STATEMENT

OF

ANNUAL FINANCIAL AND OPERATING INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2018

EAST HAMPTON UNION FREE SCHOOL DISTRICT

SUFFOLK COUNTY, NEW YORK

DATED: DECEMBER 1, 2018

EAST HAMPTON UNION FREE SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK

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* * *

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STATEMENT OF ANNUAL FINANCIAL AND OPERATING INFORMATION

EAST HAMPTON UNION FREE SCHOOL DISTRICT SUFFOLK COUNTY, NEW YORK

The material set forth herein, including the cover page, has been prepared by the East Hampton Union Free School District, Suffolk County, New York (the "District", the "County", and the "State", respectively) in connection with its obligation to prepare and submit such material in accordance with its Continuing Disclosure Undertaking and the Official Statements having been prepared in connection with the sale and issuance of the following bond issues.

$47,195,000 School District Refunding Serial Bonds - 2017

THE DISTRICT

Description

The District is located in the southeastern section of Suffolk County, approximately 100 miles from New York City. The District lies wholly in the Town of East Hampton (the "Town") and includes the Village of East Hampton (the "Village") within its boundaries. The District has a land area of approximately 39 square miles and a current estimated population of 8,500.

The District provides educational services for grades K-12 to District residents. In addition, the District educates students for grades 9-12 on a tuition basis from the Sagaponack, Wainscott, Springs, Amagansett and Montauk School Districts.

The District is an affluent residential community made up of mostly single-family dwellings. According to the 2016 U.S. Census, median housing values for the Town and Village are well above County, State and U.S. averages.

The District is a popular summer resort area. With the Atlantic Ocean being the southern boundary of the District and Gardiners Bay and Three Mile Harbor being the northern boundaries, residents and vacationers are afforded numerous recreational facilities including fishing, swimming and boating. County parks provide picnicking and camping activities and two golf clubs are also located within the District boundaries. The "downtown" section of the District is an active shopping area with many exclusive boutiques and restaurants which attract patrons from neighboring communities.

Rail transportation is provided by the Long Island Railroad, with a station located in the Town. Highways include New York State Route 27 and various County and Town roads. The Hampton Jitney provides bus transportation to surrounding communities and to New York City.

District residents are provided gas and electric through PSEG Long Island and KeySpan Energy Delivery. Water is furnished by the Suffolk County Water Authority or by individual wells. Fire protection is furnished by local volunteer fire departments and police protection is provided by the Village, the Town, and the Suffolk County Police Department.

District Organization

The District is an independent entity governed by an elected board of education comprised of seven members. District operations are subject to the provisions of the Education Law affecting school districts; other statutes applicable to the District include the General Municipal Law, the Local Finance Law and the Real Property Tax Law.

Members of the Board of Education are elected on a staggered term basis by qualified voters at the annual election of the District (held on the third Tuesday in May). The term of office for each board member is 3 years and the number of terms that may be served is unrestricted. A President is selected by the Board of Education from its members and also serves as the chief fiscal officer of the District. The Board of Education is vested with various powers and duties as set forth in the Education Law. Among these are the adoption of annual budgets (subject to voter approval), the levy of real property taxes for the support of education, the appointment of such employees as may be necessary, and other such duties reasonably required to fulfill the responsibilities provided by law.

The Board of Education appoints the Superintendent of Schools who serves at the pleasure of the Board. Such Superintendent is the chief executive officer of the District and the education system. It is the responsibility of the Superintendent to enforce all provisions of law and all rules and regulations relating to the management of the schools and other educational, social and recreational activities under the direction of the Board of Education. Also, certain of the financial functions of the District are the responsibility of the Superintendent of Schools and the Assistant Superintendent for Business.

Enrollment History

The following table presents the past school enrollment for the District.

School Year	School Enrollment
2014	1,888
2015	1,886
2016	1,795
2017	1,828
2018	1,839

Source: District Officials.

Projected Future Enrollment

The following table presents the projected future school enrollment for the District.

School Year	School Enrollment
2019	1,851
2020	1,800
2021	1,815

Source: District Officials.

District Facilities

The District operates three schools and offices; statistics relating to each are shown below.

Name of School	Grades	Year Built	Capacity
East Hampton High School	9-12	1972	1,200
East Hampton Middle School	6-8	1929	470
East Hampton Elementary School	K-5	1960	600

Employees

The District provides services through approximately 364 employees who are represented by the following units of organized labor, plus non-union employees not represented.

Name of Union	Expiration Date of Contract	Approx. No. of Members
East Hampton Teachers Assoc., East Hampton School Nurses	06/30/2019	222
East Hampton School Related Professionals Assoc.	06/30/2020	129
East Hampton Administrator's Assoc.	06/30/2020	13

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Trends

The following table sets forth population statistics for the District, the Village, the Town and the County.

Year	District	Village of East Hampton	Town of East Hampton	Suffolk County
1980	-	1,886	14,029	1,284,231
1990	-	1,402	16,132	1,321,864
2000	-	1,334	19,719	1,419,369
2010	8,917	1,083	21,457	1,493,350
2016	8,535	1,220	21,888	1,498,130

Source: U.S. Bureau of the Census.

Income Data

The information set forth below with respect to such Town, County and the State is included for information purposes only. It should not be implied from the inclusion of such data in this Official Statement that the District is necessarily representative of the Town, County or the State or vice versa

	Per Capita Money Income			
	1990	2000	2010	2016[a]
District	-	-	$64,480	$71,550
Town of East Hampton	$24,285	$31,300	51,639	59,187
County of Suffolk	18,481	26,577	35,755	38,779
State of New York	16,501	23,389	30,948	34,212

	Median Household Income			
	1990	2000	2010	2016[a]
District	-	-	$84,798	$90,908
Town of East Hampton	$45,106	$60,743	76,769	85,959
County of Suffolk	49,128	65,288	84,506	90,128
State of New York	32,965	43,393	55,603	60,741

Source: United States Bureau of the Census

a. Based on American Community Survey 5-Year Estimate (2012-2016)

Unemployment Rate Statistics

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

Annual Averages:	Suffolk County (%)	New York State (%)
2013	6.5	7.7
2014	5.3	6.4
2015	4.8	5.3
2016	4.3	4.8
2017	4.5	4.7
2018 (9 Month Average)	4.3	4.4

Source: Department of Labor, State of New York

INDEBTEDNESS OF THE DISTRICT

Computation of Debt Limit and Debt Contracting Margin
(As of December 1, 2018)

In Town of:	Assessed Valuation	State Equalization Rate	Full Valuation
East Hampton (2017-2018)[a]	$94,223,282	0.57%	$16,530,400,351
Debt Limit - 10% of Full Valuation			$1,653,040,035
Inclusions:[b]			
Outstanding Bonds			$43,450,000
Refunded Bonds[c]			15,280,000
Bond Anticipation Notes			0
Total Indebtedness			58,730,000
Exclusions (Estimated Building Aid)[d]			5,873,000
Total Net Indebtedness			52,857,000
Net Debt Contracting Margin			$1,600,183,035
Per Cent of Debt Contracting Margin Exhausted			3.20%

a. The latest completed assessment roll for which a State Equalization Rate has been established.
b. Tax Anticipation Notes, Energy Performance Lease and Revenue Anticipation Notes are not included in computation of the debt contracting margin of the District.
c. The proceeds of the $47,195,000 School District Serial Bonds – 2017 were used to purchase non-callable, direct obligations of the United States of America to refinance certain outstanding bonds of the District. Such proceeds have been placed in an irrevocable trust fund until their date of redemption on June 1, 2019. The refunded bonds will continue to be general obligations of the District and may not be excluded from the debt limit.
d. Represents estimate of moneys receivable by the District from the State as an apportionment for debt service for school building purposes, based on the most recent information received by the District from the State Department of Education. The amount shown is not necessarily the amount the District will ultimately receive. The District has not applied for a building aid exclusion certificate from the Commissioner of Education and therefore may not exclude such amount from its total indebtedness on the Debt Statement form required to be filed with the Office of the State Comptroller when bonds are to be issued.

Details of Short-Term Indebtedness Outstanding

As of the date of this Statement, the District has tax anticipation notes outstanding in the amount of $14,000,000, which mature June 27, 2019. Such amount is expected to be paid with the receipt of the District's tax levy.

Trend of Outstanding Indebtedness
As at June 30:

	2014	2015	2016	2017	2018[a]
Bonds	$61,650,000	$58,445,000	$55,120,000	$51,675,000	$43,450,000
BANs	-	-	-	-	-
Other	-	-	-	-	-
Totals	$61,650,000	$58,445,000	$55,120,000	$51,675,000	$43,450,000

a. Does not include $15,280,000 in refunded bonds.

Debt Service Requirements - Outstanding Bonds[a]

Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$3,205,000	$1,769,603	$4,974,603
2020	3,365,000	1,609,353	4,974,353
2021	3,535,000	1,441,103	4,976,103
2022	3,705,000	1,264,353	4,969,353
2023	3,880,000	1,079,103	4,959,103
2024	4,070,000	885,103	4,955,103
2025	4,275,000	681,603	4,956,603
2026	4,485,000	467,853	4,952,853
2027	4,655,000	288,453	4,943,453
2028	4,765,000	190,698	4,955,698
2029	2,510,000	83,485	2,593,485
2030	1,000,000	24,500	1,024,500
Totals	$43,450,000	$9,785,205	$53,235,205

a. Does not include payments made to date. Does not include $15,280,000 in refunded bonds.

Tax Anticipation Notes

The District has generally found it necessary to borrow from time to time in anticipation of taxes, which borrowing is necessitated by the schedule of real property tax payments. The following is a history of such tax anticipation note borrowings for the five most recent fiscal years:

Fiscal Year Ending June 30:	Amount	Issue	Maturity
2015	$12,500,000	10/23/2014	06/25/2015
2016	13,500,000	11/10/2015	06/28/2016
2017	13,800,000	11/15/2016	06/27/2017
2018	14,000,000	11/08/2017	06/27/2018
2019	14,000,000	10/11/2018	06/27/2019

Authorized and Unissued Debt

On May 15, 2018, the residents of the District approved a bond referendum in the amount of $8.9 million for the purpose of acquiring land, along with the construction of a bus garage thereon for use by the District. The District expects to finance all or part of the project in the 2019-20 school year. The District is also in the preliminary stages of planning District-wide energy performance upgrades. The amounts of such improvements and the date of borrowing has yet to be determined.

Operating Leases

Below is a summary of obligations under operating lease payments. These operating leases include bus barn, copiers and office equipment.

Fiscal Year Ending June 30:	Total
2018	$349,341
2019	349,341
2020	349,341
2021	66,668
Total Lease Payments:	$1,114,691

Calculation of Estimated Overlapping and Underlying Indebtedness

Overlapping Units	Date of Report	Percentage Applicable (%)	Applicable Total Indebtedness	Applicable Net Indebtedness
County of Suffolk	05/25/2018	4.10	$95,124,281	$51,672,387
Town of East Hampton	08/07/2018	47.30	49,368,624	47,800,629
Village of East Hampton	01/05/2018	100.00	5,165,000	4,900,000
Totals			$149,657,905	$104,373,016

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

Debt Ratios
(As of December 1, 2018)

	Amount	Per Capita[a]	Percentage of Full Value (%)[b]
Total Direct Debt	$58,730,000	$6,881	0.355
Net Direct Debt	52,857,000	6,193	0.320
Total Direct & Applicable Total Overlapping Debt	208,387,905	24,416	1.261
Net Direct & Applicable Net Overlapping Debt	157,230,016	18,422	0.951

a. The current population of the District is 8,535.

b. The full valuation of taxable property is $16,466,427,895.

FINANCES OF THE DISTRICT

Independent Audit

The financial affairs of the District are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the District has complied with the requirements of various state and federal statutes. The financial statements of the District are audited each year by an independent public accountant. The last such audit covers the fiscal year ended June 30, 2018. A copy of such report is included herein as Appendix B.

Pursuant to State law, including Sections 10 and 11 of the GML, the District is generally permitted to deposit moneys in banks or trust companies located and authorized to do business in the State. All such deposits, including special time deposit accounts and certificates of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, are required to be secured in accordance with the provisions of and subject to the limitations of Section 10 of the GML.

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

All of the foregoing investments are required to be payable or redeemable at the option of the owner within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. Unless registered or inscribed in the name of the District, such instruments and investments must be purchased through, delivered to and held in custody of a bank or trust company in the State pursuant to a written custodial agreement as provided by Section 10 of the GML.

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

Fund Structure and Accounts

The General Fund is the general operating fund for the District and is used to account for substantially all revenues and expenditures of the District. The District also maintains a special aid fund and school lunch fund. In addition, a capital projects fund is used to record capital facility projects, while a trust and agency fund accounts for assets received by the District in a fiduciary capacity.

Basis of Accounting

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

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

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

Source: Audited Financials of the District.

Budget Process

The District's fiscal year begins on July 1 and ends on June 30. Starting in the fall or winter of each year, the District's financial plan and enrollment projection are reviewed and updated and the first draft of the next year's proposed budget is developed by the central office staff. During the winter and early spring, the budget is developed and refined in conjunction with the school building principals and department supervisors. The District's budget is subject to the provisions of the Tax Levy Limit Law, which imposes a limitation on the amount of real property taxes that a school district may levy, and by law is submitted to voter referendum on the third Tuesday of May each year. (See *"The Levy Limit Law"* herein).

On May 15, 2018, a majority of the voters of the District approved the District's budget for the 2018-2019 fiscal year. Summaries of the District's Adopted Budgets for the fiscal years 2017-2018 and 2018-2019 may be found in Appendix A, herein.

Revenues

The District receives most of its revenue from a real property tax on all non-exempt real property situated within the District and State aid. A summary of such revenues for the five most recently completed fiscal years may be found in Appendix A.

Real Property Taxes

See *"Tax Information"* herein.

State Aid

The District receives appropriations from the State of State aid for operating, building and other purposes at various times throughout its fiscal year, pursuant to formulas and payment schedules set forth by statute. While the State has a constitutional duty to maintain and support a system of free common schools that provides a "sound basic education" to children of the State, there can be no assurance that the State appropriation for State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. State aid appropriated and apportioned to the school districts can be paid only if the State has such monies available for such payment.

The following table sets forth the percentage of the District's General Fund revenue comprised of State aid for each of the fiscal years 2014 through 2018, and the 2019 budget.

Fiscal Year Ending June 30:	General Fund Total Revenue	State Aid	State Aid to Revenues (%)
2014	$63,637,593	$2,896,966	4.55
2015	64,048,000	2,791,281	4.36
2016	65,713,774	2,739,898	4.17
2017	66,564,766	3,161,380	4.75
2018	67,889,842	2,992,719	4.41
2019 (Budgeted)[a]	69,846,198	3,355,972	4.80

Source: Audited Financial Statements of the District and Adopted Budgets of the District.
a. Budgeted revenues include the application of reserves and fund balance.

In addition to the amount of State Aid budgeted annually by the District, the State makes payments of STAR aid representing tax savings provided by school districts to their taxpayers under the STAR Program (See "*STAR – School Tax Exemption*" herein).

The amount of State aid to school districts is dependent in part upon the financial condition of the State. During the 2012 to 2018 fiscal years of the State, State aid to school districts was paid in a timely manner; however, during the State's 2010 fiscal year, State budgetary restrictions resulted in delayed payments of State aid to school districts in the State. In addition, the availability of State aid and the timeliness of payment of State aid to school districts could be affected by a delay in the adoption of the State budget. Although the State's 2018-2019 Budget was adopted on March 30, 2018, in advance of the April 1 deadline, the State's 2017-2018 Budget was adopted on April 9, 2017, a delay of approximately 8 days. No assurance can be given that the State will not experience delays in the adoption of the budget in future fiscal years. Significant delays in the adoption of the State budget could result in delayed payment of State aid to school districts in the State which could adversely affect the financial condition of school districts in the State.

The State receives a substantial amount of federal aid for health care, education, transportation and other governmental purposes, as well as federal funding to respond to, and recover from, severe weather events and other disasters. Many of the policies that drive this federal aid may be subject to change under the federal administration and the current Congress. Current federal aid projections, and the assumptions on which they rely, are subject to revision in the future as a result of changes in federal policy.

The federal government may enact budgetary changes or take other actions that adversely affect State finances. State legislation adopted with the State's 2018-2019 Budget continues authorization for a process by which the State would manage significant reductions in federal aid during fiscal year 2018-2019 and fiscal year 2019-2020 should they arise. Specifically, the legislation allows the State Budget Director to prepare a plan for consideration by the State Legislature in the event that the federal government (i) reduces federal financial participation in Medicaid funding to the State or its subdivisions by $850 million or more; or (ii) reduces federal financial participation of other federal aid funding to the State that affects the State Operating Funds financial plan by $850 million or more, exclusive of any cuts

to Medicaid. Each limit is triggered separately. The plan prepared by the State Budget Director must equally and proportionately reduce appropriations and cash disbursements in the State's General Fund and State Special Revenue Funds. Upon receipt of the plan, the State Legislature has 90 days to prepare its own corrective action plan, which may be adopted by concurrent resolution passed by both houses, or the plan submitted by the State Budget Director takes effect automatically.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 (H.R. 1, P.L. 115-97), making major changes to the Federal Internal Revenue Code, most of which are effective in the 2018 tax year. The new federal tax law makes extensive changes to federal personal income taxes, corporate income taxes, and estate taxes, and the deductibility of various taxes and interest costs. The State's income tax system interacts with the federal system in numerous ways. The federal changes are expected to have significant flow-through effects on State tax burdens and revenues. The State's 2018-2019 Enacted Budget includes legislation decoupling certain linkages between federal and local income tax and corporate taxes, increasing the opportunities for charitable contributions, and providing an option to employers to shift to an employer compensation tax and reduce State personal income taxes. In addition, the State's 2018-2019 Enacted Budget includes legislation that grants localities the option to establish local charitable funds that would provide taxpayers with a credit against their property taxes. The District does not have plans to establish a charitable fund at this time.

Reductions in federal funding levels could have a materially adverse impact on the State budget. In addition to the potential fiscal impact of policies that may be proposed and adopted by the federal administration and Congress, the State budget may be adversely affected by other actions taken by the federal government, including audits, disallowances, and changes to federal participation rates or other Medicaid rules.

There can be no assurance that the State's financial position will not change materially and adversely from current projections. If this were to occur, the State would be required to take additional gap-closing actions. Such actions may include, but are not limited to: reductions in State agency operations; delays or reductions in payments to local governments or other recipients of State aid including school districts in the State. Reductions in the payment of State aid could adversely affect the financial condition of school districts in the State.

Should the District fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies or by a mid-year reduction in State aid, the District is authorized by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of uncollected State aid.

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

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

Litigation is continuing however as a statewide lawsuit entitled *NYSER* v. *State of New York* has been filed recently on behalf of the State's public-school students. The lawsuit asserts that the State has failed to comply with the decision of the New York State Court of Appeals in *CFE* v. *State of New York*. The complaint asks the court for an order requiring the State to immediately discontinue the cap on State aid increases and the supermajority requirements regarding increases in local property tax levies. The complaint also asks the court to order the State to develop a new methodology for determining the actual costs of providing all students the opportunity for a sound basic education, revise the State funding formulas to ensure that all schools receive sufficient resources, and ensure a system of accountability that measures whether every school has sufficient resources and that all students are, in fact, receiving the opportunity to obtain a sound basic education. On June 27, 2017, the Court of Appeals ruled that NYSER's claims that students in New York City and Syracuse are being denied the opportunity for a sound basic education could go to trial and that NYSER could rely upon the CFE decision in its arguments. It is not possible to predict the outcome of this litigation.

Recent Events Affecting State Aid to New York School Districts

Following a State budgetary crisis in 2009, State aid to school districts in the State decreased for a number of years with increased established in more recent years.

School district fiscal year (2013-2014): The State Legislature adopted the State budget on March 29, 2013. The budget included an increase of $936.6 million in State aid for school districts.

School district fiscal year (2014-2015): The State Legislature adopted the State budget on March 31, 2014. The State's 2014-2015 Budget included a $1.1 billion or 5.3% increase in State aid to school districts for the 2014-2015 school year. High-need school districts received 70% of the State aid increase. The State's 2014-2015 Budget restored $602 million of Gap Elimination Adjustment reductions that had been imposed on school districts from 2010-2011 to 2012-2013. The State's 2014-2015 Budget invested $1.5 billion over five years to support the phase-in of a Statewide universal full-day pre-kindergarten program.

School district fiscal year (2015-2016): The State Legislature adopted the State budget on March 31, 2015. Said budget included an increase of $1.4 billion in State aid for school districts that was tied to changes in the teacher evaluation and tenure process.

School district fiscal year (2016-2017): The State's 2016-2017 Budget included a school aid increase of $991 million over 2015-2016, $863 million of which consisted of traditional operating aid. In addition to full-funding of expense based aids ($408 million), the State's 2016-2017 Budget included a $266 million increase in Foundation Aid and an $189 million restoration to the Gap Elimination Adjustment (the "GEA"). The majority of the remaining increase ($100 million) related to Community Schools Aid, a newly adopted aid category, to support school districts that wish to create community schools. Such funds may only be used for certain purposes such as providing health, mental health and nutritional services to students and their families.

School district fiscal year (2017-2018): The State's 2017-2018 Budget provided for school aid of approximately $25.8 billion, an increase of $1.1 billion in school aid spending from the 2016-2017 school year. The majority of the increases were targeted to high need school districts. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as is the State's usual practice. Transportation aid increased by 5.5% and building aid increased by 4.8%. The State's 2017-18 Budget continued to link school aid increases for 2017-18 and 2018-19 to teacher and principal evaluation plans.

School district fiscal year (2018-2019): The State's 2018-2019 Budget provides for school aid of approximately $26.7 billion, an increase of approximately $1.0 billion in school aid spending from the 2017-2018 school year. The majority of the increases have been targeted to high need school districts. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as is the State's usual practice. Transportation aid increased by 5.2% and building aid increased by 4.7%. The State 2018¬2019 Enacted Budget continues to link school aid increases for 2018-2019 and 2019-2020 to teacher and principal evaluation plans.

The State provides annual State aid to school districts in the State, including the District, on the basis of various formulas. Due to the State's own budgetary crisis in 2009 and to assist the State in mitigating the impacts of its own revenue shortfall, the State reduced the allocation of State aid to school districts as part of a program known as the Gap Elimination Adjustment ("GEA"). The GEA was a negative number (funds that were deducted from the State aid originally due to the District under State aid formulas). The District's State aid was reduced as a result of the GEA program starting in 2009. Subsequent State budgets decreased the amount of the GEA deduction and the State's 2016-2017 Budget eliminated the remaining balance of the GEA.

The Smart Schools Bond Act was passed as part of the Enacted 2014-2015 State Budget. The Smart Schools Bond Act authorizes the issuance of $2 billion of general obligation bonds by the State to finance improved educational technology and infrastructure to enhance learning and opportunity for students throughout the State. The District's estimated allocation of funds is $273,186.

The District cannot predict at this time whether there will be any reductions in and/or delays in the receipt of State aid during the remainder of the current fiscal year. The District believes that it would mitigate the impact of any delays or the reduction in State aid by reducing expenditures, increasing revenues, appropriating other available funds on hand, and/or by any combination of the foregoing. (See also "*Market Factors Affecting Financings of the State and School Districts of the State*").

Expenditures

The major categories of expenditure for the District are General Support, Instruction, Employee Benefits, Pupil Transportation and Debt Service. A summary of the expenditures for the five most recently completed fiscal years may be found in Appendix A.

The State Comptroller's Fiscal Stress Monitoring System and OSC Compliance Reviews

The New York State Comptroller has reported that New York State's school districts and municipalities are facing significant fiscal challenges. As a result, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school districts and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

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

The most current applicable report of OSC designates the District as "No Designation" (Fiscal Score: 6.7%). More information on the FSMS may be obtained from the Office of the State Comptroller.

In addition, OSC helps local government officials manage government resources efficiently and effectively. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through its audits, which identify opportunities for improving operations and governance. The most recent audit was released on December 30, 2016. The purpose of the audit was to evaluate the District's controls over user access to the financial software for the period of July 1, 2014 through March 31, 2016. The complete report, along with the District's response, may be found on the OSC's official website. References to websites and/or website addresses presented herein are for informational purposes only and implies no warranty of accuracy of information therein. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

Employee Pension System

New York State Certified employees (teachers and administrators) are members of the New York State Teachers Retirement System ("TRS"). Employer pension payments to the TRS are generally deducted from State aid payments. All non-NYS certified/civil service employees of the District eligible for pension or retirement benefits under the Retirement and Social Security Law of the State of New York are members of the New York State and Local Employee's Retirement System ("ERS"). Both the TRS and ERS are non-contributory with respect to members hired prior to July 1, 1976. Other than as discussed below, all members of the respective systems hired on or after July 1, 1976 with less than 10 year's full-time service contribute 3% of their gross annual salary toward the cost of retirement programs.

On December 10, 2009, the Governor signed in to law a new Tier 5. The law is effective for new ERS and TRS employees hired after January 1, 2010 and before March 31, 2012. ERS employees contribute 3% of their salaries and TRS employees contribute 3.5% of their salaries. There is no provision for these employee contributions to cease after a certain period of service.

On March 16, 2012, Governor Cuomo signed into law Chapter 18 of the Laws of 2012, which legislation provides for a new Tier 6 for employees hired after April 1, 2012. This new pension tier has progressive employee contribution rates between 3% and 6% and such employee contributions continue so long as the employee continues to accumulate pension credits; it increases the retirement age for new employees from 62 to 63 and includes provisions allowing early retirement with penalties. Under Tier 6, the pension multiplier is 1.75% for the first 20 years of service and 2% thereafter; vesting will occur after 10 years; the time period for calculation of final average salary is increased from three years to five years; and the amount of overtime to be used to determine an employee's pension is capped at $15,000, indexed for inflation, for civilian and non-uniform employees and at 15% of base pay for uniformed employees outside of New York City. It also includes a voluntary, portable, defined contribution plan option for new non-union employees with salaries of $75,000 or more.

Under current law, the employer pension payments for a given fiscal year are based on the value of the pension fund on the prior April 1 thus enabling the District to more accurately include the cost of the employer pension payment in its budget for the ensuing year. In addition, the District is required to make a minimum contribution of 4.5% of payroll every year, including years in which the investment performance of the fund would make a lower payment possible. The annual employer pension payment is due on February 1 of each year.

Due to poor performance of the investment portfolio of TRS and ERS during the recent financial crisis, the employer contribution rates for required pension payments to the TRS and ERS increased substantially. To help mitigate the impact of such increases, legislation was enacted that permitted school districts to amortize a portion of its annual employer pension payment to the ERS only. Under such legislation, school districts that choose to amortize were required to set aside and reserve funds with the ERS for certain future rate increases. The District has not amortized any of its employer pension payments pursuant to this legislation and expects to continue to pay all payments in full when due.

In addition, in Spring 2013, the State and TRS approved a Stable Contribution Option ("SCO") that gives school districts the ability to better manage the spikes in Actuarially Required Contribution rates ("ARCs"). ERS followed suit and modified its existing ERS SCO. Each plan allows school districts to pay the SCO amount in lieu of the ARC amount, which is higher, and defer the difference in payment amounts.

Under the TRS SCO plan, payment of the deferred amount will commence in year six of the program (2018-19) and continue for five years. School districts can elect to no longer participate in the plan at any time, resume paying the ARC and begin repayment of deferred amounts over five 21 years. Under the ERS SCO, payment of deferred amounts begins the year immediately following the deferral and the repayment period is 12 years. Once made, the election to participate in the ERS SCO is permanent. However, the school districts can choose not to defer payment in any given year. In both plans, interest on the deferred amounts is based on the yield of 10-year U.S. Treasury securities plus 1%.

The District has not amortized any of its employer pension payments as part of the SCO and expects to continue to pay all payments in full when due.

As of June 30, 2017, SCO is effectively terminated. Each employer who elected to participate in the plan has opted out. Employers who participated in the SCO will resume paying the Employer Contribution Rate ("ECR") as well as any outstanding deferred contributions plus interest.

The following chart represents the TRS and ERS required contributions for each of the last five completed fiscal years and budgeted for the 2019 fiscal year.

Fiscal Year Ending June 30:	TRS	ERS
2014	$3,983,890	$1,447,634
2015	4,421,539	1,388,948
2016	3,447,246	1,234,813
2017	3,032,859	1,143,814
2018	2,631,528	1,147,020
2019 (Budgeted)	3,111,295	1,259,879

Source: Audited Financial Statements.

Other Post-Employment Benefits

The District provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. School districts and Boards of Cooperative Education Services, unlike other municipal units of government in the State, have been prohibited from reducing retiree health benefits or increasing health care contributions received or paid by retirees below the level of benefits or contributions afforded to or required from active employees. This protection from unilateral reduction of benefits had been extended annually by the New York State Legislature until recently when legislation was enacted to make permanent these health insurance benefit protections for retirees. Legislative attempts to provide similar protection to retirees of other local units of government in the State have not succeeded as of the date hereof. Nevertheless, many such retirees of all varieties of municipal units in the State do presently receive such benefits.

GASB Statement No. 75 ("GASB 75") of the Governmental Accounting Standards Board ("GASB"), requires state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits ("OPEB"). GASB 75 generally requires that employers account for and report the annual cost of the OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Under previous rules, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements. Only current payments to existing retirees were recorded as an expense.

GASB 75 requires that state and local governments adopt the actuarial methodologies to determine annual OPEB costs. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due.

During the year ended June 30, 2018, the District adopted GASB 75, which supersedes and eliminates GASB 45. Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each state or local government. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 75 establishes new standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures to provide more transparent reporting and useful information about the liability and cost of benefits. Municipalities and school districts are required to account for OPEB within the financial statements rather than only noted in the footnotes as previously required by GASB 45. It is measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year. The discount rate is based on 20-year, tax exempt general obligation municipal bonds. There is no amortization of prior service cost.

Those that have more than 200 participants are required to have a full actuarial valuation annually. Plans with fewer than 200 participants are required to have a full valuation every two years.

For the fiscal year ended June 30, 2018, the District implemented GASB 75. The implementation of this Statement resulted in the reporting of the entire actuarial accrued liability for other post-employment benefits. The District's total OPEB liability at June 30, 2018 is as follows:

Changes in the Total OPEB Liability	Fiscal Year Ending June 30, 2018:
Total OPEB liability as of July 1, 2017	$104,182,365
Changes for the year:	
Service Cost	4,581,330
Interest	3,234,177
Differences between actual and expected experience	(434,632)
Benefit payments	(1,929,875)
Total Changes	$5,451,000
Total OPEB liability as of June 30, 2018	$109,633,365

The OSC has recently proposed legislation to provide the State and certain local governments with the authority to establish trusts in which to accumulate assets for OPEB and to establish an OPEB investment fund in the sole custody of the State Comptroller for the investment of OPEB assets of the State and participating eligible local governments. The District cannot predict at this time whether such proposed legislation will be enacted into law. At this time, New York State has not developed guidelines for the creation and use of irrevocable trusts for the funding of OPEB. As a result, the District has decided to continue funding the expenditure on a pay-as-you-go basis.

Should the District be required to fund its unfunded actuarial accrued OPEB liability, it could have a material adverse impact upon the District's finances and could force the District to reduce services, raise taxes or both.

TAX INFORMATION

Real Property Taxes

The District derives its power to levy an ad valorem real property tax from the State Constitution; methods and procedures to levy, collect and enforce this tax are governed by the Real Property Tax Law. Real property assessment rolls used by the District are prepared by the Town of East Hampton. Assessment valuations are determined by the Town assessor and the State Board of Real Property Services which is responsible for certain utility and railroad property. In addition, the State Board of Real Property Services annually establishes State Equalization Rates for all localities in the State, which are determined by statistical sampling of market sales/assessment studies. The equalization rates are used in the calculation and distribution of certain State aids and are used by many localities in the calculation or debt contracting and real property taxing limitations. The District is not subject to constitutional real property taxing limitations. (However, See "*The Tax Levy Limit Law*" herein).

The following table sets forth the percentage of the District's General Fund revenue (excluding other financing sources) comprised of real property taxes for each of the fiscal years 2014 through 2018, and for the 2019 budget.

Fiscal Year Ending June 30:	Total Revenue	Real Property Taxes	Real Property Taxes to Revenues (%)
2014	$63,637,593	$46,389,929	72.90
2015	64,048,000	47,540,036	74.23
2016	65,713,774	48,321,232	73.53
2017	66,564,766	49,696,920	74.66
2018	67,889,842	49,634,876	73.11
2019 (Budgeted)[a]	69,846,198	50,834,357	72.78

Source: Audited Financial Statements of the District and Adopted Budget of the District.
a. Budgeted estimates for real property taxes include STAR. Budgeted estimates for total revenues include appropriations of fund balance.

Tax Collection Procedure

Property taxes for the District, together with County, Town and Fire District taxes, are collected by the Town Tax Receivers. Such taxes are due and payable in equal installments on December 1 and May 10, but may be paid without penalty by January 10 and May 31, respectively. Penalties on unpaid taxes are 1% per month from the date such taxes are due and 10% after May 31.

The Town Tax Receivers distribute the collected tax money to the Towns, fire and school districts prior to distributing the balance collected to the County. Uncollected amounts are not segregated by the Receiver and any deficiency in tax collection is the County's liability. The District thereby is assured of full tax collection.

The Tax Levy Limit Law

Chapter 97 of the New York Laws of 2011, as amended, (herein referred to as the "Tax Levy Limit Law" or "Law") modified previous law by imposing a limit on the amount of real property taxes that a school district may levy.

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

Under the Tax Levy Limit Law, there is now a limitation on the amount of tax levy growth from one fiscal year to the next. Such limitation is the lesser of (i) 2% or (ii) the annual percentage increase in the consumer price index, subject to certain exclusions as mentioned below and as described in the Law. A budget with a tax levy that does not exceed such limit will require approval by at least 50% of the voters. Approval by at least 60% of the voters will be required for a budget with a tax levy in excess of the limit. In the event the voters reject the budget, the tax levy for the school district's budget for the ensuing fiscal year may not exceed the amount of the tax levy for the prior fiscal year. School districts will be permitted to carry forward a certain portion of their unused tax levy limitation from a prior year.

The Law permits certain significant exclusions to the tax levy limit for school districts. These include taxes to pay the local share of debt service on bonds or notes issued to finance voter approved capital expenditures and the refinancing or refunding of such bonds or notes, certain pension cost increases, and other items enumerated in the Law. However, such exclusion does NOT apply to taxes to pay debt service on tax anticipation notes (such as the Notes), revenue anticipation notes, budget notes and deficiency notes; and any obligations issued to finance deficits and certain judgments, including tax certiorari refund payments.

STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. Homeowners over 65 years of age with household adjusted gross incomes, less the taxable amount of total distributions from individual retirement accounts and individual retirement annuities ("STAR Adjusted Gross Income") of $86,000 or less, increased annually according to a cost of living adjustment, are eligible for a "full value" exemption of the first $65,300 for the 2016-17 school year (adjusted annually). Other homeowners with household STAR Adjusted Gross income not in excess of $500,000 are eligible for a $30,000 "full value" exemption on their primary residence. School districts receive full reimbursement from the State for real property taxes exempted pursuant to the STAR program by the first business day in January of each year.

Part A of Chapter 60 of the Laws of 2016 of the State of New York ("Chapter 60") gradually converts the STAR program from a real property tax exemption to a personal income tax credit. Chapter 60 prohibits new STAR exemptions from being granted unless at least one of the applicants held title to the property on the taxable status date of the assessment roll that was used to levy school district taxes for the 2015-2016 school year (generally, March 1, 2015), and the property was granted a STAR exemption on that assessment roll. However, a new homeowner may receive a new personal income tax credit in the form of a check. The dollar benefit to eligible taxpayers will not change. A taxpayer who is eligible for the new credit will receive a check from the State equal to the amount by which the STAR exemption would have reduced his or her school tax bill. A homeowner who owned his or her home on the taxable status date for the assessment roll used to levy taxes for the 2015-2016 school year, and who received a STAR exemption on that roll, may continue to receive a STAR exemption on that home as long as he or she still owns and primarily resides in it. No further action is required (unless the homeowner has been receiving Basic STAR and wants to apply for Enhanced STAR, which is permissible).

The State 2017-18 Enacted Budget includes changes to Chapter 60. STAR checks are now expected to be mailed out prior to the date that school taxes are payable. The amount of the check will be based on the previous year's amount adjusted by the levy growth factor used for the property tax cap. Any changes that must be made based on the final STAR credit compared to the estimate used will be factored into the subsequent year's STAR credit check or taxpayers also may account for those changes in their State income taxes.

Approximately 2% of the District's 2017-2018 school tax levy was exempted by the STAR program and the District received full reimbursement of such exempt taxes from the State in January 2018. Approximately 2% of the District's 2018-2019 school tax levy is expected to be exempted by the STAR program and the District expects to receive full reimbursement of such exempt taxes from the State in January 2019. (See *"State Aid"* herein).

Rebate Program

Chapter 59 of the Laws of 2014 ("Chapter 59") included provisions which provided a refundable personal income tax credit to real property taxpayers in school districts in 2014 and 2015 and certain municipal units of government in 2015 and 2016. The eligibility of real property taxpayers for the tax credit in each year depended on such jurisdiction's compliance with the provisions of the Tax Levy Limitation Law. For the second taxable year of the program, the refundable personal income tax credit for real property taxpayers was additionally contingent upon adoption by the school district or municipal unit of a State approved "government efficiency plan" which demonstrated three-year savings and efficiencies of at least one per cent per year from shared services, cooperation agreements and/or mergers or efficiencies.

Chapter 20 of the Laws of 2015 ("Chapter 20") introduced a new real property tax rebate program that provides state-financed tax rebate checks and credits to taxpayers who are eligible for the STAR exemption in the years 2016-2019. For 2016, eligible taxpayers who resided outside New York City but within the Metropolitan Commuter Transportation District ("MCTD") received $130, and eligible taxpayers who resided outside the MCTD received $185. Credits in 2017-2019 will vary based on a taxpayer's personal income level and STAR tax savings. Similar to the Chapter 59 real property tax credit, under Chapter 20 the eligibility of real property taxpayers in each year depends on the school district's compliance with the provisions of the Tax Levy Limitation Law. Unlike Chapter 59, however, for taxpayers other than those living in one of the "Big 4" cities only the compliance of the school district in which the taxpayer resides is relevant. Municipal compliance with the Tax Levy Limitation Law is only required in the case of the "Big 4" cities that have fiscally dependent school districts. In such cases, the joint school/city levy must remain in compliance with the Tax Levy Limitation Law. In either scenario, the relevant jurisdiction (independent school district or joint city/school district) must certify its compliance with the provisions of Chapter 97.While the provisions of Chapter 59 did not, and the provisions of Chapter 20 do not, directly further restrict the taxing power of the affected municipalities, school districts and special districts, Chapter 59 did, and Chapter 20 does, provide an incentive for such tax levies to remain within the tax cap limits established by the Tax Levy Limitation Law.

Valuations, Rates and Levies

The following table sets forth District's assessed and full valuations and tax rates for each of the years 2013 through 2018.

Fiscal Year Ending June 30	Assessed Valuation	State Equal. Rate (%)	Full Valuation	Tax Rate Per $1,000 Assessed Valuation
2013	$93,076,225	0.80	$11,634,528,125	$474.29
2014	92,610,844	0.73	12,686,416,986	500.80
2015	93,108,851	0.73	12,754,637,123	510.20
2016	93,425,601	0.64	14,597,750,156	517.19
2017	93,858,639	0.59	15,908,243,898	518.68
2018	94,223,282	0.57	16,530,400,351	526.30

Source: Town of East Hampton.

Selected Listing of Large Taxable Properties
2017-2018 Assessment Roll

Name	Type	Assessed Valuation
Key Span Energy Development Corp.	Utility	$497,441
Lewis Sanders	Private Estate	301,300
252 further Lane, LLC	Private Estate	262,750
Calvin Klein	Commercial	262,480
Hamptons Residence LLC	Commercial	227,500
Norma Lerner	Private Estate	225,050
Loren Hostek	Private Estate	216,895
73 Beach Terminal, LLC	Commercial	200,550
101 LPL LLC	Commercial	195,800
Lee Avenue Lot 1 LLC	Commercial	194,160
	Total [a]	$2,583,926

a. Represents 2.74% of the total assessed valuation of the District for 2017-2018.
Source: Town Assessment Rolls.

CYBERSECURITY

The District, like many other public and private entities, relies on technology to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the District faces multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. To mitigate the risk of business operations impact and/or damage from cyber incidents or cyber-attacks, the District invests in various forms of cybersecurity and operational controls; however, no assurances can be given that such security and operational control measures will be completely successful to guard against cyber threats and attacks. To mitigate such risk the District has contracted with an outside technology firm to assist in the prevention detection and remediation of any such attacks. In addition, the District maintains an insurance policy covering cyber liability. The results of any such attack could impact business operations and/or damage District digital networks and systems and the costs of remedying any such damage could be substantial. The District has invested in school cyber insurance to mitigate liability and the cost of remedy, should a cyber attack occur.

LITIGATION

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

There is one case worthy of special mention:

On or about January 3, 2007, the District filed a lawsuit against Sandpebble Builders, Inc. ("Sandpebble"), East Hampton Union Free School District v. Sandpebble Builders, Inc., Supreme Court, Suffolk County, New York, Index No. 07-01113. In the complaint, the District sought unspecified damages based on Sandpebble's alleged breach of an estimating services contract. The District also sought declaratory judgment that an alleged construction contract between the District and Sandpebble dated April 2002 ("April 2002 Contract") is invalid.

Sandpebble asserted two counterclaims against the District. The first counterclaim sought damages of $3,730,050.00 based upon the District's alleged breach of the April 2002 Contract. The second counterclaim sought damages of $25,447.00 based on the District's alleged breach of a contract to construct portable classrooms.

In May 2016, the Court conducted a jury trial which lasted three (3) weeks and involved voluminous exhibits and extensive testimony from numerous witnesses on both sides. The jury awarded Sandpebble the sum of approximately $750,000, which was substantially less than the amount demanded. The parties thereafter engaged in post-trial motions.

On or about December 14, 2016, Sandpebble entered a judgment against the District in the amount of $1,486,516.10 which included nine percent (9%) interest from 2001. This judgment was satisfied by the District. Sandpebble has appealed the judgment and the jury award. At present, all briefs have been filed by the parties. The Disrict anticipates that the appellate court will schedule oral argument in late 2019 or early 2020. It is anticipated that the court will render a decision within six months to a year after oral argument. This schedule is subject to change. The District intends to vigorously defend the appeal.

In the opinion of the District's Attorney, the claims asserted by Sandpebble in its appeal will not result in a reversal of the jury award. This is based on the review of the pleadings, documents in possession at this time, the depositions taken in this case and the trial record. Moreover, as a general rule, it is difficult to reverse a jury award after such an extensive trial. Notwithstanding the foregoing, it is possible that the appellate court could reverse the jury award based on evidence disregarded by the jury or under the terms of the underlying contract. The appellate court could remand the case to the trial court for a new trial or increase the judgment to the total amount demanded by Sandpebble as set forth above with interest from 2001. Consequently, it is impossible to quantify the exposure to the District with certitude.

In the event that the jury award is reversed and the District is required to pay Sandpebble the total amount demanded plus interest from 2001, the New York State Local Finance Law permits the District to issue bonds or notes to finance the payment by the District to Sandpebble. The issuance of bonds or notes to make such payment would not be subject to voter referendum; however, the District cannot provide any assurances at this time that it would be able to issue such bonds or notes at terms favorable to the District.

RATING

Moody's Investors Service Inc. has assigned a rating of "Aaa" to the outstanding bonds of the District. Such rating reflects only the view of such rating agency and an explanation of the significance of such rating should be obtained from the respective rating agency. There can be no assurance that such rating will not be revised or withdrawn, if in the judgement of agency circumstances so warrant. Any change or withdrawal of such rating may have an adverse effect on the market price and the availability of a secondary market for the outstanding bonds and notes of the District.

MUNICIPAL ADVISOR

Munistat Services, Inc., Port Jefferson Station, New York has assisted the District as municipal advisor in certain matters with respect to the preparation of this Statement.

ADDITIONAL INFORMATION

Additional information may be obtained from the office of Jerel Cokley, Assistant Superintendent for Business, East Hampton Union Free School District, 4 Long Lane, East Hampton, NY 11937, Phone (631) 329-4106, Fax (631) 329-7550 and email: jerel.cokley@ehschools.org or from Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-8888.

So far as any statements made in this Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Statement is submitted only in connection with the District's "Continuing Disclosure Undertaking" pursuant to Rule 15c2-12 as promulgated by the Securities and Exchange Commission and may not be reproduced or used in whole or in part for any other purpose.

By: JAMES P. FOSTER
President of the Board of Education
East Hampton Union Free School District
East Hampton, New York

December 1, 2018

APPENDIX A

FINANCIAL INFORMATION

Statement of Revenues, Expenditures and Fund Balances
General Fund

	2014	2015	2016	2017	2018
Revenues:					
Real Property Taxes	$ 46,389,929	$ 47,540,036	$ 48,321,232	$ 48,696,920	$ 49,634,876
Other Real Property Tax Items	568,483	532,409	525,406	473,749	515,673
Charges for Services	13,652,576	12,978,885	13,853,675	13,946,175	14,245,044
Use of Money and Property	12,290	10,115	37,163	68,375	276,552
Miscellaneous	117,349	195,274	236,400	218,167	207,842
Sale of Property and Compensation for Loss					17,136
State Sources	2,896,966	2,791,281	2,739,898	3,161,380	2,992,719
Total Revenues	63,637,593	64,048,000	65,713,774	66,564,766	67,889,842
Expenditures:					
General Support	6,625,888	6,766,437	7,661,735	6,833,567	6,815,916
Instruction	32,959,865	32,376,196	33,653,320	33,648,306	35,026,717
Pupil Transportation	1,751,754	1,810,303	1,965,445	2,008,015	2,180,630
Community Services	60,000	79,700	76,800	78,200	76,851
Employee Benefits	15,594,579	15,923,156	15,956,640	15,227,084	15,958,762
Debt Service	71,667	84,028	128,250	170,200	178,111
Total Expenditures	57,063,753	57,039,820	59,442,190	57,965,372	60,236,987
Other Sources (Uses):					
Operating Transfers In					
Operating Transfers Out	(6,286,351)	(6,591,612)	(5,863,033)	(6,603,580)	(6,366,128)
Total Other Sources (Uses):	(6,286,351)	(6,591,612)	(5,863,033)	(6,603,580)	(6,366,128)
Excess (Deficit) Revenues & Other Sources Over Expenditures & Other Uses	287,489	416,568	408,551	1,995,814	1,286,727
Other Changes in fund Equity:					
Transfer to Reserves for Accrued Liabilities and Employee Benefits					
Fund Balances Beg. of Fiscal Year	10,648,946	10,936,435	11,353,003	11,761,554	13,757,368
Prior Period Adjustments					
Fund Balances End of Fiscal Year	$ 10,936,435	$ 11,353,003	$ 11,761,554	$ 13,757,368	$ 15,044,095

Source: Audited Annual Financial Reports of the District (2014-2018)
NOTE: This table NOT audited

Balance Sheet - General Fund

	2018	2017
ASSETS:		
Cash		
Unrestricted	$ 4,180,065	$ 4,038,114
Restricted	11,536,399	10,520,192
State & Federal Aid Receivable	634,455	485,592
Receivables (Misc)	22,202	24,930
Due From Other Governments	2,931,610	3,028,526
Due From Other Funds	473,908	318,455
Prepaid	16,667	16,667
Total Assets	$ 19,795,306	$ 18,432,476
LIABILITIES & DEFERRED REVENUE:		
Accounts Payable	$ 887,510	$ 941,289
Due To Other Governments	188,717	13,433
Due to Other Funds	18,231	20,096
Due to Teachers Retirement System,	2,799,084	3,202,785
Due to Employees' Retirement System	298,866	298,866
Compensated Absences Payable	285,170	88,073
Deferred Revenue	273,633	110,566
Total Liabilities & Deferred Revenue	4,751,211	4,675,108
FUND EQUITY:		
Fund Balances:		
Restricted	11,536,399	10,520,192
Non-spendable	16,667	16,667
Unreserved:		
Designated for Subsequent Year	698,734	504,979
Undesignated	2,792,295	2,715,530
Total Fund Equity and Other Credits	15,044,095	13,757,368
Total Liabilities and Fund Equity	$ 19,795,306	$ 18,432,476

Source: Audited Annual Financial Reports (2017-2018)
NOTE: This table NOT audited

Budget Summaries

	2018-2019	2017-2018
Revenues:		
Real Property Taxes (Incl. STAR)	$ 50,834,357	$ 49,877,575
State Aid	3,355,972	3,223,799
Tuition*	14,689,492	14,326,250
from Prior Fiscal Year	400,000	400,000
Miscellaneous Items	566,377	478,474
Total	$ 69,846,198	$ 68,306,098
Expenditures:		
General Support	$ 7,596,543	$ 7,333,523
Instruction	37,506,923	36,721,181
Pupil Transportation	2,345,091	2,214,043
Community Service	78,800	78,800
Employee Benefits	16,104,238	15,324,151
Interfund Transfer	1,240,000	1,220,000
Debt Service	4,974,603	5,414,400
Total	$ 69,846,198	$ 68,306,098

*Represents Tuition received from students for grades 9-12 from Amagansett, Montauk, Sagaponack, Springs and Wainscott School Districts.

Sources: Adopted Budgets of the District.

EAST HAMPTON UNION FREE SCHOOL DISTRICT

APPENDIX B

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND/OR UPDATED BY THE DISTRICT'S AUDITORS IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT. CONSENT OF THE AUDITORS FOR INCLUSION OF THE AUDITED FINANCIAL REPORTS IN THIS OFFICIAL STATEMENT HAS NOT BEEN REQUESTED NOR OBTAINED.

EAST HAMPTON UNION FREE SCHOOL DISTRICT

Basic Financial Statements,
Supplementary Information and
Independent Auditors' Report

June 30, 2018

EAST HAMPTON UNION FREE SCHOOL DISTRICT

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EAST HAMPTON UNION FREE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

The Board of Education
East Hampton Union Free School District
East Hampton, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the fiduciary funds of the East Hampton Union Free School District (the District), as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the fiduciary funds of the East Hampton Union Free School District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in note 1(O) to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," during the year ended June 30, 2018. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 17 and the additional information on pages 56 through 60, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for additional analysis. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates 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 other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
October 16, 2018

EAST HAMPTON UNION FREE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

The following is a discussion and analysis of the East Hampton Union Free School District's (the District) financial performance for the fiscal year ended June 30, 2018. This section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-wide and Fund Financial Statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

- The District continued to offer all programs, without reducing services while the unassigned fund balance remained under the maximum 4% allowed by law.
- On the District-Wide Financial Statements, revenues increased by 2.0% primarily as a result of increased property taxes. Expenditures increased by 7.7% primarily as a result of increased instruction expenditures.
- On May 15, 2018 the proposed 2018-2019 budget in the amount of $69,846,198 was authorized by the District's residents.
- On the District-Wide Financial Statements a long term liability was recorded for $109,633,365 which was an increase of $81,660,274 over the prior year, as required by GASB Statement No. 75 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Net position at the beginning of the year was decreased as a result of implementation in the amount of $76,209,274.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and optional supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-Wide Financial Statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the operations in *more detail* than the District-Wide Statements.
- The *Governmental Fund Statements* tell how basic services such as instruction and support functions were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, including the employees of District.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the District's Annual Financial Report

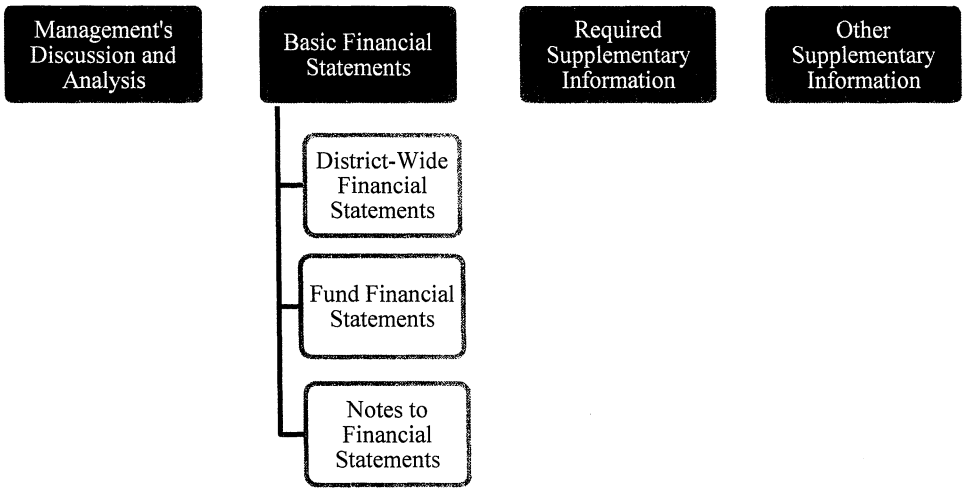


Table A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities that they cover and the types of information that they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Table A-2: Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the District, such as special education and instruction	Instances in which the District administers resources on behalf of others, such as employee benefits
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenue, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All financial assets and liabilities, short-term and long-term
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

A. District-Wide Statements

The District-Wide Statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-Wide Statements report the District's net position and how they have changed. Net position, the difference between the assets and liabilities and deferred outflows and inflows of resources, is one way to measure the financial health or position of the District.

- Over time, increases and decreases in net position is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of the District, additional non-financial factors such as changes in the District's property tax base and the condition of buildings and other facilities should be considered.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the Statement of Position:

- Capitalize current outlays for capital assets;
- Report long-term debt as a liability;
- Depreciate capital assets and allocate the depreciation to the proper program/activities;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net position balances as follows:
  - *Net investment in capital assets*;
  - *Restricted net positions* are those with constraints placed on the use by external sources (creditors, grantors, contributors or laws or regulations of governments) or approved by law through constitutional provisions or enabling legislation.
  - *Unrestricted net position* is net position that does not meet any of the above restrictions.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices that the District uses to keep track of specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York.

The District has two kinds of funds:

- *Governmental funds*: Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the District. Because this information does not encompass the additional long-term focus of the District-Wide statements, additional information at the bottom of the governmental fund statements explains the relationship (or differences) between them. In summary, the government fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. Included are the general fund, special revenue funds, debt service fund and capital projects fund. Required statements are the Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balance.
- *Fiduciary funds*: The District is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-Wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position. This report should be used to support the District's own programs and is developed using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans.

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position decreased by $79,630,335 for the fiscal year ended June 30, 2018, and $76,209,274 of which was related to the implementation of GASB No. 75 and $3,421,061 from operations for the year then ended, as detailed in Table A-3.

Table A-3 - Condensed Statement of Net Position-Governmental Activities

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)
Current assets and other assets	$ 22,928,583	22,531,705	396,878
Other noncurrent assets	1,241,241	-	1,241,241
Capital assets	83,340,198	85,122,224	(1,782,026)
Total assets	107,510,022	107,653,929	(143,907)
Deferred outflows of resources	20,225,821	19,251,724	974,097
Current liabilities	4,389,637	4,680,768	(291,131)
Long-term liabilities	166,031,248	90,823,565	75,207,683
Total liabilities	170,420,885	95,504,333	74,916,552
Deferred inflows of resources	6,669,547	1,155,574	5,543,973
Net position (deficit):			
Net investment in capital assets	36,108,280	33,175,097	2,933,183
Restricted	14,541,696	14,181,893	359,803
Unrestricted	(100,034,565)	(17,111,244)	(82,923,321)
Total net position (deficit)	$ (49,384,589)	30,245,746	(79,630,335)

B. Changes in Net Position

The results of operations as a whole are reported in the Statement of Activities. A summary of this statement for the years ended June 30, 2018 and 2017 are as follows:

Table A-4: Change in Net Position from Operating Results
Governmental Activities Only

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)
Revenue:			
Program revenue:			
Charges for services	$ 14,675,105	14,366,959	308,146
Operating grants	1,151,336	1,074,447	76,889
General revenues:			
Property taxes	50,150,549	49,170,669	979,880
State formula aid	2,992,719	3,161,380	(168,661)
Use of money and property	317,368	129,170	188,198
Other	224,978	218,167	6,811
Total revenue	69,512,055	68,120,792	1,391,263
Expenses:			
General support	8,971,570	8,584,737	386,833
Instruction	55,163,251	50,449,010	4,714,241
Pupil transportation	3,044,512	2,662,611	381,901
Community services	76,851	78,200	(1,349)
Debt service - interest	2,077,143	2,354,083	(276,940)
School lunch program	861,312	810,573	50,739
Depreciation (unallocated)	2,738,477	2,765,004	(26,527)
Total expenses	72,933,116	67,704,218	5,228,898
Total change in net position	$ (3,421,061)	416,574	(3,837,635)

The District's total fiscal year 2018 revenues totaled $69,512,055. (See Table A-4). Property taxes and charges for services accounted for most of the District's revenue by contributing 72.1% and 21.1%, respectively of every dollar raised. (See Table A-5). The remainder came from state and federal aid, operating grants, investment earnings and rental of property, and other miscellaneous sources.

The total cost of all programs and services totaled $72,933,116 for fiscal year 2018. These expenses are predominantly related to instruction, which account for 75.6% of district expenses. (See Table A-6). The District's general support activities accounts for 12.3%.

Table A-5: Revenues for Fiscal Year 2018 (See Table A-4).

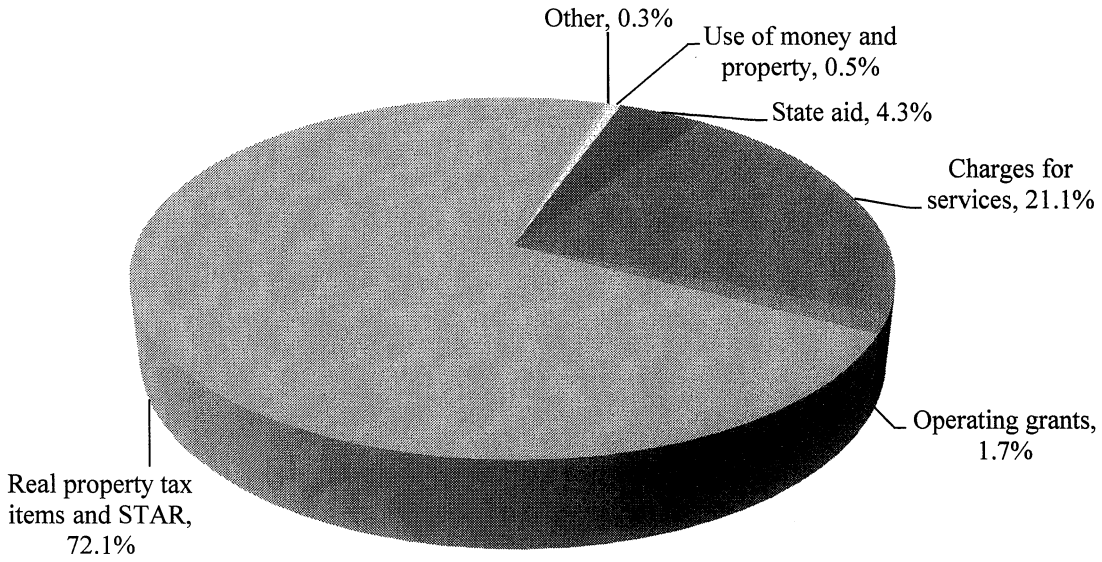
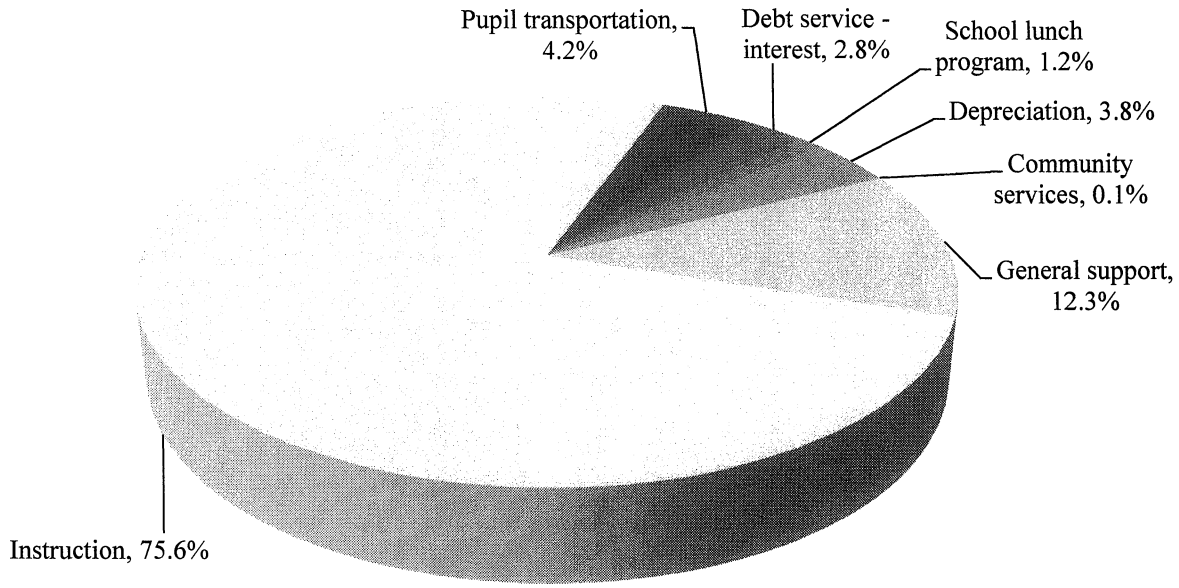


Table A-6: Expenses for Fiscal Year 2018 (See Tables A-4 and A-7)



C. Governmental Activities

Revenues for the District's governmental activities totaled $69,512,055 while total expenses equaled $72,933,116. The continuation of the overall good financial condition of the District, as a whole, can be credited to:

- Continued leadership of the District's Board and administration;
- Consistent property assessed valuation;
- Continued tuition revenue from other Districts, though enrollment declining;
- Strategic use of services from the Eastern Suffolk BOCES;
- Improved curriculum and community support; and
- Continuous oversight of expenditures to offset declining tuition revenues.

Table A-7 presents the cost of major District activities: instruction, general support, pupil transportation, debt service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities

	Total Cost of Services		Net Cost (Revenue) of Services	
Category	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2017
General support	$ 8,971,570	8,584,737	8,971,570	8,584,737
Instruction	55,163,251	50,449,010	40,201,888	35,836,571
Pupil transportation	3,044,512	2,662,611	3,044,512	2,662,611
Community services	76,851	78,200	76,851	78,200
Debt service - interest	2,077,143	2,354,083	2,077,143	2,354,083
School lunch program	861,312	810,573	(3,766)	(18,394)
Depreciation (unallocated)	2,738,477	2,765,004	2,738,477	2,765,004
	$ 72,933,116	67,704,218	57,106,675	52,262,812

- The cost of all governmental activities this year was $72,933,116. (Statement of Activities, Expenses column).
- The users of the District's programs financed $14,675,105 of the cost. (Statement of Activities, Charges For Services column).
- The federal and state governments subsidized certain programs with grants of $1,151,336. (Statement of Activities and Changes in Net Position , Operating Grants column).

- Most of the District's net costs of $57,106,675 were financed by District taxpayers and state aid. (Statements of Activities, Net (Expense) Revenue and Changes in Net Position column).

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Variances between years for the governmental fund financial statements are not the same as variances between years for the District-wide financial statements. The District's governmental funds are presented on the **current financial resources measurement focus** and the **modified accrual basis of accounting**. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt.

As of June 30, 2018, the District's combined governmental funds reported a total fund balance of $18,127,610 which is an increase of $639,989 from the prior year. This increase is primarily due to increased real property tax revenues and cost savings in most categories of expenditures.

A summary of the change in fund balance for all funds is as follows:

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)
General Fund			
Nonspendable	$ 16,667	16,667	-
Restricted for unemployment	53,738	53,182	556
Restricted for repairs	16,110	15,954	156
Restricted for property and loss liability	242,988	240,643	2,345
Restricted for retirement contribution	2,741,883	2,250,500	491,383
Restricted for workers' compensation	834,983	385,948	449,035
Restricted for capital	1,210,619	1,200,000	10,619
Restricted for employee benefits accrued liability	6,436,078	6,373,965	62,113
Assigned - designated for subsequent year's expenditures	400,000	400,000	-
Assigned for general support	181,772	24,659	157,113
Assigned for instruction	116,962	76,320	40,642
Assigned for pupil transportation	-	4,000	(4,000)
Unassigned	2,792,295	2,715,530	76,765
Total Fund Balance - General Fund	15,044,095	13,757,368	1,286,727

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)
School Lunch Fund			
Nonspendable	$ 19,305	20,020	(715)
Assigned	58,913	48,532	10,381
Total Fund Balance - School Lunch Fund	$ 78,218	68,552	9,666
Debt Service Fund			
Restricted	$ 102,019	1,161,300	(1,059,281)
Capital Projects Fund			
Restricted	$ 2,903,278	2,500,401	402,877
Total Fund Balance - All Funds	$ 18,127,610	17,487,621	639,989

The District can attribute changes to fund balances and reserves primarily due to operating results, Board approved transfers, and allocation of interest earnings.

A. General Fund

The net change in the general fund - fund balance is an increase of $1,286,727. This was primarily due to a controlled effort to decrease expenditures to offset declining tuition revenues. In addition there were transfers to the debt service fund of $5,335,600, the special aid fund of $20,528, the school lunch fund of $10,000, and capital projects fund of $1,000,000.

B. School Lunch Fund

The net change in the school lunch fund - fund balance is an increase of $9,666. This resulted from expenditures in excess of revenues by $334 supplemented by a transfer of funds from the general fund in the amount of $10,000.

C. Debt Service Fund

The net change in debt service fund - fund balance is a decrease of $1,059,281. This resulted from transfers from the general fund of $5,335,600, offset by an excess of expenditures over revenues of $6,394,881.

D. Capital Projects Fund

The net change in capital projects fund - fund balance is an increase of $402,877. This increase is due to the capital outlay of $597,123 offset by the transfer from the general fund of $1,000,000.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2017-2018 Budget

The District's general fund adopted budget for the year ended June 30, 2018 was $68,306,098 including appropriated fund balance. This amount was increased by encumbrances carried forward from the prior year in the amount of $104,979 which resulted in a final budget of $68,411,077. The majority of the funding was property taxes, PILOTS and STAR revenue of $50,065,650.

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

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

Opening, unassigned fund balance	$ 2,715,530
Revenues and appropriations over budget	(16,256)
Expenditures and encumbrances under budget	1,499,756
Transfers to other funds under budget	9,472
Changes in restricted funds	(1,016,207)
Appropriated for 2018 - 2019 budget	(400,000)
Closing, unassigned fund balance	$ 2,792,295

NYS Real Property Tax Law 1318 restricts the unassigned fund balance of the General Fund to an amount not greater than 4% of the District's budget for the ensuing fiscal year. The District's current balance of unassigned fund balance is 4%.

The revenues under budget of $16,256 were primarily due to decreases in state aid.

The expenditures and encumbrances under budget of $1,499,756 were primarily in instruction, employee benefits and central services (see Supplemental Schedule 1 for detail).

The changes in reserves are discussed further in Management Discussion and Analysis Section 4 - Financial Analysis of the District's Funds.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

The District paid for equipment and various building additions and renovations during the fiscal year 2018. A summary of the District's capital assets net of depreciation are as follows:

Table A-8: Capital Assets (Net of Depreciation)

	Fiscal Year 2018	Fiscal Year 2017	Increase/ (Decrease)
Land	$ 376,150	376,150	-
Land improvements	560,231	560,231	-
Construction in progress	1,801,472	1,396,380	405,092
Buildings and building improvements	111,316,394	111,316,394	-
Furniture and equipment	4,302,263	3,963,191	339,072
Vehicles	3,165,484	3,102,429	63,055
Subtotal	121,521,994	120,714,775	807,219
Less: accumulated depreciation	(38,181,796)	(35,592,551)	(2,589,245)
Total net capital assets	$ 83,340,198	85,122,224	(1,782,026)

The District spent $422,150 on new building construction and other improvements during the year in the capital projects fund. Capitalized assets as adjusted from the general fund totaled $551,359.

B. Long-Term Debt

At June 30, 2018, the District had total bonds payable of $43,450,000. The District advance refunded prior bonds which were issued for district-wide projects. More detailed information about the District's long-term debt is presented in the notes to the financial statements.

7. FACTORS BEARING ON THE DISTRICT'S FUTURE

The general fund budget for the 2018-2019 school year was approved by the voters in the amount of $69,846,198. This is an increase of $1,540,100 or 2.25% over the previous year's adopted budget. The increase was primarily due to increases in mandated employee benefits and services as well as general increases in the budget.

8. CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, contact:

East Hampton Union Free School District
Mr. Jerel D. Cokley
Assistant Superintendent for Business
4 Long Lane
East Hampton, New York 11937
(631) 329-4105

EAST HAMPTON UNION FREE SCHOOL DISTRICT
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

ASSETS	
Cash:	
Unrestricted	$ 4,290,875
Restricted	14,555,863
Receivables:	
Accounts receivable	24,964
State and federal aid	1,089,003
Due from other governments	2,931,610
Due from fiduciary funds	296
Prepaid expenses	16,667
Inventories	19,305
Capital assets, net of depreciation	83,340,198
Net pension asset - proportionate share - TRS	1,241,241
TOTAL ASSETS	107,510,022
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding of debt	917,042
Pensions	19,308,779
TOTAL DEFERRED OUTFLOWS OF RESOURCES	20,225,821
LIABILITIES	
Payables:	
Accounts payable	927,400
Accrued liabilities	28,103
Due to other governments	188,717
Due to teachers' retirement system	2,799,084
Due to employees' retirement system	298,866
Interest payable	147,467
Long-term liabilities:	
Due and payable within one year:	
Bonds payable	3,398,522
Compensated absences payable	285,170
Due and payable after one year:	
Bonds payable	44,750,438
Compensated absences payable	6,326,261
Other postemployment benefit liability	109,633,365
Claims payable	834,961
Net pension liability - proportionate share - ERS	802,531
TOTAL LIABILITIES	170,420,885
DEFERRED INFLOWS OF RESOURCES	
Pensions	6,041,240
Other postemployment benefit liability	384,674
Unearned income	273,633
TOTAL DEFERRED INFLOWS OF RESOURCES	6,699,547
NET POSITION	
Net investment in capital assets	36,108,280
Restricted for:	
Capital	4,113,897
Unemployment insurance	53,738
Repairs	16,110
Property loss and liability	242,988
Debt service	102,019
Workers' compensation	834,983
Employee benefit accrued liabilities	6,436,078
Retirement contributions	2,741,883
Unrestricted	(100,034,565)
Total Net Position	$ (49,384,589)

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
FUNCTIONS / PROGRAMS				
General support	$ 8,971,570	-	-	(8,971,570)
Instruction	55,163,251	14,245,044	716,319	(40,201,888)
Pupil transportation	3,044,512	-	-	(3,044,512)
Community services	76,851	-	-	(76,851)
Debt service - interest	2,077,143	-	-	(2,077,143)
School lunch program	861,312	430,061	435,017	3,766
Depreciation (unallocated)	2,738,477	-	-	(2,738,477)
TOTAL FUNCTIONS AND PROGRAMS	$72,933,116	14,675,105	1,151,336	(57,106,675)
GENERAL REVENUE				
Real property taxes				49,634,876
Other tax items - including STAR reimbursement				515,673
Use of money and property				317,368
Miscellaneous				207,842
Sale of property and compensation for loss				17,136
State sources				2,992,719
TOTAL GENERAL REVENUE				53,685,614
CHANGE IN NET POSITION				(3,421,061)
NET POSITION AT BEGINNING OF YEAR, BEFORE RESTATEMENT				30,245,746
CHANGE IN ACCOUNTING PRINCIPLE (NOTE 18)				(76,209,274)
NET POSITION (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED				(45,963,528)
TOTAL NET POSITION (DEFICIT) AT END OF YEAR				$(49,384,589)

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
ASSETS						
Cash:						
Unrestricted	$ 4,180,065	20,605	90,205	-	-	4,290,875
Restricted	11,536,399	-	-	100,581	2,918,883	14,555,863
Receivables:						
Accounts receivable	22,202	-	2,762	-	-	24,964
State and federal aid	634,455	454,548	-	-	-	1,089,003
Due from other governments	2,931,610	-	-	-	-	2,931,610
Due from other funds	473,908	-	16,793	1,438	-	492,139
Prepaid expenditures	16,667	-	-	-	-	16,667
Inventories	-	-	19,305	-	-	19,305
TOTAL ASSETS	$ 19,795,306	475,153	129,065	102,019	2,918,883	23,420,426
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Payables:						
Accounts payable	887,510	3,770	36,120	-	-	927,400
Accrued liabilities	-	13,376	14,727	-	-	28,103
Due to other governments	188,717	-	-	-	-	188,717
Due to other funds	18,231	458,007	-	-	15,605	491,843
Due to teachers' retirement system	2,799,084	-	-	-	-	2,799,084
Due to employees' retirement system	298,866	-	-	-	-	298,866
Compensated absences payable	285,170	-	-	-	-	285,170
TOTAL LIABILITIES	4,477,578	475,153	50,847	-	15,605	5,019,183
DEFERRED INFLOWS OF RESOURCES						
Unearned income	273,633	-	-	-	-	273,633
FUND BALANCE						
Nonspendable	16,667	-	19,305	-	-	35,972
Restricted	11,536,399	-	-	102,019	2,903,278	14,541,696
Assigned	698,734	-	58,913	-	-	757,647
Unassigned	2,792,295	-	-	-	-	2,792,295
TOTAL FUND BALANCE	15,044,095	-	78,218	102,019	2,903,278	18,127,610
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 19,795,306	475,153	129,065	102,019	2,918,883	23,420,426

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
JUNE 30, 2018

Total governmental fund balances		$ 18,127,610
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The statement of net position includes those capital assets among the assets of the district as a whole, and their original costs are expensed annually over their useful lives.		
Original cost of capital assets	$ 121,521,994	
Less: accumulated depreciation	(38,181,796)	83,340,198
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. These liabilities consist		
Bonds payable	(48,148,960)	
Accrued interest on bonds payable	(147,467)	
Claims payable	(834,961)	
Other post employment benefit liability	(109,633,365)	
Compensated absences payable	(6,326,261)	(165,091,014)
Some deferred inflows and outflows are not reported in the governmental funds. These consist of:		
Deferred outflows of resources - pensions	19,308,779	
Deferred inflows of resources - pensions	(6,041,240)	
Deferred outflows of resources - loss on refunding	917,042	
Deferred inflows of resources - other postemployment benefit liability	(384,674)	13,799,907
(Increases) decreases in proportionate share of net pension asset/liability reported in the statement of activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in		
Net pension asset - proportionate share - TRS		1,241,241
Net pension liability - proportionate share - ERS		(802,531)
Net position of governmental activities		$(49,384,589)

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General	Special Aid	School Lunch	Debt Service	Capital Projects	Total Governmental Funds
REVENUE						
Real property taxes	$ 49,634,876	-	-	-	-	49,634,876
Real property tax items	515,673	-	-	-	-	515,673
Charges for services	14,245,044	-	-	-	-	14,245,044
Use of money and property	276,552	-	-	40,816	-	317,368
Miscellaneous	207,842	-	-	-	-	207,842
Sale of property and compensation for loss	17,136	-	-	-	-	17,136
State sources	2,992,719	136,114	13,014	-	-	3,141,847
Federal sources	-	580,205	367,343	-	-	947,548
Surplus food	-	-	54,660	-	-	54,660
Food service sales	-	-	430,061	-	-	430,061
TOTAL REVENUE	67,889,842	716,319	865,078	40,816	-	69,512,055
EXPENDITURES						
General support	6,815,916	-	-	-	-	6,815,916
Instruction	35,026,717	652,009	-	-	-	35,678,726
Pupil transportation	2,180,630	-	-	-	-	2,180,630
Community service	76,851	-	-	-	-	76,851
Employee benefits	15,958,762	84,838	4,100	-	-	16,047,700
Debt service - principal	-	-	-	3,745,000	-	3,745,000
Debt service - interest	178,111	-	-	1,866,962	-	2,045,073
Cost of food service sales	-	-	861,312	-	-	861,312
Capital outlay	-	-	-	-	597,123	597,123
TOTAL EXPENDITURES	60,236,987	736,847	865,412	5,611,962	597,123	68,048,331
EXCESS (DEFICIENCY) OF OF REVENUE OVER EXPENDITURES	7,652,855	(20,528)	(334)	(5,571,146)	(597,123)	1,463,724
OTHER FINANCING SOURCES AND USES						
Proceeds of advance refunding of bonds	-	-	-	47,195,000	-	47,195,000
Premiums on obligation	-	-	-	4,791,451	-	4,791,451
Payment to escrow agent	-	-	-	(52,676,586)	-	(52,676,586)
Fiscal agent fees	-	-	-	(133,600)	-	(133,600)
Operating transfers in	-	20,528	10,000	5,335,600	1,000,000	6,366,128
Operating transfers (out)	(6,366,128)	-	-	-	-	(6,366,128)
TOTAL OTHER FINANCING SOURCES (USES)	(6,366,128)	20,528	10,000	4,511,865	1,000,000	(823,735)
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,286,727	-	9,666	(1,059,281)	402,877	639,989
FUND BALANCE, BEGINNING	13,757,368	-	68,552	1,161,300	2,500,401	17,487,621
FUND BALANCE, ENDING	$ 15,044,095	-	78,218	102,019	2,903,278	18,127,610

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net change in funds balances - total governmental funds		$ 639,989
Amounts reported for governmental activities in the statement of activities are difference because:		
Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets are allocated and recognized over their estimated useful lives as depreciation expense. In the current period, these amounts are the following:		
Capital outlays	$ 956,451	
Depreciation expense	(2,738,477)	(1,782,026)
the governmental funds but the repayment reduces long-term liabilities in the statement of net position. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal paid on bonds	55,420,000	
Proceeds from issuance of debt	(47,195,000)	
Amortization on bond premium	92,491	
Premium on obligations	(4,791,451)	
Deferred charges on refunding of debt	917,042	4,443,082
Some items in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts are the following:		
Compensated absences payable		47,704
Claims payable		(433,034)
Accrued interest on bonds payable		(40,017)
Other postemployment benefit liability		(5,451,000)
Deferred inflows of resources - other postemployment benefits liability		(384,674)
Deferred outflows of resources - pensions		457,406
Deferred inflows of resources - pensions		(4,996,232)
Decreases in proportionate share of net pension asset/liability reported in the statement of activates do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds:		
Employees' retirement system		1,435,223
Teachers' retirement system		3,042,869
Some items reported as expenditures in governmental funds are required to be deferred in the statement of net position. In the current period these amounts are the following:		
Accrued contributions to employees' retirement system	(589)	
Accrued contributions to teachers' retirement system	(399,762)	(400,351)
Changes in net position of governmental activities		$(3,421,061)

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash	$ 60,732	256,144
Other receivables	9,883	-
TOTAL ASSETS	70,615	256,144
LIABILITIES		
Due to governmental funds	296	-
Extraclassroom activity balance	-	221,891
Other liabilities	588	34,253
TOTAL LIABILITIES	884	256,144
NET POSITION		
Reserved for scholarships	33,070	-
Reserved other student activities	36,661	-
TOTAL NET POSITION	$ 69,731	-

See Accompanying Notes to Financial Statements

EAST HAMPTON UNION FREE SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018

	Private Purpose Trust Funds
ADDITIONS	
Mini grants and miscellaneous programs	$ 171,040
Interest and earnings	27
TOTAL ADDITIONS	171,067
DEDUCTIONS	
Scholarships and awards	152,453
TOTAL DEDUCTIONS	152,453
CHANGE IN NET POSITION	18,614
NET POSITION - BEGINNING	51,117
NET POSITION - ENDING	$ 69,731

See Accompanying Notes to Financial Statements

NOTE 1 - SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of East Hampton Union Free School District (the District) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

(A) Reporting entity:

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

The reporting entity of the District is based upon criteria set forth by GASB Statement No. 14, The Financial Reporting Entity, GASB Statement No. 39, Determining Whether Certain Organizations are Component Units and GASB Statement No. 80, Blending Requirements for Certain Component Units - and Amendment of GASB Statement No. 14. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

(i) Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District's business office. The District accounts for assets held as an agent for the Extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Funds.

(B) Joint venture:

The District is a component district in the Eastern Suffolk Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs, which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

(C) Basis of presentation:

The financial statements of the District have been prepared in accordance with GAAP as applied to governmental units. GASB is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

(i) District-Wide Financial Statements:

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

The Statement of Activities presents a comparison between program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

(ii) Fund Financial Statements:

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

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

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

Capital Projects Fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

School Lunch Fund: This fund is used to account for the activities of the District's food service operations.

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

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

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

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

(D) Measurement focus and basis of accounting:

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

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the fiscal year.

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

(E) Property taxes:

(i) Calendar

Real property taxes are levied annually by the Board of Education no later than November 1, and become a lien on December 1. Taxes are collected by the Town of East Hampton during the period December 1, 2017 to June 1, 2018.

(ii) Enforcement

Uncollected real property taxes are subsequently enforced by Suffolk County. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following July 1.

(F) Restricted resources:

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

(G) Interfund transactions:

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

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

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

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

(H) Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, workers' compensation claims, postemployment benefits, potential contingent liabilities and useful lives of long-lived assets.

(I) Cash and cash equivalents:

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

(J) Accounts receivable:

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

(K) Inventories:

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A nonspendable fund balance for these non-liquid assets (inventories) has been recognized in the school lunch fund to signify that a portion of fund balance is not available for other subsequent expenditures.

(L) Capital assets:

Capital assets are reported at actual cost for acquisitions subsequent to 1990. For assets acquired prior to 1990, estimated historical cost is based on appraisals conducted by independent third-party professionals. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building & Building Improvements	$15,000	Straight-line	50 years
Land Improvements	$15,000	Straight-line	20 years
Furniture and Equipment	$5,000	Straight-line	5-15 years

(M) Deferred outflows and inflows of resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources which represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is deferred changes on refunding of debt which are amortized over the life of the outstanding bonds. The second item is related to pensions reported in the District-Wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Also included are the District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position and Balance Sheet - Governmental Funds will sometimes report a separate section for deferred inflows of resources which 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 District has three items that qualify for reporting in this category. The first is reported as unavailable revenue - unearned in the Balance Sheet - Governmental Funds. The second item is related to differences between expected and actual experience related to the other postemployment benefit liability. The third item is related to pensions reported in the District-Wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension system not included in pension expense.

(N) Vested employee benefits:

Compensated absences:

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time:

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

The District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16 - "Accounting for Compensated Absences," the liability has been calculated using the vesting method and an accrual for that liability is included in the District-Wide Financial Statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the Fund Financial Statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

(O) Other benefits:

During the year ended June 30, 2018, the Board adopted provisions of GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). See note 13 and note 18 to the financial statements for the impact of the implementation on the financial statements.

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

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as expenditure, in the year paid.

(P) Short-term debt:

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

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which there is an insufficient or no provision made in the annual budget. The budget note must be repaid no later than the close of second fiscal year succeeding the year in which the note was issued.

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

(Q) Accrued liabilities and long-term obligations:

Payables, accrued liabilities and long-term obligations are reported in the District-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 fund financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

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

(R) Equity Classifications:

(i) District-Wide Statements:

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

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

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

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

(ii) Funds statements:

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

Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance consists of a prepaid expenditure related to a security deposit for the bus garage lease of $16,667 in the General Fund and inventory recorded in the School Lunch Fund of $19,305.

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

Unemployment Insurance

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

Capital

According to Education Law §3651, must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve, the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the General Fund.

Repairs

Repair reserve (GML §6-d) is used to pay for the cost of repairs to capital assets which are not recurring annually. The Board of Education with a majority vote of its members may establish the reserve without voter approval, but voter approval is required to fund this reserve. Expenditures from this reserve may be made only after a public hearing has been held with the exception of emergency situations. In such cases where no hearing has been held, the funds must be repaid to the reserve within the next 2 years. The reserve is accounted for in the general fund.

Property Loss and Liability

Property loss reserve and liability reserve (Education Law 1709(8) (c) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or $15,000 whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. These reserves are accounted for in the general fund.

Retirement Contribution

Retirement contribution reserve (GML §6-r) is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board. This reserve is accounted for in the general fund.

Workers' Compensation

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

Employee Benefit Accrued Liability

Reserve for employee benefit accrued liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due to an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

Debt Service

Mandatory reserve for debt service (GML §6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvements that was financed by obligations which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. The reserve is accounted for in the debt service fund.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund and the School Food Service Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Scholarships

Reserve for scholarships is used to account for monies donated for scholarship purposes, net of earnings and awards. The reserve is accounted for in the private purpose fund.

Restricted fund balance includes the following:

General Fund:	
Unemployment insurance	$ 53,738
Capital	1,210,619
Repairs	16,110
Property and liability loss	242,988
Retirement contribution	2,741,883
Workers' compensation	834,983
Employee benefit accrued liability	6,436,078
Total General Fund	11,536,399
Debt Service Fund	102,019
Capital Projects Fund	2,903,278
Total restricted funds	$ 14,541,696

Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority. The District has no committed fund balances as of June 30, 2018.

Assigned - Includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the general fund are classified as assigned fund balance in the general fund. Encumbrances reported in the General Fund amounted to $298,734. Additionally, the District assigned $400,000 of general fund balance to reduce the tax levy for the ensuing fiscal year budget. The School Lunch Fund is reported as an assigned fund balance of $58,913.

Unassigned - Includes all other General Fund fund balance that does not meet the definition of the above four classifications and is deemed to be available for general use by the District.

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

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS:

Due to the differences in the measurement focus and basis of accounting used in the fund statements and the District-wide statements, certain financial transactions are treated differently.

The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

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

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

(B) Statement of Revenue, Expenditures and Changes in Fund Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balance vs. Statement of Activities fall into one of the three broad categories. The amounts shown below represent:

(i) Long-term revenue differences:

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

(ii) Capital related differences:

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

(iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest

payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

(iv) Employee benefit allocations:
Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Balance based on the requirements of New York State. These costs have been allocated based on total salary for each function in the Statement of Activities.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

(A) Budgets:

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted.

The voters of the District approve the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education 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. No budget revisions occurred during the fiscal year.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. 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.

(B) Encumbrances:

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be

honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

(A) Cash:

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

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

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

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

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes $6,436,078 for employee benefits, $4,113,897 for capital improvements, $16,110 for repairs, $2,741,883 for employer retirement reserve, $100,581 for debt service, $834,983 for workers' compensation, $242,988 for property and liability loss, and $53,738 for unemployment insurance within the governmental funds.

(B) Investments:

The District does not typically purchase investments for long enough duration to cause it to believe that it is exposed to any material interest rate risk. The District also does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

NOTE 5 - PARTICIPATION IN BOCES:

During the year, the District was billed $2,688,601 for BOCES administrative and program costs. The District's share of BOCES aid amounted to $301,495. Financial statements for the BOCES

are available from the BOCES administrative office at the James Hines Administration Center, 201 Sunrise Highway, Patchogue, New York 11772.

NOTE 6 - FEDERAL AND STATE RECEIVABLE:

Federal and state aid receivable at June 30, 2018 consisted of the following:

General Fund	
New York State aid, plus excess cost aid	$ 332,960
BOCES aid	301,495
Total - General fund	634,455
Special Aid Fund	
New York State aid - summer handicapped	$ 82,114
Federal aid	372,434
Total - Special Aid Fund	454,548
Total - All Funds	$ 1,089,003

District management has deemed these amounts to be fully collectible.

NOTE 7 - DUE FROM OTHER GOVERNMENTS:

Due from other governments in the general fund and governmental activities consisted of the following:

Tuition billings	$ 2,887,202
Other service billings	44,348
Total	$ 2,931,610

District management has deemed these amounts to be fully collectible.

NOTE 8 - CAPITAL ASSETS:

Capital asset balances and activity for the year ended June 30, 2018 were:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	$ 376,150	-	-	376,150
Land improvement	560,231	-	-	560,231
Construction in progress	1,396,380	422,150	17,058	1,801,472
Total nondepreciable historical cost	2,332,761	422,150	17,058	2,737,853

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Capital assets that are depreciated:				
Building and building improvements	$ 111,316,394	-	-	111,316,394
Furniture and equipment	3,963,191	339,072	-	4,302,263
Vehicles	3,102,429	212,287	149,232	3,165,484
Total depreciable historical cost	118,382,014	551,359	149,232	118,784,141
Less accumulated depreciation:				
Building and building improvements	30,170,628	2,226,328	-	32,396,956
Furniture and equipment	2,391,873	377,896	-	2,769,769
Vehicles	2,469,819	134,253	149,232	2,454,840
Land improvement	560,231	-	-	560,231
Total accumulated depreciation	35,592,551	2,738,477	149,232	38,181,796
Total historical cost, net	$ 85,122,224	(1,764,968)	(17,058)	83,340,198
Depreciation expense (unallocated)				$ 2,738,477

NOTE 9 - INTERFUND TRANSACTIONS:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
Governmental activities:				
General fund	$ 473,908	18,231	-	6,366,128
Special aid fund	-	458,007	20,528	-
School lunch fund	16,793	-	10,000	-
Debt service fund	1,438	-	5,335,600	-
Capital projects fund	-	15,605	1,000,000	-
Total government activities	492,139	491,843	6,366,128	6,366,128
Fiduciary activities - private purpose trust fund	-	296	-	-
Total all activities	$ 492,139	492,139	6,366,128	6,366,128

The District typically transfers from the general fund to the capital projects fund, to finance capital projects. The District typically transfers from the general fund to the special aid fund to fund the District's 20% share of summer school handicap expenses required by State Law.

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

All interfund payables are expected to be repaid within one year.

NOTE 10 - SHORT-TERM DEBT:

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

	Maturity	Interest Rate	Beginning Balance	Issued	Redeemed	Ending Balance
TAN	6/27/18	2.00%	$ -	14,000,000	(14,000,000)	-

Interest expense, net of premium, on short-term debt for the year was $101,531.

Authorized and Unissued Debt

The District has no authorized but unissued debt outstanding. The District is in the preliminary stages of planning district-wide energy performance upgrades and the construction of a bus garage. The amount of such improvements and the date of borrowing has yet to be determined.

NOTE 11 - LONG-TERM DEBT OBLIGATIONS:

Long-term liability balances and activity for the year are summarized below:

	Beginning Balance	Issued/ Increases	Redeemed/ Decreases	Ending Balance	Due Within One Year
Government activities:					
Bonds payable:					
General obligation debt:					
Construction serial bonds	$ 51,675,000	47,195,000	55,420,000	43,450,000	3,205,000
Unamortized bond premium	272,127	4,519,324	92,491	4,698,960	193,522
Total bonds payable	51,947,127	51,714,324	55,512,491	48,148,960	3,398,522
Other liabilities:					
Compensated absences	6,373,965	650,550	698,254	6,326,261	-
Total other postemployment benefit liability	104,182,365	7,380,875	1,929,875	109,633,365	-
Net pension liability - ERS	2,237,754	-	1,435,223	802,531	-
Net pension (asset) liability - TRS	1,801,628	-	3,042,869	(1,241,241)	-
Claims payable	401,927	730,586	297,552	834,961	-
Total other liabilities	114,997,639	8,762,011	7,403,773	116,355,877	-
Total long-term liabilities	$ 166,944,766	60,476,335	62,916,264	164,504,837	3,398,522

The general fund has typically been used to liquidate long-term liabilities such as compensated absences.

The total other postemployment benefit liability has been restated as noted in note 13.

Existing serial bond obligations are comprised of the following:

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at Year End
Construction Serial Bond	12/28/17	6/1/30	2.45 - 5.00%	$ 43,450,000
Unamortized bond premium				4,698,960
				$ 48,148,960

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$ 3,205,000	1,769,603	4,974,603
2020	3,365,000	1,609,353	4,974,353
2021	3,535,000	1,441,103	4,976,103
2022	3,705,000	1,264,353	4,969,353
2023	3,880,000	1,079,103	4,959,103
2024 - 2028	22,250,000	2,513,708	24,763,708
2029 - 2030	3,510,000	107,985	3,617,985
	43,450,000	9,785,208	53,235,208
Plus unamortized bond premium	4,698,960	-	4,698,960
	$ 48,148,960	9,785,208	57,934,168

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

	Total
Interest paid, including installment debt	$ 2,045,073
Less interest accrued in the prior year	(107,450)
Plus interest accrued in the current year	147,467
Bond premium amortization	(92,491)
Deferred loss amortization	84,544
	$ 2,077,143

On December 28, 2017, the District utilized $1,097,300 and issued $47,195,000 in refunding serial bonds to advance refund $51,675,000 of outstanding serial bonds. The net proceeds of $52,880,721 (including a net premium of $4,519,325 and after payment of $133,600 in underwriting fees, insurance and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the District's financial statements. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately $5,274,406. The outstanding principal balance of the defeased bonds is $48,110,000 at June 30, 2018.

The gain on the refunded bonds have been deferred and included in the long-term portion of bonds payable on the District-wide financial statements. The premiums are being amortized using the straight-line method, the remaining time to maturity of the bonds. The current year amortization is $92,492 and is included as a reduction to interest expense.

Deferred premiums	$ 4,791,451
Less: accumulated amortization	(92,491)
Net unamortized premiums	$ 4,698,960

The charges on the refunded bonds are recorded as deferred outflows of resources on the District-wide financial statements. The charges are being amortized using the straight-line method, the remaining time to maturity of the bonds. The current year amortization is $84,545 and is included as an increase to interest expense on the statement of activities.

Deferred charges	$ 1,001,587
Less: accumulated amortization	(84,545)
Net unamortized charges	$ 917,042

NOTE 12 - PENSION PLANS:

(A) Plan Descriptions and Benefits Provided:

Teachers' Retirement System (TRS)

The District participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as, death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the System, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at www.nystrs.org.

Employees' Retirement System (ERS)

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the

administrative head of the System. System benefits are established under the provision of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees; Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/inex.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For ERS, the Comptroller annual certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems; fiscal year ending March 31. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education law.

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

	ERS	TRS	Total
2018	$ 1,194,875	2,662,317	3,857,192
2017	1,143,814	3,032,859	4,176,673
2016	1,234,813	3,441,887	4,676,700

(B) Pension Asset/Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2018, the District reported the following asset (liability) for its proportionate share of the net pension asset (liability) for each of the Systems. The net pension asset (liability) was measured as of March 31, 2018 for ERS and June 30, 2017 for TRS. The total pension asset (liability) used to calculate the net pension asset (liability) was determined by an actuarial valuation. The District's proportion of the net pension asset (liability) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS and TRS Systems in reports provided to the District.

	ERS	TRS
Measurement date	3/31/2018	6/30/2017
Actuarial valuation date	4/01/2017	6/30/2016
Net pension asset (liability)	$ (802,531)	1,241,241
District's proportion of the Plan's net pension asset (liability)	0.0248658%	0.163300%

For the year ended June 30, 2018, the District's recognized pension expense of $1,121,999 and $3,167,059 in the statement of activities for ERS and TRS, respectively. At June 30, 2018 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	$ 286,237	1,021,236	236,535	483,945
Changes of assumptions	532,144	12,629,866	-	-
Net difference between projected and actual earnings on pension plan investments	1,165,612	-2,3		00,801
2,923,481				
Changes in proportion and differences between the District's contributions and proportionate share of contributions	440,093	303,786	36,971	59,507
District's contributions subsequent to the measurement date	298,277	2,631,528	-	-
Total	$ 2,722,363	16,586,416	2,574,307	3,466,933

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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 ending	ERS	TRS
2019	$ 323,580	333,872
2020	242,864	3,388,110
2021	(500,846)	2,437,848
2022	(215,819)	640,253
2023	-	2,430,891
Thereafter	-	1,256,981
	$ (150,221)	10,487,955

(C) Actuarial Assumptions:

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

Significant actuarial assumptions used in the valuations were as follows:

	ERS	TRS
Measurement date	March 31, 2018	June 30, 2017
Actuarial valuation date	April 1, 2017	June 30, 2016
Investment rate of return (net of investment expense including inflation)	7.0%	7.25%
Salary scale	3.8%	1.90% - 4.72%
Inflation rate	2.5%	2.5%
Cost of living adjustments	1.3%	1.5%

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

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

The long-term ERS 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 weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are included in the target asset allocation summarized in the following table.

	ERS		TRS	
Measurement date	March 31, 2018		June 30, 2017	
	Long-term expected real rate of of return*	Target allocation	Long-term expected real rate of return*	Target allocation
Asset class:				
Domestic equity	4.55%	36.00%	5.90%	35.00%
International equity	6.35%	14.00%	7.40%	18.00%
Real estate	5.55%	10.00%	4.30%	11.00%
Domestic fixed income securities	-	-	1.60%	16.00%
Global fixed income securities	-	-	1.30%	2.00%
High-yield fixed income securities	-	-	3.90%	1.00%
Mortgages	-	-	2.80%	8.00%
Short-term	-	-	0.60%	1.00%
Private equity	7.50%	10.00%	9.00%	8.00%
Absolute return strategies	3.75%	2.00%	-	-
Opportunistic portfolio	5.68%	3.00%	-	-
Real assets	5.29%	3.00%	-	-
Bonds and mortgages	1.31%	17.00%	-	-
Cash	(0.25%)	1.00%	-	-
Inflation - indexed bonds	1.25%	4.00%	-	-

* Real rates of return are net of a long-term assumption of 2.2% for TRS and 2.5% for ERS.

(D) Discount Rate:

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

(E) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption:

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

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension asset (liability)	$ (6,072,162)	(802,531)	3,655,367

TRS	1% Decrease (6.25%)	Current Assumption (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net pension asset (liability)	$(21,382,902)	1,241,241	20,187,837

(F) Pension Plan Fiduciary Net Position:

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

	(Dollars in Millions) ERS	TRS
Measurement date	3/31/2018	6/30/2017
Employers' total pension liability	$ (183,400)	(114,708)
Plan fiduciary net position	180,173	115,468
Employers' net pension asset (liability)	$ (3,227)	760
Ratio of plan net position to the Employers' total pension asset (liability)	98.24%	100.66%

(G) Payables to the Pension Plans:

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2018 represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to $298,866. This amount has been recorded as an expenditure in the governmental fund statements and a deferred outflows of resources in the government-wide financial statements.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2018 are paid to the System in September, October and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018 represent employee and employer contributions for the fiscal year ended June 30, 2018 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2018 amounted to $2,631,528 of employer contributions and $167,556 employee contributions. This amount has been recorded as an expenditure in the governmental fund statements and a deferred outflows of resources in the government-wide financial statements.

NOTE 13 - POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS:

Summary of Principal Plan Provisions

The District provides medical and Medicare Part B benefits to retired employees and their eligible dependents. The benefits provided to employees upon retirement are based on provisions in various contracts that the District has in place with different classifications of employees.

The District acquires health insurance through a consortium known as the New York State Insurance Program (NYSHIP). Benefits provided by NYSHIP are administered by Empire BlueCross BlueShield, United HealthCare, and MEDCO. The NYSHIP plan covers medical and pharmaceutical costs. The plan documents describe specifics and limitations of the coverage offered to retirees. Many of the services in the NYSHIP plan require co-payments at various levels depending on the nature of the service.

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Current retirees	181
Active employees	346
	527

Total OPEB Liability

The District's total OPEB liability of $109,633,365 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.0%
Discount rate	3.0%
Inflation	2.6%
Healthcare cost trend rates	7.5% for 2018, decreasing 0.5% per year to an ultimate rate of 4.5% for 2023

Mortality rates were based on the SOA RP-2014 adjusted to 2006 Total Dataset Mortality Table projected to the valuation date with Scale MP-2017.

Changes in the Total OPEB Liability	
Original OPEB liability as of July 1, 2017 (under GASB 45)	$ 27,973,091
Cumulative effect of change in accounting principle (required by GASB 75)	76,209,274
Total OPEB liability as of July 1, 2017	104,182,365
Changes for the year:	
Service cost	4,581,330
Interest	3,234,177
Differences between actual and expected experience	(434,632)
Changes of benefit terms	-
Changes in assumptions	-
Benefit payments	(1,929,875)
Total changes	5,451,000
Total OPEB liability as of June 30, 2018	$ 109,633,365

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.0%) or 1-percentage-point higher (4.0%) than the current discount rate:

	1% Decrease (2.0%)	Discount Rate (3.0%)	1% Increase (4.0%)
Total OPEB liability	$ 130,375,833	109,633,365	93,233,713

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Costs Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Trend Rate (7.5%)	1% Increase (8.5%)
Total OPEB liability	$ 90,304,569	109,633,365	135,101,915

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

For the year ended June 30, 2018, the District recognized OPEB expense of $7,765,549. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	384,674

Amounts reported as deferred inflows of resources related to other postemployment benefits will be recognized as follows:

Year ending	
2019	$ (49,958)
2020	(49,958)
2021	(49,958)
2022	(49,958)
2023	(49,958)
Thereafter	(134,884)
Total	$ (384,674)

NOTE 14 - RISK MANAGEMENT:

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

Consortium and Self Insured Plans:
The District participates in the East End Workers' Compensation Consortium (EEWCC), to insure workers' compensation claims. This public entity risk pool (Plan) was created under Article 5 of Workers' Compensation Law, to finance liability and risks related to workers' compensation claims. At June 30, 2018, the EEWCC had an independent audit of its financial statements performed. A separate statement prepared as part of the audit provided details of the fund balance for each participating district. As of June 30, 2018, the statements showed the District had an allocated cash deficit of $(222,793), losses incurred not paid of $355,438 and incurred but not reported claims of $256,730. The Districts' total unfunded liability is $834,961. The District has a cash balance of $389,983 in the Workers' Compensation Reserve.

Liabilities of the Plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are recorded at present value, undiscounted.

Changes in the balances of the District's proportionate share of claims liabilities for workers' compensation during the past fiscal year is as follows:

Unpaid claims at beginning of fiscal year	$ 401,927
Incurred claims and claim adjustment expenses	544,644
Claims payments	(111,510)
Unpaid claims at year end	$ 834,961

NOTE 15 - COMMITMENTS AND CONTINGENCIES:

(A) Grants:

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

(B) Operating Leases:

The following is a summary of obligations of government activities under operating lease payments. These operating leases include copiers and office equipment. Rental expense for the fiscal year was approximately $149,639 including additional overage fees.

Fiscal year ending June 30,	Total
2019	$ 149,189
2020	149,189
Total lease payments	$ 298,378

(C) Litigation:

The District is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the District's insurance coverage. However, it is not possible to determine the District's potential exposure, if any, at this time.

NOTE 16 - SUBSEQUENT EVENTS:

Management has evaluated events through the date of the report, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

On October 11, 2018 the District issued a TAN in the amount of $14,000,000 due June 27, 2019 and bearing interest at 3%. There was a premium on issuance amounting to $106,560, which will effectively reduce the interest rate to 1.93%.

NOTE 17 - ACCOUNTING STANDARDS ISSUED NOT YET IMPLEMENTED:

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related to tangible capital assets should recognize a liability based on the

guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning July 1, 2018 for the District. This Statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning July 1, 2019 for the District. This Statement is not expected to have a material effect on the financial statements of the District.

GASB Statement No. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019, which is the fiscal year beginning July 1, 2020 for the District. Management is in process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 88 - "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This Statement, issued in April of 2018, requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning July 1, 2018 for the District. Management is in the process of evaluating the potential impact of this Statement on the financial statements of the District.

GASB Statement No. 89 - "Accounting for Interest Cost Incurred before the End of a Construction Period." This Statement, issued in June 2018, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was 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" which are superseded by this Statement. The requirements of this Statements are effective for reporting periods beginning after December 15, 2019, which is the fiscal year beginning July 1, 2020 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

GASB Statement No. 90 - "Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61." This Statement, issued in August 2018, seeks to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and sets parameters as to whether a majority equity interest is to be reported as an investment or component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning July 1, 2019 for the District. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the financial statements of the District.

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE:

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The implementation of this Statement resulted in the reporting of the entire actuarial accrued liability for other postemployment benefits. The District's net position at June 30, 2017 has been restated as follows:

Net position at beginning of year, as previously stated	$ 30,245,746
Change in accounting principle	(76,209,274)
Net position at beginning of year, as restated	$ (45,963,528)

EAST HAMPTON UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance with Budgetary Actual
REVENUE				
Local Sources:				
Real Property Taxes	$ 49,587,666	49,587,666	49,634,876	47,210
Other Real Property Tax Items (Star, Pilot, Interest)	477,984	477,984	515,673	37,689
Charges for Services	14,326,250	14,356,250	14,245,044	(111,206)
Use of Money & Property	-	97,500	276,552	179,052
Miscellaneous	290,400	162,900	207,842	44,942
Sale of Property and Compensation for Loss	-	-	17,136	17,136
State Sources:				
Basic Formula	2,813,170	1,520,008	1,264,075	(255,933)
Excess Cost Aid	-	1,100,000	1,132,199	32,199
Lottery Aid	109,131	109,131	87,021	(22,110)
BOCES Aid	301,497	301,497	301,495	(2)
Textbook Aid	-	63,518	85,628	22,110
Computer Software Aid	-	28,507	28,507	-
Library A/V Loan Program Aid	-	11,137	11,137	-
Other State Aid	-	90,000	82,657	(7,343)
TOTAL REVENUE AND OTHER SOURCES	67,906,098	67,906,098	67,889,842	(16,256)
Appropriated Fund Balance	400,000	400,000		
Assigned prior year encumbrances	104,979	104,979		
TOTAL REVENUE, APPROPRIATED FUND BALANCE & ASSIGNED PRIOR YEAR ENCUMBRANCES	$ 68,411,077	68,411,077		

Note to Required Supplementary Information

Budget Basis of Accounting

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

EAST HAMPTON UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance with Budgetary Actual and Encumbrances
EXPENDITURES					
General Support:					
Board of Education	$ 93,972	90,563	71,745	-	18,818
Central Administration	385,961	396,214	391,615	-	4,599
Finance	685,084	699,810	654,977	-	44,833
Staff	408,723	494,164	437,916	-	56,248
Central Services	5,097,998	4,935,259	4,540,788	181,772	212,699
Special Items	754,244	742,709	718,875	-	23,834
Instructional:					
Instruction, Adm. & Imp.	3,502,344	3,448,027	3,360,178	5,432	82,417
Teaching - Regular School	20,097,205	19,658,818	19,384,421	73,211	201,186
Programs for Children with Handicapping Conditions	6,077,682	6,022,802	5,830,429	-	192,373
Occupational Education	550,000	518,520	455,844	-	62,676
Teaching Special Schools	318,866	254,366	226,582	-	27,784
Instructional Media	1,633,833	1,719,738	1,632,081	18,035	69,622
Pupil Services	4,628,573	4,311,400	4,137,182	20,284	153,934
Pupil Transportation	2,218,043	2,268,362	2,180,630	-	87,732
Community Services	78,800	78,800	76,851		1,949
Employee Benefits	15,324,149	16,215,925	15,958,762		257,163
Debt Service Interest	180,000	180,000	178,111	-	1,889
TOTAL EXPENDITURES	62,035,477	62,035,477	60,236,987	298,734	1,499,756
Other Financing Uses:					
Transfers to Other Funds	6,375,600	6,375,600	6,366,128	-	9,472
TOTAL EXPENDITURES AND OTHER USES	$ 68,411,077	68,411,077	66,603,115	298,734	1,509,228
Net change in fund balances			1,286,727		
Fund balance - beginning			13,757,368		
Fund balance - ending			$ 15,044,095		

Note to Required Supplementary Information

Budget Basis of Accounting

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

Supplemental Schedule #2

EAST HAMPTON UNION FREE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S
TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2018

Total OPEB liability (Dollar Amount in Thousands)	
Service cost	$ 4,581
Interest	3,234
Differences between expected and actual experience	(434)
Changes of benefit terms	-
Changes of assumptions or other inputs	-
Benefit payments	(1,930)
Net change in total OPEB liability	5,451
Total OPEB liability - beginning	104,182
Total OPEB liability- ending	$ 109,633
Covered payroll	$ 32,988
Total OPEB liability as a percentage of covered payroll	332.34%

Notes to schedule:

Changes of assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018 3.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full ten year trend is compiled, the District is presenting information for those years for which information is available.

Supplemental Schedule #3

EAST HAMPTON UNION FREE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET/LIABILITY
YEAR ENDED JUNE 30, 2018

TRS System	2018	2017	2016	2015
The District's proportion of the net pension asset (liability)	0.163300%	0.168213%	0.167969%	0.165972%
The District's proportionate share of the net pension asset (liability)	$ 1,241,241	$ (1,801,628)	$17,466,623	$18,488,295
The District's covered payroll	$26,852,329	$25,877,642	$25,956,913	$25,231,219
The District's proportionate share of the net pension asset (liability) as a percentage of covered payroll	4.62%	6.96%	67.29%	73.28%
Plan fiduciary net position as a percentage of the total pension asset	100.66%	99.01%	110.46%	111.48%

ERS System	2018	2017	2016	2015
The District's proportion of the net pension liability	0.0248658%	0.0238155%	0.0249884%	0.0257646%
The District's proportionate share of the net pension liability	$ (802,531)	$ (2,237,754)	$ (4,010,700)	$ (870,932)
The District's covered payroll	$ 5,005,207	$ 7,439,437	$ 7,344,831	$ 7,692,886
The District's proportionate share of the net pension liability as a percentage of covered payroll	16.03%	30.08%	54.61%	11.32%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.70%	97.90%

The amounts presented for each fiscal year were determined as of each system's measurement date.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full ten year trend is compiled, the District is presenting information for those years for which information is available.

EAST HAMPTON UNION FREE CENTRAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS
YEAR ENDED JUNE 30, 2018

TRS System	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 2,662,317	3,032,859	3,441,887	4,421,839	3,983,890	2,881,376	2,330,757	1,724,404	1,984,352	2,110,678
Contribution in relation to the contractually required contribution	2,662,317	3,032,859	3,441,887	4,421,839	3,983,890	2,881,376	2,330,757	1,724,404	1,984,352	2,110,678
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-	-	-
District's covered payroll	$26,852,329	25,877,642	25,956,913	25,231,219	24,516,246	24,335,946	20,978,911	20,004,687	32,057,383	27,662,883
Contribution as a percentage of covered payroll	9.91%	11.72%	13.26%	17.53%	16.25%	11.84%	11.11%	8.62%	6.19%	7.63%

ERS System	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 1,194,875	1,143,814	1,234,813	1,388,948	1,447,634	1,477,371	1,275,836	911,656	510,374	518,624
Contribution in relation to the contractually required contribution	1,194,875	1,143,814	1,234,813	1,388,948	1,447,634	1,477,371	1,275,836	911,656	510,374	518,624
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-	-	-
District's covered payroll	$ 5,005,207	7,439,437	7,344,831	7,692,886	7,599,129	7,397,952	7,311,381	7,316,661	6,823,182	6,037,532
Contribution as a percentage of covered payroll	23.87%	15.38%	16.81%	18.05%	19.05%	19.97%	17.45%	12.46%	7.48%	8.59%

EAST HAMPTON UNION FREE SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT
YEAR ENDED JUNE 30, 2018

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	$68,306,098
Add: Prior year's encumbrances	104,979
Original Budget	68,411,077
Budget Revisions	-
Final Budget	$68,411,077
Next year's voter approved budget	$69,846,198

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

2018-19 Voter-approved expenditure budget		$69,846,198
Maximum allowed (4% of 2018-19 budget)		$ 2,793,848
General Fund Fund Balance Subject to Section 1318 of Real Property Law:		
Unrestricted Fund balance:		
Assigned fund balance	$ 698,734	
Unassigned fund balance	2,792,295	
Total unrestricted fund balance		3,491,029
Less:		
Appropriated fund balance	400,000	
Encumbrances	298,734	
Total adjustments		698,734
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law		$ 2,792,295
Actual percentage		4.00%

EAST HAMPTON UNION FREE SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
JUNE 30, 2018

				Expenditures				Methods of Financing				Fund Balance
Project Title	Project #	Original Appropriation	Revised Appropriation	Prior Years	Current Year	Total	Unexpended Balance	Proceeds of Obligations	State Aid	Local Sources	Total	June 30, 2018
2014-2015 Security Elementary	0004-018	$ 444,850	1,111,366	553,684	55,226	608,910	502,456	-	-	792,330	792,330	183,420
2014-2015 Security High School	0006-027	502,250	1,356,714	429,157	68,415	497,572	859,142	-	-	850,920	850,920	353,348
2014-2015 Security Middle School	0003-021	487,900	787,209	381,758	49,219	430,977	356,232	-	-	981,750	981,750	550,773
Middle School Back Wall	0003-023	1,240,000	649,000	-	249,290	249,290	399,710	-	-	1,240,000	1,240,000	990,710
Middle School Kitchen	0003-025	825,027	825,027	-	-	-	825,027	-	-	825,027	825,027	825,027
HS Tennis Court 17-18	04-1	77,374	77,373	-	77,373	77,373	-	-	-	77,373	77,373	-
HS Tract 2017-18	04-2	97,600	97,600	-	97,600	97,600	-	-	-	97,600	97,600	-
TOTAL		$ 3,675,001	4,904,289	1,364,599	597,123	1,961,722	2,942,567	-	-	4,865,000	4,865,000	2,903,278

Supplemental Schedule #7

EAST HAMPTON UNION FREE SCHOOL DISTRICT
OTHER SUPPLEMENTARY INFORMATION
NET INVESTMENT IN CAPITAL ASSETS
JUNE 30, 2018

Capital assets, net		$83,340,198
Deduct:		
Short-term portion of bonds payable	$ 3,205,000	
Long-term portion of bonds payable	40,245,000	
Unamortized Bond Premium	4,698,960	
Less: deferred charges on refunding	(917,042)	47,231,918
Net investment in capital assets		$36,108,280

EAST HAMPTON UNION FREE SCHOOL DISTRICT

Federal Grant Compliance Audit

June 30, 2018

EFPR GROUP, CPAs PLLC

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Education
East Hampton Union Free School District
East Hampton, New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the fiduciary funds of East Hampton Union Free School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 16, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

EFPR Group, CPAs, PLLC

Williamsville, New York
October 16, 2018

EFPR GROUP, CPAs PLLC

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

The Board of Education
East Hampton Union Free School District
East Hampton, New York:

Report on Compliance for Each Major Federal Program

We have audited East Hampton Union Free School District's (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, East Hampton Union Free School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

EFPR Group, CPAs, PLLC

Williamsville, New York
October 16, 2018

EAST HAMPTON UNION FREE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Grantor Program Title	CFDA Number	Agency or Pass-through Number	Expenditures	Expenditures to Subrecipients
U.S. Department of Agriculture				
Passed through the NYS Education Department -				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	$ 46,644	-
National School Lunch Program	10.555	N/A	375,359	-
Total Child Nutrition Cluster			422,003	-
Total U.S. Department of Agriculture			422,003	-
U.S. Department of Education				
Passed through the NYS Education Department:				
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027	0032-18-0898	411,842	-
Special Education - Preschool Grants	84.173	0033-18-0898	9,910	-
Total Special Education Cluster (IDEA)			421,752	-
Title I Grants to Local Education Agencies	84.010	0021-17-3020	19,845	-
Title I Grants to Local Education Agencies	84.010	0021-18-3020	92,974	-
Supporting Effective Instruction State Grant	84.367	0147-17-3020	2,111	-
Supporting Effective Instruction State Grant	84.367	0147-18-3020	5,885	-
English Language Acquisition State Grants - Title III LEP	84.365	0293-17-3020	- 3,282	-
English Language Acquisition State Grants - Title III LEP	84.365	0293-18-3020	20,515	-
English Language Acquisition State Grants - Title III Immigrant	84.365	0149-17-3020	227	-
English Language Acquisition State Grants - Title III Immigrant	84.365	0149-18-3020	13,614	-
Total U.S. Department of Education			580,205	-
Total Expenditures of Federal Awards			$ 1,002,208	-

See accompanying notes to schedule of expenditures of federal awards.

EAST HAMPTON UNION FREE SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

(1) BASIS OF PRESENTATION:

The accompanying schedule of expenditure of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the fiscal year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. Pass-through entity identifying numbers are presented where available.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

Non-monetary assistance is reported in the schedule at the fair market value of commodities received, which is provided by New York State.

(3) INDIRECT COSTS:

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

(4) SUBRECIPIENTS:

No amounts were provided to subrecipients.

(5) OTHER DISCLOSURES:

No insurance is carried specifically to cover equipment purchased with federal funds. Any equipment purchased with federal funds has only a nominal value, and is covered by the District's casualty insurance policy.

There were no loans or loan guarantees outstanding at year end.

EAST HAMPTON UNION FREE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued on whether the basic financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
1. Material weakness(es) identified?	____Yes _x_No
2. Significant deficiency(ies) identified not considered to be material weakness(es)?	____Yes _x_None reported
3. Noncompliance material to financial statements noted?	____Yes _x_No

Federal Awards:

Internal control over major programs:	
4. Material weakness(es) identified?	____Yes _x_No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	____Yes _x_None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)(Uniform Guidance)?	____Yes _x_No
7. The District's major programs audited were:	

Name of Federal Programs	CFDA Number
Child Nutrition Cluster	10.553/10.555

8. Dollar threshold used to distinguish between Type A and Type B programs.	$750,000
9. Auditee qualified as low-risk auditee?	_x_Yes ____No

Part II - FINANCIAL STATEMENT FINDINGS

No reportable findings.

Part III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No reportable findings and questioned costs.

EAST HAMPTON UNION FREE SCHOOL DISTRICT
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

There were no audit findings in the prior year financial statements (June 30, 2017).