increase in Fair Value of Investments	696,299	
Interest, Dividends and Gains/Losses	445,703	1,656
Total Investment Earnings	<u>1,142,002</u>	<u>1,656</u>
Total Additions	<u>1,899,190</u>	<u>26,656</u>
DEDUCTIONS		
Benefits	310,495	
Administration Fees	42,304	
Tuition Assistance		1,500
Total Deductions	<u>352,799</u>	<u>1,500</u>
Change in Net Position	1,546,391	25,156
Net Position - Beginning of Year	<u>10,475,807</u>	<u>366,466</u>
Net Position - End of Year	<u>\$ 12,022,198</u>	<u>\$ 391,622</u>

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Incorporated Village of East Hampton (the "Village") 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 standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the Village are as follows:

A. Financial Reporting Entity

The Village is governed by the laws of New York State. The Village is an independent entity governed by an elected Board of Trustees consisting of five members. The President of the Board serves as the chief fiscal officer and the Village Administrator is the chief executive officer. The Board is responsible for, and controls all activities related to the Village. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

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

The accompanying financial statements present the activities of the Village. The Village is not a component unit of another reporting entity. The decision to include a potential component unit in the Village's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no other entities which would be included in the Village's reporting entity.

B. Basis of Presentation

Government-Wide Statements

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

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

Fund Statements

The fund financial statements provide information about the Village's funds, including fiduciary funds. Separate statements for each fund category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds as defined by GASB, each displayed in a separate column. The Village's financial statements reflect the following major fund categories:

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Governmental Funds

General Funds –

General Fund is the main operating fund of the Village. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund –

Capital Projects Fund is used to account for funds received and expended for the construction, renovation, expansion and major improvement of various Village facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects.

Fiduciary Funds

Fiduciary Funds are used to account for activities in which the Village acts as trustee or agent for resources that belong to others. These activities are not included in the government-wide financial statements, because their resources do not belong to the Village, and are not available to be used. There are two classes of fiduciary funds:

Agency Funds –

Agency Funds account for assets held by the Village in purely custodial capacity. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. Agency Funds consist of bid deposits held by the Village.

Trust Funds –

Employee Retirement Plans –

Non-Expendable Trust Funds report fiduciary resources held in trust and the receipt, investment and distribution of retirement contributions. The Village's Service Awards Program is limited to the Volunteer Fire Department and Volunteer Ambulance Department. See Note 10.

Expendable Trust Funds report fiduciary resources held in trust and the receipt, investment and distribution of retirement contributions. The Village's Deferred Compensation Plan is available to all of the employees of the Village. See Note 11.

Private Purpose Trust –

Private Purpose Trust Funds report fiduciary resources held in trust until the donor restriction on the use is met. Private Purpose Funds consist of scholarship money and monies to make improvements to the Dominy Clock Shop.

C. Basis of Accounting and Measurement Focus

The government-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the Village 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 real property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the related expenditures are incurred.

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the fiscal year end. 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, and other postemployment benefits, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Budgetary Control

The Village Charter establishes the fiscal year as the twelve-month period beginning August 1st. The departments submit to the Village Administrator a budget of estimated expenditures for the ensuing fiscal year after which the Village Administrator subsequently submits a budget of estimated expenditures and revenues to the Board of Trustees by May 31st.

Upon receipt of the budget estimates, the Board of Trustees holds a public hearing on the proposed budget. Information about the budget resolution is then published in the official newspaper of the Village.

At least 41 days prior to August 1st, the budget is legally enacted through the adoption of the resolution. The Village Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.

Budgeted amounts are as originally adopted or as amended by the Board of Trustees. Individual amendments that were not material in relation to the original appropriations were adopted by the Board of Trustees.

The Budgetary Comparison Schedule – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

E. Cash and Investments

Cash consists of cash on hand, bank deposits and investments with original maturity dates of three months or less from the date of acquisition.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

F. 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

G. Restricted Resources

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

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

H. Interfund Transactions

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

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

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

A detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity is provided subsequently in these Notes.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant or equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 years
Infrastructure	20 years
Machinery and Equipment	5-15 years
Land Improvements	20 years
Furniture and Fixtures	10 years

J. Accounts Receivable

Accounts receivable are shown gross. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

K. Collections in Advance

Collections in advance are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Collections in advance also arise when resources are received by the Village before it has legal claim to them, as when contractual or rental fees are received in advance. In subsequent periods, when both recognition criteria are met, or when the Village has legal claim to the resources, the liability for collections in advance is removed and revenues are recorded.

L. Compensated Absences

The Village's policy allows certain employees to accumulate unused sick leave and vacation leave in varying amounts. Employees who have completed one full year of employment are entitled to various amounts of accumulated sick leave and any accumulated vacation upon termination. Sick leave in excess of the 160-day maximum is not paid upon termination, but will be paid only upon illness while in the employ of the Village. Compensated absences at July 31, 2017 amounted to \$3,219,687, an increase of \$294,905 from the prior year.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

M. Other Benefits

Eligible Village employees participate in the New York State Employees' Retirement System and the New York State and Local Police and Fire Retirement System.

In addition to providing pension benefits, the Village provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if Village employees are eligible for these benefits if they reach normal retirement age while working for the Village. 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 Village and the retired employee. The Village accounts for these post-employment benefits in accordance with GASB Statement No. 45 (GASB 45) *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Village recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the General Fund, in the year paid. In the government-wide statements, postemployment costs are measured and disclosed using the accrual basis of accounting.

N. Short-Term Debt

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

O. Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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

P. Deferred Outflows of Resources

Deferred outflows of resources, in the Statement of Net Position, represents a consumption of net position that applies to a future reporting period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Village has two items that qualify for reporting in this category. The first item is related to pensions and represents the effect of the net change in the Village's proportion of the collective net pension asset or liability and difference during the measurement period between the Village's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The second item is the Village's contributions to the pension systems (ERS, PFRS, and LOSAP Systems) subsequent to the measurement date.

Q. Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Some of the deferred inflows of resources are related to pensions reported in the government-wide Statement of Net Position. This represents the effect of the net change in the Village's proportion of the collective net pension liability and difference during the measurement periods between the Village's contributions and its proportionate share of total contributions to the pension systems not included in pension expense, and the net difference between projected and actual earnings on pension plan investments. The rest of the deferred inflows of resources are related to a grant that was received before July 31, 2017 but is applicable to the fiscal year ended July 31, 2018.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

R. Equity Classifications

Government-wide statements

In the Government-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.

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

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

Fund Statements

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

Non-spendable – Consists of amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The Village utilized the following non-spendable fund balance:

Prepaid Expenses – prepaid expenses is used to account for current funds that have been spent, but will benefit a future period. Prepaid expenses are accounted for in the general fund.

Restricted - Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Restricted fund balances, generally referred to as reserves in accordance with New York State law, are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the Village include the following:

Insurance Reserve - insurance reserve is primarily reserved and accumulated for the payment of general liability and casualty insurance claims.

Capital Projects Reserve – capital projects reserve is used to pay the cost of any object or purpose for which bonds may be issued.

Employee Benefit Accrued Liability Reserve – employee benefit accrued liability reserve is used to pay for any accrued employee benefit due an employee on termination of the employee's service.

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

Unassigned – Represents the residual classification for the Village's general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classifications should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, or assigned.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Fund balance classification

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

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

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the assigned fund balance to the extent that there is an assignment and then from the unassigned fund balance.

S. Change in Accounting Principles

Changes implemented in current year

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for pension plans that are not administered through a trust. The requirements of Statement No. 73 are effective for financial statements with periods beginning after June 15, 2016.

Effective March 1, 2016, the Village adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining fair value measurement for financial reporting purposes, guidance for applying fair value to certain investments, and disclosures related to all fair value measurements.

Effective March 1, 2016, the Village adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; Statement No. 77, *Tax Abatement Disclosures*; Statement No. 78, *Pensions Provided Through Certain Multiple Employer Defined Benefit Plans*; and Statement No. 79, *Certain External Investment Pools and Pool Participants*. There was no financial reporting impact as a result of the adoption of these Standards.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to require disclosures regarding tax abatement information regarding a governments own agreements or those entered into by other governments which reduce the reporting government's tax revenues. This Statement is effective for reporting periods beginning after December 15, 2015.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of GASB No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is effective for reporting periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* – an amendment of GASB No. 14. This Statement changes how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. Specifically, such component units must be “blended into the primary state or local government’s financial statements in a manner similar to a department or activity of the primary government. This Statement is effective for reporting periods beginning after June 15, 2016.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Changes to be implemented in future years

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Standard requires that governments who are the recipients of resources under such agreements must record the respective assets, liabilities and deferred inflows of their interest in the agreement at the time of inception. This Statement is effective for reporting periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82, *Pension Issues –An Amendment of GASB Statements No. 67, No. 68. And No. 73*. This Standard clarifies certain issues raised in practice during the application and implementation of the pension standards and enhances consistency by clarifying existing standards. Portions of this Statement are effective for reporting periods beginning after June 15, 2016. Guidance provided under this standard for the “selection of assumptions” is effective for the employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This standard will establish uniform criteria to recognize and measure certain AROs, including those AROs previously reported. The requirements of this standard are effective for the Village beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard will enhance the consistency and comparability of fiduciary activity by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this standard are effective for the Village beginning after December 15, 2018.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard addressed various practice issues that were noted in the application of practice concerning component units, goodwill, fair value measurement and OPEB benefits. The requirements of this standard are effective for the Village beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This standard will improve consistency in accounting and financial reporting for certain debt extinguishments and enhance the decision-usefulness of debt defeasance disclosures. The requirements of this standard are effective for the Village beginning after June 15, 2017.

In June 2017, GASB issued Statement No. 87, *Leases*. This standard will improve consistency in accounting and financial reporting for leases by governments as well as requiring the recognition of certain lease assets and liabilities that were previously classified as operating leases. The requirements of this standard are effective for the Village beginning after December 15, 2019.

The Village is currently evaluating the impact, if any, of the above pronouncements.

NOTE 2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE GOVERNMENT-WIDE STATEMENTS

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

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

Total fund balances of the Village’s governmental funds differ from “net position” of governmental activities reported in the Statement of Net Position. This 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 Sheets.

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

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

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Long-Term Revenue and Expense Differences

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

Capital Related Differences

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

Long-Term Debt Transaction Differences

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

Pension Differences

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

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The Village Administrator prepares a proposed budget for approval by the Board of Trustees for the General Fund, the only fund with a legally adopted budget. Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists, which was not determined at the time the budget was adopted. During the year, the board approved additional appropriations in the amount of \$1,559,000 as follows:

Transfer to employee benefits reserve fund to partially fund liability	\$ 270,000
Transfer to capital reserve	300,000
Transfer to capital projects fund for purchase of real property located at 8 Osborne Lane	<u>989,000</u>
	<u><u>\$ 1,559,000</u></u>

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year. Budgets are established and used for individual Capital Project Fund expenditures as approved by the Board. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

Encumbrances

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

NOTE 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The Villages' investments are governed by state statutes and Village policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance.

Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the Village's name.

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

Investment Pool

The Village participates in a multi-municipal cooperative investment pool agreement pursuant to New York State General Municipal Law Article 5-G, 119-O whereby it holds a portion of the investments in cooperation with other participants. The investments are highly liquid and are considered to be cash equivalents.

Total investments of the cooperative as of year-end are \$628,205,199, which consisted of \$285,781,639 in U.S. Treasury Securities, \$152,723,163 in repurchase agreements, and \$189,700,397 in collateralized bank deposits with various interest rate and due dates.

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

The amount of \$1,466,223 is included as cash in the following funds:

	Unrestricted Cash	Restricted Cash	Total
General Fund	\$ -	\$ 1,074,601	\$ 1,074,601
Trust and Agency Fund	391,622	-	391,622
Total	<u>\$ 391,622</u>	<u>\$ 1,074,601</u>	<u>\$ 1,466,223</u>

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. The investment pool is categorically exempt from the New York State collateral requirements. Additional information concerning the cooperative is presented in the annual report of the Cooperative Liquid Asset Securities System (CLASS), which may be obtained from MBIA Municipal Investors Service Corp., 113 King Street, Armonk, NY 10504.

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Village categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs-other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Description	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Money Market	\$ 158,887	\$ 158,887	\$	\$
Mutual Fund	3,072,510	3,072,510		
Fixed Income Securities	459,669	459,669		
Stocks	6,525,716	6,525,716		
Contribution Receivable	472,683	472,683		
Short Term Investments	929,208	929,208		
Asset Allocation	350,989	350,989		
Outstanding Loan Balance	49,427	49,427		
Total	<u>\$ 12,019,089</u>	<u>\$ 12,019,089</u>	<u>\$ -</u>	<u>\$ -</u>

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

The Village's investments at July 31, 2017 in more detail:

Description	Volunteer Fire Department	Volunteer Ambulance Department	Deferred Compensation Plan	Total
Cash and Money Market	\$ 69,700	\$ 89,187	\$	\$ 158,887
Mutual Fund	2,470,674	601,836		3,072,510
Fixed Income Securities	274,408	39,281	145,980	459,669
Stocks	1,042,954	507,599	4,975,163	6,525,716
Contribution Receivable	379,000	93,683		472,683
Short Term Investments			929,208	929,208
Asset Allocation			350,989	350,989
Outstanding Loan Balance			49,427	49,427
Total	<u>\$ 4,236,736</u>	<u>\$ 1,331,586</u>	<u>\$ 6,450,767</u>	<u>\$ 12,019,089</u>

NOTE 5. DUE FROM OTHER GOVERNMENTS

Due from other governments at July 31, 2017 consists of:

Federal and State Aid	\$ 44,550
East Hampton Town - Fees	3,220
Justice Court - Fees	199,397
Sag Harbor Village - Communication Services	55,547
Springs - Communication Services	67,295
Suffolk County - 911 Share	71,791
Suffolk County - Mortgage Tax	<u>218,973</u>
Total Due from Other Governments	<u>\$ 660,773</u>

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

NOTE 6. CAPITAL ASSETS

Capital asset balances and activity for the year ended July 31, 2017 were as follows:

	Balance August 1, 2016	Additions	Adjustments/ Reductions	Balance July 31, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 8,504,562	989,617	\$	\$ 9,494,179
Artwork	371,200			371,200
Construction in Progress	793,219		(793,219)	-
Total Capital Assets Not Being Depreciated	9,668,981	989,617	(793,219)	9,865,379
Capital Assets Being Depreciated:				
Buildings	11,771,020	86,398	(3,275)	11,854,143
Land Improvements	1,639,063	8,520		1,647,583
Machinery and Equipment	9,236,527	768,138	(284,278)	9,720,387
Furniture and Fixtures	149,297	10,106	(6,840)	152,563
Infrastructure	12,485,097	107,460		12,592,557
Total Capital Assets Being Depreciated	35,281,004	980,622	(294,393)	35,967,233
Less Accumulated Depreciation for:				
Buildings	(4,387,353)	(289,163)	3,275	(4,673,241)
Land Improvements	(957,085)	(75,059)		(1,032,144)
Machinery and Equipment	(6,907,342)	(528,687)	284,278	(7,151,751)
Furniture and Fixtures	(124,209)	(8,161)	6,840	(125,530)
Infrastructure	(7,474,143)	(488,121)		(7,962,264)
Total Accumulated Depreciation	(19,850,132)	(1,389,191)	294,393	(20,944,930)
Total Assets Being Depreciated, Net	15,430,872	(408,569)	-	15,022,303
Capital Assets, Net	\$ 25,099,853	\$ 581,048	\$ (793,219)	\$ 24,887,682

Depreciation expense was charged to governmental functions as follows:

General Government and Administration	\$ 15,593
Public Safety	913,568
Transportation	282,297
Cultural and Recreational	150,922
Home and Community Services	26,811
Total Depreciation Expense	\$ 1,389,191

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

NOTE 7. LONG-TERM DEBT

Bonds Payable

At July 31, 2017 bonds payable consisted of the following individual issues:

2008 General Obligation Bonds, dated November 1, 2008, due in annual installments through November 1, 2022 bearing interest rates of 4.500% to 4.750%	\$ 900,000
2013 General Obligation Bonds, dated July 18, 2013, due in annual installments through June 15, 2032 bearing interest rates of 2.000% to 4.125%	2,415,000
2014 General Obligation bonds, dated June 27, 2014, due in annual installments through October 1, 2022 bearing interest rates of 1.000% to 3.000%	<u>2,425,000</u>
Total Bonds Payable	<u>\$ 5,740,000</u>

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

Interest Paid	\$ 178,181
Less: Interest Accrued in Prior Year	(43,268)
Plus: Interest Accrued in Current Year	<u>37,108</u>
Total Interest Expense on Long-Term Debt	<u>\$ 172,021</u>

Transactions for the year ended July 31, 2017 are summarized as follows:

	As Restated Balance August 1, 2016	Additions	Reductions	Balance July 31, 2017	Due Within One Year
Long - Term Debt:					
General Obligation Bonds	\$ 6,635,000	\$	\$ (895,000)	\$ 5,740,000	\$ 840,000
Other Long-Term Debt:					
Compensated Absences	2,924,782	294,905		3,219,687	160,984
Net Pension Liability	11,928,250		(3,158,942)	15,087,192	
Other Postemployment Benefits Obligation	<u>4,879,128</u>	<u>981,276</u>		<u>5,860,404</u>	
Total Long-Term Liabilities	<u>\$ 26,367,160</u>	<u>\$ 1,276,181</u>	<u>\$ (4,053,942)</u>	<u>\$ 29,907,283</u>	<u>\$ 1,000,984</u>

The General Fund has typically been used to liquidate other long-term liabilities.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

General Obligation Bonds

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the Village to rebate excess arbitrage earnings from bond proceeds to the federal government. There were no excess arbitrage earnings for the year ended July 31, 2017.

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for the years subsequent to July 31, 2017 are as follows:

General Obligation Bonds

<u>Year Ending July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 840,000	\$ 154,057	\$ 994,057
2019	850,000	131,144	981,144
2020	865,000	109,720	974,720
2021	890,000	87,926	977,926
2022	745,000	65,875	810,875
2023-2027	1,250,000	132,219	1,382,219
2028-2032	300,000	33,105	333,105
	<u>\$ 5,740,000</u>	<u>\$ 714,046</u>	<u>\$ 6,454,046</u>

NOTE 8. COLLECTIONS IN ADVANCE

Revenues collected in advance in the General Fund consist of \$1,738,342 related to beach house rentals to individuals and communication and fire protection services provided to various municipalities.

NOTE 9. PROPERTY TAX

Property tax is levied each August 1st on the assessed (appraised) value listed as of the prior January 1 for all business and personal property located in the Village. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the Village. The Town of East Hampton establishes appraised values at 1% for estimated fair market value.

Taxes are due on August 1st, the levy date, and are delinquent after the following September 1st. Tax liens are automatic on September 1st each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (September 1st). The Village usually waits until May 1st at which time the unpaid taxes are sold through a tax sale. As of September 1st, 5% collection costs may be added to all delinquent accounts and an additional 1% collection cost may be added on the first of each month thereafter through April. Current tax collections for the year ended July 31, 2017 were 100.00% of the tax levy.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

As of July 31, 2017, the total outstanding indebtedness of the Village aggregated \$5,740,000. Of this amount, \$5,740,000 was subject to the constitutional debt limit and represented approximately 1.38% of its debt limit.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

NOTE 10. PENSION PLANS AND SERVICE AWARD PROGRAMS

A. Pension Plans

Plan Description

The Village participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement Systems (PFRS) and the Public Employees' Group Life Insurance Plan collectively known as NYSLRS (Systems). These are cost sharing multiple employer retirement systems. The Systems provide 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 (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, employees who joined the System on or after January 1, 2010 (ERS) and before April 1, 2012, are required to contribute 3% of their salary to NYSERS throughout their active membership, and employees who joined the System after April 1, 2012, are required to contribute between 3% and 6% dependent on their salary throughout active membership. Employers are required to contribute at an actuarially determined rate based on salaries paid. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Village is required to contribute an actuarially determined rate. The Village's contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

	ERS	PFRS
2017	\$ 705,359	\$ 840,916
2016	874,106	845,204
2015	919,560	1,014,883

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

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

At July 31, 2017, the Village reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2017 for PFRS and ERS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The Village's proportion of the net pension asset/(liability) was based on a projection of the Village'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 PFRS and ERS Systems in reports provided to the Village.

	<u>PFRS</u>	<u>ERS</u>
Actuarial valuation date	March 31, 2017	March 31, 2017
Net pension asset/(liability)	\$ (1,937,325)	\$ (1,854,503)
Village's portion of the Plan's total net pension asset/(liability)	.0934708%	.0197367%

For the year ended July 31, 2017, the Village recognized pension expense of \$1,151,171 for PFRS and \$1,012,482 for ERS. At July 31, 2017, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>PFRS</u>	<u>ERS</u>	<u>PFRS</u>	<u>ERS</u>
Differences between expected and actual experience	\$ 254,144	\$ 46,472	\$ 334,727	\$ 281,617
Changes of assumptions	954,439	633,566	-	-
Net difference between projected and actual earnings on pension plan investments	289,337	370,419	-	-
Changes in proportion and differences between the Village's contributions and proportionate share of contributions	83,766	12,913	52,516	168,757
Village's contributions subsequent to the measurement date	<u>303,303</u>	<u>241,914</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,884,989</u>	<u>\$ 1,305,284</u>	<u>\$ 387,243</u>	<u>\$ 450,374</u>

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

Village contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended July 31, 2018. 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>Year Ended</u>	<u>PFRS</u>	<u>ERS</u>
2018	\$ 395,773	\$ 301,200
2019	395,773	301,200
2020	374,178	284,386
2021	(16,847)	(273,790)
2022	45,566	-
	<u>\$ 1,194,443</u>	<u>\$ 612,996</u>

Actuarial Assumptions

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

	<u>PFRS</u>	<u>ERS</u>
Measurement date	March 31, 2017	March 31, 2017
Actuarial valuation date	April 1, 2016	April 1, 2016
Interest rate	7.0%	7.0%
Salary scale	4.5%	3.8%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%	2.5%

For both PFRS and ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

For both PFRS and ERS, the actuarial assumptions used in the April 1, 2016, valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

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

Measurement date	PFRS		ERS	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
		March 31, 2017		March 31, 2017
Asset type				
Domestic equity	36.00%	4.55%	36.00%	4.55%
International equity	14.00%	6.35%	14.00%	6.35%
Real estate	10.00%	5.80%	10.00%	5.80%
Alternative investments	18.00%	4.00-7.75%	18.00%	4.00-7.75%
Domestic fixed income securities				
Global fixed income securities				
Bonds and mortgages	17.00%	1.31%	17.00%	1.31%
Short-term				
Cash	1.00%	(.25%)	1.00%	(.25%)
Inflation indexed bonds	4.00%	1.50%	4.00%	1.50%
	100.00%		100.00%	

Discount Rate

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

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

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

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

	1% Decrease (6.00%)	Current Assumption (7.00%)	1% Increase (8.00%)
<u>PFRS</u>			
Village's proportionate share of the net pension asset (liability)	<u>\$ (5,492,205)</u>	<u>\$ (1,937,325)</u>	<u>\$ 1,044,348</u>
	1% Decrease (6.00%)	Current Assumption (7.00%)	1% Increase (8.00%)
<u>ERS</u>			
Village's proportionate share of the net pension asset (liability)	<u>\$ (5,922,915)</u>	<u>\$ (1,854,503)</u>	<u>\$ 1,585,332</u>

Pension Plan Fiduciary Net Position

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

	<u>PFRS</u>	<u>ERS</u>	<u>Total</u>
	<i>(Dollars in Thousands)</i>		
Measurement date	March 31, 2017	March 31, 2017	
Employers' total pension liability	\$ (31,670,483)	\$ (177,400,586)	\$ (209,071,069)
Plan fiduciary net position	<u>29,597,831</u>	<u>168,004,363</u>	<u>197,602,194</u>
Employers' net pension assets/(liability)	<u>\$ (2,072,652)</u>	<u>\$ (9,396,223)</u>	<u>\$ (11,468,875)</u>
Ratio of plan net position to the employers' total pension liability	94.70%	93.50%	94.50%

For PFRS and ERS, employer contributions are paid annually based on the System's fiscal year, which ends on March 31st. Accrued retirement contributions as of July 31, 2017, represent the projected employer contribution for the period of April 1, 2017 through July 31, 2017 based on paid PFRS and ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of July 31, 2017 amounted to \$545,217 of employer contributions. Employee contributions are remitted monthly.

B. Service Award Programs

i. Volunteer Ambulance Department (Ambulance)

On July 15, 1997, the Village established a "service award program" for volunteer members of the East Hampton Village Volunteer Ambulance Department. This program is allowed under general municipal law Article 11-A authorizing the establishment of a service award program for volunteer ambulance departments.

The Village acts as the plan sponsor but not the administrator of the program. Assets are held in the name of the New York State Office of Comptroller, Emergency Squad Trust Fund. It is considered to be a "defined benefit" plan and in order to

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

determine the Village's liability an actuarial valuation has been prepared as of December 31, 2014 to determine the required contribution due. The Village funded the program with \$93,683 for the fiscal year ended July 31, 2017. This amount has been recorded in the General Fund as an expense. As of July 31, 2017, the market value of the assets of the plan totaled \$1,331,586. This amount is reflected in the Fiduciary Fund Assets along with corresponding liability to the employees participating in the plan.

ii. Volunteer Fire Department (Fire)

On June 16, 1992, a general election was held where approval was given to establish a "service award program" for volunteer members of the East Hampton Village Volunteer Fire Department as of August 1, 1992. This program is allowed under general municipal law Article 11-A which was amended in 1987 authorizing the establishment of a service award program for volunteer firefighters. The Village acts as the plan sponsor and administrator of the program. It is considered to be a "defined benefit" plan. In order to determine the Village's liability an actuarial valuation was prepared as of January 1, 2017 to determine the required contribution due. The Village's required contribution to the program was \$379,000 for the fiscal year ended July 31, 2017. This amount has been recorded in the General Fund as an expense.

Program Description

Participation, Vesting and Service Credit

Active volunteer firefighters who have reached the age of 18 and who have completed one year of firefighting service are eligible to participate in the program. Participants acquire a non-forfeitable right to a service award after being credited with five years of firefighting service or upon attaining the program's entitlement age. The program's entitlement age is 65. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values. A participant may also receive credit for five years of firefighting service rendered prior to the establishment of the program.

Benefits

A participant's benefit under the program is the actuarial equivalent of a monthly payment for life equal to \$20 multiplied by the person's total number of years of volunteer service prior to December 31, 2006 and \$30 per year thereafter. The number of years of firefighting service used to compute the benefit cannot exceed forty years. Except in the case of disability or death benefits are payable when a participant reaches entitlement age. The program provides statutorily mandated death and disability benefits.

Fiduciary Investment and Control

Service credit is determined by the governing board of the sponsor, based on information certified to the governing board by each fire company having members who participate in the program. Each fire company must maintain all required records on forms prescribed by the governing board.

The governing board of the sponsor has retained and designated Rebecca Molinaro Hansen to assist in the administration of the program. The designated program administrator's functions include processing new and terminated member applications and getting beneficiary information to Merrill Lynch. Disbursements of program assets for the payments of benefits or administrative expenses must be approved by the administrator of the program.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. Program assets are not held in trust

Authority to invest program assets is vested in Merrill lynch. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule.

The sponsor is required to retain an actuary to determine the amount of the sponsor's contribution to the plan. The actuary retained by the sponsor for this purpose is William E. Buckheit. Portions of the following information are derived from a report prepared by the actuary dated July 20, 2017.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Program Financial Condition

<u>Assets and Liabilities</u>	<u>Volunteer Ambulance Department</u>	<u>Volunteer Fire Department</u>
Actuarial Present Value of Benefits at December 31, 2016	\$ 1,426,558	\$ 5,062,423
Less: Assets Available for Benefits		
Cash and Money Market	89,187	72,809
Mutual Fund	601,836	2,470,674
Fixed Income Securities	39,281	274,408
Stocks	507,599	1,042,954
Contribution Receivable	93,683	379,000
Total Net Position Available for Benefits at July 31, 2017	1,331,586	4,239,845
Total Unfunded Benefits	94,972	822,578
Less: Unfunded Liability for Prior Services	-	-
Unfunded Normal Benefits	\$ 94,972	\$ 822,578
<u>Receipts and Disbursements</u>		
Plan Net Position, August 1, 2016	\$ 1,241,501	\$ 3,901,853
Changes During the Year:		
Plan Contributions	93,683	379,000
Investment Income Earned	22,314	113,464
Changes in Fair Market Value of Investments	41,032	193,879
Plan Benefit Withdrawals	(66,944)	(348,351)
Plan Net Position, July 31, 2017	\$ 1,331,586	\$ 4,239,845
<u>Contributions</u>		
Amount of Sponsor's Contribution Recommended by Actuary	\$ 93,683	\$ 320,386
Amount of Sponsor's Actual Contribution	\$ 93,683	\$ 379,000
<u>Administration Fees</u>		
Fees Paid to Designated Program Administrator	\$ 9,544	\$ 39,160

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the sponsor's contribution is the Attained Age Normal Frozen initial Liability method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present values of benefits are:

Assumed rate of return on investment is 6.5%.

The RP-2014 Mortality Table is used for pre- and post-entitlement age mortality rate.

General Information about the Pension Plans

Participants Covered by the Benefit Terms

At the December 31, 2016 measurement date, the following participants were covered by the benefit terms:

	<u>Ambulance</u>	<u>Fire</u>
Inactive participants currently receiving benefit payments	18	54
Inactive participants entitled to but not yet receiving benefit payments	15	55
Active participants	30	105
Total	63	214

Contributions

New York State General Municipal Law S 219-o (1) requires the Village Board to contribute an actuarially determined contribution on an annual basis. The actuarially determined contribution shall be appropriated annually by the Village Board.

Trust Assets

Although assets have been accumulated in an irrevocable trust such that the assets are dedicated to providing pensions to plan members in accordance with benefit terms, the trust assets are not legally protected from creditors of the Village. As such, the trust assets do not meet the criteria in paragraph 4 of GASB Statement No. 73.

Measurement of Total Pension Liability

The total pension liability at the December 31, 2016 measurement date was determined using an actuarial valuation as of that date.

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Ambulance</u>	<u>Fire</u>
Actuarial Cost Method:	Entry Age Normal	Entry Age Normal
Inflation:	2.25%	2.25%
Salary Scale:	None Assumed	None Assumed

Mortality rates for Ambulance were based on the RP-2014 Mortality Table (60/40 male/female blend) projected for mortality improvement to the year 2020 with scale MP2016. Mortality rates for Fire were based on the RP-2014 Mortality Table adjusted to 2006, scaled with MP-2016, separate rates for male/female; non-annuitant/annuitant.

Discount Rate

The discount rate used to measure the total pension liability was 3.71%. This was the yield to maturity of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016. In describing this index, S&P Dow Jones indices notes that the index consists of bonds in the S&P Municipal Bond Index with a maturity of 20 years and with a rating of at least Aa2 by Moody's Investors Service's, AA by Fitch, or AA by Standard & Poor's Rating Services.

Changes in the Total Pension Liability

	<u>Ambulance</u>	<u>Fire</u>
Balance as of 12/31/2016 measurement date	\$ 1,921,407	\$ 8,640,064
Service Cost	69,264	283,452
Interest	62,783	281,255
Changes of assumptions or other inputs	(123,282)	(650,228)
Differences between expected and actual experience	35,078	(72,929)
Benefit payments	(57,400)	(268,630)
Net Changes	(13,557)	(427,080)
Balance as of 12/31/2016 measurement date	<u>\$ 1,907,850</u>	<u>\$ 8,212,984</u>

Sensitivity of the Total Pension Liability to changes in the discount rate

The following presents the total pension liability of the Village as of December 31, 2016 measurement date, calculated using the discount rate of 3.71%, as well as what the Village's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate:

	<u>1% Decrease (2.71%)</u>	<u>Current Discount Rate (3.71%)</u>	<u>1% Increase (4.71%)</u>
<u>Ambulance</u>			
Total pension liability	<u>\$ 2,161,395</u>	<u>\$ 1,907,850</u>	<u>\$ 1,697,279</u>
<u>Fire</u>			
Total pension liability	<u>\$ 9,554,323</u>	<u>\$ 8,212,984</u>	<u>\$ 7,118,378</u>

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

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

For the year ended July 31, 2017 the Village recognized pension expense of \$120,942 for Ambulance and \$482,297 for Fire. At July 31, 2017 the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	Ambulance	Fire	Ambulance	Fire
Differences between expected and actual experience	\$ 29,231	\$ -	\$ -	\$ 63,813
Changes in assumptions or other inputs	-	-	102,735	568,949
Benefit payments & administrative expenses subsequent to the measurement date	45,513	220,916	-	-
Total	<u>\$ 74,744</u>	<u>\$ 220,916</u>	<u>\$ 102,735</u>	<u>\$ 632,762</u>

\$45,513 and \$220,916 reported as deferred outflows of resources related to pensions resulting from Village transactions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended July 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Ambulance	Fire
Year ended July 31:		
2018	\$ (14,701)	\$ (90,395)
2019	(14,701)	(90,395)
2020	(14,701)	(90,395)
2021	(14,701)	(90,395)
2022	(14,701)	(90,395)
2023	-	(90,395)
2024	-	(90,395)

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

NOTE 11. DEFERRED COMPENSATION PLAN

Employees of the Village may elect to participate in the Village Employees Deferred Compensation Plan created in accordance with internal Revenue Code 457. The plan, available to all employees, permits them to defer a portion of their salary until future years, usually after retirement.

As of July 31, 2017, the market value of the assets of the plan totaled \$6,450,767. This amount is reflected in the Fiduciary Fund Assets along with a corresponding liability to the employees participating in the plan.

NOTE 12. INTERFUND BALANCES AND ACTIVITY TRANSFERS

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenses
General Fund	\$ -	\$ -	\$ -	\$ 1,887,110
Capital Fund	-	-	1,887,110	-
Total	\$ -	\$ -	\$ 1,887,110	\$ 1,887,110

Transfers are primarily used to move funds from the General Fund to finance various programs accounted for in the Capital Projects Fund in accordance with budgetary authorizations.

NOTE 13. POST EMPLOYMENT BENEFITS

Plan Description

In addition to providing pension benefits, the Village provides medical and Medicare part B reimbursement to retired employees and their survivors with employment contracts. Substantially all of the Village's employees may become eligible for these benefits if they reach normal retirement age while working for the Village. Health care benefits and survivors benefits are provided through a premium based plan.

Funding Policy

GASB 45 does not require the unfunded liability actually be amortized nor that it be funded, only that the unfunded accrued liability is accounted for and that the Village meets its Annual Required Contributions (ARC). However, if the liability is funded, assets must be transferred to a qualifying irrevocable trust or equivalent arrangement for the exclusive benefit of the plan members and must be protected from creditors.

At this time there is no New York State statute providing local governments with the authority for establishing a post-employment benefits trust. Since the Village cannot fund the Other Post-Employment Benefits (OPEB) liability at this time, the required contribution is based on a projected pay-as-you-go financing requirement. The contribution requirements of Plan members and the Village are established by the Board of Trustees.

For the year ended July 31, 2017, the Village recognized a general fund expenditure of \$615,059 for 44 currently enrolled retirees.

INCORPORATED VILLAGE OF EAST HAMPTON**Notes to Basic Financial Statements****July 31, 2017****Annual OPEB Cost and Net OPEB Obligation**

The Village's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Village's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Village's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 1,401,170
Interest on Net OPEB Obligation	195,165
Adjustment to ARC	<u>-</u>
Annual OPEB Cost (Expense)	1,596,335
Contributions Made	<u>615,059</u>
Increase in Net OPEB Obligation	981,276
Net OPEB Obligation - Beginning of Year	<u>4,879,128</u>
Net OPEB Obligation - End of Year	<u><u>\$ 5,860,404</u></u>

The Village's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the year ended July 31, 2017, and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Contribution</u>	<u>Net OPEB Obligation</u>
7/31/2017	\$ 1,596,335	38.52%	\$ 5,860,404
7/31/2016	1,558,455	39.24%	4,879,128
7/31/2015	1,457,217	39.22%	3,932,135

Funded Status and Funding Progress

As of August 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$16,918,967 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,918,967. The covered payroll (annual payroll of active employees covered by the plan) was \$9,279,667 and the ratio of the UAAL to the covered payroll was 182.3%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

INCORPORATED VILLAGE OF EAST HAMPTON
Notes to Basic Financial Statements
July 31, 2017

Actuarial Methods and Assumptions

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

In the August 1, 2015, actuarial valuation, the Projected Unit Credit Cost was used. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate of 7.0% initially, reduced by decrements to an ultimate rate of 5.0% after 4 years and a 4.0% inflation rate. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

NOTE 14. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$600,000 has been appropriated to reduce the amount of funding needed to be raised by real estate taxes for the year ending July 31, 2018.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Risk Management

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

Lawsuits

The Village is subject to a number of lawsuits in the ordinary conduct of its affairs. The Village does not believe, however, that any such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the Village.

Grants

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

INCORPORATED VILLAGE OF EAST HAMPTON

Notes to Basic Financial Statements

July 31, 2017

Encumbrances

All encumbrances are classified as either restricted or assigned fund balance. At July 31, 2017, the Village encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

General Fund

General Government	\$ 104,949
Public Safety	81,407
Health	839
Transportation	56,988
Culture and Recreation	56,982
Home and Community Service	<u>55,589</u>
	<u>\$ 356,754</u>

NOTE 16. RESTATEMENT OF NET POSITION

For the fiscal year ended July 31, 2017 the Village implemented GASB Statement No. 73. The implementation of Statement No. 73 resulted in the reporting of an asset, deferred outflow of resources and a liability related to the Village's participation in the Ambulance and Fire Department LOSAP. The Village's net position has been restated as follows:

Net position beginning of year, as previously stated	<u>\$ 15,364,533</u>
GASB No. 73 implementation	
Beginning system asset - Ambulance LOSAP	\$ (679,906)
Beginning system asset - Fire Dept LOSAP	<u>(4,738,211)</u>
	<u>(5,418,117)</u>
Net position beginning of year, as restated	<u>\$ 9,946,416</u>

NOTE 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 19, 2018, the date the financial statements were available to be issued.

INCORPORATED VILLAGE OF EAST HAMPTON

**Other Post-Employment Benefits Plan
Schedule of Funding Progress (Unaudited)
For the Year Ended July 31, 2017**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
8/1/2015	\$ -	\$ 16,918,967	\$ 16,918,967	0%	\$ 9,279,667	182.3%
8/1/2012	-	13,366,475	13,366,475	0%	9,053,998	147.6%
8/1/2009	-	11,383,310	11,383,310	0%	7,986,816	142.5%

INCORPORATED VILLAGE OF EAST HAMPTON
Budgetary Comparison Schedule - General Fund (Unaudited)
For the Year Ended July 31, 2017

	Original Budget	Final Budget	Current Year	Over (Under) Final Budget
REVENUES				
Real Property Taxes	\$ 12,592,446	\$ 12,592,446	\$ 12,566,134	\$ (26,312)
Payment in Lieu of Taxes	90,000	90,000	101,883	11,883
Non-Property Taxes	250,000	250,000	367,441	117,441
Departmental Income	378,700	378,700	406,523	27,823
Intergovernmental Charges	2,807,800	2,807,800	2,917,542	109,742
Use of Money and Property	1,215,167	1,215,167	1,248,780	33,613
Licenses and Permits	1,682,000	1,682,000	2,464,615	782,615
Fines and Forfeitures	650,000	650,000	844,454	194,454
Sale of Property and Compensation for Loss	8,600	8,600	27,286	18,686
State and County Aid	724,578	724,578	1,014,462	289,884
Miscellaneous	9,000	9,000	49,537	40,537
Total Revenues	20,408,291	20,408,291	\$ 22,008,657	\$ 1,600,366
APPROPRIATED FUND BALANCE				
Prior Years' Surplus	600,000	2,159,000		
Prior Years' Encumbrances	462,543	462,543		
Total Appropriated Fund Balance	1,062,543	2,621,543		
Total Revenues and Appropriated Fund Balance	\$ 21,470,834	\$ 23,029,834		

	Original Budget	Final Budget	Current Year	Encumbrances	(Over) Under Final Budget
EXPENDITURES					
General Government	\$ 2,859,412	\$ 2,735,361	\$ 2,533,095	\$ 104,949	\$ 97,317
Public Safety	7,569,353	7,355,498	7,123,617	81,407	150,474
Health	468,800	464,200	425,451	839	37,910
Transportation	1,403,709	1,288,783	1,117,986	56,988	113,809
Culture and Recreation	1,107,145	1,045,278	884,421	56,982	103,875
Home and Community Service	1,010,162	990,362	891,547	55,589	43,226
Employee Benefits	5,733,253	5,604,239	5,553,927		50,312
Debt Service:					
Principal	895,000	895,000	895,000		-
Interest	179,000	179,000	178,181		819
Total Expenditures	21,225,834	20,557,721	19,603,225	356,754	597,742
OTHER USES					
Operating Transfers Out	245,000	1,902,113	1,887,110		15,003
Contribution to Employee Benefit Reserve Fund	-	270,000	270,000		
Contribution to Capital Reserve	-	300,000	300,000		-
Total Expenditures and Other Uses	\$ 21,470,834	\$ 23,029,834	\$ 22,060,335	\$ 356,754	\$ 612,745

**Explanation of differences between budgetary expenditures and other uses and
GAAP expenditures and other uses:**

Expenditures and Other Uses:

Actual total expenditures budgetary basis	\$ 22,060,335
Differences - Budget to GAAP Contribution to Reserve Funds	570,000
Total expenditures and other uses as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	\$ 21,490,335

INCORPORATED VILLAGE OF EAST HAMPTON
Schedule of the Village's Proportionate Share of the Net Pension Asset/Liability (Unaudited)
July 31, 2017

Police and Fire Retirement System

	<u>2017</u>	<u>2016</u>
Village's proportion of the net pension liability	.0934708%	.1062615%
Village's proportionate share of the net pension liability	1,937,325	3,146,178
Village's covered employee payroll	3,927,030	3,580,533
Village's proportionate share of the net pension liability as a percentage of its covered employee payroll	49.3330838%	87.8689849%
Plan fiduciary net position as a percentage of the total pension liability	93.50%	90.20%

Employees' Retirement System

	<u>2017</u>	<u>2016</u>
Village's proportion of the net pension liability	.0197367%	.0209589%
Village's proportionate share of the net pension liability	1,854,503	3,363,955
Village's covered employee payroll	4,945,545	4,876,585
Village's proportionate share of the net pension liability as a percentage of its covered employee payroll	37.4984557%	68.9817772%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%

INCORPORATED VILLAGE OF EAST HAMPTON
Schedule of the Village's Proportionate Share of the Net Pension Asset/Liability (Unaudited)
July 31, 2017

<i>Ambulance</i>	<u>2017</u>
Village's proportion of the net pension liability	100%
Village's proportionate share of the net pension liability	1,907,850
Village's covered employee payroll	N/A
Village's proportionate share of the net pension liability as a percentage of its covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	69.80%

<i>Fire</i>	<u>2017</u>
Village's proportion of the net pension liability	100%
Village's proportionate share of the net pension liability	8,212,984
Village's covered employee payroll	N/A
Village's proportionate share of the net pension liability as a percentage of its covered employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	51.59%

INCORPORATED VILLAGE OF EAST HAMPTON
Schedule of Village Contributions (Unaudited)
July 31, 2017

Police and Fire Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 840,916	\$ 845,204	\$ 1,014,883	\$ 982,224	\$ 734,041	\$ 977,216	\$ 484,201	\$ 350,395	\$ 615,550	\$ 383,061
Contributions in relation to the contractually required contributions	<u>840,916</u>	<u>845,204</u>	<u>1,014,883</u>	<u>982,224</u>	<u>734,041</u>	<u>977,216</u>	<u>484,201</u>	<u>350,395</u>	<u>615,550</u>	<u>383,061</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Village's covered employee payroll	3,927,030	3,580,533	3,577,447	3,637,211	3,518,428	3,368,523	3,353,419	3,748,863	3,083,071	3,483,345
Contributions as a percentage of covered employee payroll	0.21413536	0.236055358	0.283689178	0.270048672	0.2086275	0.2166155	0.10902602	0.08291799	0.14900231	0.09776451

Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 705,359	\$ 874,106	\$ 919,560	\$ 929,975	\$ 875,731	\$ 667,326	\$ 482,736	\$ 298,066	\$ 325,229	\$ 362,991
Contributions in relation to the contractually required contributions	<u>705,359</u>	<u>874,106</u>	<u>919,560</u>	<u>929,975</u>	<u>875,731</u>	<u>667,326</u>	<u>482,736</u>	<u>298,066</u>	<u>325,229</u>	<u>362,991</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Village's covered employee payroll	4,945,545	4,876,585	4,710,238	4,634,929	4,652,986	4,511,293	4,441,151	4,225,802	4,131,144	3,918,201
Contributions as a percentage of covered employee payroll	0.14262513	0.179245517	0.195225804	0.200644929	0.1882084	0.19810641	0.14395338	0.07950837	0.10548865	0.10420759

INCORPORATED VILLAGE OF EAST HAMPTON
Schedule of Village Contributions (Undaudited)
July 31, 2017

Service Awards Program - Ambulance

	<u>2017</u>
Contractually required contribution	\$ 93,683
Contributions in relation to the contractually required contributions	<u>93,683</u>
Contributions deficiency (excess)	<u><u>\$ -</u></u>

Service Awards Program - Fire Department

	<u>2017</u>
Contractually required contribution	\$ 320,386
Contributions in relation to the contractually required contributions	<u>379,000</u>
Contributions deficiency (excess)	<u><u>\$ (58,614)</u></u>



SATTY, LEVINE & CIACCO, CPAs, P.C.

Certified Public Accountants & Business Advisors

Since 1949...People...Relationships...Results.

INDEPENDENT AUDITORS' 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 Honorable Mayor and Board of Trustees
Of the Incorporated Village of East Hampton:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Incorporated Village of East Hampton, New York (the "Village"), as of and for the year ended July 31, 2017, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated January 19, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Satty, Levine + Ciacco, CPAs, P.C.

Satty, Levine, & Ciacco, CPAs, P.C.
Jericho, New York
January 19, 2018