



THE HOOK MILL

# VILLAGE OF EAST HAMPTON

*Settled 1648 - Incorporated 1920*

Basic Financial Statements

For the Year Ended July 31, 2018

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Financial Statements and Supplementary Information  
For the Year Ended July 31, 2018

**Table of Contents**

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis (MD&amp;A) (Unaudited)</b>	3
<b>Basic Financial Statements:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position	12
Statement of Activities and Changes in Net Position	13
<b>Fund Financial Statements:</b>	
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
<b>Notes to Basic Financial Statements</b>	20
<b>Required Supplementary Information Other Than MD&amp;A</b>	
Budgetary Comparison Schedule – General Fund (Unaudited)	48
Schedule of the Village's Proportionate Share of the Net Pension Asset/Liability (Unaudited)	49
Schedule of the Village's Contributions (Unaudited)	50
Schedule of Changes in the Village's Total Pension Liability (Unaudited)	51
Schedule of Changes in the Village's Total OPEB Liability and Related Ratios (Unaudited)	52
<b>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></b>	53



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, 2018 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*, issue 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, as of July 31, 2018, 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.

**Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 16 to the financial statements, the Village has adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and Governmental Accounting Standards Board 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*. The adoption of these statements resulted in prior period adjustments. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the required supplementary information other than management’s discussion and analysis as listed on the table of contents 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 December 21, 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 P.C.  
Jericho, New York  
December 21, 2018

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended July 31, 2018**

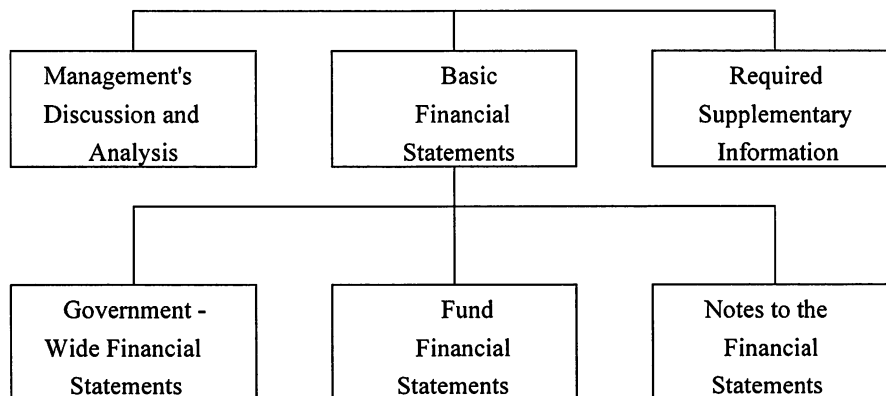
This section of the Village of East Hampton's (the "Village") annual financial report presents a discussion and analysis of the Village's financial performance during the fiscal year ended July 31, 2018. Please read it in conjunction with the Village's financial statements.

**1. FINANCIAL HIGHLIGHTS**

- The Village's total net position, as reflected in the government-wide financial statements, increased by \$2,051,403 (55.18%).
- The Village's total net position at July 31, 2017 was restated and decreased by \$13,046,267 as a result of the required implementation of the new GASB accounting standards during the 2018 fiscal year. These new GASB accounting standards have no impact on the governmental funds financial statements.
- Investments in the amount of \$5,571,431, related to the ambulance and fire department LOSAP's, were moved from the fiduciary funds to the general fund. This resulted in a restatement of the July 31, 2017 general fund balance and fiduciary fund net position. The general fund balance increased by \$5,571,431 and the fiduciary net position decreased by \$5,571,431.
- The Village's general fund balance, as reflected in the fund financial statements, increased by \$571,393 (4.14%).
- Long-term debt of \$4,900,000 decreased from \$5,740,000 due to principal payments of \$840,000 made during the year. Long-term debt of \$4,900,000 is 1.11% of the statutory limit. Total annual debt service of \$994,056 represents 4.86% 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, 2018 the Village recorded a decrease in the net OPEB obligation of \$543,504 relating to these benefits resulting in a total net OPEB obligation of \$18,363,167.
- Under the accrual basis of accounting, the Village is required to record, as a current year expense, the cost of providing pension benefits to active and retired employees. During the year ended July 31, 2018 the Village recorded a decrease in the pension liability of \$1,396,768 relating to these benefits resulting in a total pension liability of \$12,943,971.

**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, 2018

**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 though 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, 2018**

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 increased by \$2,051,403 between fiscal year 2018 and 2017. A summary of the Village's Statement of Net Position follows. The July 31, 2017 net position has been decreased by \$13,046,267 resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, ("OPEB").

	2018	As Restated 2017	Change	Percentage Change
<b>Assets:</b>				
Current and Other Assets	\$ 14,757,355	\$ 14,308,907	\$ 448,448	3.13%
Capital Assets, Net	<u>26,078,877</u>	<u>24,887,682</u>	<u>1,191,195</u>	4.79%
<b>Total Assets</b>	<u>40,836,232</u>	<u>39,196,589</u>	<u>1,639,643</u>	4.18%
Deferred Outflows of Resources	<u>5,270,539</u>	<u>3,485,933</u>	<u>1,784,606</u>	51.19%
<b>Liabilities:</b>				
Current and Other Liabilities	3,034,056	2,582,155	451,901	17.50%
Long-Term Liabilities	8,078,645	8,959,687	(881,042)	-9.83%
Net Other Postemployment Benefit Obligation	18,363,167	18,906,671	(543,504)	-2.87%
Pension Liability - Proportionate Share	<u>12,943,971</u>	<u>14,340,739</u>	<u>(1,396,768)</u>	-9.74%
<b>Total Liabilities</b>	<u>42,419,839</u>	<u>44,789,252</u>	<u>(2,369,413)</u>	-5.29%
Deferred Inflows of Resources	<u>5,352,873</u>	<u>1,610,614</u>	<u>3,742,259</u>	232.35%
<b>Net Position:</b>				
Net Investment in Capital Assets	21,178,877	19,147,682	2,031,195	10.61%
Restricted	1,541,992	1,063,799	478,193	44.95%
Unrestricted Net Position (Deficit)	<u>(24,386,810)</u>	<u>(23,928,825)</u>	<u>(457,985)</u>	1.91%
	<u>\$ (1,665,941)</u>	<u>\$ (3,717,344)</u>	<u>\$ 2,051,403</u>	55.18%

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended July 31, 2018**

Current and other assets increased by \$448,448, as compared to the prior year. This increase is evidenced by an increase in cash \$215,000, an increase in investments \$396,000 and a decrease in Due from Other Governments \$163,000.

Capital assets, net increased by \$1,191,195, as compared to the prior year. This increase was due to capital additions primarily made through the capital projects fund of \$2,645,167, net of the current year's depreciation expense of \$1,453,972.

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 \$451,901, as compared to the prior year. This increase is primarily due to an increase in accounts payable \$395,000, a decrease in accrued interest \$7,000, a decrease in due to retirement system \$8,000, and an increase in collections in advance \$72,000.

Long-term liabilities decreased by \$881,042, as compared to the prior year. This decrease is primarily due to the current year bond principal payments \$840,000 and a net decrease in the compensated absences liability of approximately \$41,000.

Net other postemployment benefits (OPEB) decreased by \$543,504 as compared to the prior year. This decrease 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 \$1,396,768 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, 2018 and the Ambulance and Fire Losap net pension liability at December 31, 2017, 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 \$2,031,195 as follows:

	Increase (Decrease)
Capital Asset Additions Financed by Local	
Source Revenue	\$ 2,645,167
Net Construction Bonds Principal Payments Made	840,000
Depreciation Expenses	(1,453,972)
	\$ 2,031,195

The restricted amount of \$1,541,992 represents the Village's insurance, employee benefits and capital projects reserves. This number increased from the prior year by \$478,193 mainly due to the increase in the employee benefits reserve \$571,000, interest income \$14,181, and reserves for capital projects \$250,000, use of compensated absences \$264,000 and use of capital projects \$93,000.

The unrestricted deficit of \$(24,386,810) represents the deficit net position as a result of unfunded compensated absences and OPEB obligations. This amount increased from the prior year by \$457,985.



**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended July 31, 2018**

**B. Changes in Net Position**

**Government activities.** Government activities increased the Village's assets by \$2,051,403. Revenues for the year exceeded expenses by this amount. The following table indicates the changes in net position for governmental activities:

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b>Revenues</b>				
<b>Program Revenues</b>				
Charges for Services	\$ 8,253,207	\$ 7,843,029	\$ 410,178	5.23%
<b>General Revenues</b>				
Property Taxes	13,006,522	12,668,017	338,505	2.67%
Utilities Gross Receipts Tax	155,246	231,225	(75,979)	-32.86%
Franchise Fee	146,407	141,234	5,173	3.66%
Mortgage Tax	590,855	679,121	(88,266)	-13.00%
Unrestricted Investment Earnings	31,890	13,947	17,943	128.65%
Insurance Recoveries	4,358	24,370	(20,012)	-82.12%
State and Local Sources	439,675	335,341	104,334	31.11%
Miscellaneous	1,207	2,916	(1,709)	-58.61%
<b>Total Revenues</b>	<u>22,629,367</u>	<u>21,939,200</u>	<u>690,167</u>	3.15%
<b>Expenses</b>				
General Government Support	4,049,394	5,004,813	(955,419)	-19.09%
Public Safety	9,914,034	11,126,739	(1,212,705)	-10.90%
Health	455,558	512,797	(57,239)	-11.16%
Transportation	3,452,927	2,275,038	1,177,889	51.77%
Culture and Recreation	1,247,671	2,110,202	(862,531)	-40.87%
Home and Community Services	1,310,932	1,355,083	(44,151)	-3.26%
Debt Services - Interest	147,448	172,021	(24,573)	-14.28%
<b>Total Expenses</b>	<u>20,577,964</u>	<u>22,556,693</u>	<u>(1,978,729)</u>	-8.77%
<b>Increase (Decrease) in Net Position</b>	<u>\$ 2,051,403</u>	<u>\$ (617,493)</u>	<u>\$ 2,668,896</u>	432.21%

The Village's net position increased by \$2,051,403 for the year ended July 31, 2018 and decreased by \$617,493 for the year ended July 31, 2017.

The Village's revenues increased by \$690,167 (3.15%). This increase is due to the net effect of approximate increases in charges for services \$410,000, real property taxes \$338,500, franchise fees \$5,000, investment earnings \$18,000, and Federal, state, and local sources \$104,000, and decreases in utilities gross receipts tax \$76,000, mortgage tax \$88,000, insurance recoveries \$20,000 and miscellaneous \$2,000.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended July 31, 2018**

The Village's expenses decreased by \$1,978,729 (8.77%). The decrease was mainly the result of approximate net decreases in general government support \$955,000, public safety \$1,213,000, health \$57,000, culture and recreation \$863,000, home and community service \$44,000 and debt service interest \$25,000, and net increase in transportation \$1,178,000.

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

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

At July 31, 2018, the Village's governmental funds reported a combined fund balance of \$14,084,527, which is an increase of \$95,855 from the prior year. A summary of the change in fund balance is as follows:

	2018	As Restated 2017	Changes
	<u>2018</u>	<u>2017</u>	<u>Changes</u>
Nonspendable:			
Prepaid Expenses	\$ 279,248	\$ 281,577	\$ (2,329)
Restricted:			
Insurance	93,402	93,309	93
Capital Projects	556,420	196,672	359,748
Employee Benefits	6,759,272	6,345,249	414,023
Assigned:			
Appropriated Fund Balance	600,000	600,000	-
Unappropriated Fund Balance	239,457	657,537	(418,080)
Unassigned: Fund Balance	<u>5,556,728</u>	<u>5,814,328</u>	<u>(257,600)</u>
 Total Fund Balance	 <u>\$ 14,084,527</u>	 <u>\$ 13,988,672</u>	 <u>\$ 95,855</u>

The net change in the governmental fund-fund balance is an increase of \$95,855, as revenues and other sources of \$22,705,035 exceeded expenditures and other uses of \$22,609,180. In 2017, the net change was an increase of \$666,269.

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2017-2018 Budget**

The Village's general fund adopted budget for the year ended July 31, 2018 was \$20,977,277. This amount was increased by encumbrances carried forward from the prior year in the amount of \$356,754 and prior year surplus of \$600,000. There were also budget revisions that increased the budget by \$1,527,000. The total budget was \$23,461,031.

The budget was funded through a combination of revenues and designated fund balance. The major funding sources were real property taxes \$12,883,670, intergovernmental charges \$2,948,747, use of money and property \$1,667,085 and licenses and permits \$2,402,667.

**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."

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended July 31, 2018

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	\$	5,814,328
Appropriated Fund Balance for Budget Revisions		(957,000)
Revenues Over Budget		1,677,692
Expenditures and Encumbrances Under Budget		567,998
Prepaid Expenses		2,329
Use of Compensated Absence Reserves		263,937
Interest Transferred into Reserves		(14,181)
Transfer to Employee Benefits Reserve		(270,000)
Transfer to Capital Reserve		(250,000)
LOSAP Pension Assets		(399,509)
Appropriated for July 31, 2018 Budget		(600,000)
Closing - Unassigned Fund Balance	\$	5,835,594

**Opening – Unassigned Fund Balance**

The \$5,814,328 shown in the table is the portion of the Village's July 31, 2017, fund balance that was retained as undesignated fund balance.

**Appropriated Fund Balance for Budget Revisions**

The Village appropriated an additional \$957,000 of unassigned fund balance during 2017-2018 to fund the transfer to the capital projects fund for road improvements.

**Revenues Over Budget**

The 2017-2018 final budgets for revenues were \$21,027,277. Actual revenues received for the year were \$22,704,969. The excess of actual revenue over estimated or budgeted revenue was \$1,677,692. This excess is primarily due to the Village receiving additional State aid \$306,000, departmental income \$58,000, intergovernmental charges \$85,000, licenses and permits of \$584,000, fines and forfeitures \$143,000, use of money and property \$407,000, non property taxes of \$30,000, payments in lieu of taxes \$30,000, and miscellaneous revenue of \$42,000.

**Expenditures and Encumbrances Under Budget (GAAP Basis)**

The 2017-2018 final budget for expenditures, including prior year encumbrances and budget revisions as of July 31, 2018, was \$23,461,031. Actual expenditures as of July 31, 2018, were \$22,653,576 and outstanding encumbrances were \$239,457. Combined, the expenditures plus encumbrances for 2017-2018 were \$22,893,033. The final budget was under expended by \$567,998.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended July 31, 2018**

**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. \$93 of interest was earned in the Insurance Reserve, \$8,451 of interest was earned in the Employee Benefits Reserve, and \$5,637 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 \$250,000 to fund future capital expenditures.

**Assigned – Appropriated Fund Balance**

The Village has chosen to use \$600,000 of its available July 31, 2018 fund balance to partially fund its 2017-2018 operating budget. As such, the unassigned portion of the July 31, 2018, 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, 2018 is \$5,835,594. This is a decrease of \$21,266 from the unassigned fund balance as of July 31, 2017.

**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, 2018. A summary of the Village's capital assets, net of depreciation at July 31, 2018 and 2017 is as follows:

	2018	2017	Increase (Decrease)
Land	\$ 9,494,179	\$ 9,494,179	\$ -
Buildings	7,051,457	7,180,902	(129,445)
Land Improvements	539,771	615,439	(75,668)
Machinery and Equipment	2,820,745	2,568,636	252,109
Furniture and Fixtures	24,044	27,033	(2,989)
Artwork	421,200	371,200	50,000
Infrastructure	4,343,262	4,630,293	(287,031)
Construction in Progress	1,384,219	-	1,384,219
	<u>\$ 26,078,877</u>	<u>\$ 24,887,682</u>	<u>\$ 1,191,195</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended July 31, 2018**

**B. Short-Term Debt**

At July 31, 2018, the Village did not have any bond anticipation notes (BAN's) outstanding.

**C. Long-Term Debt**

At July 31, 2018, the Village had total bonds payable of \$4,900,000. 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, 2018 and 2017 is as follows:

Issue Date	Interest Rate	2018	2017	Increase (Decrease)
11/1/2008	4.500 - 4.750%	\$ 750,000	\$ 900,000	\$ (150,000)
7/18/2013	2.000 - 4.125%	2,150,000	2,415,000	(265,000)
6/27/2014	1.000 - 3.000%	2,000,000	2,425,000	(425,000)
		<u>\$ 4,900,000</u>	<u>\$ 5,740,000</u>	<u>\$ (840,000)</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 2018-2019 budget appropriations are \$713,653 (3.3%) 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 \$192,000 (1.0%). This is the result of increases in building permit fees \$185,000, rent \$4,000, and permits \$3,000. Property tax collections will increase by \$416,400 approximately 3.2%.

**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, 2018

**ASSETS**

Cash	
Unrestricted	\$ 6,364,930
Restricted	1,545,116
Accounts Receivable	102,126
Prepaid Expenses	279,248
Due From Other Governments	498,119
LOSAP Pension Assets	5,967,816
Capital Assets Not Being Depreciated	11,299,598
Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>14,779,279</u>
Total Assets	<u>40,836,232</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Pensions	<u>5,270,539</u>
----------	------------------

**LIABILITIES**

Accounts Payable and Accrued Expenses	655,455
Accrued Bond Interest	30,500
Due to Retirement System	537,965
Unearned Credits:	
Collections in Advance	1,810,136
Long-Term Liabilities:	
Due and Payable Within One Year	
Bonds Payable	850,000
Compensated Absences	158,932
Due and Payable After One Year	
Bonds Payable	4,050,000
Compensated Absences	3,019,713
Net Other Postemployment Benefits Obligation	18,363,167
Pension Liability - Proportionate Share	<u>12,943,971</u>
Total Liabilities	<u>42,419,839</u>

**DEFERRED INFLOWS OF RESOURCES**

Pensions	<u>5,352,873</u>
----------	------------------

**NET POSITION**

Net Investment in Capital Assets	21,178,877
Restricted	1,541,992
Unrestricted Net Position (Deficit)	<u>(24,386,810)</u>
Total Net Position	<u>\$ (1,665,941)</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Statement of Activities and Changes in Net Position  
For the Year Ended July 31, 2018

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Changes in Net Position</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>PROGRAMS / FUNCTIONS</b>					
General Government Support	\$ 4,049,394	\$ 101,459	\$ 86,986	\$	\$ (3,860,949)
Public Safety	9,914,034	6,638,399	352,689		(2,922,946)
Health	455,558	490			(455,068)
Transportation	3,452,927				(3,452,927)
Culture and Recreation	1,247,671	1,444,873			197,202
Home and Community Service	1,310,932	67,986			(1,242,946)
Debt Service - Interest	147,448				(147,448)
<b>Total Programs and Functions</b>	<u>\$ 20,577,964</u>	<u>\$ 8,253,207</u>	<u>\$ 439,675</u>	<u>\$ -</u>	<u>(11,885,082)</u>
<b>GENERAL REVENUES</b>					
Taxes:					
Property Taxes, Levied for General Purposes					13,006,522
Utilities Gross Receipts Tax					155,246
Franchise Taxes					146,407
Insurance Recoveries					4,358
Mortgage Tax					590,855
Miscellaneous					1,207
Unrestricted Investment Earnings					31,890
<b>Total General Revenues</b>					<u>13,936,485</u>
Change in Net Position					2,051,403
Net Position - Beginning of Year, as Restated					<u>(3,717,344)</u>
Net Position - End of Year					<u>\$ (1,665,941)</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**

Balance Sheet  
Governmental Funds  
July 31, 2018

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash			
Unrestricted	\$ 6,364,930	\$	\$ 6,364,930
Restricted	1,441,278	103,838	1,545,116
Accounts Receivable	84,753		84,753
Due From Other Governments	498,119		498,119
Prepaid Expenses	279,248		279,248
LOSAP Pension Assets	5,967,816		5,967,816
	<u>\$ 14,636,144</u>	<u>\$ 103,838</u>	<u>\$ 14,739,982</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 272,751	\$ 382,704	\$ 655,455
	<u>272,751</u>	<u>382,704</u>	<u>655,455</u>
<b>FUND BALANCES</b>			
Nonspendable: Prepaid Expenses	279,248		279,248
Restricted:			
Insurance	93,402		93,402
Employee Benefits	6,759,272		6,759,272
Capital Projects	556,420		556,420
Assigned:			
Appropriated	600,000		600,000
Unappropriated	239,457		239,457
Unassigned: Fund balance	5,835,594	(278,866)	5,556,728
	<u>14,363,393</u>	<u>(278,866)</u>	<u>14,084,527</u>
Total Fund Balances	<u>\$ 14,636,144</u>	<u>\$ 103,838</u>	<u>\$ 14,739,982</u>
Total Liabilities and Fund Balances	<u>\$ 14,636,144</u>	<u>\$ 103,838</u>	<u>\$ 14,739,982</u>



**INCORPORATED VILLAGE OF EAST HAMPTON**  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 July 31, 2018

Total Governmental Fund Balances \$ 14,084,527

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	48,088,960	
Accumulated Depreciation	<u>(22,010,083)</u>	
		26,078,877

Certain accounts receivable are not considered available in the current period and therefore are not reported in the funds		17,373
---	--	--------

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

Deferred Outflows of Resources	5,270,539	
Pension Liability	(12,943,971)	
Deferred Inflows of Resources	<u>(5,352,873)</u>	
		(13,026,305)

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

Accrued Bond Interest	(30,500)	
Due to Retirement System	(537,965)	
Collections in Advance	(1,810,136)	
Compensated Absences	(3,178,645)	
Bonds Payable	(4,900,000)	
Net Other Postemployment Benefits Obligation	<u>(18,363,167)</u>	
		<u>(28,820,413)</u>

Total Net Position		<u>\$ (1,665,941)</u>
--------------------	--	-----------------------

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended July 31, 2018**

	General Fund	Capital Projects	Total Governmental Funds
<b>REVENUES</b>			
Real Property Taxes	\$ 12,883,670	\$	\$ 12,883,670
Payment in Lieu of Taxes	122,852		122,852
Non-Property Taxes	305,527		305,527
Departmental Income	439,280		439,280
Intergovernmental Charges	2,948,747		2,948,747
Use of Money and Property	1,667,085	66	1,667,151
Licenses and Permits	2,402,667		2,402,667
Fines and Forfeitures	797,651		797,651
Sale of Property and Compensation for Loss	5,565		5,565
State and County Aid	1,030,530		1,030,530
Miscellaneous	101,395		101,395
<b>Total Revenues</b>	<b>22,704,969</b>	<b>66</b>	<b>22,705,035</b>
<b>EXPENDITURES</b>			
General Government	2,660,284	164,069	2,824,353
Public Safety	7,497,285	393,446	7,890,731
Health	384,673		384,673
Transportation	1,293,069	1,634,313	2,927,382
Culture and Recreation	893,347		893,347
Home and Community Service	858,810		858,810
Employee Benefits	5,835,828		5,835,828
Debt Service:			
Principal	840,000		840,000
Interest	154,056		154,056
<b>Total Expenditures</b>	<b>20,417,352</b>	<b>2,191,828</b>	<b>22,609,180</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>2,287,617</b>	<b>(2,191,762)</b>	<b>95,855</b>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Operating Transfers In		1,716,224	1,716,224
Operating Transfers Out	(1,716,224)		(1,716,224)
<b>Total Other Financing Sources and (Uses)</b>	<b>(1,716,224)</b>	<b>1,716,224</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>571,393</b>	<b>(475,538)</b>	<b>95,855</b>
<b>Fund Balance - Beginning of Year, as Restated</b>	<b>13,792,000</b>	<b>196,672</b>	<b>13,988,672</b>
<b>Fund Balance - End of Year</b>	<b>\$ 14,363,393</b>	<b>\$ (278,866)</b>	<b>\$ 14,084,527</b>

See Accompanying Notes and Independent Auditor's Report.

**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, 2018

Net change in fund balances - total governmental funds \$ 95,855

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	\$ 2,645,167	
Depreciation Expense	<u>(1,453,972)</u>	
		1,191,195

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	(71,794)
--	----------

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	840,000
-------------------------	---------

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	7,252	
Accrued Bond Interest	6,608	
Compensated Absences	41,042	
Other Postemployment Benefits Obligation	<u>(163,631)</u>	
		(108,729)

The changes 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	(47,816)	
Employees' Retirement System	22,080	
Ambulance Losap	(72,276)	
Fire Department Losap	<u>206,762</u>	
		108,750

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:

Decrease in Accounts Receivable From the Prior Year	<u>(3,874)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 2,051,403</u></u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**July 31, 2018**

	Agency Funds	Employee Retirement Plans	Private Purpose Trust
<b>ASSETS</b>			
Cash	\$ 168,921	\$	\$ 405,198
Investments		7,015,749	
Total Assets	\$ 168,921	\$ 7,015,749	\$ 405,198
<b>LIABILITIES</b>			
Bid Deposits Payable	\$ 168,921	\$	\$
Held in Trust For Pension Benefits and Other Purposes		7,015,749	405,198
Total Liabilities	\$ 168,921	\$ 7,015,749	\$ 405,198

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended July 31, 2018

	<u>Employee Retirement Plans</u>	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 385,961	\$
Donations		10,000
	<hr/>	<hr/>
Total Contributions	385,961	10,000
	<hr/>	<hr/>
Investment Earnings:		
Net Increase in Fair Value of Investments	700,116	
Interest, Dividends and Gains/Losses	144,845	5,076
	<hr/>	<hr/>
Total Investment Earnings	844,961	5,076
	<hr/>	<hr/>
Total Additions	1,230,922	15,076
	<hr/>	<hr/>
<b>DEDUCTIONS</b>		
Benefits	7,005	
Administration Fees	3,168	
Transfers Out	655,767	
Tuition Assistance		1,500
	<hr/>	<hr/>
Total Deductions	665,940	1,500
	<hr/>	<hr/>
Change in Net Position	564,982	13,576
Net Position - Beginning of Year, as Restated	6,450,767	391,622
	<hr/>	<hr/>
Net Position - End of Year	<u>\$ 7,015,749</u>	<u>\$ 405,198</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**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, 2018

**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 –**

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, 2018

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 1<sup>st</sup>. 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 31<sup>st</sup>.

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 1<sup>st</sup>, 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, 2018

**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, 2018 amounted to \$3,178,645, a decrease of \$41,042 from the prior year.

## INCORPORATED VILLAGE OF EAST HAMPTON

### Notes to Basic Financial Statements

July 31, 2018

#### **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. 75 (GASB 75) *Accounting and Reporting for Postemployment Benefits other than Pensions ("OPEB")*. 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.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**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, 2018

### **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**

Effective for the fiscal year July 31, 2018, the Village adopted GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, ("OPEB")*". For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New York State Health Insurance Program – Empire Plan ("NYSHIP") and additions to/deductions from the NYSHIP's fiduciary net position have been determined on the same basis as they are reported by NYSHIP. For this purpose, the NYSHIP recognizes benefit payments when due and payable in accordance with the benefit terms.

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 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.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**Changes to be implemented in future years**

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 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.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Debt Borrowings and Direct Payments*. This standard will improve the information that is disclosed in notes to governmental financial statements related to debt, including borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this standard are effective for the Village beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this standard are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. 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, 2018

**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 \$1,527,000 as follows:

Transfer to employee benefits reserve fund to partially fund liability	\$ 270,000
Transfer to capital reserve	250,000
Transfer to capital projects fund for road improvements	957,000
Budget amendment for donation received	<u>50,000</u>
	<u>\$ 1,527,000</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

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 \$1,277,458,314, which consisted of \$786,708,830 in U.S. Treasury Securities, \$256,849,476 in repurchase agreements, and \$233,900,008 in collateralized bank deposits with various interest rate and due dates.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

The amount of \$1,749,950 is included as cash in the following funds:

	Unrestricted Cash	Restricted Cash	Total
General Fund	\$ -	\$ 1,344,752	\$ 1,344,752
Trust and Agency Fund	405,198	-	405,198
Total	<u>\$ 405,198</u>	<u>\$ 1,344,752</u>	<u>\$ 1,749,950</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)
Money Market	\$ 165,377	\$ 165,377	\$	\$
Mutual Fund	3,132,824	3,132,824		
Fixed Income Securities	404,924	404,924		
Stocks	7,438,402	7,438,402		
Contribution Receivable	325,000		325,000	
Short Term Investments	956,443	956,443		
Asset Allocation	499,941	499,941		
Outstanding Loan Balance	60,654		60,654	
Total	<u>\$ 12,983,565</u>	<u>\$ 12,597,911</u>	<u>\$ 385,654</u>	<u>\$ -</u>



**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

The Village's investments at July 31, 2018 in more detail:

Description	General Fund		General Fund Total	Fiduciary	Investment Total
	Volunteer Fire Department	Volunteer Ambulance Department		Deferred Compensation Plan	
Money Market	\$ 77,193	\$ 88,184	\$ 165,377	\$	\$ 165,377
Mutual Fund	2,747,707	385,117	3,132,824		3,132,824
Fixed Income Securities	204,763	67,951	272,714	132,210	404,924
Stocks	1,067,830	1,004,071	2,071,901	5,366,501	7,438,402
Contribution Receivable	325,000		325,000		325,000
Short Term Investments			-	956,443	956,443
Asset Allocation			-	499,941	499,941
Outstanding Loan Balance			-	60,654	60,654
<b>Total</b>	<b>\$ 4,422,493</b>	<b>\$ 1,545,323</b>	<b>\$ 5,967,816</b>	<b>\$ 7,015,749</b>	<b>\$ 12,983,565</b>

Money Market - The carrying amount approximates fair market value because of the short maturity of the instruments.

Fixed Income Securities, Short Term Investments and Asset Allocation - Reported at current quoted fair values.

Mutual Fund - Valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

**NOTE 5. DUE FROM OTHER GOVERNMENTS**

Due from other governments at July 31, 2018 consists of:

Federal and State Aid	\$ 78,166
East Hampton Town - Fees	4,200
Justice Court - Fees	194,580
Suffolk County - Car Auction	4,800
Suffolk County - 911 Share	36,000
Suffolk County - Mortgage Tax	180,373
<b>Total Due from Other Governments</b>	<b>\$ 498,119</b>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**NOTE 6. CAPITAL ASSETS**

Capital asset balances and activity for the year ended July 31, 2018 were as follows:

	Balance August 1, 2017	Additions	Adjustments/ Reductions	Balance July 31, 2018
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 9,494,179	\$	\$	\$ 9,494,179
Artwork	371,200	50,000		421,200
Construction in Progress		1,384,219		1,384,219
<b>Total Capital Assets Not Being Depreciated</b>	<b>9,865,379</b>	<b>1,434,219</b>	<b>-</b>	<b>11,299,598</b>
<b>Capital Assets Being Depreciated:</b>				
Buildings	11,854,143	164,069		12,018,212
Land Improvements	1,647,583			1,647,583
Machinery and Equipment	9,720,387	843,711	(387,020)	10,177,078
Furniture and Fixtures	152,563	2,858	(1,800)	153,621
Infrastructure	12,592,557	200,310		12,792,867
<b>Total Capital Assets Being Depreciated</b>	<b>35,967,233</b>	<b>1,210,948</b>	<b>(388,820)</b>	<b>36,789,361</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(4,673,241)	(293,514)		(4,966,755)
Land Improvements	(1,032,144)	(75,668)		(1,107,812)
Machinery and Equipment	(7,151,751)	(591,602)	387,020	(7,356,333)
Furniture and Fixtures	(125,530)	(5,847)	1,800	(129,577)
Infrastructure	(7,962,264)	(487,341)		(8,449,605)
<b>Total Accumulated Depreciation</b>	<b>(20,944,930)</b>	<b>(1,453,972)</b>	<b>388,820</b>	<b>(22,010,082)</b>
<b>Total Assets Being Depreciated, Net</b>	<b>15,022,303</b>	<b>(243,024)</b>	<b>-</b>	<b>14,779,279</b>
<b>Capital Assets, Net</b>	<b>\$ 24,887,682</b>	<b>\$ 1,191,195</b>	<b>\$ -</b>	<b>\$ 26,078,877</b>

Depreciation expense was charged to governmental functions as follows:

General Government and Administration	\$ 15,821
Public Safety	967,768
Transportation	290,513
Cultural and Recreational	153,059
Home and Community Services	26,811
<b>Total Depreciation Expense</b>	<b>\$ 1,453,972</b>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**NOTE 7. LONG-TERM DEBT**

**Bonds Payable**

At July 31, 2018 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%	\$ 750,000
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%	2,150,000
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>2,000,000</u>
Total Bonds Payable	<u>\$ 4,900,000</u>

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

Interest Paid	\$ 154,056
Less: Interest Accrued in Prior Year	(37,108)
Plus: Interest Accrued in Current Year	<u>30,500</u>
Total Interest Expense on Long-Term Debt	<u>\$ 147,448</u>

Transactions for the year ended July 31, 2018 are summarized as follows:

	As Restated Balance August 1, 2017	Additions	Reductions	Balance July 31, 2018	Due Within One Year
Long - Term Debt:					
General Obligation Bonds	\$ 5,740,000	\$	\$ (840,000)	\$ 4,900,000	\$ 850,000
Other Long-Term Debt:					
Compensated Absences	3,219,687		(41,042)	3,178,645	158,932
Pension Liability	14,340,739		(1,396,768)	12,943,971	
Other Postemployment Benefits Obligation	<u>18,906,671</u>	<u>961,643</u>	<u>(1,505,147)</u>	<u>18,363,167</u>	
Total Long-Term Liabilities	<u>\$ 42,207,097</u>	<u>\$ 961,643</u>	<u>\$ (3,782,957)</u>	<u>\$ 39,385,783</u>	<u>\$ 1,008,932</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, 2018

**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, 2018.

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for the years subsequent to July 31, 2018 are as follows:

**General Obligation Bonds**

<u>Year Ending July 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	750,000	43,444	793,444
2024-2028	570,000	100,656	670,656
2029-2032	230,000	21,224	251,224
	<u>\$ 4,900,000</u>	<u>\$ 559,989</u>	<u>\$ 5,459,989</u>

**NOTE 8. COLLECTIONS IN ADVANCE**

Revenues collected in advance in the General Fund consist of \$1,810,136 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 1<sup>st</sup> 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 1<sup>st</sup>, the levy date, and are delinquent after the following September 1<sup>st</sup>. Tax liens are automatic on September 1<sup>st</sup> each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (September 1<sup>st</sup>). The Village usually waits until May 1<sup>st</sup> at which time the unpaid taxes are sold through a tax sale. As of September 1<sup>st</sup>, 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, 2018 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, 2018, the total outstanding indebtedness of the Village aggregated \$4,900,000. Of this amount, \$4,900,000 was subject to the constitutional debt limit and represented approximately 1.11% of its debt limit.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**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	
2018	\$ 725,743		\$ 909,908	
2017	705,359		840,916	
2016	874,106		845,204	

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

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

At July 31, 2018, 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, 2018 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.

	PFRS	ERS
Actuarial valuation date	March 31, 2018	March 31, 2018
Net pension asset/(liability)	\$ (956,766)	\$ (634,702)
Village's portion of the Plan's total net pension asset/(liability)	.0946583%	.0196658%

For the year ended July 31, 2018, the Village recognized pension expense of \$947,293 for PFRS and \$706,843 for ERS. At July 31, 2018, 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	
	PFRS	ERS	PFRS	ERS
Differences between expected and actual experience	\$ 393,795	\$ 226,378	\$ 254,235	\$ 187,070
Changes of assumptions	724,923	420,860	-	-
Net difference between projected and actual earnings on pension plan investments	774,390	921,855	1,559,578	1,819,649
Changes in proportion and differences between the Village's contributions and proportionate share of contributions	138,968	8,609	41,765	158,886
Village's contributions subsequent to the measurement date	292,873	245,092	-	-
<b>Total</b>	<b>\$ 2,324,949</b>	<b>\$ 1,822,794</b>	<b>\$ 1,855,578</b>	<b>\$ 2,165,605</b>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

Village contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended July 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	PFRS	ERS
2019	\$ 229,243	\$ 75,391
2020	207,374	58,700
2021	(188,450)	(497,445)
2022	(125,246)	(224,549)
2023	53,576	-
	\$ 176,497	\$ (587,903)

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:

	PFRS	ERS
Measurement date	March 31, 2018	March 31, 2018
Actuarial valuation date	April 1, 2017	April 1, 2017
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, 2017, 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, 2018

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	Long-term	Target	Long-term
	Allocation	Expected Rate of Return	Allocation	Expected Rate of Return
		March 31, 2018		March 31, 2018
<b>Asset type</b>				
Domestic equity	36.00%	4.55%	36.00%	4.55%
International equity	14.00%	6.35%	14.00%	6.35%
Real estate	10.00%	5.55%	10.00%	5.55%
Alternative investments	18.00%	3.75-7.50%	18.00%	3.75-7.50%
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, 2018

PFRS	1% Decrease (6.00%)	Current Assumption (7.00%)	1% Increase (8.00%)
Village's proportionate share of the net pension asset (liability)	\$ (4,686,497)	\$ (956,766)	\$ 2,171,604
ERS	1% Decrease (6.00%)	Current Assumption (7.00%)	1% Increase (8.00%)
Village's proportionate share of the net pension asset (liability)	\$ (4,802,328)	\$ (634,702)	\$ 2,890,943

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:

	PFRS	ERS	Total
	<i>(Dollars in Thousands)</i>		
Measurement date	March 31, 2018	March 31, 2018	
Employers' total pension liability	\$ (32,914,423)	\$ (183,400,590)	\$ (216,315,013)
Plan fiduciary net position	31,903,666	180,173,145	212,076,811
Employers' net pension assets/(liability)	\$ (1,010,757)	\$ (3,227,445)	\$ (4,238,202)
Ratio of plan net position to the employers' total pension liability	98.24%	96.93%	98.04%

For PFRS and ERS, employer contributions are paid annually based on the System's fiscal year, which ends on March 31<sup>st</sup>. Accrued retirement contributions as of July 31, 2018, represent the projected employer contribution for the period of April 1, 2018 through July 31, 2018 based on paid PFRS and ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of July 31, 2018 amounted to \$537,965 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, 2018

determine the Village's liability an actuarial valuation has been prepared as of December 31, 2017 to determine the required contribution due. The Village funded the program with \$95,000 for the fiscal year ended July 31, 2018. This amount has been recorded in the General Fund as an expense. As of July 31, 2018, the market value of the assets of the plan totaled \$1,545,323. This amount is reflected in the General 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, 2018 to determine the required contribution due. The Village's required contribution to the program was \$325,000 for the fiscal year ended July 31, 2018. 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 June 26, 2018.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**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, 2017 measurement date, the following participants were covered by the benefit terms:

	Ambulance	Fire
Inactive participants currently receiving benefit payments	22	57
Inactive participants entitled to but not yet receiving benefit payments	17	54
Active participants	25	110
Total	64	221

**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, 2017 measurement date was determined using an actuarial valuation as of that date.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Ambulance	Fire
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-2017, separate rates for male/female; non-annuitant/annuitant.

Discount Rate

The discount rate used to measure the total pension liability was 3.16%. This was the yield to maturity of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017. 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**

	Ambulance	Fire
Balance as of 12/31/2016 measurement date, as restated	\$ 1,907,850	\$ 8,212,984
Service Cost	59,388	248,218
Interest	71,617	307,924
Changes of assumptions or other inputs	122,373	657,573
Differences between expected and actual experience	40,825	120,240
Benefit payments	(73,744)	(322,745)
Net Changes	220,459	1,011,210
Balance as of 12/31/2017 measurement date	\$ 2,128,309	\$ 9,224,194

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, 2017 measurement date, calculated using the discount rate of 3.16%, 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 (2.16%) or 1 percentage point higher (4.16%) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
<u>Ambulance</u>			
Total pension liability	\$ 2,412,948	\$ 2,128,309	\$ 1,892,346
<u>Fire</u>			
Total pension liability	\$ 10,761,047	\$ 9,224,194	\$ 7,978,055

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

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

For the year ended July 31, 2018 the Village recognized pension expense of \$153,670 for Ambulance and \$571,524 for Fire. At July 31, 2018 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	\$ 55,879	\$ 105,210	\$ -	\$ 54,697
Changes in assumptions or other inputs	97,399	575,556	82,188	487,670
Benefit payments & administrative expenses subsequent to the measurement date	49,102	239,650	-	-
<b>Total</b>	<b>\$ 202,380</b>	<b>\$ 920,416</b>	<b>\$ 82,188</b>	<b>\$ 542,367</b>

\$49,102 and \$239,650 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, 2019.

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:		
2019	\$ 18,605	\$ 6,832
2020	18,605	6,832
2021	18,605	6,832
2022	15,275	6,832
2023	-	6,832
2024	-	6,832
2025	-	97,407
	<b>\$ 71,090</b>	<b>\$ 138,399</b>

**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, 2018, the market value of the assets of the plan totaled \$7,015,749. This amount is reflected in the Fiduciary Fund Assets along with a corresponding liability to the employees participating in the plan.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**NOTE 12. INTERFUND BALANCES AND ACTIVITY TRANSFERS**

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenses
General Fund	\$ -	\$ -	\$ -	\$ 1,716,224
Capital Fund	-	-	1,716,224	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,716,224</b>	<b>\$ 1,716,224</b>

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

The Village provides post-employment (health insurance) coverage to retired employees and their families and eligible dependents in accordance with the provisions of various employment contracts (uniform and non-uniform). The Village through board resolution has the authority through collective bargaining agreements to establish and amend benefit terms including employee contribution requirements. The New York State Department of Civil Service administers NYSHIP, which is an agent multiemployer defined benefit plan. The plan does not issue a stand-alone financial report. The benefit levels, employee contributions and employer contributions are governed by the Village's contractual agreements. New York State law does not allow for the establishment of an OPEB trust, thus benefit payments are made on a "pay-as-you-go" basis. As a result, there are not assets accumulated in a trust that would be subject to the criteria of paragraph 4 of GASB Statement No. 75.

Benefits and Contributions

The Village provides medical and Medicare part B reimbursement to retired employees and their survivors. The benefit terms provide for payment of 50-100% of health insurance premiums at retirement and cost coverage is dependent on various 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 survivor benefits are provided through a premium based plan.

The Village recognizes the cost of providing health insurance annually as expenditures in the General Fund.

Employees Covered by Benefit Terms

At July 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	45
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	80
	<u>125</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

Total OPEB Liability and Actuarial Assumptions

The Village's total OPEB liability of \$18,363,167 was measured as of July 31, 2018, and was determined by an actuarial valuation report dated August 1, 2017 with update procedures used to roll forward the actuarial accrued liability to July 31, 2018. Calculation of the total OPEB liability was performed using the entry age normal percentage of pay actuarial cost method. The following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.87% (6/30/2018)
	3.58% (6/30/2017)
Inflation rate	3.00%
Projected salary increases	4.00%, average, including inflation
Healthcare cost trend rates	7% in the first year gradually decreasing to 0.5% per year, to an ultimate rate of 5%

The discount rate was based on a Bond Buyer Municipal Bond Index AA as of the nearest quarter.

Mortality rates were based on the RP-20000 Healthy Annuitant projected to 2019 with blue collar adjustment for PBA.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u> <u>Increases (Decreases)</u>
Balance at 6/30/17	\$ 18,906,671
Changes for the year	
Service cost	286,826
Interest	674,817
Differences between expected and actual experience	(817,452)
Benefit payments	(687,695)
Net changes	(543,504)
Balance at 7/31/18	<u>\$ 18,363,167</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount ate

The following presents the total OPEB liability of the Village, as well as what the Village's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.87%) or 1% higher (4.87%) than the current discount rate:

	<u>1% Decrease (2.87%)</u>	<u>Current Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
Total OPEB liability	<u>\$ 21,086,424</u>	<u>\$ 18,363,167</u>	<u>\$ 16,127,508</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend

The following presents the total OPEB liability of the Village, as well as what the Village's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the baseline rates (year one) discussed in the earlier table:

	1% Decrease	Current Medical Inflation Rate	1% Increase
Total OPEB liability	\$ 15,922,555	\$ 18,363,167	\$ 21,383,977

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

The total OPEB expense for the year ended July 31, 2018 was \$851,326. At July 31, 2018, the Village reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 707,135

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

Fiscal year ending July	
2019	\$ (110,317)
2020	(110,317)
2021	(110,317)
2022	(110,317)
2023	(110,317)
Thereafter	(155,550)
	\$ (707,135)

**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, 2019.

**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.



**INCORPORATED VILLAGE OF EAST HAMPTON**  
Notes to Basic Financial Statements  
July 31, 2018

**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.

**Encumbrances**

All encumbrances are classified as either restricted or assigned fund balance. At July 31, 2018, the Village encumbered the following amounts:

Assigned: Unappropriated Fund Balance:

General Fund

General Government	\$ 4,954
Public Safety	118,813
Transportation	39,464
Culture and Recreation	54,098
Home and Community Service	<u>22,128</u>
	<u>\$ 239,457</u>

**NOTE 16. RESTATEMENT OF NET POSITION / FUND BALANCE**

For the fiscal year ended July 31, 2018 the Village implemented GASB Statement No. 75. The implementation of Statement No. 75 resulted in the reporting of a deferred outflow of resources and a liability related to the post-employment benefits the Village provides to retired employees. For the fiscal year ended July 31, 2017 the Village implemented GASB Statement No. 73, which resulted in the reporting of an asset, deferred outflow of resources, and a liability related to the Villages participation in the Ambulance and Fire Department LOSAP in the General Fund. The Village's net position / fund balance has been restated as follows:

	General	Fiduciary	Government Wide
Net Position / Fund Balance as previously stated	\$ 8,220,569	\$ 12,022,198	\$ 9,328,923
<b>GASB No. 75 implementation</b>			
Beginning liability - OPEB			(13,046,267)
<b>GASB No. 73 implementation</b>			
Beginning system asset - Ambulance	4,239,845	(4,239,845)	
Beginning system asset - Fire Dept	<u>1,331,586</u>	<u>(1,331,586)</u>	
Net Position / Fund Balance beginning of year, as restated	<u>\$ 13,792,000</u>	<u>\$ 6,450,767</u>	<u>\$ (3,717,344)</u>

**NOTE 17. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 21, 2018, the date the financial statements were available to be issued.

**INCORPORATED VILLAGE OF EAST HAMPTON**  
**Budgetary Comparison Schedule - General Fund (Unaudited)**  
**For the Year Ended July 31, 2018**

	Original Budget	Final Budget	Current Year	Over (Under) Final Budget
<b>REVENUES</b>				
Real Property Taxes	\$ 12,890,926	\$ 12,890,926	\$ 12,883,670	\$ (7,256)
Payment in Lieu of Taxes	90,000	90,000	122,852	32,852
Non-Property Taxes	275,000	275,000	305,527	30,527
Departmental Income	381,700	381,700	439,280	57,580
Intergovernmental Charges	2,863,845	2,863,845	2,948,747	84,902
Use of Money and Property	1,260,128	1,260,128	1,667,085	406,957
Licenses and Permits	1,818,500	1,818,500	2,402,667	584,167
Fines and Forfeitures	655,000	655,000	797,651	142,651
Sale of Property and Compensation for Loss	8,600	8,600	5,565	(3,035)
State and County Aid	724,578	724,578	1,030,530	305,952
Miscellaneous	9,000	59,000	101,395	42,395
<b>Total Revenues</b>	<u>20,977,277</u>	<u>21,027,277</u>	<u>\$ 22,704,969</u>	<u>\$ 1,677,692</u>

**APPROPRIATED FUND BALANCE**

Prior Years' Surplus	600,000	2,077,000
Prior Years' Encumbrances	356,754	356,754
<b>Total Appropriated Fund Balance</b>	<u>956,754</u>	<u>2,433,754</u>
<b>Total Revenues and Appropriated Fund Balance</b>	<u>\$ 21,934,031</u>	<u>\$ 23,461,031</u>

	Original Budget	Final Budget	Current Year	Encumbrances	(Over) Under Final Budget
<b>EXPENDITURES</b>					
General Government	\$ 2,857,190	\$ 2,768,358	\$ 2,660,284	\$ 4,954	\$ 103,120
Public Safety	7,556,663	7,764,112	7,497,285	118,813	148,014
Health	433,639	432,008	384,673		47,335
Transportation	1,474,311	1,397,313	1,293,069	39,464	64,780
Culture and Recreation	1,141,071	1,073,580	893,347	54,098	126,135
Home and Community Service	958,197	956,397	858,810	22,128	75,459
Employee Benefits	5,800,960	5,829,093	5,835,828		(6,735)
Debt Service:					
Principal	840,000	840,000	840,000		-
Interest	155,000	155,000	154,056		944
<b>Total Expenditures</b>	<u>21,217,031</u>	<u>21,215,861</u>	<u>20,417,352</u>	<u>239,457</u>	<u>559,052</u>
<b>OTHER USES</b>					
Operating Transfers Out	717,000	1,725,170	1,716,224		8,946
Contribution to Employee Benefit Reserve Fund	-	270,000	270,000		-
Contribution to Capital Reserve	-	250,000	250,000		-
<b>Total Expenditures and Other Uses</b>	<u>\$ 21,934,031</u>	<u>\$ 23,461,031</u>	<u>\$ 22,653,576</u>	<u>\$ 239,457</u>	<u>\$ 567,998</u>

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

**Expenditures and Other Uses:**

Actual total expenditures budgetary basis	\$ 22,653,576
Differences - Budget to GAAP Contribution to Reserve Funds	520,000
<b>Total expenditures and other uses as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds</b>	<u>\$ 22,133,576</u>

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Schedule of the Village's Proportionate Share of the Net Pension Asset/Liability (Unaudited)  
July 31, 2018

*Police and Fire Retirement System*

	2018	2017
Village's proportion of the net pension liability	.0946583%	.0934708%
Village's proportionate share of the net pension liability	956,766	1,937,325
Village's covered employee payroll	3,774,917	3,927,030
Village's proportionate share of the net pension liability as a percentage of its covered employee payroll	25.3453520%	49.3330838%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	93.50%

*Employees' Retirement System*

	2018	2017
Village's proportion of the net pension liability	.0196658%	.0197367%
Village's proportionate share of the net pension liability	634,702	1,854,503
Village's covered employee payroll	5,087,574	4,945,545
Village's proportionate share of the net pension liability as a percentage of its covered employee payroll	12.4755335%	37.4984557%
Plan fiduciary net position as a percentage of the total pension liability	96.93%	94.70%

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Schedule of Village Contributions (Unaudited)  
July 31, 2018

*Police and Fire Retirement System*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 909,908	\$ 840,916	\$ 845,204	\$ 1,014,883	\$ 982,224	\$ 734,041	\$ 977,216	\$ 484,201	\$ 350,395	\$ 615,550
Contributions in relation to the contractually required contributions	909,908	840,916	845,204	1,014,883	982,224	734,041	977,216	484,201	350,395	615,550
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	3,774,917	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
Contributions as a percentage of covered employee payroll	0.24104053	0.214135364	0.236055358	0.283689178	0.2700487	0.20862755	0.2166155	0.10902602	0.08291799	0.14900231

*Employees' Retirement System*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 725,743	\$ 705,359	\$ 874,106	\$ 919,560	\$ 929,975	\$ 875,731	\$ 667,326	\$ 482,736	\$ 298,066	\$ 325,229
Contributions in relation to the contractually required contributions	725,743	705,359	874,106	919,560	929,975	875,731	667,326	482,736	298,066	325,229
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	5,087,574	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
Contributions as a percentage of covered employee payroll	0.14265011	0.14262513	0.179245517	0.195225804	0.2006449	0.18820839	0.19810641	0.14395338	0.07950837	0.10548865

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Schedule of Changes in the Village's Total Pension Liability (Unaudited)  
July 31, 2018

<b>Total Pension Liability - Ambulance</b>	<u>2018</u>	<u>2017</u>
Service Cost	\$ 59,388	\$ 69,264
Interest	71,617	62,783
Changes of assumptions or other inputs	122,373	(123,282)
Differences between expected and actual experience	40,825	35,078
Benefit payments	<u>(73,744)</u>	<u>(57,400)</u>
<b>Net change in total pension liability</b>	220,459	(13,557)
<b>Total pension liability - beginning</b>	<u>1,907,850</u>	<u>1,921,407</u>
<b>Total pension liability - ending</b>	<u><u>\$ 2,128,309</u></u>	<u><u>\$ 1,907,850</u></u>

Covered-employee payroll	N/A	N/A
Village's total pension liability as a percentage of covered-employee payroll	N/A	N/A

<b>Total Pension Liability - Fire Dept</b>	<u>2018</u>	<u>2017</u>
Service Cost	\$ 248,218	\$ 283,452
Interest	307,927	281,255
Changes of assumptions or other inputs	657,573	(650,228)
Differences between expected and actual experience	120,240	(72,929)
Benefit payments	<u>(322,745)</u>	<u>(268,630)</u>
<b>Net change in total pension liability</b>	1,011,210	(427,080)
<b>Total pension liability - beginning</b>	<u>8,212,984</u>	<u>8,640,064</u>
<b>Total pension liability - ending</b>	<u><u>\$ 9,224,194</u></u>	<u><u>\$ 8,212,984</u></u>

Covered-employee payroll	N/A	N/A
Village's total pension liability as a percentage of covered-employee payroll	N/A	N/A

**Notes to Schedule:**

*Changes of assumptions or other inputs.* The discount rate used to measure the total pension liability was based on the yield to maturity of the S&P Municipal Bond 20 Year High Grade Rate Index and was as follows:

December 31, 2016:	3.71%
December 31, 2017:	3.16%

The mortality projection scale was changed to the MP2017 scale as of the December 31, 2017 measurement date. The prior scale, for the December 31, 2016 measurement date, was the MP2016 scale.

*Trust Assets.* There are no assets accumulated in a trust fund that meet the criteria in paragraph 4 of GASB Statement No. 73 to pay related benefits.

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

**INCORPORATED VILLAGE OF EAST HAMPTON**  
Schedule of Changes in the Village's Total OPEB Liability and Related Ratios (Unaudited)  
July 31, 2018

	2018
<b>Total OPEB Liability</b>	
Service Cost	\$ 286,826
Interest	674,817
Differences between expected and actual experience	(817,452)
Benefit payments	(687,695)
<b>Net change in total OPEB liability</b>	(543,504)
<b>Total OPEB liability - beginning</b>	18,906,671
<b>Total OPEB liability - ending (a)</b>	\$ 18,363,167
Plan fiduciary net position	*N/A
Village's net OPEB liability - ending (a) - (b)	\$ 18,363,167
Plans fiduciary net position as a percentage of the total OPEB liability	0%
Covered-employee payroll	\$ 8,365,004
Village's net OPEB liability as a percentage of covered-employee payroll	219.52%

\*N/A - Current regulations do not permit the Village to fund the OPEB obligation, it is a "pay-as-you-go" and no assets accumulate.

**Notes to Schedule:**

**Changes of assumptions:**

Change in the discount rates from 3.58% in 2017 to 3.87% in 2018.

**Plan Assets:**

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

This schedule is shown on a prospective basis from the year GASB Statement No. 75 is adopted until 10 years of information is presented.



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, 2018, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated December 21, 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 PC*

Satty, Levine, & Ciacco, CPAs, P.C.  
Jericho, New York  
December 21, 2018





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

*Certified Public Accountants & Business Advisors*

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

---

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

We have audited the financial statements of the governmental activities and each major fund of the Incorporated Village of East Hampton for the year ended July 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 27, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Incorporated Village of East Hampton are described in Note 1 to the financial statements. As described in Note 1S to the financial statements the Incorporated Village of East Hampton adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Incorporated Village of East Hampton's financial statements were:

- Accounts Receivable and Accounts Payable – Management estimates that all receivables will be collected and all payables will be paid in full.
- Useful Life of Capital Assets – Management estimates of the useful life of capital assets is based on the historical asset life for Village capital assets and industry standards, in order to determine the value and period of time over which individual capital assets are to be depreciated.
- Employee Related Liabilities – These include other postemployment benefits and the proportionate share of net pension liability related to the New York State Retirement System and the total pension liabilities related to the Length of Service Award Programs. Management estimates of the employee related liabilities are measured based on a variety of assumptions developed by management and third party professionals. Such factors consider historical trends, earnings and the accumulation of benefits and vesting privileges provided for in employment contracts and human resource policies adopted by the Village. Such liabilities which are related to pension and other retirement benefits will be further enhanced with actuarial measurements such as mortality tables and earning percentages.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management:

- While the length of service award program assets were originally recorded by the Village in the trust and agency fund, due to the adoption 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*, an adjustment was made to record the activity on the general fund including amounts related to investment earnings and benefits payable as revenue and expenses.
- Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, a prior period adjustment in the amount of \$13,046,267 was made to the beginning net position.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representation*

We have requested certain representations from management that are included in the management representation letter dated December 21, 2018.

*Management Consultations with Other Independent Accountant*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Incorporated Village of East Hampton's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Incorporated Village of East Hampton's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Trustees and management of the Incorporated Village of East Hampton and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Satty, Levine & Ciacco CPA PC". The signature is written in a cursive, slightly slanted style.

Satty, Levine, & Ciacco, CPA, P.C.  
Jericho, New York  
December 21, 2018