



Village of Quogue, N.Y.

FINANCIAL STATEMENTS
Year Ended May 31, 2018

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
Year Ended May 31, 2018**

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**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

As management of the Incorporated Village of Quogue (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended May 31, 2018. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

As reflected in the government-wide financial statements, the assets and deferred outflows of resources of the Village exceeded its liabilities and deferred inflows of resources as of May 31, 2018 by \$4,690,087 (net position). However, there is a deficit balance of \$6,751,328 in the unrestricted amount of net position, which means the Village must meet its ongoing obligations to citizens and creditors from future revenues.

As reflected in the fund financial statements, as of May 31, 2018, the Village's government funds reported an ending fund balance of \$7,712,481. Of this amount, \$231,178 is nonspendable, \$2,042,277 is restricted, \$953,048 is assigned, and \$4,485,978 is unassigned.

Effective June 1, 2017, the Village adopted 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* (GASB No. 73). As a result of the adoption of GASB No. 73, the Village has restated its May 31, 2017 financial statements to reflect a pension liability related to its service award program for firefighters by decreasing the net position by \$71,288 and to reflect the assets related to such service award program by increasing fund balance and net position by \$95,985.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Village's assets and liabilities, with the difference between the two reported as net position. Over time, 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 presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish function and programs of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The governmental activities of the Village include general government support, justice court, police protection, fire department, building department, roads and highways, parks and recreation, and sanitation.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements - 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental and fiduciary funds.

See independent auditors' report and notes to financial statements.

**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the 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, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village maintains four governmental funds. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund, Special Revenue Fund and Permanent Fund.

The Village adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements and reconciliations can be found on pages 12 – 15 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the Village's own programs.

The fiduciary fund financial statement can be found on page 16 of this report.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$4,690,087 at the close of the most recent fiscal year.

**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

VILLAGE'S NET POSITION

| | Governmental Activities | | |
|---|--------------------------------|---------------------|---------------------|
| | 2018 | 2017 | Change |
| Current and other assets | \$ 8,350,917 | \$ 7,638,911 | \$ 712,006 |
| Capital assets | 10,137,400 | 10,108,289 | 29,111 |
| Deferred outflows of resources | 1,753,894 | 1,290,445 | 463,449 |
| Total Assets and Deferred Outflows of Resources | <u>20,242,211</u> | <u>19,037,645</u> | <u>1,204,566</u> |
| Current liabilities | 1,065,370 | 879,322 | 186,048 |
| Non-current liabilities | 13,000,291 | 12,897,754 | 102,537 |
| Deferred inflows of resources | 1,486,463 | 268,729 | 1,217,734 |
| Total Liabilities and Deferred Inflows of Resources | <u>15,552,124</u> | <u>14,045,805</u> | <u>1,506,319</u> |
| Net position: | | | |
| Net investment in capital assets | 9,502,400 | 9,058,289 | 444,111 |
| Restricted | 1,939,015 | 1,914,180 | 24,835 |
| Unrestricted | (6,751,328) | (5,980,629) | (770,699) |
| Total Net Position | <u>\$ 4,690,087</u> | <u>\$ 4,991,840</u> | <u>\$ (301,753)</u> |

Currently, the largest portion of the Village's net position - \$9,502,400 - reflects its net investment in capital assets (e.g. land, buildings, improvements and machinery and equipment). Capital assets are used to provide services to citizens; consequently these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Current and other assets increased by \$712,006. The primary reasons for the increase was improved cash flows and the inclusion of investments held for the Village's service award program for firefighters. Such investments were previously held in the trust & agency fund prior to the implementation of GASB Statement No. 73.

Deferred outflows of resources increased by \$463,449 due to a change in actuarial estimates regarding the New York State Retirement System liability. This was also the reason for the increase in deferred inflows of resources of \$1,217,734.

The net investment in capital assets increased over the prior year by \$444,111, primarily as a result of additions to capital assets during the current fiscal year, as well as the reduction of the capital related debt, offset by current depreciation.

A portion of the Village's net position, \$1,939,015, represents resources that are subject to external restriction on how they may be used. There was an insignificant increase of \$24,835.

The remaining balance of unrestricted net position deficit of \$6,751,328 means the Village must meet its ongoing obligations to citizens and creditors from future revenue.

**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

VILLAGE'S CHANGES IN NET POSITION

| | Governmental Activities | | |
|---------------------------------------|--------------------------------|---------------------|--------------------------------|
| | 2018 | 2017 | Increase (Decrease) |
| Revenues: | | | |
| Program revenues/charges for services | \$ 582,609 | \$ 840,331 | \$ (257,722) |
| Operating grants | 79,862 | 48,523 | 31,339 |
| Capital grants | 206,711 | 179,453 | 27,258 |
| General revenues: | | | |
| Property taxes | 6,781,036 | 6,655,306 | 125,730 |
| Non-property taxes | 65,112 | 64,192 | 920 |
| Unrestricted investment earnings | 46,584 | 19,085 | 27,499 |
| Rental of village property | 208,615 | 217,192 | (8,577) |
| State aid | 363,769 | 614,838 | (251,069) |
| (Loss) on capital asset dispositions | 5,536 | (15,610) | 21,146 |
| Miscellaneous | 303,839 | 75,817 | 228,022 |
| Total Revenues | <u>8,643,673</u> | <u>8,699,127</u> | <u>(55,454)</u> |
| Expenses: | | | |
| General government | \$ 1,293,981 | \$ 1,317,984 | \$ (24,003) |
| Police, fire and ambulance | 5,455,024 | 5,353,969 | 101,055 |
| Justice court | 192,609 | 198,510 | (5,901) |
| Roads and highways | 1,097,537 | 1,053,489 | 44,048 |
| Beaches, parks and recreation | 516,313 | 354,697 | 161,616 |
| Building department | 421,729 | 421,586 | 143 |
| Interest on long-term debt | 24,865 | 39,534 | (14,669) |
| Total Expenses | <u>9,002,058</u> | <u>8,739,769</u> | <u>262,289</u> |
| Change in Net Position | (358,385) | (40,642) | (317,743) |
| Beginning Net Position (restated) | <u>5,048,472</u> | <u>5,032,482</u> | <u>15,990</u> |
| Ending Net Position | <u>\$ 4,690,087</u> | <u>\$ 4,991,840</u> | <u>\$ (301,753)</u> |

Revenue Categories:

Program Revenues – includes charges for services which provide a direct benefit to the purchaser, including fees for recreational and community events and building permits. Revenues contributed by external governments that are restricted to supporting these types of programs are also classified as program revenues as either operating or capital grants.

General Revenues – includes revenues that are available to fund the overall government and to provide a benefit to all taxpayers in the Village. This includes real property taxes and miscellaneous funds that may be generated during the course of the year, such as sales on excess equipment and insurance property loss claims received.

The Village's revenues decreased by \$55,454. This decrease is primarily due to a decrease in state aid and safety inspection fees, with increases in property taxes, insurance recoveries and refunds of prior year expenditures mostly offsetting the difference.

See independent auditors' report and notes to financial statements.

**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

Expense Categories:

The Village's expenses increased by \$262,289. Increases in police and fire departments, and beaches, parks and recreation expenses were the primary reasons..

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Village's net resources available for spending at the end of the fiscal year.

As of May 31, 2018, the Village's governmental funds reported combined ending balances of \$7,712,481, an increase of \$429,699 in comparison to the prior year. Of this total amount, \$4,485,978 constitutes unassigned fund balance, which is available for spending at the Village's discretion.

General Fund – The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,485,978, while total fund balance reached \$6,368,665. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents approximately 56% of total general fund expenditures, while total fund balance represents approximately 79% of general fund expenditures.

The fund balance of the Village's General fund increased during the current year by \$434,210 to \$6,368,665. The key factor in this spending less money than was taken in.

Special Revenue – The fund balance in the Special Revenue Fund decreased during the current fiscal year by \$186,997 to \$107,790. The key factor was improvements made to the Village Green.

Capital Projects Fund – The fund balance in the Capital Projects Fund increased during the current fiscal year by \$179,378 to \$682,978. The key factor was transfers received from the General Fund.

Permanent Fund – The fund balance in the Permanent Fund increased during the current fiscal year by \$3,108 to \$553,048. The key factor in this was interest earned on bank deposits.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Village's General Fund adopted budget for the fiscal year ended May 31, 2018 was \$8,407,532. This amount was increased by encumbrances carried forward from the prior year in the amount of \$40,776 and additional appropriations of \$124,640 for a total budget of \$8,675,672.

The budget was funded through a combination of anticipated revenues. The major funding sources were real property taxes of \$6,764,332, departmental income of \$413,500, use of money and property of \$219,200 and state aid of \$488,700.

The General Fund performed favorably compared to budgeted revenues and expenditures.

Actual revenues of \$8,621,355 compared to the modified budget of \$8,310,256 with a positive variance to budget of \$311,099. This variance consisted primarily of additional state aid and miscellaneous income.

See independent auditors' report and notes to financial statements.

**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

Actual expenditures and encumbrances for the year were \$8,258,719 compared to the modified budget of \$8,675,672 with a positive variance to budget of \$416,953. This variance is primarily the result of certain budgeted line items being less than projected. General government support was under budget by \$156,017 and transportation was under budget by \$119,898.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Village's investment in capital assets for its governmental activities as of May 31, 2018, amounts to \$10,137,400 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, infrastructure, structures, machinery and equipment, vehicles and equipment, and other building improvements.

CAPITAL ASSETS

| As of the year ended May 31, | <u>2018</u> | <u>2017</u> |
|------------------------------|----------------------|----------------------|
| Land | \$ 557,249 | \$ 557,249 |
| Land improvements | 311,351 | 137,294 |
| Infrastructure | 2,029,535 | 1,572,494 |
| Structures | 5,663,001 | 6,140,883 |
| Machinery and equipment | 329,924 | 360,670 |
| Vehicles and equipment | 1,108,807 | 1,293,472 |
| Other building improvements | 137,533 | 159,783 |
| Total | <u>\$ 10,137,400</u> | <u>\$ 10,221,845</u> |

Additional information on the Village's capital assets is shown in Note 6 on page 28 of this report.

DEBT ADMINISTRATION

The Village borrows money in order to acquire land or equipment or construct buildings and improvements or infrastructure. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. The Village pledges its full faith and credit for the payment of principal and interest.

| As of the year ended May 31, | <u>2018</u> | <u>2017</u> |
|------------------------------|-------------------|---------------------|
| Serial bonds | \$ 635,000 | \$ 1,050,000 |
| Total | <u>\$ 635,000</u> | <u>\$ 1,050,000</u> |

Additional information on the Village's outstanding debt is shown in Note 7 on page 29 of this report.

**INCORPORATED VILLAGE OF QUOGUE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
MAY 31, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2018/2019 budget appropriations are \$8,500,109 which is 1.1% more than the current year's adopted budget. Most of the appropriations budget is about equal to the prior year with the exception of general government, which has been increased by \$36,050; and transportation, which has been increased by \$40,093. Property tax collections are budgeted to decrease by \$159,323, about 2.3%.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the Village's finances and to show the Village's accountability for the money it receives. Questions concerning any information provided in this report should be addressed to the Village at 7 Village Lane, P.O. Box 926, Quogue, NY 11959.



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

Certified Public Accountants & Business Advisors

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Board of Trustees of the
Incorporated Village of Quogue:

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 Quogue (the "Village"), as of and for the year ended May 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 Quogue, as of May 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 1X to the financial statements, the Village has adopted 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 this statement resulted in a prior period adjustment. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for other postemployment benefits, budgetary comparison schedule, schedule of the Village's proportionate share of net pension liability, schedule of the Village's contributions – ERS, schedule of the Village's contributions – PFRS and the schedule of changes in the Village's total pension liability 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Incorporated Village of Quogue's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Satty, Levine & Ciacco, CPAs, P.C.
Jericho, New York
November 28, 2018

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
STATEMENT OF NET POSITION
MAY 31, 2018**

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|--|---|
| <u>ASSETS AND DEFERRED OUTFLOWS</u> | |
| CURRENT ASSETS: | |
| Cash | \$ 5,887,202 |
| Restricted cash | 1,798,771 |
| Accounts receivable | 53,169 |
| Tax sale certificates | 415 |
| Prepaid expenses | 231,178 |
| Due from fiduciary fund | 164,674 |
| Due from other governments | 79,792 |
| Service award program investments | 135,716 |
| TOTAL CURRENT ASSETS | <u>8,350,917</u> |
| NON-CURRENT ASSETS: | |
| Land | 557,249 |
| Other capital assets, net of depreciation | 9,580,151 |
| TOTAL NON-CURRENT ASSETS | <u>10,137,400</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Pensions - Service Award Program | 63,177 |
| Pensions - NYS Retirement | 1,690,717 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>1,753,894</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 20,242,211</u> |
| <u>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u> | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 67,112 |
| Accrued liabilities | 249,041 |
| Due to fiduciary fund | 35,185 |
| Due to retirement systems | 139,739 |
| Due to other governments | 7,968 |
| Unearned revenue | 139,391 |
| Accrued interest payable | 6,934 |
| Current portion of general obligation bonds payable | 420,000 |
| TOTAL CURRENT LIABILITIES | <u>1,065,370</u> |
| NON-CURRENT LIABILITIES: | |
| Net pension liability - proportionate share | 676,039 |
| Pension liability - Service Award Program | 103,262 |
| Compensated absences | 1,834,166 |
| Post-employment benefits other than pension | 10,171,824 |
| General obligation bonds payable | 215,000 |
| TOTAL NON-CURRENT LIABILITIES | <u>13,000,291</u> |
| DEFERRED INFLOWS OF RESOURCES: | |
| Pensions - NYS Retirement | 1,486,463 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>1,486,463</u> |
| NET POSITION: | |
| Net investment in capital assets | 9,502,400 |
| Restricted | 1,939,015 |
| Unrestricted | (6,751,328) |
| TOTAL NET POSITION | <u>4,690,087</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION | <u>\$ 20,242,211</u> |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2018**

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES |
|--------------------------------------|---------------------|-------------------------|---------------------|-------------------|--|
| | | CHARGES FOR SERVICES | OPERATING GRANTS | CAPITAL GRANTS | |
| GOVERNMENTAL ACTIVITIES: | | | | | |
| General government | \$ 1,293,981 | \$ 12,400 | \$ - | \$ - | \$ (1,281,581) |
| Police and fire | 5,455,024 | 45,454 | 79,862 | - | (5,329,708) |
| Justice court | 192,609 | 78,673 | - | - | (113,936) |
| Roads and highways | 1,097,537 | 1,500 | - | 206,711 | (889,326) |
| Beach, parks and recreation | 516,313 | 160,458 | - | - | (355,855) |
| Building department | 421,729 | 284,124 | - | - | (137,605) |
| Interest on long-term debt | 24,865 | - | - | - | (24,865) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 9,002,058 | \$ 582,609 | \$ 79,862 | \$ 206,711 | (8,132,876) |

| | |
|--|---------------------|
| GENERAL REVENUES: | |
| Property taxes-levied for general purposes | 6,781,036 |
| Non-property taxes | 65,112 |
| Unrestricted investment earnings | 46,584 |
| Rental of village property | 208,615 |
| State aid | 363,769 |
| Gain on disposal of capital assets | 5,536 |
| Miscellaneous | 303,839 |
| TOTAL GENERAL REVENUES | 7,774,491 |
| CHANGE IN NET POSITION | (358,385) |
| NET POSITION - BEGINNING (RESTATED) | 5,048,472 |
| NET POSITION - ENDING | \$ 4,690,087 |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
GOVERNMENTAL FUNDS BALANCE SHEETS
MAY 31, 2018**

| | GOVERNMENTAL FUND TYPES | | | | TOTAL |
|--|------------------------------------|----------------------------|---------------------------|-----------------------------|---------------------|
| | GENERAL | SPECIAL REVENUE | PERMANENT FUND | CAPITAL PROJECTS | |
| ASSETS: | | | | | |
| Cash | \$ 5,191,179 | \$ 141,664 | \$ 554,359 | \$ - | \$ 5,887,202 |
| Restricted cash | 1,115,793 | - | - | 682,978 | 1,798,771 |
| Accounts receivable | 53,169 | - | - | - | 53,169 |
| Tax sale certificates | 415 | - | - | - | 415 |
| Prepaid expenses | 231,178 | - | - | - | 231,178 |
| Due from Fiduciary Fund | 164,674 | - | - | - | 164,674 |
| Due from other governments | 79,792 | - | - | - | 79,792 |
| Service award program investments | 135,716 | - | - | - | 135,716 |
| TOTAL ASSETS | \$ 6,971,916 | \$ 141,664 | \$ 554,359 | \$ 682,978 | \$ 8,350,917 |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 67,112 | \$ - | \$ - | \$ - | \$ 67,112 |
| Accrued liabilities | 249,041 | - | - | - | 249,041 |
| Due to retirement systems | 139,739 | - | - | - | 139,739 |
| Due to other governments | 7,968 | - | - | - | 7,968 |
| Due to Fiduciary Fund | - | 33,874 | 1,311 | - | 35,185 |
| Unearned revenue | 139,391 | - | - | - | 139,391 |
| TOTAL LIABILITIES | 603,251 | 33,874 | 1,311 | - | 638,436 |
| FUND BALANCES: | | | | | |
| Nonspendable: | | | | | |
| Prepaid expenses | 231,178 | - | - | - | 231,178 |
| Restricted: | | | | | |
| Parkland trust | - | 107,790 | - | - | 107,790 |
| Building reserve | - | - | - | 166,100 | 166,100 |
| Fire department reserve | - | - | - | 190,829 | 190,829 |
| Highway reserve | - | - | - | 160,208 | 160,208 |
| Police department reserve | - | - | - | 165,841 | 165,841 |
| Service award program | 135,716 | - | - | - | 135,716 |
| Employee benefit reserve | 1,115,793 | - | - | - | 1,115,793 |
| Assigned fund balances: | | | | | |
| Appropriated fund balance | 400,000 | - | - | - | 400,000 |
| Endowment funds | - | - | 553,048 | - | 553,048 |
| Encumbrances | - | - | - | - | - |
| Unassigned fund balance | 4,485,978 | - | - | - | 4,485,978 |
| TOTAL FUND BALANCES | 6,368,665 | 107,790 | 553,048 | 682,978 | 7,712,481 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 6,971,916 | \$ 141,664 | \$ 554,359 | \$ 682,978 | \$ 8,350,917 |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENT OF NET POSITION
MAY 31, 2018**

| | | |
|--|--------------------|---------------------|
| TOTAL GOVERNMENTAL FUND BALANCE | | \$ 7,712,481 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. | | 10,137,400 |
| Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet. | | (6,934) |
| Proportionate share of long-term asset and liability, and deferred outflows and inflows associated with participation in the state retirement system are not current financial resources or obligations and are not reported in the funds. | | |
| Deferred outflows of resources | 1,690,717 | |
| Deferred inflows of resources | (1,486,463) | |
| Net pension liability - proportionate share | <u>(676,039)</u> | (471,785) |
| Long-term liability, and deferred outflows and inflows associated with participation in the LOSAP retirement plan are not current financial resources or obligations and are not reported in the funds. | | |
| Deferred outflows of resources | 63,177 | |
| Pension liability | <u>(103,262)</u> | (40,085) |
| Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. | | |
| Serial bonds payable | (635,000) | |
| Other post employment benefits liability | (10,171,824) | |
| Compensated absence liability | <u>(1,834,166)</u> | (12,640,990) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | | <u>\$ 4,690,087</u> |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2018**

| | GOVERNMENTAL FUND TYPES | | | | TOTAL |
|---|-------------------------|--------------------|-------------------|---------------------|---------------------|
| | GENERAL FUND | SPECIAL REVENUE | PERMANENT FUND | CAPITAL PROJECTS | |
| REVENUES: | | | | | |
| Real property taxes | \$ 6,758,106 | \$ - | \$ - | \$ - | \$ 6,758,106 |
| Other tax items | 22,931 | - | - | - | 22,931 |
| Non property tax items | 65,112 | - | - | - | 65,112 |
| Departmental income | 441,964 | - | - | - | 441,964 |
| Intergovernmental charges | 15,897 | - | - | - | 15,897 |
| Use of money and property | 244,140 | 2,350 | 4,419 | 4,291 | 255,200 |
| Licenses and permits | 34,352 | - | - | - | 34,352 |
| Fines and forfeitures | 92,198 | - | - | - | 92,198 |
| Sale of property and compensation for loss | 141,983 | - | - | 12,627 | 154,610 |
| Miscellaneous local sources | 154,330 | - | - | - | 154,330 |
| State aid | 650,342 | - | - | - | 650,342 |
| TOTAL REVENUES | 8,621,355 | 2,350 | 4,419 | 16,918 | 8,645,042 |
| EXPENDITURES: | | | | | |
| General government support | 1,029,649 | - | - | - | 1,029,649 |
| Public safety | 3,052,725 | - | - | 45,540 | 3,098,265 |
| Health | 510 | - | - | - | 510 |
| Transportation | 906,884 | - | - | - | 906,884 |
| Culture and recreation | 170,986 | 189,347 | 1,311 | - | 361,644 |
| Home and community services | 125,981 | - | - | - | 125,981 |
| Employee benefits | 2,247,272 | - | - | - | 2,247,272 |
| Debt Service: | | | | | |
| Principal | 415,000 | - | - | - | 415,000 |
| Interest | 30,138 | - | - | - | 30,138 |
| TOTAL EXPENDITURES | 7,979,145 | 189,347 | 1,311 | 45,540 | 8,215,343 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 642,210 | (186,997) | 3,108 | (28,622) | 429,699 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | - | - | - | 208,000 | 208,000 |
| Transfers (out) | (208,000) | - | - | - | (208,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | (208,000) | - | - | 208,000 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES) | 434,210 | (186,997) | 3,108 | 179,378 | 429,699 |
| FUND BALANCES - BEGINNING (RESTATED) | 5,934,455 | 294,787 | 549,940 | 503,600 | 7,282,782 |
| FUND BALANCES - ENDING | \$ 6,368,665 | \$ 107,790 | \$ 553,048 | \$ 682,978 | \$ 7,712,481 |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 429,699

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

| | |
|---|--------------|
| Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. | 678,621 |
| Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. | (648,146) |
| The net effect of the retirement of certain general capital assets before being fully depreciated is to decrease net position | (1,364) |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 415,000 |
| Accrued interest payable is recognized for governmental activities, but is not due and payable in the current period and therefore is not reported as a liability in the governmental funds. The change in the liability is recognized. | 5,275 |
| On the statement of activities the actual and projected long term expenditures for postemployment benefits employment benefits are reported whereas on the governmental funds only the actual expenditures are recorded for postemployment benefits. | (1,022,961) |
| Some expenses in the Statement of Activities do not require the use of financial resources and therefore and therefore are not reported as expenditures in governmental funds: | |
| Change in long-term compensated absences | (134,934) |
| Changes in the Village's pension liabilities under its service award program for firefighters have no effect on current financial resources and therefore are not reported in the governmental funds. In addition, changes to the Village's deferred outflows and inflows related to such pensions do not affect current financial resources and are also not reported in the governmental funds. | |
| Deferred outflows of resources | 31,242 |
| Net pension liability - proportionate share | (31,974) |
| | (732) |
| Changes in the Village's proportionate share of pension liabilities have no effect on current financial resources and therefore are not reported in the governmental funds. In addition, changes to the Village's deferred outflows and inflows related to pensions do not affect current financial resources and are also not reported in the governmental funds. | |
| Deferred outflows of resources | 400,272 |
| Deferred inflows of resources | (1,217,734) |
| Net pension liability - proportionate share | 738,619 |
| | (78,843) |
| Change in net position of governmental activities | \$ (358,385) |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
STATEMENT OF FIDUCIARY NET POSITION
MAY 31, 2018**

| | <u>AGENCY FUNDS</u> |
|---------------------------------|-------------------------|
| ASSETS: | |
| Cash | \$ 306,498 |
| Due from other funds | <u>35,185</u> |
| TOTAL ASSETS | <u>\$ 341,683</u> |
| LIABILITIES: | |
| Due to general fund | \$ 164,673 |
| Deposits held and due to others | <u>177,010</u> |
| TOTAL LIABILITIES | <u>\$ 341,683</u> |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies

A. Organization

The Incorporated Village of Quogue (the "Village") was incorporated in 1928. The Village operates under a Board of Trustees form of government and provides the following services as authorized by its charter: general government, police, fire protection, justice court, roads and highways, beach, parks and recreation, and building department.

The financial statements of the Village have been prepared in accordance 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 governmental accounting and financial reporting. The more significant accounting policies established in GAAP and used by the Village are described below.

B. Financial Reporting Entity

The Incorporated Village of Quogue is governed by the Village Law and other General Laws of the State of New York and various local laws. The Board of Trustees is the legislative body responsible for overall operations. The Mayor serves as chief executive officer and the Treasurer serves as chief fiscal officer.

All governmental activities and function/programs performed for the Incorporated Village of Quogue are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting consists of (a) the primary government which is the Village, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusions would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement No. 61.

C. Basis of Presentation

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 transaction 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 governmental funds.

Government-wide Financial Statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the activities of the Village. The effect of interfund activity has been removed from these statements.

In the government-wide Statement of Net Position, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net position is reported in three components-net investment in capital assets; restricted net position; and unrestricted net position. The Village first utilizes restricted resources to finance qualifying activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

Fund Financial Statements

The Village segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Village has presented the following major governmental funds:

1. General fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.
2. Capital fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition or construction of major capital assets.
3. Special Revenue fund – Parkland - is used to account for and report the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The special revenue fund of the Village includes the Parkland Trust, which is used to account for activities related to improvements and land acquisitions for the parks.
4. Permanent fund – Endowment - is used to account for and report resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry. This fund includes the unrestricted Jobson Fund in the amount of \$359,439. Currently the Village is consuming only the accumulated interest earnings of this fund; however, these funds are available for any Village purpose. In addition the Permanent Fund includes the Tiff Fund in the amount of \$260,834 to be used for the equal benefit of the Police and Fire Departments. Currently the Village is consuming only the accumulated interest earnings of this fund.

Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objective is determinations of financial position. All assets and liabilities are included on the statement of fiduciary net position. These activities are not included in the government-wide financial statements because their resources are not available to be used. The Village has presented a single fiduciary fund consisting of deposits held by the Village in a purely custodial capacity. Since such funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses and the related assets and liabilities are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, except that:

- a. Expenditures for prepaid expenses and inventory-type items are recognized at the time of purchase.
- b. Principal and interest on indebtedness are not recognized as expenditures until due.
- c. Compensated absences, such as vacation and sick leave which vests or accumulates, are charged as an expenditure when paid.

E. Budgetary Data

Budgets are adopted annually. All budget amounts provided in this report have been modified where necessary. The Village's procedures in establishing the budgetary data reflected in the financial statements are as follows:

- a. On or before March 31st, the budget officer prepares estimates for each administrative unit.
- b. No later than March 31st, the budget officer submits a tentative budget to the Board of Trustees for the fiscal year commencing the following June 1st. This tentative budget includes proposed expenditures and the means of financing for the general fund.
- c. A public hearing is conducted by the Board of Trustees to obtain comments.
- d. No later than May 1st, the Board of Trustees adopts the budget of the Incorporated Village of Quogue.

All modifications of the budget must be approved by the Board of Trustees. (However, the Treasurer is authorized to transfer certain budget amounts within departments.)

F. Cash and Cash Equivalents

The Village primarily maintains its cash and investments in individual segregated accounts grouped by fund. All investments with an original maturity of three months or less when purchased are considered cash equivalents. Cash on deposit with financial institutions is collateralized in accordance with New York State statutes.

G. Investments

Investments are reported at fair value, and consist of assets held for the Village sponsored service award program. See Note 8 and 10 for additional disclosures.

H. Receivables

Receivables include amounts due from federal, state and other governments or entities for services provided by the Village. Receivables are recorded and revenues recognized as earned. No allowance for uncollectible accounts has been recorded since it is believed that such allowance would not be material.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

I. Prepaid Items

Prepaid items in the fund and government-wide statements represent expenses paid that will benefit the subsequent period.

J. 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.

K. Capital Assets

Capital assets are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets purchased or acquired with an original cost of \$500 or more and an estimated useful life in excess of one year are reported at historical cost or estimated historical cost if the actual historical cost is not available. Contributed assets are reported at a fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

| | |
|-------------------------|-------------|
| Land improvements | 20 years |
| Infrastructure | 20-75 years |
| Structures | 10-40 years |
| Vehicles and equipment | 8-15 years |
| Machinery and equipment | 5-20 years |

The Village evaluated prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Village's policy is to record an impairment loss in the period when the Village determines that the carrying amount of the asset will not be recoverable. As of May 31, 2018, the Village has not recorded any such impairment losses.

L. Collections in Advance

Collections in advance represent a liability for fees which pertain to services that will be provided by the Village in the next fiscal year.

M. Grant Advances

Grant advances represent a liability for grant revenues collected in advance of eligible grant expenditures.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

N. Deferred Inflows and Deferred Outflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for 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. The Village reports one type of item which qualifies for reporting in this category. This is related to pension transactions reported in the government-wide statement of net position. This represents the difference between expected and actual experience, and the changes in proportion and differences between employer contributions and proportionate share of contributions.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Village reports one item that qualifies for reporting in this category. This is related to pension transactions reported in the government-wide statement of net position. This represents the difference between expected and actual experience, changes of assumptions, the net difference between projected and actual investment earnings on pension plan investments, changes in proportion and differences between employer contributions and proportionate share of contributions, and the Village's contributions to the pension system subsequent to the measurement date.

O. Compensated Absences

Compensated absences of the Village consists of vacation and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Village and the employee.

P. 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 liabilities are liquidated through future budgetary appropriations of the general fund.

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

Q. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

R. 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 for retired employees. The Village accounts for these postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. In the government-wide statements, postemployment costs are measured and disclosed using the accrual basis of accounting. The cost of providing these benefits is recorded as an expenditure in the governmental funds in the year paid.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

S. Restricted Service Award Program Investments

Investments of the Service Award Program for firefighters are held by Article 11-A of the General Municipal Law of the State of New York in a grantor/rabbi trust account in the Village's name. These assets are primarily invested in mutual funds and corporate bonds. These assets are reported at fair value as discussed in Note 10, and the details of the benefits offered and pension liability associated with the program are discussed in Note 8.

T. 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.

U. Insurance

The Village insures against the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

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

Unrestricted net position – reports all other net position that do not meet the definition of “restricted” or “net investment in capital assets”, and are deemed to be available for general use by the Village.

Governmental Fund Statements

In the fund statements, governmental fund equity is classified as fund balance and may consist of five classifications under GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Village only utilizes the following four:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

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, including 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. Restricted reserves currently in use by the Village include the following:

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Fund Statements (continued)

Parkland Trust – the reserve for parkland trust reports funds which are restricted by Village Law Section 7-730 for capital expenditures related to parks, playgrounds and recreational designated areas.

Capital Reserves – the capital reserve funds include the Building, Fire Department, Highway and Police Department Reserves. These reserves accumulate monies for repairs of capital improvements, or equipment, which repairs are of a type not recurring annually or at shorter intervals. These reserves were established pursuant to General Municipal Law Section 6-d.

Employee Benefit Accrued Liability Reserve – this reserve reports funds which are restricted for the payment of accrued employee benefits due an employee upon termination of the employee’s service. This reserve was established pursuant to General Municipal Law Section 6-p.

Service Award Program – The Village sponsors a length of service award program for the fire department, as described in Note 8. Those assets, in accordance with GASB Statement No. 73, are to be recorded within the governmental funds of the Village and are restricted by General Municipal Law Article 11-A.

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 may include an amount appropriated to partially fund the subsequent year’s budget and may also include encumbrances not classified as restricted at the end of the year. In addition assigned fund balance includes endowment funds – the endowment fund includes two funds; the Jobson Fund in the amount of \$339,515 and the Tift Fund in the amount of \$210,425. These Jobson Fund is available to be used for any Village purpose. The Tift Fund is available to be used for the equal benefit of the Police and Fire Departments.

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, unassigned classification should be used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, or assigned.

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 for 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 assigned fund balance.

The Village segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

W. Newly Adopted Accounting Principles

Effective June 1, 2017, the Village adopted 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* (GASB No. 73). The requirements of this statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in the notes to the financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. The effect of this adoption resulted in the restatement of the prior year fund balances as it relates to the LOSAP pension plan assets, and the accounting and reporting of those assets as discussed in Note 1X.

Effective June 1, 2017, the Village implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This Statement replaces GASB Statement No. 43 and expands certain note disclosures and requires certain postemployment benefits to be reported in a government's fiduciary funds. The provisions of this adoption had no effect on the financial statements.

Effective June 1, 2017, the Village implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB No. 14*. This Statement changes how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. Specifically, such component units must be “blended into the primary state or local government’s financial statements in a manner similar to a department or activity of the primary government. The provisions of this adoption had no material effect on the financial statements.

Effective June 1, 2017, the Village implemented GASB 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. The provisions of this adoption had no material effect on the financial statements.

Effective June 1, 2017, the Village implemented GASB 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. The provisions of this standard had no material effect on the financial statements.

X. Prior Period Adjustment

Prior to the adoption of GASB Statement No. 73, the Village reported assets accumulated for the Service Award Program for firefighters in the Trust and Agency Fund. GASB Statement No. 73 requires assets held in trust for service award plans to be reported as assets of the sponsoring municipality in the general fund, in addition to reporting the total pension liability and deferred outflows associated with these benefit programs as a cumulative adjustment to the beginning net position. Thus, as a result of the adoption of GASB Statement No. 73, the Village restated the respective assets to be held as part of the Village's assets and the corresponding restricted fund balance, and restated its beginning net position for the recording of the total pension liability and beginning deferred outflows. Below is the effect of the implementation for fiscal year 2018.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 1. Summary of Significant Accounting Policies (continued)

X. Prior Period Adjustment (continued)

| | Debit/(Credit) Balance | | |
|---|------------------------|-------------------------|-------------|
| | As Originally Stated | Adoption of GASB No. 73 | As Restated |
| General Fund: | | | |
| Investments | \$ - | \$ 95,985 | \$ 95,985 |
| Restricted fund balance | (1,115,793) | (95,985) | (1,211,778) |
| Total fund balance | (5,838,470) | (95,985) | (5,934,455) |
| Governmental Activities | | | |
| Investments | - | 95,985 | 95,985 |
| Deferred outflows - Service Award Program | - | 31,935 | 31,935 |
| Pension liability - Service Award Program | - | (71,288) | (71,288) |
| Restricted net position | (1,914,180) | (56,632) | (1,970,812) |
| Total net position | (4,991,840) | (56,632) | (5,048,472) |

Note 2. Cash and Investments

The Village's investment policies are governed by state statutes. In addition, the Village has its own written investment policy. Village monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Village is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The written investment policy requires repurchase agreements to be purchased from banks located within the state and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least 100% of the cost of the repurchasing agreement.

The Village participates in a multi-municipal cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. These investments are highly liquid and considered to be cash equivalents. The pool is authorized to invest in various securities issued by the United States and its agencies. The Village's share of investment at May 31, 2018 was \$695,910. This amount represents the cost of the investment pool shares and is considered to approximate market value. These investments are not subject to risk categorization and are not subject to fair market measurement disclosures as they meet the criteria for an external investment pool.

Total investments of the cooperative as of June 30, 2017 were \$489,674,002, which consisted of \$166,914,400 in repurchase agreements and \$322,759,602 in U.S. Government Treasury Securities. The New York Cooperative Liquid Asset Securities System (NYCLASS) is rated AAAM by Standard and Poor's Rating Agency. Additional information concerning NYCLASS is presented in the annual report of 2017, available at:

https://www.newyorkclass.org/uploads/NYCLASS%202017%20Annual%20Report_FINAL.pdf

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 2. Cash and Investments (continued)

Bank balances for the Village’s cash at May 31, 2018 consisted of:

| | |
|--|----------------------------|
| Checking - interest bearing | \$ 4,375,653 |
| Checking - non-interest bearing | 3,000,219 |
| Savings - interest bearing | 13,750 |
| CLASS accounts - interest bearing | <u>695,910</u> |
| Total balances | <u><u>\$ 8,085,532</u></u> |
| | |
| Amount FDIC insured | \$ 359,973 |
| Collateral held by Village's custodial banks | 7,029,649 |
| CLASS accounts | <u>695,910</u> |
| | <u><u>\$ 8,085,532</u></u> |

Custodial credit risk for deposits exist when, in the event of the failure of a depository financial institution, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- Uncollateralized,
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the Village’s name.

At May 31, 2018 the cash in banks were entirely collateralized by the FDIC insurance, FHLB/LOC or securities held by the bank, in trust or third party, in the name of the Village.

Note 3. Budget Basis of Accounting

The Mayor 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 in 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 of \$227,364.

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.

See independent auditors’ report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 4. Real Property Taxes

Real property taxes are levied annually no later than May 15th and become a lien on the first day of the levy year. Taxes are collected during the period June 1st to July 1st without penalty or interest. Thereafter penalty and interest are imposed pursuant to the Real Property Tax Law.

After the return of tax warrant and certification to the Board of Trustees of the uncollected tax items, an annual sale of the tax liens is held pursuant to the provisions of the Real Property Tax Law.

Note 5. Interfund Receivables, Payables and Transfers

Interfund receivables and payables - At May 31, 2018, the statements of the Village include a net of balances due to/from other funds in the amount of \$129,488 as detailed below. Receivables in the general fund represent year end expenditures that have not yet been reimbursed, and are short term in nature.

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|--|----------------------|-------------------|
| General fund | Fiduciary fund | \$ 164,674 |
| Fiduciary fund | Special Revenue fund | (33,874) |
| Fiduciary fund | Permanent fund | (1,311) |
| Total - fund financial statements | | <u>129,489</u> |
| Less: fund eliminations | | <u>-</u> |
| Total net interfund balances - government-wide statement of net position | | <u>\$ 129,489</u> |

The Village typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund balances are expected to be repaid in one year.

Interfund transfers – A schedule of interfund transfers for the year ended May 31, 2018, is as follows:

| <u>Receiving fund</u> | <u>Paying fund</u> | <u>Amount</u> |
|-----------------------------------|--------------------|-------------------|
| Capital Projects fund | General fund | \$ 208,000 |
| Total - fund financial statements | | <u>\$ 208,000</u> |

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 6. Changes in Capital Assets

A summary of capital assets transactions for the year ended May 31, 2018 is as follows:

| | Beginning Balance | Additions/ Transfers | Retirements/ Transfers | Ending Balance |
|---|----------------------|-------------------------|---------------------------|----------------------|
| Non-Depreciable Capital Assets: | | | | |
| Land | \$ 557,249 | \$ - | \$ - | \$ 557,249 |
| Total Non-Depreciable Capital Assets | <u>557,249</u> | <u>-</u> | <u>-</u> | <u>557,249</u> |
| Depreciable Capital Assets: | | | | |
| Land improvements | 586,079 | 197,889 | (2,876) | 781,092 |
| Infrastructure | 10,631,195 | 350,693 | - | 10,981,888 |
| Structures | 9,402,127 | 19,909 | - | 9,422,036 |
| Machinery and equipment | 1,447,287 | 50,744 | (8,000) | 1,490,031 |
| Vehicles and equipment | 2,840,388 | 59,386 | (75,472) | 2,824,302 |
| Other building improvements | 222,496 | - | - | 222,496 |
| Total Depreciable Capital Assets | <u>25,129,572</u> | <u>678,621</u> | <u>(86,348)</u> | <u>25,721,845</u> |
| Accumulated Depreciation: | | | | |
| Land improvements | 456,203 | 15,050 | (1,512) | 469,741 |
| Infrastructure | 8,830,557 | 121,796 | - | 8,952,353 |
| Structures | 3,481,286 | 277,749 | - | 3,759,035 |
| Machinery and equipment | 1,106,469 | 61,638 | (8,000) | 1,160,107 |
| Vehicles and equipment | 1,630,179 | 160,788 | (75,472) | 1,715,495 |
| Other building improvements | 73,838 | 11,125 | - | 84,963 |
| Total Accumulated Depreciation | <u>15,578,532</u> | <u>\$ 648,146</u> | <u>\$ (84,984)</u> | <u>16,141,694</u> |
| Depreciable Capital Assets Net of Accumulated Depreciation | <u>9,551,040</u> | | | <u>9,580,151</u> |
| Total Net Capital Assets | <u>\$ 10,108,289</u> | | | <u>\$ 10,137,400</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|--|-------------------|
| General government | \$ 135,348 |
| Police and fire department | 243,238 |
| Roads and highways | 193,018 |
| Beaches, parks and recreation | 73,717 |
| Building department | <u>2,825</u> |
| Total governmental activities depreciation expense | <u>\$ 648,146</u> |

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 7. Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended May 31, 2018.

| | Beginning Balance* | Increases | Reductions | Ending Balance | Due in one year |
|--|-----------------------|---------------------|---------------------|----------------------|--------------------|
| Serial bonds | \$ 1,050,000 | \$ - | \$ 415,000 | \$ 635,000 | \$ 420,000 |
| Net pension liability - NYSLRS | 1,414,658 | - | 738,619 | 676,039 | - |
| Pension liability - Service Award Program | 71,288 | 31,974 | - | 103,262 | - |
| Compensated absences | 1,699,233 | 134,933 | - | 1,834,166 | - |
| Other post-employment benefits | 9,148,863 | 1,430,121 | 407,160 | 10,171,824 | - |
| Totals | \$ 13,384,042 | \$ 1,597,028 | \$ 1,560,779 | \$ 13,420,291 | \$ 420,000 |

*Refer to Note 1X for details of restated balances.

Increases and decreases to compensated absences are shown net since it is impractical to determine these items separately.

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

Serial Bonds - The Village borrows money in order to acquire land, equipment, to construct roads and other improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of these capital assets. These long-term liabilities are full faith and credit debt of the Village. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

The following is a schedule of general obligation and revenue bonds:

| Description of Issue | Original Issue | Issued Date | Final Maturity Date | Interest Rate | Balance Outstanding |
|----------------------|----------------|-------------|------------------------|---------------|------------------------|
| Village office | \$ 2,500,000 | 6/1/2003 | 6/1/2018 | 2.75%-3.5% | \$ 215,000 |
| Village office | 500,000 | 11/15/2004 | 9/15/2019 | 3.5%-3.625% | 84,000 |
| Fire house | 1,000,000 | 11/15/2004 | 9/15/2019 | 3.5%-3.625% | 168,000 |
| Dune Road | 1,000,000 | 11/15/2004 | 9/15/2019 | 3.5%-3.625% | 168,000 |
| | | | | | \$ 635,000 |

Future principal and interest payments to maturity are as follows:

| Year ending May 31, | Principal | Interest | Total |
|------------------------|-------------------|------------------|-------------------|
| 2019 | \$ 420,000 | \$ 15,272 | \$ 435,272 |
| 2020 | 215,000 | 3,897 | 218,897 |
| Total | \$ 635,000 | \$ 19,169 | \$ 654,169 |

Other Long-term Liabilities

In addition to the above long term debt, the local government has the following non-current liabilities:

Net pension liability - NYSLRS – The Village reports as an asset/liability its proportionate share of the collective net pension asset and/or liability in the New York State & Local Retirement System. Additional information can be found subsequently in these notes.

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 7. Long Term Liabilities (continued)

Pension liability – Service Award Program – The Village reports as a liability its actuarially determined total pension liability for service award program benefits. Additional information can be found subsequently in these notes.

Compensated Absences – Village employees are granted vacation and sick leave and earn compensatory absences in varying amounts based primarily on length of service and service position. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations. As of May 31, 2018, \$1,834,166 of such benefits have been earned and vested. Of this amount, \$1,115,793 has already been funded and is reported in the general fund as employee benefit reserve.

Other Postemployment Benefits – In addition to providing retirement benefits, the Village provides postemployment health insurance coverage for retired employees. Additional information can be found subsequently in these notes.

Note 8. Pension Plans

State Wide Local Government Retirement System

Plan Description

The Village participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance plan collectively known as NYSLRS. These are cost-sharing multiple-employer retirement systems. The NYSLRS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute 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 (the "Comptroller") serves as sole trustee and administrative head of the NYSLRS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSLRS and for the custody and control of its funds. The NYSLRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at www.osc.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 NYSLRS is noncontributory for employees who joined the New York State and Local Employees' Retirement System before July 27, 1976. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 (ERS) and January 9, 2010 (PFRS) and before April 1, 2012 are required to contribute 3% of their salary throughout their active membership. Those joining on or after April 1, 2012 (both ERS and PFRS) are required to contribute between 3% and 6%, depending upon their salary, throughout their active membership. 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 at an actuarially determined rate. The required contributions for the current year and two preceding years were equal to 100% of the contributions required and were as follows:

| | <u>ERS</u> | <u>PFRS</u> |
|------|------------|-------------|
| 2018 | \$ 149,298 | \$ 482,846 |
| 2017 | 147,711 | 481,381 |
| 2016 | 158,822 | 527,251 |

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 8. Pension Plans (continued)

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

At May 31, 2018, the Village reported a liability of \$676,039 for its proportionate share of the net pension liability for both of the NYSLRS plans. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2017. The Village's proportion of the net pension liability was based on a projection of the Village's long-term share of contributions to the pension plans relative to the projected contributions of all participating members, actuarially determined. This information was derived from reports provided by the NYSLRS to the Village:

| | <u>ERS</u> | <u>PFRS</u> |
|---|---------------|---------------|
| Actuarial valuation date | April 1, 2017 | April 1, 2017 |
| Net pension liability | 133,411 | 542,628 |
| Village's portion of the Plan's total net pension expense | 0.0041336% | 0.0536854% |

For the year ended May 31, 2018 the Village recognized pension expense of \$159,559 for ERS and \$560,713 for PFRS. At May 31, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows</u> | | <u>Deferred Inflows</u> | |
|---|--------------------------|---------------------|-------------------------|---------------------|
| | <u>ERS</u> | <u>PFRS</u> | <u>ERS</u> | <u>PFRS</u> |
| Differences between expected and actual experience | \$ 47,583 | \$ 223,340 | \$ 39,320 | \$ 144,189 |
| Changes of assumptions | 88,461 | 411,139 | - | - |
| Net differences between projected and actual investment earnings on pension plan investments | 193,766 | 439,194 | 382,474 | 884,513 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 12,700 | 134,794 | 19,160 | 16,807 |
| Village's contributions subsequent to the measurement date | 24,464 | 115,276 | - | - |
| Total | \$ 366,974 | \$ 1,323,743 | \$ 440,954 | \$ 1,045,509 |

The Village's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended May 31, 2018. Other amounts reported as the net balance of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| For the year ended: | <u>ERS</u> | <u>PFRS</u> |
|---------------------|--------------------|-------------------|
| 2019 | \$ 26,834 | \$ 151,104 |
| 2020 | 18,990 | 138,701 |
| 2021 | (98,458) | (88,201) |
| 2022 | (45,811) | (66,864) |
| 2023 | - | 28,219 |
| Thereafter | - | - |
| | \$ (98,445) | \$ 162,959 |

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 8. Pension Plans (continued)

Actuarial Assumptions

The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The actuarial valuation used the following actuarial assumptions.

| | ERS | PFRS |
|---------------------------|---|---|
| Investment rate of return | 7.00% | 7.00% |
| COLA | 1.3% | 1.3% |
| Salary scale | 3.8% | 4.5% |
| Decrement tables | April 1, 2011-March 31, 2015 System's Experience | April 1, 2011-March 31, 2015 System's Experience |
| Inflation rate | 2.5% | 2.5% |

Annuitant mortality rates are based on April 1, 2011 – March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2011 – March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 (for both ERS and PFRS) are summarized below:

| Asset Type | Target Allocation | Long Term Expected Real Rate of Return |
|----------------------------|-------------------|---|
| Domestic equity | 36.00% | 4.55% |
| International equity | 14.00% | 6.35% |
| Private equity | 10.00% | 7.75% |
| Real estate | 10.00% | 5.80% |
| Absolute return strategies | 2.00% | 4.00% |
| Opportunistic portfolio | 3.00% | 5.89% |
| Real assets | 3.00% | 5.54% |
| Bonds and mortgages | 17.00% | 1.31% |
| Cash | 1.00% | -0.25% |
| Inflation index bonds | 4.00% | 1.50% |
| | 100.00% | |

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% which was unchanged from the discount rate used in the calculation of the total pension liability as of the beginning of the period. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon assumptions, the System's 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.

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
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Note 8. Pension Plans (continued)

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%, as well as what the Village’s proportionate share of the net pension liability would be if it were calculated using a discount rate that 1% point lower (6.0%) or 1% point higher (8.0%) than the current rate:

| | 1% Decrease (6.0%) | Assumptions (7.0%) | 1% Increase (8.0%) |
|--|-----------------------|-----------------------|-----------------------|
| ERS | | | |
| Village's proportionate share of the net pension liability/(asset) | \$ 1,009,407 | \$ 133,411 | \$ (607,650) |
| PFRS | | | |
| Village's proportionate share of the net pension liability/(asset) | \$ 2,657,941 | \$ 542,628 | \$ (1,231,622) |

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2018, were as follows:

| | ERS <i>(Dollars in Thousands)</i> | PFRS <i>(Dollars in Thousands)</i> | Total <i>(Dollars in Thousands)</i> |
|--|--|---|--|
| Employers' total pension liability | \$ 183,490,590 | \$ 32,914,423 | \$ 216,405,013 |
| Plan net position | 180,173,145 | 31,903,666 | 212,076,811 |
| Employers' net pension assets/(liability) | \$ (3,317,445) | \$ (1,010,757) | \$ (4,328,202) |
| Ratio of plan net position to the employers' total pension liability | 98.2% | 96.9% | 98.0% |

ERS and PFRS employer contributions are paid annually based on the System’s fiscal year which ends on March 31st. Contributions as of May 31, 2018 represent the projected employer contribution for the period of April 1, 2017 through March 31, 2018 based on estimated ERS and PFRS wages, multiplied by the employer’s contribution rate, by tier.

Service Award Program for Firefighters

The Village’s financial statements are for the fiscal year ended May 31, 2018. The information contained in this note is based on information for the Village of Quogue Service Award Program for the Program year ending on December 31, 2017, which is the most recent information available.

The Village established a defined benefit Service Award Program under Section 457(e)(11) of the Internal Revenue Code (the “Program”) effective January 1, 2015 for the active volunteer firefighter members of the Village of Quogue Fire Department. The Program was established pursuant to Article 11-A of the New York State General Municipal Law. The Program provides municipally-funded deferred compensation to volunteer firefighters to facilitate the recruitment and retention of active volunteer firefighters. The Village is the Sponsor of the Program and the Program administrator.

**INCORPORATED VILLAGE OF QUOGUE
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NOTES TO FINANCIAL STATEMENTS
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Note 8. Pension Plans (continued)

Program Description

Participating, Vesting and Service Credit

A firefighter at least 18 years old earns one year of service credit under the program for each calendar year in which he or she earns 50 or more points. A maximum of 40 years of service credit may be earned under the program. Points are granted for the performance of certain activities in accordance with a system established by the Board of Trustees on the basis of a statutory list of activities and point values contained in Article 11-A of the General Municipal Law.

Firefighters become 100% vested after earning 5 years of service credit, attaining age 60 while being an active firefighter, or becoming totally and permanently disabled or dying while an active member of the Fire Department. For vesting purposes only, credit is given to individuals for years of qualifying service under a prior, now terminated, defined contribution program.

Benefits

The program provides for a benefit paid as a 10-year certain only monthly annuity, commencing on the January 1 after a participant reaches age 60. The amount payable each month is \$20 per month for each year of service credit earned by the firefighter. Benefits are paid monthly over 10 years or, at the election of the participant, a discounted amount may be paid in a lump sum. Individuals who continue to be active firefighters after age 60 and earn the requisite 50 points in a year receive a benefit of \$2,129 for such year, in addition to any unpaid benefit accrued prior to age 60.

Fiduciary Investment and Control

Service credit for firefighters is determined by the Board of Trustees of the Village based on information certified to it by the Fire Department. The Fire Department must maintain all required records on forms prescribed by the Board of Trustees.

Program assets are required to be held in trust by Article 11-A of the General Municipal Law 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. The Village has created a trust for the program, and the Board of Trustees acts as trustee. Authority to invest program assets is vested in the Board of Trustees in compliance with Section 217(k) of Article 11-A of the General Municipal Law. Program assets are invested in accordance with a statutory “prudent person” rule. As provided in the trust agreement, the Board of Trustees has appointed East End Financial Group as investment manager for amounts contributed to the program and its independent custodian (Pershing LLC) as the custodian of the program assets.

The sponsor is required to retain an actuary to determine the amount of the sponsor’s contributions to the plan. The actuary retained by the sponsor for this purpose is Penflex, Inc. of Latham, New York. Portions of the following information are derived from a report prepared by the actuary dated May 2018.

Participants Covered by the Benefit Terms

Current membership in the Program is comprised of the following as of the measurement date:

| | |
|--|------------------|
| Inactive participants currently receiving benefit payments | 15 |
| Inactive participants entitled to but not yet receiving benefit payments | 1 |
| Active participants | <u>27</u> |
| | <u><u>43</u></u> |

See independent auditors’ report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 8. Pension Plans (continued)

Contributions – New York State General Municipal Law Section 219(d) requires the Village to contribute an actuarially determined contribution on an annual basis. The actuarially determined contribution shall be appropriated annually by the Village

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. The significant assumptions used were as follows:

| | |
|------------------------|------------------|
| Actuarial Cost Method: | Entry Age Normal |
| Inflation: | 2.25% |
| Salary Scale: | None assumed |
| Mortality rates: | None assumed |

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

| | |
|--|-------------------|
| Balance as of the 12/31/16 measurement date | \$ 71,288 |
| Service cost | 32,457 |
| Interest | 3,256 |
| Changes of assumptions or other inputs | 3,138 |
| Differences between expected and actual experience | 25,058 |
| Benefit payments | <u>(31,935)</u> |
| Net changes | <u>31,974</u> |
| Balance as of the 12/31/17 measurement date | <u>\$ 103,262</u> |

Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability of the Village as of the 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%) |
|-------------------------|------------------------|----------------------------------|------------------------|
| Total pension liability | \$ 107,816 | \$ 103,261 | \$ 97,406 |

See independent auditors’ report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 8. Pension Plans (continued)

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

For the year ended May 31, 2018, the Village recognized pension expense of \$42,123.

Components of Pension Expense:

| | |
|--|-------------------------|
| Service Cost | \$ 32,457 |
| Interest on total pension liability | 3,257 |
| Changes of assumptions or other inputs | 296 |
| Differences between expected and actual experience | 2,363 |
| Pension plan administrative expenses | <u>3,750</u> |
| Total pension expense | <u><u>\$ 42,123</u></u> |

At May 31, 2018, the Village reported deferred outflows and inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 22,693 | \$ - |
| Changes of assumptions or other inputs | 2,842 | - |
| Benefit payments and administrative expenses subsequent to the measurement date | <u>36,193</u> | <u>-</u> |
| Total | <u><u>\$ 61,728</u></u> | <u><u>\$ -</u></u> |

\$36,193 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 May 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 May 31, | |
|--------------------|-------------------------|
| 2019 | \$ 2,660 |
| 2020 | 2,660 |
| 2021 | 2,660 |
| 2022 | 2,660 |
| 2023 | 2,660 |
| Thereafter | <u>12,235</u> |
| | <u><u>\$ 25,535</u></u> |

See independent auditors' report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 9. Other Post-Employment Benefits - (OPEB)

Plan Description

The Village sponsors a single employer healthcare plan that provides postemployment medical benefits for eligible retirees and their spouses through the New York State Health Insurance Plan (NYSHIP) (the “Plan”). Substantially all of the Village’s employees may become eligible for these benefits if they reach normal retirement age while working for the Village. The Village does not issue a publicly available financial report for the plan; however, the financial activities of NYSHIP are included with the financial statements of the State of New York.

Funding Policy

The Plan provides a specified percentage of the retiree health premium (and, if applicable, the retiree’s spouse’s premium) charged by the insurance carrier that is paid by the Village. Beginning June 1, 2010, retired participants are provided with health coverage under the Empire Plan. Within the Empire Plan, family and individual options are available.

The Empire Plan requires coordination with Medicare Part B once a retiree is eligible for Medicare. In these situations, the Village reimburses 100% of the retiree’s Medicare Part B premium in addition to a specified portion of the health insurance premium. In cases where family coverage is applicable, the Village also reimburses 100% of the spouse’s Medicare Part B premium.

Upon death of the retiree, the Village continues to pay the Empire premium and reimburse the Medicare Part B premium for surviving spouses.

For current retirees the Village pays 100% of the Empire premium and reimburses 100% of the Medicare Part B premium for all retirees and their spouses. These benefits remain in effect for surviving spouses.

Upon retirement of currently active employees, the Village will pay 100% of the Empire premium and will reimburse 100% of the Medicare Part B premium for all employees and the employee’s spouse, if applicable. Pursuant to a collective bargaining agreement governing Village police officers executed in the prior fiscal year, commencing September 2016, officers hired after May 31, 2015 will contribute 15% of health insurance premiums during employment and subsequent retirement. Pursuant to a collective bargaining agreement governing the Village Highway Department, personnel hired after June 1, 2018 will contribute 15% of health insurance premiums, up to 4% of salary. The requirement to pay 15% will continue after retirement.

At this time there is no New York State statute providing local governments with the authority for establishing a postemployment benefits trust. Since the Village cannot fund the OPEB liability at this time, the required contribution is based on a projected pay-as-you-go financing requirement. The contribution requirements of Plan members and the Village are established by the Board of Trustees. For the year ended May 31, 2018, the Village recognized a general fund expenditure of \$407,160 for currently enrolled retirees.

Annual OPEB Cost and Net OPEB Obligation

The Village’s annual other post-employment benefit (OPEB) cost (expense) is calculated on the annual required contribution of the employer (ARC). The Village has elected to calculate the ARC and related information using the projected unit credit cost method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Village’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Village’s net OPEB obligation to the retirees:

See independent auditors’ report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 9. Other Post-Employment Benefits - (OPEB) (continued)

| | |
|--|----------------------|
| Annual required contribution | \$ 1,573,002 |
| Interest on net OPEB obligation | 365,955 |
| Adjustment to annual required contribution | <u>(508,835)</u> |
| Annual OPEB cost (expense) | 1,430,122 |
| Age adjusted contributions made | <u>(407,160)</u> |
| Change in net OPEB obligation | 1,022,962 |
| Net OPEB obligation - beginning of year | <u>9,148,862</u> |
| Net OPEB obligation - end of year | <u>\$ 10,171,824</u> |

The Village’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for current fiscal year and two preceding years are as follows:

| Year Ended | Annual Required Contribution | Annual OPEB Cost | OPEB Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------|------------------------------------|---------------------|----------------------|---|------------------------|
| 2018 | \$ 1,573,002 | \$ 1,430,122 | \$ 407,160 | 28% | \$ 10,171,824 |
| 2017 | \$ 1,573,002 | \$ 1,446,551 | \$ 394,497 | 27% | \$ 9,148,863 |
| 2016 | \$ 1,573,002 | \$ 1,464,372 | \$ 323,263 | 22% | \$ 8,096,809 |

Funding Status and Funding Progress

As of June 1, 2015, the last valuation date, the actuarial accrued liability for benefits was \$16,567,365, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$2,449,699, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.76.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

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

For the May 31, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for the unfunded portion, and an annual healthcare cost rate of 9.0% grading down to 5.0% and Medicare Part B Premiums 7.0% grading down to 5.0%.

Based on the historical and expected returns of the Village’s short-term investment portfolio, a discount rate of 4% was used. In addition, the Village elected to use the projected unit credit actuarial cost method as allowed by GASB Statement No. 45. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at May 31, 2018, is twenty-one years.

See independent auditors’ report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 10. Fair Value Measurements

The Village categorizes its fair value measurements into the fair value hierarchy established by GASB Statement No. 72. The three levels of inputs used to measure fair value are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Village has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 – Inputs to the valuation methodology are unobservable inputs and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value:

Cash and Money Market: The carrying amount approximates fair value because of the short maturity of the instruments.

Equities, Bonds, Exchange Traded Funds and Mutual Funds: Reported at current quoted fair values.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

The following table summarizes as of May 31, 2018, the investments held for the Village’s service award program for firefighters, and categorization with the fair value measurement hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------|-------------------|----------------|----------------|-------------------|
| Cash and money market | \$ 3,685 | \$ - | \$ - | \$ 3,685 |
| Bonds | 127,064 | - | - | 127,064 |
| Mutual funds | 4,967 | - | - | 4,967 |
| | <u>\$ 135,716</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 135,716</u> |

See independent auditors’ report.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 11. Commitments and Contingencies

Federal and State Grants

The Village is a recipient of a number of federal and state grants. These grants are administered by various agencies. These grants are subject to various compliance and financial audits by the respective agencies administering the grants, which could result in certain disallowances. The Board believes that they have substantially complied with the rules and regulations as specified under the various grant agreements as well as rules and regulation of the respective agency for each grant.

Tax Certiorari

There are presently pending against the Incorporated Village of Quogue a number of real property tax review proceedings requesting reductions in assessed valuations of various properties for both past and current years. The financial exposures in these cases are indeterminable at this time.

Other

The Village is subject to litigation in the ordinary conduct of its affairs. Management does not believe however, that such litigation, individually or in the aggregate, is likely to have a material effect on the financial statements.

Joint Tenancy

The Village, as a joint tenant with the Town of Southampton, purchased a house on Dune Road, Quogue to be used as a beach pavilion by the Village residents.

Leases

The Village leases space for telecommunication transmission equipment to various telecommunication companies. Under the lease agreements, the initial lease term is 5 years, with options to extend for various 5 year periods. The Village currently has four of these lease agreements. Annual lease income from these agreements is expected as follows:

| Year ended May 31, | |
|--------------------|-------------------|
| 2019 | \$ 174,238 |
| 2020 | 191,489 |
| 2021 | 197,762 |
| 2022 | 151,746 |
| 2023 | <u>151,572</u> |
| | <u>\$ 866,807</u> |

Note 12. Subsequent Events

The Village has evaluated events and transactions that occurred through November 28, 2018 which is the date the financial statements were issued, for possible disclosure and recognition in the financial statements.

Note 13. Recent Accounting Principles

The GASB has issued the following Statements which will be effective in future years:

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.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK – STATE OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018**

Note 12. Recent Accounting Principles (continued)

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

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

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

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

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard will improve the information disclosed in the notes to the financial statements related to indebtedness and clarifies liabilities that arise from contractual obligations. 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*. This standard will establish accounting requirements for interest cost incurred before the end of a construction period that was previously accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of this standard are effective for the Village beginning after December 15, 2019.

The Village is currently evaluating the impact of these statements on the financial statements, and does not expect a material impact upon adoption.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUND
MAY 31, 2018**

| | <u>BUILDINGS</u> | <u>FIRE DEPARTMENT</u> | <u>HIGHWAY</u> | <u>POLICE DEPARTMENT</u> | <u>TOTAL</u> |
|--|-------------------|----------------------------|-------------------|------------------------------|-------------------|
| ASSETS: | | | | | |
| Cash | \$ 166,100 | \$ 190,829 | \$ 160,208 | \$ 165,841 | \$ 682,978 |
| TOTAL ASSETS | <u>\$ 166,100</u> | <u>\$ 190,829</u> | <u>\$ 160,208</u> | <u>\$ 165,841</u> | <u>\$ 682,978</u> |
| LIABILITIES: | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES: | | | | | |
| Restricted | | | | | |
| Buildings | 166,100 | - | - | - | 166,100 |
| Fire department | - | 190,829 | - | - | 190,829 |
| Highway | - | - | 160,208 | - | 160,208 |
| Police department | - | - | - | 165,841 | 165,841 |
| TOTAL FUND BALANCES | <u>166,100</u> | <u>190,829</u> | <u>160,208</u> | <u>165,841</u> | <u>682,978</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 166,100</u> | <u>\$ 190,829</u> | <u>\$ 160,208</u> | <u>\$ 165,841</u> | <u>\$ 682,978</u> |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED MAY 31, 2018**

| | <u>BUILDINGS</u> | <u>FIRE DEPARTMENT</u> | <u>HIGHWAY</u> | <u>POLICE DEPARTMENT</u> | <u>TOTAL</u> |
|---|-------------------|----------------------------|-------------------|------------------------------|-------------------|
| REVENUES: | | | | | |
| Interest earnings | \$ 1,046 | \$ 1,243 | \$ 958 | \$ 1,044 | \$ 4,291 |
| Sale of property and compensation for loss | - | - | 12,627 | - | 12,627 |
| TOTAL REVENUES | <u>1,046</u> | <u>1,243</u> | <u>13,585</u> | <u>1,044</u> | <u>16,918</u> |
| OTHER FINANCING SOURCES: | | | | | |
| Transfers from general fund | 30,000 | 88,000 | 60,000 | 30,000 | 208,000 |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | <u>31,046</u> | <u>89,243</u> | <u>73,585</u> | <u>31,044</u> | <u>224,918</u> |
| EXPENDITURES: | | | | | |
| Capital outlay | - | 45,540 | - | - | 45,540 |
| TOTAL EXPENDITURES | <u>-</u> | <u>45,540</u> | <u>-</u> | <u>-</u> | <u>45,540</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES | 31,046 | 43,703 | 73,585 | 31,044 | 179,378 |
| FUND BALANCES - BEGINNING | <u>135,054</u> | <u>147,126</u> | <u>86,623</u> | <u>134,797</u> | <u>503,600</u> |
| FUND BALANCES - ENDING | <u>\$ 166,100</u> | <u>\$ 190,829</u> | <u>\$ 160,208</u> | <u>\$ 165,841</u> | <u>\$ 682,978</u> |

See independent auditors' report and notes to the financial statements.

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (unaudited)
FOR THE YEAR ENDED MAY 31, 2018**

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded Liability (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>Unfunded Liability as a Percentage of Covered Payroll</u> |
|---------------------------------|--------------------------------------|--|--------------------------------------|---------------------|------------------------|--|
| June 1, 2015 | \$ - | \$ 16,567,365 | \$ 16,567,365 | 0.00% | \$ 2,449,699 | 676% |
| June 1, 2012 | \$ - | \$ 13,430,937 | \$ 13,430,937 | 0.00% | \$ 3,098,662 | 433% |
| May 31, 2010 | \$ - | \$ 13,804,766 | \$ 13,804,766 | 0.00% | \$ 2,981,711 | 463% |

The next valuation date will be at 6/1/18

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (unaudited)
GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2018**

| | <u>Original Budget</u> | <u>Modified Budget</u> | <u>Actual</u> | <u>Encumbrances</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------------|----------------------------|---------------------|---------------------|---|
| REVENUES: | | | | | |
| Real property taxes | \$ 6,764,332 | \$ 6,764,332 | \$ 6,758,106 | | \$ (6,226) |
| Other tax items | 25,000 | 25,000 | 22,931 | | (2,069) |
| Non property tax items | 122,800 | 122,800 | 65,112 | | (57,688) |
| Departmental income | 413,500 | 413,500 | 441,964 | | 28,464 |
| Intergovernmental charges | 38,500 | 38,500 | 15,897 | | (22,603) |
| Use of money and property | 219,200 | 219,200 | 244,140 | | 24,940 |
| Licenses and permits | 24,000 | 24,000 | 34,352 | | 10,352 |
| Fines and forfeitures | 92,000 | 92,000 | 92,198 | | 198 |
| Sale of property and compensation for loss | 2,000 | 104,724 | 141,983 | | 37,259 |
| Miscellaneous local sources | 17,500 | 17,500 | 154,330 | | 136,830 |
| State aid | 488,700 | 488,700 | 650,342 | | 161,642 |
| TOTAL REVENUES | 8,207,532 | 8,310,256 | \$ 8,621,355 | | \$ 311,099 |
| OTHER FINANCING SOURCES | | | | | |
| Appropriated fund balance | 200,000 | 324,640 | | | |
| Prior year encumbrances | 40,776 | 40,776 | | | |
| TOTAL REVENUE AND OTHER FINANCING SOURCES | \$ 8,448,308 | \$ 8,675,672 | | | |
| EXPENDITURES: | | | | | |
| General government support | 1,082,942 | \$ 1,185,666 | \$ 1,029,649 | \$ - | \$ 156,017 |
| Public safety | 3,049,946 | 3,109,946 | 3,052,725 | 50,744 | 6,477 |
| Health | 1,000 | 1,000 | 510 | - | 490 |
| Transportation | 906,742 | 1,031,382 | 906,884 | 4,600 | 119,898 |
| Culture and recreation | 198,740 | 198,740 | 170,986 | 1,430 | 26,324 |
| Home and community services | 137,800 | 142,800 | 125,981 | 14,800 | 2,019 |
| Employee benefits | 2,418,000 | 2,353,000 | 2,247,272 | - | 105,728 |
| Debt Service | | | | | |
| Principal | 415,000 | 415,000 | 415,000 | - | - |
| Interest | 30,138 | 30,138 | 30,138 | - | - |
| TOTAL EXPENDITURES | 8,240,308 | 8,467,672 | 7,979,145 | 71,574 | 416,953 |
| OTHER FINANCING USES: | | | | | |
| Transfer to reserve funds | 208,000 | 208,000 | 208,000 | - | - |
| TOTAL EXPENDITURES AND OTHER FINANCING USES | \$ 8,448,308 | \$ 8,675,672 | \$ 8,187,145 | \$ 71,574 | \$ 416,953 |

See independent auditors' report and notes to the financial statements.

INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
SCHEDULE OF THE VILLAGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (unaudited)
MAY 31, 2018

| NYSLRS Pension Plan | 2018 | 2017 | 2016 |
|--|------------|------------|------------|
| Village's proportion of the net pension liability | | | |
| ERS | 0.0041336% | 0.0039633% | 0.0038074% |
| PFRS | 0.0536854% | 0.0502861% | 0.0559362% |
| Village's proportionate share of the net pension liability | | | |
| ERS | \$ 133,411 | \$ 372,404 | \$ 611,101 |
| PFRS | 542,628 | 1,042,254 | 1,656,151 |
| | 676,039 | 1,414,658 | 2,267,252 |
| Village's covered-employee payroll | | | |
| ERS | 997,945 | 976,720 | 926,133 |
| PFRS | 2,041,635 | 2,047,017 | 2,097,352 |
| | 3,039,580 | 3,023,737 | 3,023,485 |
| Village's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | | |
| ERS | 13.37% | 38.13% | 65.98% |
| PFRS | 26.58% | 50.92% | 78.96% |
| Plan fiduciary net position as a percentage of the total pension liability | | | |
| ERS | 98.24% | 94.70% | 90.68% |
| PFRS | 96.93% | 93.50% | 90.24% |

See independent auditors' report and notes to the financial statements

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
SCHEDULE OF THE VILLAGE'S PENSION CONTRIBUTIONS - ERS (unaudited)
FOR THE YEARS ENDED MAY 31,**

| <u>NYSLRS Pension Plan</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|
| Contractually required contribution | \$ 149,298 | \$ 147,711 | \$ 158,822 | \$ 186,245 | \$ 170,416 | \$ 165,829 | \$ 153,565 | \$ 99,133 | \$ 67,589 | \$ 74,863 |
| Contributions in relation to the contractually required contribution | <u>149,298</u> | <u>147,711</u> | <u>158,822</u> | <u>186,245</u> | <u>170,416</u> | <u>165,829</u> | <u>153,565</u> | <u>99,133</u> | <u>67,589</u> | <u>74,863</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Village's covered-employee payroll | \$ 997,945 | \$ 976,720 | \$ 926,133 | \$ 969,477 | \$ 913,784 | \$ 855,203 | \$ 843,203 | \$ 806,102 | \$ 839,234 | \$ 787,262 |
| Contributions as a percentage of covered-employee payroll | 15.0% | 15.1% | 17.1% | 19.2% | 18.6% | 19.4% | 18.2% | 12.3% | 8.1% | 9.5% |

See independent auditors' report and notes to the financial statements

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
SCHEDULE OF THE VILLAGE'S PENSION CONTRIBUTIONS - PFRS (unaudited)
FOR THE YEARS ENDED MAY 31,**

| <u>NYSLRS Pension Plan</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required contribution | \$ 482,846 | \$ 481,381 | \$ 527,251 | \$ 539,608 | \$ 638,204 | \$ 438,727 | \$ 378,720 | \$ 224,234 | \$ 258,449 | \$ 207,646 |
| Contributions in relation to the | 482,846 | 481,381 | 527,251 | 539,608 | 638,204 | 438,727 | 378,720 | 224,234 | 258,449 | 207,646 |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Village's covered-employee payroll | \$ 2,041,635 | \$ 2,047,017 | \$ 2,097,352 | \$ 2,047,829 | \$ 2,075,802 | \$ 1,783,300 | \$ 1,750,146 | \$ 1,581,115 | \$ 1,812,472 | \$ 1,641,119 |
| Contributions as a percentage of covered-employee payroll | 23.6% | 23.5% | 25.1% | 26.4% | 30.7% | 24.6% | 21.6% | 14.2% | 14.3% | 12.7% |

See independent auditors' report and notes to the financial statements

**INCORPORATED VILLAGE OF QUOGUE
COUNTY OF SUFFOLK - STATE OF NEW YORK
SCHEDULE OF CHANGES IN THE VILLAGE'S TOTAL PENSION LIABILITY (unaudited)
MAY 31, 2018**

| | |
|--|-----------------|
| Total Pension Liability | |
| Service Cost | \$ 32,457 |
| Interest | 3,256 |
| Changes of assumptions or other inputs | 3,138 |
| Differences between expected and actual experience | 25,057 |
| Benefit payments | <u>(31,935)</u> |
| Net change in total pension liability | 31,973 |
| Total Pension Liability - Beginning | <u>71,288</u> |
| Total Pension Liability - Ending | \$ 103,261 |
| Covered - employee payroll | N/A |
| Total pension liability as a percentage of covered-employee payroll | N/A |

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

Notes to Required Supplementary Information

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%

Trust Assets:

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73 to pay related benefits.