

TOWN OF SMITHTOWN
FINANCIAL STATEMENTS

December 31, 2015

**TOWN OF SMITHTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
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FINANCIAL STATEMENTS
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INTRODUCTORY SECTION

TOWN OF SMITHTOWN
PRINCIPAL OFFICIALS
December 31, 2015

ELECTED OFFICIALS

TOWN BOARD:

Supervisor	Patrick R. Vecchio
Councilman	Thomas J. McCarthy
Councilman	Edward R. Wehrheim
Councilwoman	Lisa M. Inzerillo
Councilwoman	Lynne C. Nowick

TOWN CLERK

Vincent Puleo

RECEIVER OF TAXES

Deanna Varricchio

SUPERINTENDENT OF HIGHWAYS

Robert Murphy

APPOINTED OFFICIALS

Town Assessor	Peter D. Johnson
Town Attorney	Matthew Jakubowski
Town Comptroller	Donald P. Musgnug
Town Engineer	Mark Riley

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Supervisor and Town Board
Town of Smithtown
Smithtown, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithtown, New York (the "Town"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town'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 Town'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.

PERSONAL SERVICE. TRUSTED ADVICE.

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

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Honorable Supervisor and Town Board
Town of Smithtown
Smithtown, New York

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 aggregate remaining fund information of the Town of Smithtown, New York as of December 31, 2015, 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.

Emphasis of Matter

New Accounting Guidance

As described in Note 1.H and Note 5 to the basic financial statements, the Town of Smithtown, New York, adopted the provisions of Governmental Accounting Standards No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* as of and for the year ended December 31, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for the postemployment benefits healthcare costs, schedule of pension contributions for the pension plan, schedule of proportionate share of the net pension liability for the pension plan and the budgetary comparison information 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 Town's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Honorable Supervisor and Town Board
Town of Smithtown
Smithtown, New York

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2016, on our consideration of the Town'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Alvin, Vijay, Zerk & Conny P.C.

Hauppauge, New York
August 18, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

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TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2015

As management of the Town of Smithtown (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2015. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements:

- The assets and deferred outflows of resources of the Town exceed its liabilities and deferred inflows of resources at the close of 2015 by \$51,575,721 (net position).
- The Town's total net position decreased by \$4,695,851 from operations or 8.2%, mostly due to the ongoing recognition of the Town's postemployment benefits healthcare (OPEB) costs. In addition, the net position decreased \$895,002 due to a cumulative effect of change in an accounting principle as discussed in Note 5.

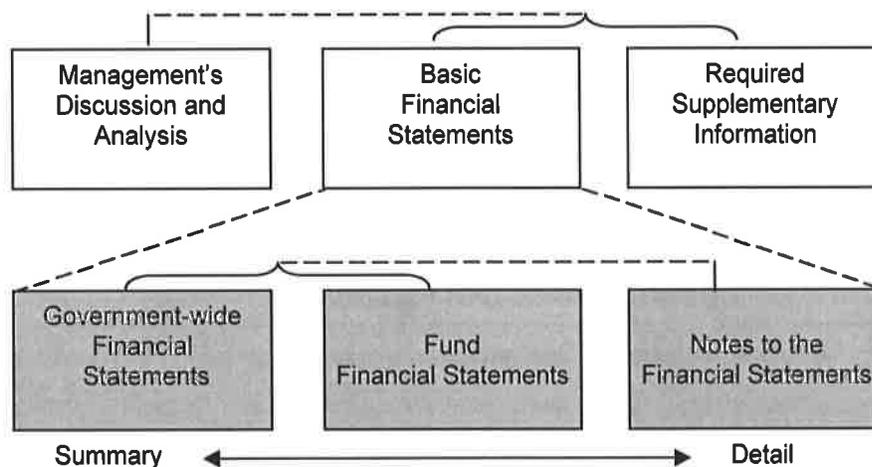
Fund Financial Statements:

- As of the close of 2015, the Town's governmental funds reported combined ending fund balances of \$45,340,970, an increase of 13.4% or \$5,350,986. Of this amount, \$3,548,272 is not in spendable form or is required to remain intact. The remaining \$41,792,698 or approximately 92.2% of total fund balances is in spendable form with various levels of spending constraint: restricted, assigned, or unassigned making them available for spending at the Town's discretion.
- As of the close of 2015, the Town's total fund balance for the general fund was \$17,125,395, an increase of 9.6% from the prior year. The assigned and unassigned fund balance for the general fund was \$16,007,425, or 38.1% of total general fund expenditures and other uses.
- The Town's total bonded debt outstanding was \$16,975,710, an increase of \$2,855,710.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of the following components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves

**COMPONENTS OF
THE ANNUAL FINANCIAL REPORT**



TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The intent of the government-wide financial statements is to give the reader a long-term view of the Town's financial condition.

The Statement of Net Position presents financial information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference between the two reported as net position. This combines and consolidates the Town's current financial resources with capital assets and long-term obligations. Over time, increases or decreases in the Town's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's buildings, roads, drainage and other assets to assess the overall health of the Town.

The Statement of Activities presents information showing how the Town's net position changed during the most recent year. Revenues and expenses are reported by activity to give the reader an understanding of how each of the Town's activities is being supported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. This method is known as the accrual basis of accounting and is different from the modified accrual basis of accounting used in the Town's fund financial statements.

The Town's government-wide financial statements includes all of the governmental activities of the Town itself (known as the primary government).

Governmental Activities

The Town's basic services are reported here, including: general government support, public safety, health, transportation, economic assistance and opportunity, culture and recreation and home and community services. Property taxes, mortgage taxes, franchise fees, and state and federal grants finance these activities. The Town also charges user fees to customers to help it cover the cost of certain services it provides.

Fund Financial Statements

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as an accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Town, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

The Town's activities are reported in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Town's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the Town's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Governmental Funds (continued)

The Town maintains twelve (12) governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the four (4) major funds. The general fund, highway fund, refuse and garbage funds and capital projects fund are reported as major funds. Data from the eight (8) other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Other Supplementary Information" section of this report.

The Town adopts an annual budget for its general fund and special revenue funds. The budget for the capital projects fund is done on a project-by-project basis. Budgetary comparison schedules have been provided for the general fund, highway fund and refuse and garbage funds to demonstrate compliance with their adopted budgets. Budgetary comparison schedule for these major funds can be found in the section labeled "Required Supplementary Information Other Than Management's Discussion and Analysis".

The governmental funds financial statements can be found in the "Basic Financial Statements" section of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statement can be found in the "Basic Financial Statements" section of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements.

Other Information

In addition to the basic financial statements, this report contains supplementary information immediately following the notes to the financial statements.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$51,575,721 at the close of the most recent year.

Condensed Statement of Net Position

Governmental Activities
as of December 31,

	2015	2014
Current and other assets		
Current assets	\$ 55,975,690	\$ 49,685,375
Capital assets	118,871,310	118,460,782
Other non-current assets	735,000	1,066,000
Total assets	175,582,000	169,212,157
Deferred outflows of resources	4,977,457	30,058
Current and other liabilities		
Current liabilities	14,391,978	14,239,793
Non-current liabilities	113,165,801	96,118,082
Total liabilities	127,557,779	110,357,875
Deferred inflows of resources	1,425,957	1,717,766
Net position		
Net investment in capital assets	105,243,575	105,855,362
Restricted	6,588,113	2,900,519
Unrestricted	(60,255,967)	(51,589,307)
Total net position	\$ 51,575,721	\$ 57,166,574

By far the largest portion of the Town's net position, \$105,243,575, reflects the net investment in capital assets (e.g., land and construction in progress, buildings and improvements, machinery, furniture and office equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

The deficit balance in unrestricted net position does not necessarily indicate fiscal stress. The deficit balance of unrestricted net position arose primarily due to long-term liabilities, which include general obligation bonds, compensated absences, claims and judgments, landfill closure and postclosure care costs, net pension liability-proportionate share and postemployment benefits healthcare costs (OPEB) that will be funded through future budgetary appropriations when they become payable in future periods.

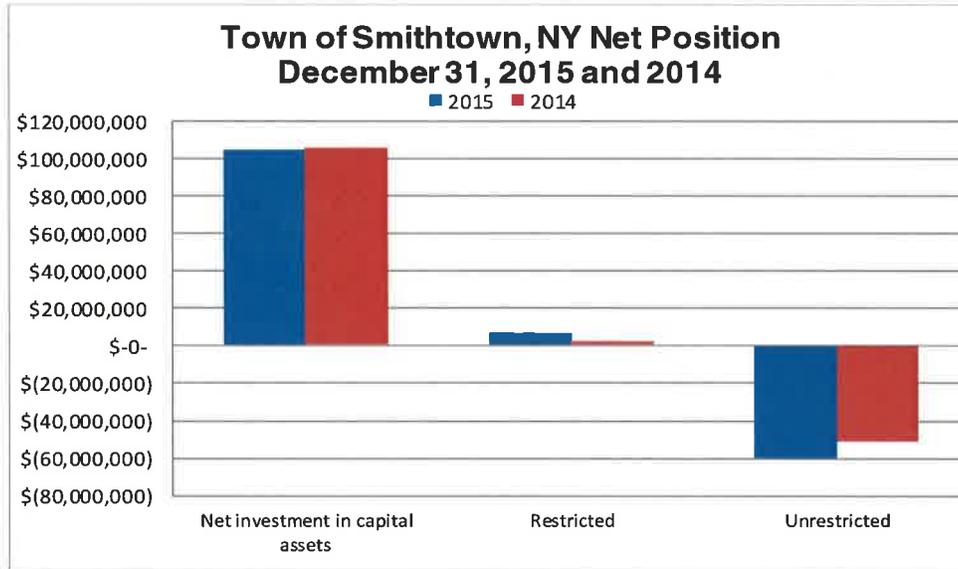
Deferred outflows of resources increased by \$4,947,399 due to the implementation of GASB 68 in the current year resulting in an increase in net pension liability. See Note 3.E. for breakdown of deferred outflows of resources related to pensions.

Restricted net position also increased by \$3,687,594 mostly due to an increase in restricted capital projects related to bonded and capital lease projects of \$3,300,347. See Note 2.B. for breakdown of net position.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)



The total net position of the Town as of December 31, 2015 was \$51,575,721, a decrease of \$5,590,853 (after the effect of the change in accounting principle) from the prior year. Of this amount, \$105,243,575 was the net investment in capital assets, while \$6,588,113 was restricted by statute or other specific purpose leaving a \$60,255,967 as an unrestricted deficit.

Total net position was again decreased in the current year and will likely continue to decrease in subsequent years due to the ongoing recognition of the Town's postemployment benefits healthcare (OPEB) costs. The unfunded liability for postemployment benefits healthcare costs increased in the current year by \$8,312,316 bringing the unfunded liability at year-end to \$69,506,354. Additional information on postemployment benefits healthcare costs can be found in Note 3.F to the financial statements.

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TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Changes in Net Position

Governmental Activities

For the years ended December 31,

	2015	2014
Revenues		
Program revenues:		
Charges for services	\$ 30,666,465	\$ 29,874,876
Operating grants and contributions	3,719,158	2,912,637
Capital grants and contributions	1,704,242	1,902,279
	<u>36,089,865</u>	<u>34,689,792</u>
General revenues:		
Real property taxes	55,048,294	53,565,914
Real property tax items	901,762	879,616
Non-property tax items - franchise tax	2,590,482	2,469,484
Mortgage tax	3,795,235	3,421,990
Investment earnings - unrestricted	157,669	182,174
Sale of property and compensation for loss	989,346	742,436
State aid - unrestricted	671,178	671,178
Other	665,879	675,003
	<u>64,819,845</u>	<u>62,607,795</u>
Total revenues	<u>100,909,710</u>	<u>97,297,587</u>
Expenses		
General government support	19,353,124	19,298,521
Public safety	11,063,223	10,657,775
Health	2,953,620	2,947,196
Transportation	31,487,031	33,901,890
Economic assistance and opportunity	4,762	4,786
Culture and recreation	12,126,386	11,844,537
Home and community services	28,130,053	30,511,514
Interest on debt	487,362	564,670
	<u>105,605,561</u>	<u>109,730,889</u>
Total expenses	<u>105,605,561</u>	<u>109,730,889</u>
Change in net position	(4,695,851)	(12,433,302)
Net position - beginning	57,166,574	69,599,876
*Cumulative effect of change in accounting principle	(895,002)	-0-
Net position - beginning, as restated	<u>56,271,572</u>	<u>69,599,876</u>
Net position - ending	<u>\$ 51,575,721</u>	<u>\$ 57,166,574</u>

* The Town's financial statements presented herein are for the year ended December 31, 2015 and the cumulative effect of applying GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, and amendment to GASB 68*, is shown as an adjustment to the beginning net position for 2015. Accordingly, the condensed financial information presented above also reflects this cumulative effect of change in accounting principle to the beginning net position for 2015. The condensed financial information for the year ended December 31, 2014 was not restated as all related information was not available.

The change in net position from all combined activities was a decrease of \$4,695,851 and the cumulative effect of change in accounting principle was decrease of \$895,002.

The largest key elements of the changes in net position was the recognition of OPEB costs of \$8,312,316 across the various functions as well as a benefit from net pension liability of \$1,365,868 and an overall improvement in operations.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2015

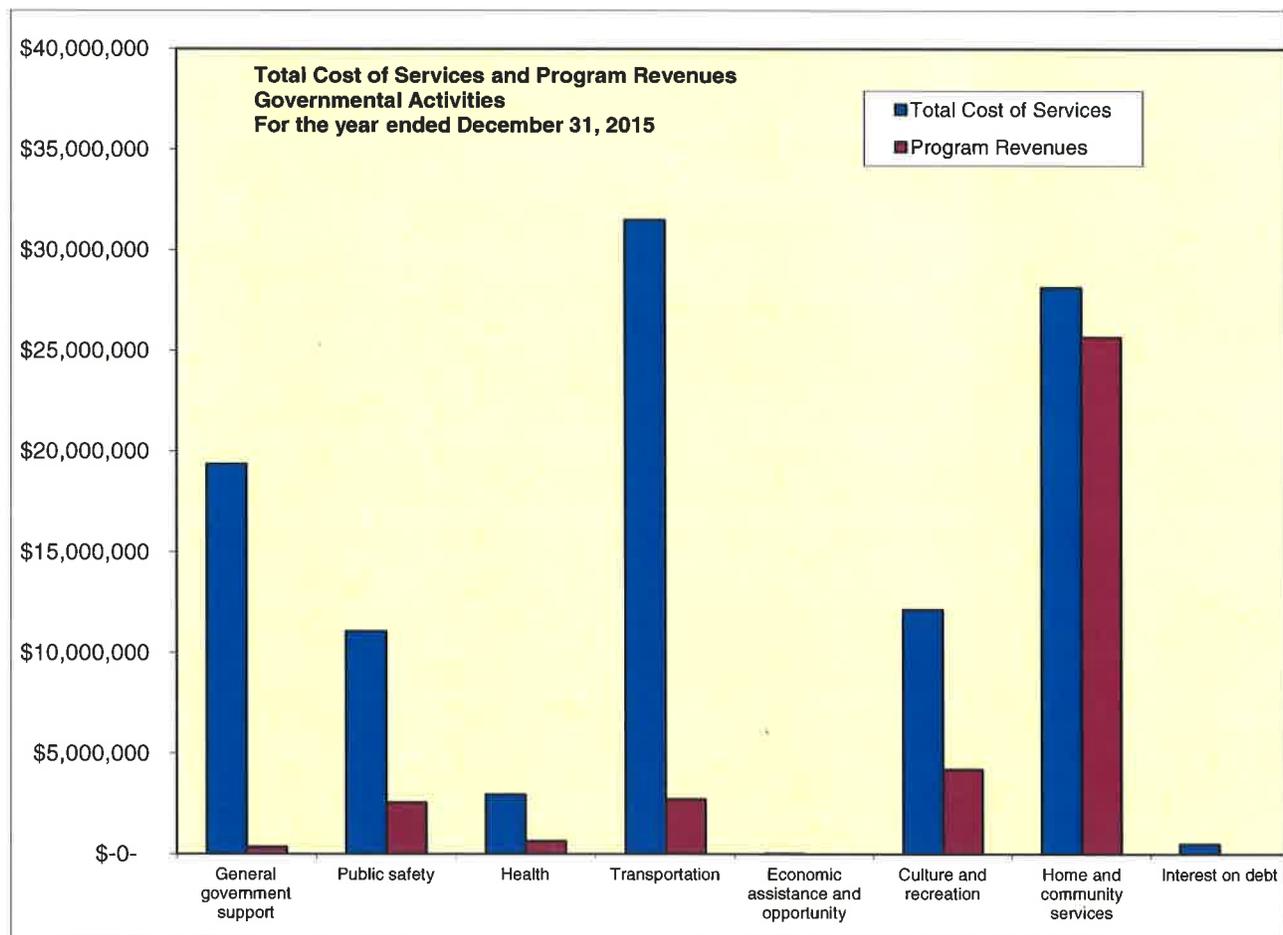
OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following chart illustrates the total expenses by program function for the Town's governmental funds.

**Total Cost of Services, Program Revenues and Net Cost of Services
 Governmental Activities
 For the years ended December 31,**

	2015	2014	2015	2014	2015	2014
	Total Cost of Services		Program Revenue		Net Cost of Services	
General government support	\$ 19,353,124	\$ 19,298,521	\$ 341,161	\$ 369,650	\$ (19,011,963)	\$ (18,928,871)
Public safety	11,063,223	10,657,775	2,556,331	2,165,153	(8,506,892)	(8,492,622)
Health	2,953,620	2,947,196	636,401	617,860	(2,317,219)	(2,329,336)
Transportation	31,487,031	33,901,890	2,711,598	2,286,925	(28,775,433)	(31,614,965)
Economic assistance and opportunity	4,762	4,786			(4,762)	(4,786)
Culture and recreation	12,126,386	11,844,537	4,185,470	4,127,316	(7,940,916)	(7,717,221)
Home and community services	28,130,053	30,511,514	25,658,904	25,122,888	(2,471,149)	(5,388,626)
Interest on debt	487,362	564,670			(487,362)	(564,670)
	<u>\$ 105,605,561</u>	<u>\$ 109,730,889</u>	<u>\$ 36,089,865</u>	<u>\$ 34,689,792</u>	<u>\$ (69,515,696)</u>	<u>\$ (75,041,097)</u>



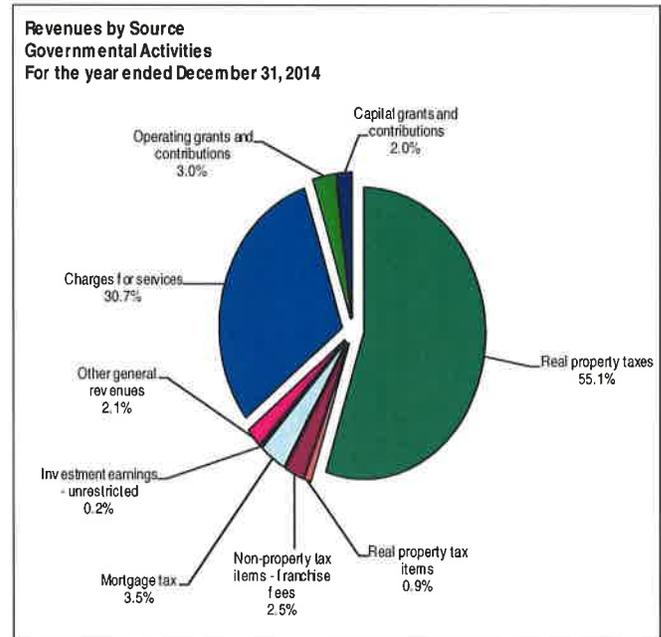
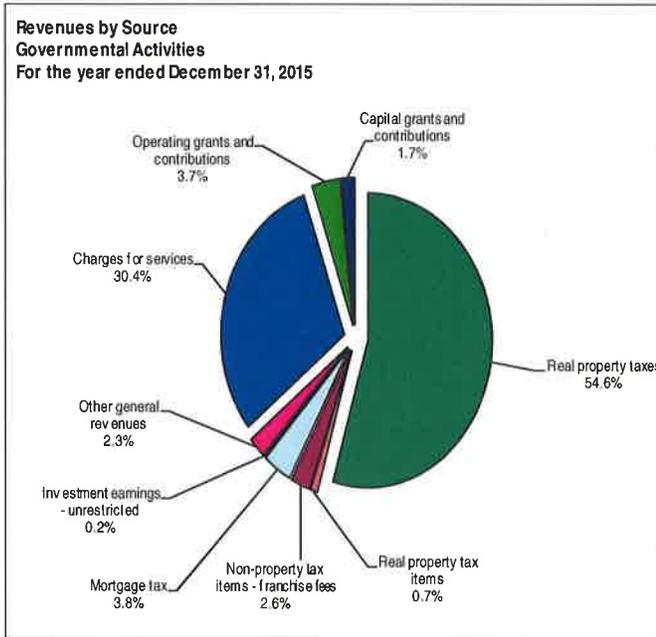
The total cost of all governmental activities this year was \$105,605,561. The net cost of these services after being partially subsidized by program revenues of \$36,089,865 was \$69,515,696.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following graph and chart illustrate the revenues by source for the Town's governmental funds.



Revenue by Source - Governmental Activities
Years ended December 31,

	2015	2014
Real property taxes	\$ 55,048,294	\$ 53,565,914
Real property tax items	901,762	879,616
Non-property tax items - franchise fees	2,590,482	2,469,484
Mortgage tax	3,795,235	3,421,990
Investment earnings - unrestricted	157,669	182,174
Other general revenues	2,326,403	2,088,617
Charges for services	30,666,465	29,874,876
Operating grants and contributions	3,719,158	2,912,637
Capital grants and contributions	1,704,242	1,902,279
	<u>\$ 100,909,710</u>	<u>\$ 97,297,587</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

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

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

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

At December 31, 2015, the Town's governmental funds reported total ending fund balances of \$45,340,970, an increase of \$5,350,986. The category breakdown is as follows:

- **Nonspendable fund balance** - \$3,548,272 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$6,191,493 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$19,839,331 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$15,761,874 (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted and assigned fund balance.

The Town began the year with an anticipated \$9,239,856 net decrease resulting from the appropriation of fund balance for the 2015 budget in the governmental funds.

These items are discussed in greater detail in the individual fund analyses that follow.

General Fund

The general fund is the chief operating fund of the Town. At the end of the current year, the total fund balance of the general fund was \$17,125,395, increasing \$1,506,094, or 9.6%, from the prior year. Of this amount, \$656,334 is not in spendable form (prepaids) and \$461,636 is restricted for park and land deposits and debt service. The remaining \$16,007,425 of the fund balance is in spendable form as follows: \$123,066 has been assigned for purchase orders by the Town Comptroller, \$122,485 of other assignments is related to the Harned Sawmill, and the remaining \$15,761,874 represents spendable, unassigned fund balance.

The major components of the fund balance increase of \$1,506,094 were:

- The general fund budget began the year with an authorized use of prior year fund balance of \$2,593,885 and additional budgeted fund balance was \$241,824.
- Revenue and other financing sources were greater than the final budget by \$946,063. Contributing factors were as follows:
 - State aid mortgage tax was less than budget by \$404,765 because fewer homes were sold or refinanced than were anticipated based on 2014 results though it was higher than the actual amount in 2014.
 - School Age Child Care (SACC) had receipts in excess of budget by \$104,100.
 - Verizon franchise fees were greater than budget by \$122,763 because of more Verizon FIOS customers.
 - Commercial waste was greater than budget by \$535,072 because improving market conditions caused the waste generated to exceed expectations.
 - Other revenues not budgeted or greater than budget were the sale of real property of \$282,053, transfers in of \$246,965 and bond premium of \$27,571.
- Actual expenditures and other financing uses, exclusive of encumbrances, were under the final budget by \$3,395,740. Contributing factors were as follows:
 - Reduction in full time and part time salaries of \$1,270,913 across all departments which were due to retirements or unfilled positions.
 - Litigation and counsel and appraisals had a savings of \$106,446 due to handling more cases using in house attorneys.
 - Home and community services were under budget for leachate costs of \$18,635, contractual expense for landfill monitoring of \$22,940, plant maintenance of \$22,942, electric service of \$20,674 and the Montclair Landfill post closure costs of \$35,331.
 - Employee benefits realized savings in social security, Medicare and NYS employee retirement costs of \$334,440 due to salary savings.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

General Fund (continued)

- Computer and maintenance contracts, software licensing costs, communications and email and computer and office equipment for the Data Processing Department were under budget by \$112,348.
- Other costs were less than budget across the fund for fuel and heat by \$148,500, professional fees by \$104,602 and printing by \$30,917.
- Public safety costs were less than budget by \$193,305 for civil defense.
- Expenditures for transfers to capital that were not transferred were \$250,000.
- Unused contingency budget was \$39,346.

Highway Fund

At the end of the current year, the total fund balance of the highway fund was \$6,770,731, decreasing \$424,785, or 5.9%, from the prior year. Of this amount, \$1,242,534 is not in spendable form (inventory and prepaids) and \$3,492 is restricted for debt service. The remaining \$5,524,705 of the fund balance is in spendable form as follows: \$500,000 has been assigned by the Town Board for the subsequent year's budget, \$31,009 has been assigned for purchase orders by the Town Comptroller and the remaining \$4,993,696 is assigned for highway purposes.

The main reasons for the fund balance decrease of \$424,785 were:

- Highway fund began the year with a budgeted use of prior year fund balance of \$2,200,000.
- There was an increase to the budgeted use of prior year fund balance of \$703,084 in the highway accounts mostly for expenditures related to the severe winter of 2015.
- State FEMA reimbursement for Hurricane Sandy and Storm Nemo resulted in \$755,731 of unbudgeted revenue.
- Sales of surplus equipment was \$200,000 less than budgeted.
- Interfund revenues were greater than budget by \$405,527 related to leaf collection billings to the refuse and garbage fund.
- Highway road funds amounts to be transferred to capital projects that were not transferred was \$500,000 for the 2015 road program.
- Heavy equipment purchases were less than budget by \$503,946.
- Fuel was less than budget by \$90,817.
- Salt and sand inventory change had a net positive variance of \$113,605.
- Unused contingency budget of \$120,947.

Refuse and Garbage Fund

At the end of the current year, the total fund balance of the refuse and garbage funds was \$5,339,687, decreasing \$577,856, or 9.8%, from the prior year. Of this amount, \$77,755 is not in spendable form (prepaids) and \$141,352 is restricted for debt service. The remaining \$5,120,580 of the fund balance is in spendable form as follows: \$1,523,830 has been assigned by the Town Board for the subsequent year's budget, \$42,342 has been assigned for purchase orders by the Town Comptroller and the remaining \$3,554,408 is assigned for residential refuse and garbage purposes.

The main reasons for the fund balance decrease of \$577,856 were:

- There was a budgeted use of prior year fund balance of \$2,486,971.
- Reduced costs of \$245,123 from the recycling division, \$836,310 from the solid waste collection division and \$120,940 from the code enforcement division and \$167,990 from the collection division due to changes in Town procedures.
- Transfers in from capital projects fund that were not budgeted were \$128,820.
- Interfund revenues were less than budget by \$184,733.
- Capital lease principal and interest budgeted but not due to be paid in 2015 was \$277,000.
- Employee benefits realized savings in social security, medicare, NYS employee retirement costs and workers' compensation of \$209,729.
- Unused contingency of \$96,320.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Capital Projects Fund

At the end of the current year, the capital projects fund had a total fund balance of \$8,700,751 increasing \$5,119,235, or 142.9%, from the prior year. Of this amount, \$5,507,380 was restricted as follows: \$4,931,104 for capital projects and \$576,276 for purchase orders. The remaining \$3,193,371 has been assigned as follows: \$2,800,103 for capital purposes and \$393,268 for purchase orders.

The main reasons for the fund balance increase of \$5,119,235 were:

- The Town expended \$2,599,963 in relation to serial bond projects and \$1,201,520 on capital lease equipment.
- The Town funded capital projects for highway road improvements not completed totaling \$1,483,507.
- Serial bond and capital lease proceeds of \$7,475,710.

Nonmajor Governmental Funds

The net change in fund balances was a decrease of \$271,702 over the eight nonmajor funds, the most notable as follows:

- The Town outside village fund had an increase of \$745,665. Revenues were greater than anticipated of \$100,008 for building and occupancy permits and \$157,814 for plan filing fees. Full time salaries were \$216,172 less than budget, employee benefits were \$18,532 less than budget and there was unused contingency of \$37,845. State Aid revenue not budgeted was \$16,252.
- The special revenues fund had a \$793,030 decrease in fund balance due to a budgeted use of fund balance of \$1,529,500, along with a settlement in workers' compensation insurance of \$510,914 and less medical insurance costs than expected of \$172,840.
- The Street lighting districts fund had a decrease of \$266,708 mostly due to a budgeted use of fund balance of \$400,000. Electric costs were less than budget by \$69,282. Other revenues not budgeted were bond premium of \$50,065 and state aid FEMA of \$9,351.

General Fund Budgetary Highlights

During the year, there was a \$554,640 or 1.2% increase in overall spending between the original and final amended budget, inclusive of transfers. There are no variances that are expected to have a significant effect on future services or liquidity. Please see the "General Fund" section for more details on the comparison of final budget and actual amounts. Over the course of the year, the Town Board revises the budget as needed so that expenditures do not exceed appropriations. The following are the main components of the increase in appropriations:

- \$15,711 for salaries and other costs funded by the Federal Safe Routes to School grant., \$20,000 for salaries for park employees funded by ZBGA (Zoos, Botanical Gardens and Aquariums Program) NYS grant, and \$145,411 for public safety salaries funded by the radio dispatch program revenue.
- \$41,677 for remediation of unsafe structures to be reimbursed to the Town through the tax warrant and insurance reimbursements.
- \$88,826 was for prior year encumbrances transferred over to current year.
- \$148,000 was funded by fund balance for park improvements, \$65,000 was funded by park fees for park improvements and \$5,000 was funded by fund balance for the Harned Sawmill expenditures for 2015.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets, net of accumulated depreciation, for its governmental activities as of December 31, 2015 amounts to \$118,871,310 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, machinery and equipment, furniture and fixtures and construction in progress.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

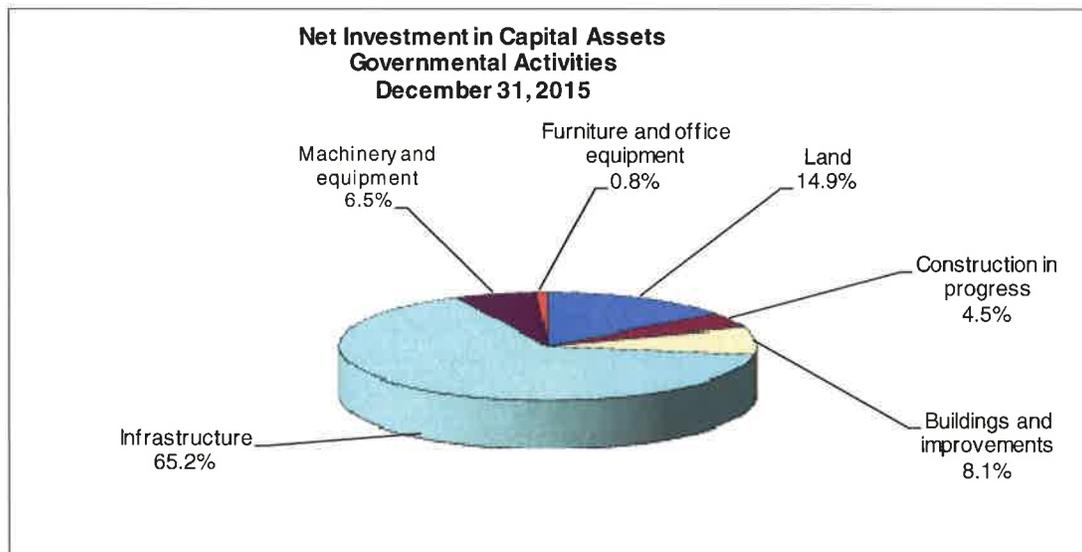
Capital Assets (continued)

Major capital asset events during the current year included the following:

- Highway road, drainage, and sidewalk improvements throughout the Town were completed for \$5,726,873.
- Other infrastructure improvements were \$550,917, which mainly consisted of park improvements.
- Construction in progress totaled \$2,371,800, mainly due to street lighting retrofit of \$1,354,276.
- The Town purchased machinery and equipment totaling \$2,225,649.

Capital Assets - Net of Accumulated Depreciation

Governmental Activities:	2015	2014
Land	\$ 17,759,123	\$ 17,744,123
Construction in progress	5,369,820	3,066,701
Buildings and improvements	9,679,331	9,940,495
Infrastructure	77,426,824	78,040,077
Machinery and equipment	7,707,390	8,162,408
Furniture and office equipment	928,822	1,506,978
Total capital assets	\$ 118,871,310	\$ 118,460,782



Additional information on the Town's capital assets is shown in Note 3.C to the financial statements.

The Town has a five-year capital plan. The five-year plan allows for continued improvements to infrastructure, buildings and equipment while issuing and managing the Town's debt. The capital plan is revised, updated and re-adopted annually.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Debt Administration

Long-Term Debt

At the end of 2015, the Town had total general obligation bonded debt outstanding of \$16,975,710, in comparison to \$14,120,000 at the end of the prior year. For the year ended December 31, 2015, the Town's debt increased by \$2,855,710. The entire debt is backed by the full faith and credit of the Town.

In October 2015, Moody's Investors Service, Inc. reaffirmed the Town's credit rating as "Aa1".

New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year average full valuation. The current debt limitation for the Town is \$1,271,576,249 which is significantly in excess of the Town's outstanding general obligation debt. The percentage of debt limit exhausted at December 31, 2015 was 1.34%.

Additional information on the Town's indebtedness is shown in Note 3.D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town has adopted a budget for 2016 that decreased revenues and expenditures by \$1,176,736 in the general fund. The general fund budget includes a real property tax increase of approximately 5.8% over 2015 in an effort to manage costs without the use of appropriated surplus.

State Aid and Local Assistance

The Town receives financial assistance from New York State and Suffolk County. The 2016 budget includes mortgage tax of \$3,700,000; state aid per capita of \$671,178 and state government assistance of \$2,140,306. If the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the Town, may be affected by a delay in the payment of state aid. The State is not constitutionally obligated to maintain or continue state aid to the Town.

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012, and lasting through at least 2020, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. There are permitted exceptions and adjustments. The adopted budget for 2016 did not exceed the tax levy limit.

The Town will be closely monitoring the current economic conditions and making adjustments as necessary.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances. If you have any questions about this report or need any additional information, contact the Town Comptroller at 40 Maple Ave Smithtown, New York 11787 or by telephone 631-360-7530.

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BASIC FINANCIAL STATEMENTS

TOWN OF SMITHTOWN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
December 31, 2015

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 44,678,208
Cash - restricted	540,607
Accounts receivable	3,791,552
Due from other governments	3,716,558
Prepays	2,403,311
Inventory of materials and supplies	845,454
Total current assets	55,975,690
Non-current assets:	
Receivables, service concession arrangements, net of current	735,000
Non-depreciable capital assets	23,128,943
Capital assets, net of accumulated depreciation	95,742,367
Total non-current assets	119,606,310
Total assets	175,582,000
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	4,977,457
Total deferred outflows of resources	4,977,457
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	9,451,078
Accrued interest payable	122,973
Unearned revenues	24,826
Other liabilities	27,859
Non-current liabilities due within one year:	
General obligation bonds payable, inclusive of premiums	2,479,105
Compensated absences payable	859,460
Capital leases payable	366,517
Claims and judgments payable	558,385
Estimated liability for landfill closure and postclosure care costs	501,775
Total current liabilities	14,391,978
Non-current liabilities due in more than one year:	
General obligation bonds payable, inclusive of premiums	14,815,447
Compensated absences payable	7,091,579
Capital leases payable	1,474,046
Claims and judgments payable	3,501,509
Net pension liability, proportionate share	4,045,391
Estimated liability for landfill closure and postclosure care costs	12,731,475
Postemployment benefits healthcare costs	69,506,354
Total non-current liabilities	113,165,801
Total liabilities	127,557,779
DEFERRED INFLOWS OF RESOURCES	
Deferred service concession arrangement receipts	1,066,000
Unearned revenue - property taxes	354,207
Unearned revenue - other miscellaneous items	5,750
Total deferred inflows of resources	1,425,957
NET POSITION	
Net investment in capital assets	105,243,575
Restricted for:	
Park and land deposits	214,671
Debt service	392,202
Capital projects	5,507,380
Home and community services	174,353
Permanent fund:	
Nonexpendable	299,507
Unrestricted	(60,255,967)
Total net position	\$ 51,575,721

TOWN OF SMITHTOWN
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
Year ended December 31, 2015

Function/ Program	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
PRIMARY GOVERNMENT:					
Governmental Activities:					
General government support	\$ 19,353,124	\$ 341,161			\$ (19,011,963)
Public safety	11,063,223	2,300,047	\$ 256,284		(8,506,892)
Health	2,953,620	371,905	264,496		(2,317,219)
Transportation	31,487,031	146,901	973,780	\$ 1,590,917	(28,775,433)
Economic assistance and opportunity	4,762				(4,762)
Culture and recreation	12,126,386	3,374,552	810,918		(7,940,916)
Home and community services	28,130,053	24,131,899	1,413,680	113,325	(2,471,149)
Interest on debt	487,362				(487,362)
Total governmental activities	\$ 105,605,561	\$ 30,666,465	\$ 3,719,158	\$ 1,704,242	\$ (69,515,696)
General revenues:					
					55,048,294
					901,762
					2,590,482
					3,795,235
					157,669
					989,346
					671,178
					665,879
				Total general revenues	64,819,845
				Change in net position	(4,695,851)
				Net position - beginning, as originally reported	57,166,574
				Cumulative effect of change in accounting principle (See Note 5)	(895,002)
				Net position - beginning, as restated	56,271,572
				Net position - ending	\$ 51,575,721

See notes to the financial statements.

**TOWN OF SMITHTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015**

	MAJOR FUNDS			
	General	Highway	Refuse and Garbage Funds	Capital Projects
ASSETS				
Cash and investments	\$ 15,001,157	\$ 5,470,274	\$ 6,584,477	\$ 12,663,518
Cash and investments - restricted	214,671			
Accounts receivable	1,547,835	13,337	2,626	528
Due from other funds	3,193	4,820	152,121	623,089
Due from other governments	2,046,544	1,065,216	44,757	495,989
Prepays	656,334	397,080	77,755	
Inventory		845,454		
Total assets	<u>\$ 19,469,734</u>	<u>\$ 7,796,181</u>	<u>\$ 6,861,736</u>	<u>\$ 13,783,124</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,909,639	\$ 295,726	\$ 1,521,340	\$ 5,072,928
Due to other funds	402,694	375,517	709	9,445
Unearned revenues	24,826			
Other liabilities	1,430			
Total liabilities	<u>2,338,589</u>	<u>671,243</u>	<u>1,522,049</u>	<u>5,082,373</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - property taxes		354,207		
Unearned revenue - other miscellaneous items	5,750			
Total deferred inflows of resources	<u>5,750</u>	<u>354,207</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCES				
Nonspendable	656,334	1,242,534	77,755	
Spendable:				
Restricted	461,636	3,492	141,352	5,507,380
Assigned	245,551	5,524,705	5,120,580	3,193,371
Unassigned	15,761,874			
Total fund balances	<u>17,125,395</u>	<u>6,770,731</u>	<u>5,339,687</u>	<u>8,700,751</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 19,469,734</u>	<u>\$ 7,796,181</u>	<u>\$ 6,861,736</u>	<u>\$ 13,783,124</u>

See notes to the financial statements.

Non-Major Governmental Funds		Total Governmental Funds	
\$	4,958,782	\$	44,678,208
	325,936		540,607
	1,456,226		3,020,552
	13,355		796,578
	64,052		3,716,558
	1,272,142		2,403,311
			845,454
<u>\$</u>	<u>8,090,493</u>	<u>\$</u>	<u>56,001,268</u>
\$	651,445	\$	9,451,078
	8,213		796,578
			24,826
	26,429		27,859
<u></u>	<u>686,087</u>	<u></u>	<u>10,300,341</u>
			354,207
			5,750
<u></u>	<u>-0-</u>	<u></u>	<u>359,957</u>
	1,571,649		3,548,272
	77,633		6,191,493
	5,755,124		19,839,331
			15,761,874
<u></u>	<u>7,404,406</u>	<u></u>	<u>45,340,970</u>
<u>\$</u>	<u>8,090,493</u>	<u>\$</u>	<u>56,001,268</u>

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TOWN OF SMITHTOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
December 31, 2015

Total fund balances - governmental funds \$ 45,340,970

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

Capital assets less accumulated depreciation are included in the Statement of Net Position:

Capital assets - non-depreciable	\$ 23,128,943	
Capital assets - depreciable	289,891,599	
Accumulated depreciation	<u>(194,149,232)</u>	118,871,310

Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Position.

General obligation bonds	(16,975,710)	
Compensated absences	(7,951,039)	
Capital leases	(1,840,563)	
Claims and judgments	(4,059,894)	
Net pension liability, proportionate share	(4,045,391)	
Estimated liability for landfill closure and postclosure care costs	(13,233,250)	
Postemployment benefits healthcare costs	<u>(69,506,354)</u>	(117,612,201)

Deferred outflows of resources related to pensions included in the Statement of Net Position 4,977,457

Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Premiums on debt issuance included in the Statement of Net Position (318,842)

Unbilled water applicable to the Town's governmental activities not due and receivable in the current period, and accordingly, are not reported in the funds. However, these assets are included in the Statement of Net Position. 440,000

Receivables, service concession arrangements are not available to pay for current period expenditures and therefore are not reported in the funds.	1,066,000	
Deferred inflows, service concession arrangements not reported in the funds.	<u>(1,066,000)</u>	-0-

Interest payable applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Position. (122,973)

Net position of governmental activities \$ 51,575,721

TOWN OF SMITHTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended December 31, 2015

	MAJOR FUNDS			
	General	Highway	Refuse and Garbage Funds	Capital Projects
REVENUES				
Real property taxes	\$ 23,447,215	\$ 23,139,456		
Real property tax items	472,556	285,088		
Non-property tax items	2,590,482			
Departmental income	9,939,096		\$ 11,810,419	
Intergovernmental charges	528,972	25,432	449,653	
Use of money and property	219,914	13,540	23,547	\$ 16
Licenses and permits	109,890	60,975		
Fines and forfeitures	191,892			
Sale of property and compensation for loss	323,527	6,384	233,412	
Miscellaneous local sources	54,494	440		423,314
Interfund revenues		1,296,679	8,572	
State aid	5,050,259	2,013,469	15,984	456,346
Federal aid	342,322	2,672		91,641
Total revenues	<u>43,270,619</u>	<u>26,844,135</u>	<u>12,541,587</u>	<u>971,317</u>
EXPENDITURES				
Current:				
General government support	11,594,062			
Public safety	3,053,934			
Health	908,314			
Transportation	881,957	14,564,158		
Economic assistance and opportunity	640			
Culture and recreation	6,439,618			
Home and community services	5,352,475		12,013,723	
Employee benefits	10,463,672	6,789,001	1,160,934	
Capital Outlay				9,136,987
Debt Service:				
Principal	2,090,633	665,611	49,538	
Interest	259,756	107,532	24,398	
Total expenditures	<u>41,045,061</u>	<u>22,126,302</u>	<u>13,248,593</u>	<u>9,136,987</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,225,558</u>	<u>4,717,833</u>	<u>(707,006)</u>	<u>(8,165,670)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	246,965		128,820	6,215,140
Transfers out	(994,000)	(5,150,000)		(405,945)
Debt issuance proceeds				5,770,710
Capital lease proceeds				1,705,000
Premiums on debt issuance	27,571	7,382	330	
Total other financing sources (uses)	<u>(719,464)</u>	<u>(5,142,618)</u>	<u>129,150</u>	<u>13,284,905</u>
Net change in fund balances	<u>1,506,094</u>	<u>(424,785)</u>	<u>(577,856)</u>	<u>5,119,235</u>
Fund balances at beginning of year	<u>15,619,301</u>	<u>7,195,516</u>	<u>5,917,543</u>	<u>3,581,516</u>
Fund balances at end of year	<u>\$ 17,125,395</u>	<u>\$ 6,770,731</u>	<u>\$ 5,339,687</u>	<u>\$ 8,700,751</u>

See notes to the financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 8,461,623	\$ 55,048,294
144,118	901,762
	2,590,482
5,179,292	26,928,807
31,930	1,035,987
24,515	281,532
1,731,698	1,902,563
	191,892
659,434	1,222,757
650,539	1,128,787
18,650	1,323,901
319,128	7,855,186
1,370,704	1,807,339
<u>18,591,631</u>	<u>102,219,289</u>
594,429	12,188,491
3,276,641	6,330,575
1,380,183	2,288,497
1,361,674	16,807,789
	640
396,083	6,835,701
6,787,622	24,153,820
4,777,372	23,190,979
	9,136,987
243,212	3,048,994
56,802	448,488
<u>18,874,018</u>	<u>104,430,961</u>
<u>(282,387)</u>	<u>(2,211,672)</u>
41,160	6,632,085
(82,140)	(6,632,085)
	5,770,710
51,665	1,705,000
	86,948
<u>10,685</u>	<u>7,562,658</u>
<u>(271,702)</u>	<u>5,350,986</u>
<u>7,676,108</u>	<u>39,989,984</u>
<u>\$ 7,404,406</u>	<u>\$ 45,340,970</u>

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TOWN OF SMITHTOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
Year ended December 31, 2015

Net change in fund balances - total governmental funds \$ 5,350,986

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation expense in the current period is:

Capital outlay	\$ 11,152,513	
Depreciation expense	(9,600,601)	
Loss on disposition	<u>(1,141,384)</u>	
		410,528

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds:

Deferred loss on refunding	(30,058)
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Net change in deferred outflows of resources related to pensions	461,200
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	31,000
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The issuance of long-term debt and increases in obligations provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

Debt issued	(5,770,710)	
Repayment of debt principal	2,915,000	
Compensated absences	384,415	
Capital lease proceeds	(1,705,000)	
Repayment of capital lease	133,994	
Claims and judgments	478,190	
Net pension liability - proportionate share	1,365,868	
Estimated liability for landfill closure and postclosure care costs	(381,550)	
Postemployment benefits healthcare costs	(8,312,316)	
Accrued interest payable	<u>(8,816)</u>	
		(10,900,925)

Premiums of bond issuances recognized in governmental funds statements when issued and capitalized and amortized in the Statement of Activities.	<u>(18,582)</u>
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Change in net position of governmental activities	<u><u>\$ (4,695,851)</u></u>
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TOWN OF SMITHTOWN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2015

	Agency Fund
ASSETS	
Cash	\$ 169,541,897
Total assets	\$ 169,541,897
LIABILITIES	
Accounts payable and accrued liabilities	\$ 454,643
Due to other governments	139,398,899
Other agency liabilities	29,688,355
Total liabilities	\$ 169,541,897

See notes to the financial statements.

TOWN OF SMITHTOWN
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December 31, 2015

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TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Smithtown (the "Town"), which was established in 1665, is governed by Town Law and other general laws of the State of New York and various local laws. The Town Board is the legislative body responsible for overall operations. The Town Board consists of the Supervisor who is elected for a term of four years and four council members who are elected for terms of four years. The Town Board appoints the Town Assessor, the Town Attorney, the Town Comptroller and the Town Engineer. The Town Clerk, Receiver of Taxes and Superintendent of Highways are elected and serve for four year terms. The Town provides a full range of municipal services, including public safety, transportation, home and community services, public works and road maintenance, recreation and parks, and general and administrative services.

The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The most significant of the Town's accounting policies are described below.

A. REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, which is the Town; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the Town of Smithtown reporting entity is based on several criteria, including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the Town has no component units either combined or discretely presented.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town as a whole with a separate column for the primary governmental activities. All fiduciary activities are reported in the fund financial statements.

The effect of interfund activity has been eliminated from the government-wide financial statements, except for interfund services provided and used.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function, and 3) interest earned on grants or capital projects that is required to be used to support a particular program or project. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses to specific functions in the Statement of Activities.

Separate financial statements are provided for governmental funds and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its 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. All remaining governmental funds are aggregated and reported as nonmajor funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are presented by type in the fund financial statements. Certain funds of the Town are utilized to account for resources derived from and/or expenditures applicable to an area less than the entire town. Accordingly, the Town maintains the following fund types:

Governmental Funds – 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 measurement focus of the governmental funds is upon determination of financial position and changes in financial position. Governmental funds are further classified as major and nonmajor funds.

The Town reports the following major governmental funds:

General Fund – is the principal operating fund of the Town. This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund – is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This includes financial resources to be used for the acquisition, construction, renovation, expansion and major improvement of various Town facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects. It is also used to account for some grants received from Federal, State and/or County sources.

Special Revenue Funds – are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds include the following:

Highway Fund – is used to account for revenues and expenditures for highway purposes. This includes all operations relating to the repair and maintenance of roads, bridges, machinery, snow removal and miscellaneous. Expenditures for repairs and improvements are financed by the areas outside the villages in accordance with Highway Law §277. The Town maintains a town-wide and part-town highway fund that are combined for reporting purposes into the highway fund and shown as a major fund.

Refuse and Garbage Funds – is used to account for garbage collection and solid waste disposal in the Town. This includes contracted residential garbage pickup. Commercial carters are contracted with the Town to provide residential collection of solid waste and are responsible for the ultimate disposal of this solid waste. Only residential properties contribute to the operations of the district via user fees on a benefit derived basis.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Additionally, the Town reports the following nonmajor funds:

Special Revenue Funds include the following:

Town Outside Village – is used to account for revenues and expenditures for certain services provided to the areas of the Town located outside of incorporated villages.

Special Grants Fund – is used to account for the operations of the Community Development Block Grant Program and Section 8 Voucher Program.

Special Revenues Fund – is used to account for risk retention activities including health insurance, unemployment insurance, workers' compensation insurance and liability insurance.

Street Lighting Districts Fund – includes operations relating to the repair and maintenance of street lights located within the boundaries of the Town.

Ambulance Districts Fund – includes amounts provided by the Town for a portion of their operations.

Park District - The Paul J. Fitzpatrick Country Club is used to account for the golf course and catering facility used by the lessee as well as the public swimming pool operated by the Town's recreation department.

Permanent Fund – is used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Nissequogue River improvements.

Special District Funds – are used to account for revenues and expenditures for certain services provided to the area of the Town located outside of incorporated villages and includes the following water funds:

Smithtown Water District – includes all operations relating to water within the Town of Smithtown. The district is governed by a Board of Water Commissioners. This district does not encompass the entire Town; it serves portions of Smithtown, Kings Park, Commack and Hauppauge.

St. James Water District – includes all operations relating to water within the Town of Smithtown. The district is governed by a Board of Water Commissioners. This district does not encompass the entire Town; it serves portions of Smithtown and St. James.

Birch Croft Colony Water Supply District – is an agreement between the Suffolk County Water Authority and the Town. All costs of the extensions were financed and levied as an assessment against the real property and improvements within the Birch Croft Colony Water Supply District. The extension is served by the Suffolk County Water Authority.

1987 and 1989 Water Supply Districts – are agreements between the Suffolk County Water Authority and the Town. All costs of the extensions were financed and levied as an assessment against the real property and improvements within the Districts. The extensions are served by the Suffolk County Water Authority.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fiduciary Funds - are used to account for assets held by the Town in a trustee, custodial or agent capacity.

The Town's fiduciary fund (Agency Fund) is presented in the fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Agency Funds – are used to account for resources held as an agent for parties outside the government. Agency resources cannot be held for other funds.

Town Agency Fund – accounts for various agency liabilities.

Town Clerk Agency Fund – accounts for permit and license fees collected on behalf of other governments.

Town Receiver of Taxes Agency Fund – accounts for amounts due to other governments for general and school taxes collected.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus refers to what is being measured whereas the basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town generally considers revenues to be available if they are collected within sixty (60) days of the end of the current period. However, certain revenues may be considered available if received within one year after the end of the current year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to net pension liability, compensated absences, capital leases, due to employees' retirement system, claims and judgments, landfill closure and postclosure care costs, pollution remediation obligations and other postemployment benefits healthcare costs are recorded when payment is due or matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Revenues susceptible to accrual are mortgage tax, franchise fees, state and federal aid, intergovernmental revenue, sanitation billings, water billings, charges for services and operating transfers. All other governmental fund revenues are recognized when received. Permits, fees and other similar revenues are not susceptible to accrual because generally they are not measurable until they are received in cash. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements are met. In the capital projects fund, long-term debt is recognized as revenue upon receipt of the proceeds.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
(continued)

Expenditures are recorded on the accrual basis except that (a) expenditures for prepaid expenses are recognized when services are received; (b) principal and interest on indebtedness are recognized as expenditures when due; (c) compensated absences, which vest or accumulate, are charged as expenditures when paid and (d) judgment and claims and retainage payable are recorded when due and payable.

Unearned revenues are those where asset recognition criteria have been met, but which revenue recognition criteria have not been met.

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net position and the change in net position.

The agency funds use the accrual basis of accounting and do not measure the results of operations.

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

1. CASH AND INVESTMENTS

The Town's investments are governed by a formal written investment policy. The Town's investment policy designates the commercial banks in which the Town's monies may be deposited, all of which are Federal Deposit Insurance Company (FDIC) insured commercial banks located within the state.

Cash consists of funds deposited in demand accounts, both interest bearing and non-interest bearing, petty cash, and when utilized certificates of deposit with maturities of three months or less. Permissible investments also include special time deposits, certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of New York State or its agencies and instrumentalities that have a market value of no less than the principal amount of the deposits. The Town's investment policy requires collateral for all demand deposits, special time deposits and certificates of deposit at 105% of all deposits not covered by the FDIC. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the state and its municipalities, and school districts.

2. RESTRICTED CASH

Certain assets of the general fund for park and land deposits, special grants fund, and permanent fund are classified as restricted cash because their use is restricted by law and/or contractual agreement.

3. RECEIVABLES

Receivables relating to governmental-type activities primarily include amounts due from federal, state, and other local governments (principally mortgage tax due from Suffolk County), individuals and entities for services provided by the Town, as well as amounts due related to various grant and franchise agreements. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred and eligibility requirements are met.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (continued)

4. DUE FROM/TO OTHER FUNDS

During the course of operations the government has activity between funds for various purposes. Balances of interfund amounts receivable or payable have been recorded in the fund financial statements to the extent that certain transactions between funds had not been paid or received as of the year-end. Certain eliminations are made in the preparation of the government-wide financial statements.

5. INVENTORY AND PREPAID ITEMS

Inventory in the highway fund consists of tires and fuel for use in Town vehicles, sand and salt, and other various equipment and supplies on hand and is valued at cost, utilizing the first-in, first-out method (FIFO).

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and fund financial statements. Prepaid items in the governmental funds are accounted for under the consumption method. Prepaids generally represent insurance premiums paid for coverage and pension benefits that will benefit the subsequent period.

In governmental funds, amounts reported as inventories and prepaid items are equally offset by nonspendable fund balance amounts, indicating that they do not constitute "available spendable resources" even though they are a component of net current assets.

6. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental activities columns in the government-wide financial statements. Capital assets purchased or acquired with an original cost of \$5,000 or more and a five year useful life are capitalized and are reported at cost or estimated historical cost. Donated assets are valued at their fair market value on the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Improvements other than buildings	25 years
Infrastructure/Improvements:	20 years
Machinery and equipment:	5 years

Infrastructure assets, including but not limited to roads, curbs and gutters, streets and sidewalks, drainage systems, street lighting, and water mains are capitalized along with other capital assets.

In the fund financial statements, capital assets are recorded as capital outlay expenditures in the governmental fund upon acquisition. No depreciation has been recorded on governmental capital assets in the fund financial statements, nor has interest on governmental capital assets and construction in progress been capitalized.

7. UNEARNED REVENUES

Unearned revenues represent an overpayment of refuse bills which will be applied to future services provided.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (continued)

8. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

In addition to assets, the balance sheet or the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until that time. The Town reports deferred outflows of resources for pension related amounts. The amounts related to pensions consists of contributions made subsequent to the measurement date, difference between the pension plans projected and actual investment earnings and differences between the pension plans expected and actual experience.

In addition to liabilities, the balance sheet or the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports deferred inflows from service concession arrangements, unearned revenues which relate to subsequent year's property tax levy and other miscellaneous items that will be recognized as revenues in the period that the amounts become available.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences payable, capital leases payable, net pension liability, claims and judgments payable, estimated liability for landfill closure and postclosure care costs, and postemployment benefits healthcare costs are recognized in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period, in the fund servicing the debt. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

Premiums that are immaterial are not amortized.

10. NET POSITION AND FUND EQUITY CLASSIFICATIONS

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources.

In the government-wide financial statements, net position is reported in three categories:

- 1) Net investment in capital assets—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Accounts payable in the capital projects fund are capital related debt and are used in the calculation of net investment in capital assets.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (continued)

10. NET POSITION AND FUND EQUITY CLASSIFICATIONS (continued)

- 2) Restricted—consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Permanent fund principal amounts are displayed as expendable and/or nonexpendable. Nonexpendable net assets are required to be retained in perpetuity.
- 3) Unrestricted—all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

In the fund financials statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are 1) nonspendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (i.e. prepaid items or inventories), or (b) will not convert to cash within the current period (i.e. long term receivables and financial assets held for resale), or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- 2) Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Town’s highest decision making authority is the Town Board, who by adoption of a Town ordinance prior to year end, can commit fund balance. Those committed amounts cannot be used for any other purpose unless the Town Board removes or changes the specified use by taking the same type of action imposing the commitment.
- 4) Assigned fund balance reflects the amounts constrained by the Town’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Town Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.
- 5) Unassigned fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

11. NET POSITION AND FUND BALANCE FLOW ASSUMPTIONS

When outlays for a particular purpose can be funded from both restricted and unrestricted resources it is the Town’s default policy to consider restricted net position to have been depleted before unrestricted net position is applied.

When both restricted and unrestricted fund balance resources are available for use, it is the Town’s default policy to use restricted resources first, and then unrestricted resources – committed, assigned and unassigned - in order as needed.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (continued)

12. FUND BALANCE POLICY

The Town has, by resolution, adopted a fund balance policy that states that the Town must maintain a minimum unrestricted (the total of committed, assigned and unassigned) fund balance ranging from 5% to 10% of the subsequent year's budgeted expenditures and outgoing transfers. Unrestricted fund balance below the minimum should be replenished within five years. Authority to assign fund balance for specific purposes is given to the Town Supervisor. The Town Board has the authority to remove or change the assignment of the funds with a simple majority vote.

E. REVENUES AND EXPENDITURES

1. INTERFUND TRANSACTIONS

Interfund transactions, exclusive of interfund services provided and used, have been eliminated from the government-wide financial statements. In the fund statements, interfund transactions include:

a) Interfund Revenues

Interfund revenues and interfund services provided and used represent amounts charged for services or facilities provided by the Town's funds. The amounts paid by the fund receiving the benefits of the service or facilities are reported as an expenditure in that fund.

b) Transfers

Operating transfers are nonexchange transactions whereby the government or fund gives or receives value without directly receiving or giving equal value in return. Transfers represent payments to the special revenues fund from the other funds for their appropriate share of risk retention employee benefits, and transfers to the capital projects fund.

2. PROGRAM REVENUES

Amounts reported as program revenues includes 1) charges to customers or applicants who purchase, use, directly benefits from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

3. REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES

All real property assessments are made by the Town. In Suffolk County, the assessment and lien of real property for taxation is done by the County Department of Assessment. The County assessment rolls are used for the levy of real property taxes by the Town and the School Districts, as well as by the County and by Special Districts of the County and Town.

The Town of Smithtown Receiver of Taxes ("Receiver") collects all real property taxes for the Town, Suffolk County, Town Special Districts and School Districts located within the Town of Smithtown. Taxes are collected by the Town during the period December 1st to May 31st. Taxes for county and school purposes are levied together with taxes for Town and special district purposes as a single bill. The first half is due without penalty by January 10th and the second half is due by May 31st. The Suffolk County Tax Act guarantees that the Town, Special Districts and School Districts will receive the full amount of their levies at the end of the collection period. After May 31st, the County of Suffolk assumes enforcement responsibility for all uncollected taxes. The Receiver collects all taxes based on this single bill and distributes the proceeds to the Town Supervisor prior to distributing the remaining balance collected to the County. Responsibility for the collection of unpaid taxes remains with the County and, accordingly, the Town is assured of 100% collection of real property taxes. The responsibility of transmitting school taxes to the school districts rests with the Town Supervisor. Property tax bills that are collected prior to January 1st and that relate to the subsequent year are recorded as deferred inflows of resources.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES (continued)

4. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for eligible retired employees and their eligible dependents. Substantially all of the Town's full-time employees may become eligible for these benefits once they reach retirement age provided they have met the Town's service requirement for continuing health benefits into retirement.

Health care benefits in accordance with New York State Health Insurance Rules and Regulations (administered by the New York State Department of Civil Service), are provided through the New York State Health Insurance Program (NYSHIP) (Empire Plan) whose premiums are based on the benefits paid throughout the State during the year.

Postemployment healthcare benefits are also provided by Health Plan of New York (HIP) for eligible retirees and their dependents, who elected coverage in HIP as an alternative to the Empire Plan, provided they meet the same criteria for continued coverage as described above.

The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The Town's collective bargaining agreements require that it provide its eligible enrollees with the Empire Plan benefit coverage, or if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Town has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss. The liability for these postemployment benefits payable is recorded as a non-current liability in the government-wide statements. The current year increase in the liability is based on the most recent actuarial valuation.

5. COMPENSATED ABSENCES

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and non-current obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. Compensated absence liability and expenditures are reported in the governmental funds only if they have matured, for example, as a result of employee resignation, terminations and retirements.

The amount that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability in the governmental fund financial statements in the respective fund that will pay it.

6. NET PENSION LIABILITY – PROPORTIONATE SHARE

For purposes of measuring the net pension liability – proportionate share, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Retirement System ('the System') have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms; and reports investments at fair value.

F. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purpose in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are reported as restrictions, commitments, or assignments of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred. Appropriations for all governmental funds except the capital projects fund lapse at year-end. However, encumbrances reserved against fund balance are re-appropriated in the ensuing year.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United State of America, requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources, and disclosure of contingent assets and deferred outflows of resources and liabilities and deferred inflows of resources, at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. NEW ACCOUNTING PRONOUNCEMENTS

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended December 31, 2015, the Town adopted:

Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These Statements establish financial reporting standards for state and local governments which have defined benefit plans and defined contribution pension plans that are administered through trusts or equivalent arrangements. The Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures as related to defined benefit and contribution plans. The implementation of this Statement resulted in reporting a restatement of the Town's net position (see Note 5) and required additional note disclosure as well as required supplementary information.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The Town follows the procedures enumerated below in establishing the budgetary data reflected in the financial statements:

- a) On or before September 20th, each department, officer or district submits to the Budget Officer and/or Comptroller, a detailed estimate of the budget known as "departmental estimates" for the amount of revenue to be received and expenditures to be made for the ensuing year.
- b) On or before September 30th, the Budget Officer files with the Town Clerk and presents to the Town Board a tentative budget for the ensuing year.
- c) On or before October 5th, the Town Board reviews the tentative budget and files with the Town Clerk a preliminary budget.
- d) The Town Board conducts public hearings on the preliminary budget and on or before November 20th the Town Board meets to adopt the budget known as the "annual budget".
- e) Formal budget integration is employed during the year as a management control device for the general fund and certain special revenue funds. The Town board adopts the budget and establishes legal level of control of the budget at the object level of expenditures. The object level identifies expenditures by the article purchased or service obtained in order to carry out a function. Appropriations are adopted at the object level. All budgetary amendments and transfers of appropriation require Town Board approval. Appropriations for all governmental funds except the capital projects fund lapse at year-end.
- f) Budgets for the general fund and certain special revenue funds are legally adopted each year. The budgets are adopted on a basis of accounting consistent with GAAP, except that appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior years. In the event that actual expenditures exceed budgeted amounts, budgetary appropriations are made.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. BUDGETARY INFORMATION (continued)

g) Annual budgets are not prepared for the capital projects fund and permanent fund. Programs in the special grant fund are governed by various grant agreements, which covers a period other than that Town's calendar year but the Town adopts an annualized budget each year. Budgetary controls are established for the capital projects fund through resolutions authorizing individual projects, which remain in effect for the life of the project.

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012, and lasting through at least June 15, 2020, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. There are permitted exceptions and adjustments. The Town did not exceed the tax levy limit in 2015.

B. FUND EQUITY

1. Fund Balance

The following table provides the detail regarding fund balance categories and classifications for the governmental funds which show components of nonspendable fund balances, as well as the purposes for restricted, and assigned fund balance. The unassigned fund balance is also shown.

	General Fund	Highway Fund	Refuse and Garbage Funds	Capital Projects Funds	Other Governmental Funds	Total
Fund Balances:						
Nonspendable:						
Permanent fund					\$ 299,507	\$ 299,507
Inventory		\$ 845,454				845,454
Prepays	\$ 656,334	397,080	\$ 77,755		1,272,142	2,403,311
Total Nonspendable	656,334	1,242,534	77,755	\$ -0-	1,571,649	3,548,272
Restricted for:						
Debt service	246,965	3,492	141,352		393	392,202
Capital projects				4,931,104		4,931,104
Purchases on order and/or contractual obligations				576,276		576,276
Park and land deposits	214,671					214,671
Other reserves					77,240	77,240
Total Restricted	461,636	3,492	141,352	5,507,380	77,633	6,191,493
Assigned to:						
Subsequent year's budget		500,000	1,523,830		1,084,302	3,108,132
Capital projects				2,800,103		2,800,103
Purchases on order and/or contractual obligations	123,066	31,009	42,342	393,268	17,138	606,823
Special revenue funds		4,993,696	3,554,408		4,653,684	13,201,788
Other assignments	122,485					122,485
Total Assigned	245,551	5,524,705	5,120,580	3,193,371	5,755,124	19,839,331
Unassigned, reported in						
General fund	15,761,874					15,761,874
Total Unassigned	15,761,874	-0-	-0-	-0-	-0-	15,761,874
Total Fund Balances	\$ 17,125,395	\$ 6,770,731	\$ 5,339,687	\$ 8,700,751	\$ 7,404,406	\$ 45,340,970

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

Annually, the Town Board designates the bank depositories and approves an investment policy. The following risk assessments apply to cash and investments of the Town.

Custodial Credit Risk – Deposits / Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party.

Deposits are required to be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

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

At December 31, 2015, the Town's deposits were \$214,755,212. This amount is inclusive of fiduciary fund deposits of \$169,541,897 and restricted cash of \$540,607 but exclusive of petty cash of \$5,500. The bank balance was \$215,019,657. Of the total bank balance, \$1,574,619 was covered by the Federal Depository Insurance Corporation (FDIC), \$27,958,677 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name, \$185,208,247 was covered by collateral held by the bank and \$278,114 was held in escrow in the Town's name.

Credit Risk – State law and Town law limit investments to those authorized by State statutes. The Town has a written investment policy.

Interest-Rate Risk – Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid a potential loss.

Concentration of Credit Risk – Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for positions of 5 percent or more in securities of a single issuer.

As of December 31, 2015, the Town did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

B. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At December 31, 2015, individual fund interfund receivable and payable balances are generally expected to be paid currently. These balances represent various temporary loans, recharges, and/or reimbursements between funds and are stated as follows:

	Receivable	Payable
Governmental Activities:		
<u>Major Funds:</u>		
General Fund	\$ 3,193	\$ 402,694
Highway Fund	4,820	375,517
Refuse and Garbage Fund	152,121	709
Capital Projects Fund	623,089	9,445
<u>Nonmajor Funds:</u>		
Town Outside Village	9,370	1,483
Special Grants		6,730
Special Revenue Funds	3,124	
Paul J. Fitzpatrick Country Club	247	
Water Districts	614	
Total Governmental Funds	\$ 796,578	\$ 796,578

At December 31, 2015, individual fund interfund transfers balances representing legally authorized transfers, were as follows:

	Transfer In	Transfer Out
Governmental Activities:		
<u>Major Funds:</u>		
General Fund	\$ 246,965	\$ 994,000
Highway Fund		5,150,000
Refuse and Garbage Fund	128,820	
Capital Projects Fund	6,215,140	405,945
<u>Nonmajor Funds:</u>		
Town Outside Village	30,000	
Special Grants	11,000	
Paul J. Fitzpatrick Country Club	160	
Water Districts		82,140
Total Governmental Funds	\$ 6,632,085	\$ 6,632,085

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

	Balance 1/1/2015	Additions	Deletions/ Transfers	Balance 12/31/2015
<u>Governmental Activities:</u>				
Capital assets not being depreciated/amortized				
Land	\$ 17,744,123	\$ 15,000		\$ 17,759,123
Construction work in progress	3,066,701	2,371,800	\$ 68,681	5,369,820
Total capital assets not being depreciated	20,810,824	2,386,800	68,681	23,128,943
Depreciable/amortizable capital assets				
Buildings and improvements	20,800,364	276,235	162,660	20,913,939
Infrastructure	230,300,929	6,277,790	4,782,227	231,796,492
Machinery and equipment	33,452,542	2,236,270	1,158,372	34,530,440
Furniture and office equipment	3,482,876	44,099	876,247	2,650,728
Total depreciable capital assets	288,036,711	8,834,394	6,979,506	289,891,599
Less accumulated depreciation/amortization				
Buildings and improvements	10,859,869	455,683	80,944	11,234,608
Infrastructure	152,260,852	6,621,306	4,512,490	154,369,668
Machinery and equipment	25,290,134	2,339,767	806,851	26,823,050
Furniture and office equipment	1,975,898	183,845	437,837	1,721,906
Total accumulated depreciation	\$ 190,386,753	\$ 9,600,601	\$ 5,838,122	194,149,232
Total net depreciable capital assets				95,742,367
Total net capital assets				\$ 118,871,310

Depreciation expense was charged to the functions of the primary governments as follows:

<u>Governmental Activities:</u>	
General government support	\$ 501,471
Public safety	270,405
Health	15,846
Transportation	7,052,013
Economic assistance and opportunity	4,122
Culture and recreation	987,044
Home and community services	769,700
Total depreciation expense - governmental activities	\$ 9,600,601

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Town's policy is to record an impairment loss in the period when the Town determines that the carrying amount of the asset will not be recoverable. At December 31, 2015, the Town has not recorded any such impairment losses.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS

SHORT-TERM DEBT

Bond Anticipation Notes (BANs) – Bond anticipation notes (BANs) are generally used as a temporary means of financing capital expenditures. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. BANs issued for assessable improvement projects, as found in the water districts, may be renewed for periods equivalent to maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. Liabilities for BANs are generally accounted for in the capital projects fund. BANs are expected to be paid from the proceeds of future bond issues after renewal of these notes or by the stipulated annual reductions of principal. At December 31, 2015 there were no outstanding BANs.

LONG-TERM DEBT

General Obligation Bonds - General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the Town. General obligation bonds require the Town to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets.

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the Town to rebate excess arbitrage earnings from bond proceeds to the federal government. There were no excess arbitrage earnings for the year ended December 31, 2015.

The long-term liabilities, which are backed by the full faith and credit of the Town, bear interest at various rates from 2.000% to 7.750% and have maturity dates from 2016 through 2030.

A summary of these bonds is as follows:

	Balance 1/1/2015	Issued	Redeemed	Balance 12/31/2015
Governmental activities:				
<u>Major Funds:</u>				
General	\$ 8,180,000	\$ 1,829,690	\$ 1,956,639	\$ 8,053,051
Highway	3,476,400	489,850	665,611	3,300,639
Refuse and Garbage	805,000	22,220	49,538	777,682
<u>Nonmajor Funds:</u>				
Outside Village	893,600	50,500	176,800	767,300
Country Club	50,000	55,550	7,000	98,550
Street Lighting	510,000	3,322,900	31,599	3,801,301
Water	205,000		27,813	177,187
Total governmental activities	<u>\$ 14,120,000</u>	<u>\$ 5,770,710</u>	<u>\$ 2,915,000</u>	<u>\$ 16,975,710</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

At December 31, 2015, bonds payable consisted of the following individual issues:

Governmental activities:

Issue	Purpose	Remaining Interest Range	Original Amount	Outstanding Amount
General Obligation Serial Bonds-1988	Water	7.750%	\$ 485,000	\$ 60,000
General Obligation Serial Bonds-2003A	Public Improvement	3.125%-3.250%	3,500,000	600,000
General Obligation Serial Bonds-2007A	Public Improvement	4.000%-4.100%	4,265,000	500,000
General Obligation Serial Bonds-2010	Public Improvement	2.000%-3.250%	3,456,000	2,695,000
General Obligation Serial Bonds-2010	Refunding Bond	5.000%	3,745,000	545,000
General Obligation Serial Bonds-2011	Public Improvement	3.000%-3.250%	2,275,000	1,175,000
General Obligation Serial Bonds-2013	Public Improvement	3.000%-3.250%	6,742,200	5,630,000
General Obligation Serial Bonds-2015	Public Improvement	2.000%-2.500%	5,770,710	5,770,710
			<u>\$ 30,238,910</u>	<u>\$ 16,975,710</u>

Future principal and interest payments for the Town are as follows:

Governmental activities:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2016	\$ 2,455,000	\$ 440,615	\$ 2,895,615
2017	2,170,710	385,920	2,556,630
2018	1,715,000	329,956	2,044,956
2019	1,075,000	282,331	1,357,331
2020	1,060,000	254,956	1,314,956
2021-2025	4,695,000	880,394	5,575,394
2026-2030	3,805,000	274,013	4,079,013
Totals	<u>\$ 16,975,710</u>	<u>\$ 2,848,185</u>	<u>\$ 19,823,895</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

Capital Leases

In 2013, the Town entered into a master lease-purchase agreement to finance the acquisition of equipment. The amount financed was \$402,000 and is to be repaid by the general fund over three years through August 2016 with annual payments totaling \$137,150, including annual interest at a rate of 1.71%. At December 31, 2015, the principal amount outstanding was \$135,563.

In 2015, the Town entered into a master lease-purchase agreement to finance the acquisition of various equipment. The amount financed was \$1,705,000 and is to be repaid over seven years through January 2022 with annual payments totaling \$261,099, including annual interest rate of 1.768%. At December 31, 2015, the principal amount outstanding was \$1,705,000.

Future principal and interest payments for the Town under these capital leases are as follows:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2016	\$ 366,517	\$ 31,731	\$ 398,248
2017	235,037	26,061	261,098
2018	239,193	21,906	261,099
2019	243,422	17,677	261,099
2020	247,726	13,373	261,099
2021-2022	508,668	13,529	522,197
Totals	\$ 1,840,563	\$ 124,277	\$ 1,964,840

Changes in Long-term Debt

Long-term liability activities for the year ended December 31, 2015 are as follows:

Governmental activities:

	Balance 1/1/2015	Increases	Reductions	Balance 12/31/2015	Non-current liabilities due within one year	Non-current liabilities
General obligation bonds	\$ 14,120,000	5,770,710	\$ 2,915,000	\$ 16,975,710	\$ 2,455,000	\$ 14,520,710
Plus deferred amounts:						
Premiums on issuance	300,260	86,948	68,366	318,842	24,105	294,737
Total bonds payable	14,420,260	5,857,658	2,983,366	17,294,552	2,479,105	14,815,447
Compensated absences	8,335,454	610,773	995,188	7,951,039	859,460	7,091,579
Capital leases	269,557	1,705,000	133,994	1,840,563	366,517	1,474,046
Claims and judgments	4,538,084	250,000	728,190	4,059,894	558,385	3,501,509
Net pension liability, proportionate share	5,411,259	4,655,808	6,021,676	4,045,391		4,045,391
Estimated liability for landfill closure and postclosure care costs	12,851,700	825,714	444,164	13,233,250	501,775	12,731,475
Postemployment benefits healthcare costs	61,194,038	12,125,205	3,812,889	69,506,354		69,506,354
	\$ 107,020,352	\$ 26,030,158	\$ 15,119,467	\$ 117,931,043	\$ 4,765,242	\$ 113,165,801

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

Changes in Long-term Debt (continued)

Other long-term liabilities for compensated absences, postemployment benefits healthcare costs, and net pension liability – proportionate share are to be paid by the fund that gave rise to the liability. The estimated liability for landfill closure and post-closure is paid for from the general fund. Claims and judgments are being paid from the risk retention reserve which is funded by the operating account based on historical experience.

E. PENSION PLAN

Plan Description

The Town participates in the New York State and Local Employees' Retirement System ("ERS" or the "System"). This is a cost-sharing multiple-employer retirement system. The net position of the System is held in the New York Common Retirement Fund ("Fund"), which was established to hold all net assets and record changes in the fiduciary net position allocated to the System. The Comptroller of the State of New York System (the "Comptroller") serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("RSSL"). 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 Town 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 may be found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

Benefits Provided

The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit, there is no minimum service requirement. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 and Tier 2 is 55 and 62, respectively.

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2% of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

E. PENSION PLAN (continued)

Benefits Provided (continued)

Tiers 1 and 2 (continued)

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20% of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20% of the average of the previous two years.

Tiers 3, 4, and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2% of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5% of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4 and 5 members, each year of final average salary is limited to no more than 10% of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63.

Benefit Calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2% of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10% of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

E. PENSION PLAN (continued)

Benefits Provided (continued)

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 members, the accidental disability benefit is a pension of 75% of final average salary, with an offset for any workers' compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

Contributions

Plan members who joined the System before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3% of their salary for NYSERS members throughout active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, depending on their salary, throughout active membership. Under the authority of the RSSL, the Comptroller shall certify annually the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

E. PENSION PLAN (continued)

Contributions (continued)

Contributions consist of a group term life insurance portion (GTLI) and a regular pension contribution. Contribution rates for the plan year ended March 31, 2016 are as follows:

<u>Contribution Rates</u>		
<u>Tier</u>	<u>Plan/ Option</u>	<u>3/31/2016 Rate</u>
1	75I	25.0%
2	75I	22.9%
3	A14	18.6%
4	A15	18.6%
5	A15	15.3%
6	A15	10.4%

The Town is required to contribute at an actuarially determined rate. The actual contributions were equal to 100% of the actuarially required amounts. There are no contributions related to an early retirement incentive for Town employees. The credits and miscellaneous adjustments represent modification made by the NYSERS to the prior year's contributions due to differences between estimated and actual salaries for the plan year.

The required contributions as billed by the Plan, for the Town, for the current year and two preceding years were:

<u>Annual Required Contribution - ERS</u>					
<u>Amount</u>	<u>Credits & Reconciliation/ Adjustments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>		
2015	\$ 5,620,875	\$ (218,553)	\$ (48,617)	\$	5,353,705
2014	6,279,614	(203,256)	(54,683)		6,021,675
2013	6,651,362	261,194	(62,208)		6,850,348

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

At December 31, 2015, the Town reported the following liability for its proportionate share of the net pension liability for the System. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. Below is the Town's proportionate share of the net pension liability of the System and its related employer allocation percentage.

Measurement Date		March 31, 2015
Net Pension Liability	\$	4,045,391
Town's Portion of the System's total Net Pension Liability		0.1197483%

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

E. PENSION PLAN (continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources Related to Pensions (continued)

There was no significant change in the Town's proportion from March 31, 2014 to March 31, 2015.

For the year ended December 31, 2015, the Town recognized pension expense of \$3,693,630. At December 31, 2015 the Town reported deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 129,497
Net difference between projected and actual earnings on pension plan investments	702,633
Changes in proportion and differences between the Town's contributions and proportionate share of contributions	130,048
Town's contribution subsequent to the measurement date	4,015,279
Total deferred outflows of resources - pension amounts	\$ 4,977,457

The Town's contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Plan year ending March 31, 2016	\$ 240,545
2017	240,545
2018	240,545
2019	240,543
	\$ 962,178

Actuarial Assumptions

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

Measurement Date	March 31, 2015
Actuarial Valuation Date	April 1, 2014
Inflation Rate	2.7%
Investment rate of return, including inflation	7.5%
Salary Scale	4.9%
Annual cost of living adjustments	1.4%
Decrement Tables	April 1, 2005 - March 31, 2010

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

E. PENSION PLAN (continued)

Actuarial Assumptions (continued)

Annuitant mortality rates are based on the April 1, 2005 - March 31, 2010 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

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

Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below:

Asset Class	ERS	
	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	38.0%	7.30%
International equity	13.0%	8.55%
Private equity	10.0%	11.00%
Real estate	8.0%	8.25%
Absolute return strategies	3.0%	6.75%
Opportunistic portfolio	3.0%	8.60%
Real assets	3.0%	8.65%
Bonds and mortgages	18.0%	4.00%
Cash	2.0%	2.25%
Inflation indexed bonds	2.0%	4.00%
	100.0%	

Discount Rate

The discount rate used to calculate the total pension liability was 7.5% for the System. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

E. PENSION PLAN (continued)

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Town's proportionate share of the net pension liability (asset)	\$ 26,964,282	\$ 4,045,391	\$ (15,303,836)

The components of the current year net pension liability of the employers as of the respective valuation date of April 1, 2014, was as follows (dollars in thousands):

Employers' total pension liability	\$ 164,591,504
Plan Net Position	161,213,259
Employers' net pension liability	\$ (3,378,245)
 Ratio of plan net position to the Employers' total pension liability	 97.95%

Detailed information about the pension plan's fiduciary net position is available in the System's separately issued financial statements.

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS

Plan Description

The Town of Smithtown, as a single-employer defined benefit, provides medical and Medicare Part B benefits to its eligible retirees and their spouses. The benefits are provided through fully insured plans that are sponsored by NYSHIP. The Town will pay 90% to 100% of the full premium costs of the cost for individual coverage and 90% to 100% of the cost of their spouse or dependent coverage during the retiree's lifetime. The Town reimburses 100% of the Medicare Part B premium for the retiree and spouse.

Employees hired prior to August 28, 2003 require a retirement age of 55, with 10 years of service to receive 100% individual and dependent coverage. Employees hired after August 28, 2003 and before February 27, 2007 require a retirement age of 55, with 15 years of service to receive 100% individual and dependent coverage. Employees hired on or after February 27, 2007 require a retirement age of 55, with 15 years of service to receive 90% individual and dependent coverage. These groups must have 5 years of consecutive service immediately prior to retirement.

Surviving beneficiaries are permitted to stay in the plan provided that they make a contribution of 25% towards the cost of their medical coverage. NYSHIP regulations require the Town to continue payment of the Medicare Part B reimbursement for survivors that remain in the plan.

The Empire Plan has separate pre-Medicare and Medicare rates. Since the plans are community 4rated, the retiree claim costs are based on the actual rates without adjustment for age.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Plan Description (continued)

Benefits are provided as explained in the section entitled "Postemployment Benefits Healthcare Costs" located in the "Summary of Significant Accounting Policies". The retiree and their spouse are also eligible for Medicare Part B reimbursement in the amount of \$1,259 per year for 2015.

These contracts may be renegotiated at various times in the future.

The Town, as administrator of the plan, does not issue a separate report.

The number of participants as of January 1, 2014, the effective date of the OPEB valuation, follows. For active members it is assumed that 75% of male and 50% of female retirees will have covered spouses at retirement. There have been no significant changes in the number or the type of coverage since that date.

Active employees	445
Retired employees and spouses	311
Total	756

Funding Policy

The Town currently pays for postemployment health care benefits on a pay-as-you-go basis.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2015, the Town's annual other postemployment benefits cost (expenses) was \$12,125,205. Considering the annual expense as well as the payment of current health insurance premiums and Medicare reimbursements, which totaled \$3,812,889 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$8,312,316 for the year ended December 31, 2015.

Benefit Obligations and Normal Cost

	Medical Dental and Medicare B
Actuarial Accrued Liability (AAL)	
Active employees	\$ 94,015,561
Retired employees	67,512,735
Total Actuarial Accrued Liability (AAL)	161,528,296
Actuarial value of plan assets	-0-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 161,528,296
Funded ratio	0%
Annual covered payroll	\$ 37,187,499
UAAL as a percentage of covered payroll	434.4%

The Town's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), which is an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Benefit Obligations and Normal Cost (continued)

The unfunded actuarial accrued liability for the Town for the year ended December 31, 2015 amounted to \$161,528,296.

The following table shows the components of the Town's other postemployment benefits liability:

Level Dollar of Payroll Amortization

Calculation of ARC under the Projected Unit Credit Cost Method

Normal cost	\$	3,910,340
Amortization of unfunded actuarial liability (UAAL) over 30 years		9,237,238
Annual required contribution (ARC)		13,147,578
Interest on net OPEB obligation		2,447,762
Adjustment to ARC		(3,470,135)
Annual OPEB Cost		12,125,205
Less: Contribution for year ended December 31, 2015		3,812,889
Increase in other postemployment benefits liability		8,312,316
Other postemployment benefits liability at December 31, 2014		61,194,038
Other postemployment benefits liability at December 31, 2015	\$	69,506,354
Percentage of annual OPEB cost contributed		31.4%

Funded Status and Funding Progress

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current year and the preceding two years were:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2015	\$ 12,125,205	\$ 3,812,889	31.4%	\$ 69,506,354
2014	11,594,655	3,764,189	32.5%	61,194,038
2013	13,005,399	3,698,869	28.4%	53,363,572

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Funded Status and Funding Progress (continued)

The primary government's funded status of the plan as of December 31, 2015 (based on the date of the most recent valuation) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2015	\$ -0-	\$ 161,528,296	\$ 161,528,296	0%	\$ 37,187,499	434.4%

The required schedule of funding progress can be found immediately following the notes, in required supplementary information, and presents trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the January 1, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% discount rate and for medical inflation an ultimate healthcare cost trend rate of 4.34% (pre 65) and negative 1.70% (post 65) initially, increased to 9.00% in the second year and then reduced by 1.00% decrements to an ultimate rate of 5.00% after 4 years. The UAAL is being amortized over 30 years, on a closed basis, using an interest rate of 4.00%.

A copy of the Town of Smithtown's Postemployment Benefits, January 1, 2014 Valuation is available by contacting the Town of Smithtown, Office of the Town Comptroller, 40 Maple Avenue, Smithtown, New York 11787.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. DETAILED NOTES ON ALL FUNDS (continued)

G. COMPENSATED ABSENCES

Town employees are granted vacation, personal leave and sick leave in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation, personal leave and sick leave at various rates subject to certain maximum limitations.

Estimated vacation, personal leave and sick leave accumulated by governmental fund type employees have been recorded in the statement of net position. Payment of vacation, personal leave and sick leave are dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for payments of vacation, personal leave and sick leave when such payments become due. As of December 31, 2015, the value of the accumulated vacation, personal leave and sick leave for governmental activities was \$7,951,039.

4. COMMITMENTS AND CONTINGENCIES

A. RISK RETENTION

In common with other municipalities, the Town receives numerous notices of claims. Although the eventual outcome of these claims cannot be determined, the Town has estimated unsettled claims and litigation to be \$4,059,894. The Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position. The Town carries liability insurance coverage as follows:

Property

The Town carries insurance for property protection in excess of a \$100,000 deductible. The policy covers forty-two (42) locations for blanket building and contents of \$34,428,824 excluding windstorm and hail damage. The policy also excludes new "frame" buildings in the course of construction. Physical damage coverage covers up to \$12,549,029.

General and Auto Liability

The Town carries insurance for general and auto liability protection of \$1,000,000 per occurrence and \$2,000,000 in the aggregate in excess of self-insurance retention of \$1,500,000.

The Town carries an umbrella policy with \$10,000 in self-insurance and a limit of \$10,000,000 over and above general liability, auto liability and public officials' coverage. The public officials coverage is for \$10,000,000 with deductibles of \$250,000 for each wrongful act, \$100,000 for each employment practices violation, and \$500,000 for zoning.

The Town carries a crime policy for various incidences of theft, forgery and counterfeiting with deductibles up to \$10,000 and coverage up to \$2,000,000 per occurrence.

Other

The Town carries boiler and machinery coverage with a \$100,000 deductible and a damage limit of \$25,000,000.

The Town has equipment and electronic data processing coverage (EDP). Equipment has a 5% deductible (minimum of \$2,500) up to \$100,000 and a 10% deductible for equipment over \$100,001 (minimum of \$10,000). There is a defined equipment schedule; unscheduled equipment has a limit of \$1,350,000 with a maximum of \$50,000 for any one item and a \$5,000 deductible. EDP hardware and software have coverage of \$750,000 and \$100,000, respectively, with a \$500 deductible, except for mechanical and electrical breakdown which has a \$1,000 deductible.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

A. RISK RETENTION (continued)

Other (continued)

The Town has pollution and storage tank insurance, that covers the Long Beach Marina in Smithtown, with a \$10,000 deductible and \$1,000,000 for each pollution incident and in the aggregate.

Workers' Compensation, General Liability and Unemployment Self- Insurance

The Town estimates its workers' compensation and general liability reserves by consulting with legal counsel, contracted third party administrators and assessing past experience with similar claims. The Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position.

The Town is self-insured for workers' compensation claims insurance prior to June 1, 2006. Subsequent to that date, the Town became a member of the New York State Municipal Workers' Compensation Alliance Plan, which insures for workers compensation and employee liability payments. Estimated benefits to be paid are appropriated in the various operating funds of the Town that have payroll. The Town is also self-insured for unemployment benefits paid from the funds that have payroll.

There have been no significant reductions in insurance coverage as compared to the prior year, and there were no settlements in excess of insurance coverage over the last three years. The Town does have the ability to bond any tort claims which may be resolved against the Town and which are not covered by the catastrophic loss coverage.

The schedule below presents the changes in claim liabilities for the past two years for general liability and workers' compensation.

	General Liability		Workers' Compensation	
	2015	2014	2015	2014
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 3,619,417	\$ 3,263,167	\$ 918,667	\$ 939,609
Incurred claims and claim adjustment expenditures:				
Provision for the insured events of the current year and increases in provision for insured events of prior years	250,000	725,000	-0-	215,210
Payments:				
Claim and claim adjustment expenditures attributable to insured events of the current and prior years	293,750	368,750	434,440	236,152
Total unpaid claims and claim adjustment expenditures at the end of the year	<u>\$ 3,575,667</u>	<u>\$ 3,619,417</u>	<u>\$ 484,227</u>	<u>\$ 918,667</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

B. TAX CERTIORARIS

At December 31, 2015, there were numerous taxpayers' claims pending for the redetermination of assessed valuations (certiorari proceedings) for assessment through 2015. These claims are the result of petitioners' complaints that their assessed property valuations are improper in that they represent overvaluations and unequal treatment. Under the Suffolk County Tax Act, any court ordered reductions to petitioners' assessments which result in a refund of prior years' taxes are paid by Suffolk County in subsequent years, through an adjustment of Suffolk County's tax rate for Town residents in these subsequent years. Reductions in petitioners' assessments will reduce the available property base upon which future tax levies are made.

In the opinion of the Town Attorney, amounts payable, if any, resulting from the settlement of the contingencies described above, will not materially affect the Town's financial position.

C. LITIGATION

Consistent with other municipalities, the Town has been named a defendant in various legal actions in the course of ordinary operations. The Town has accrued for all estimated and probable contingent losses. The Town primarily funds settlements of legal actions through current operating funds; however, the Town has the ability to fund settlements through bonding if deemed necessary. An estimate cannot be made on certain legal actions that may have possible unfavorable outcome against the Town. In the opinion of the Town Attorney, the potential loss on all claims will not materially affect the Town's financial position.

D. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal Laws and Regulations require the Town to place a final cover on its landfill sites when they stop accepting waste, and to perform certain maintenance and monitoring functions at those sites for thirty years after closure. Cells 1-5 landfill sites stopped accepting waste as of November 10, 1990, and Cell 6 stopped accepting waste as of December 31, 1997. In September, 2010 the capping of Cell 6 was completed and accepted by the New York State Department of Environmental Conservation certification.

As the liability is based on 100% capacity, there are no estimated costs for closure and postclosure remaining to be recognized. The Town reports a portion of these closure and postclosure care costs as a liability in each period based on landfill capacity used as of each balance sheet date. Postclosure care costs and monitoring activities for Cells 1-5 and Cell 6 were estimated to be approximately \$533,500 per year for 2015. Actual costs for Cells 1-5 and Cell 6 were \$121,978 and \$322,186, respectively, for the year ended December 31, 2015. The remaining postclosure costs for Cells 1-5 and Cell 6 approximates \$2,380,000 and \$10,853,250, respectively.

Accordingly, as of December 31, 2015, the Town has recorded an estimated liability of \$13,233,250, in the government-wide financial statements, which represents the provision to be made in future budgets for unfunded postclosure care costs and monitoring activities. Actual costs for postclosure monitoring and maintenance are recorded in the general fund and may be higher or lower due to inflation, changes in technology, or changes in regulations, applicable laws or conditions on the ground.

E. CONSTRUCTION AND OTHER CAPITAL ACQUISITION COMMITMENTS

Construction in progress, commitments for equipment purchases, and other capital acquisition commitments amount to \$969,544 at December 31, 2015.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

F. MUNICIPAL COOPERATION AGREEMENTS

In December 1989, The Town entered into a Municipal Cooperation Agreement with the Town of Huntington in order to address the solid waste disposal concerns of both Towns. The agreement provided for the use of the Town's landfill by the Town of Huntington during the construction of a resource recovery facility in Huntington, which would be shared by both Towns. The agreement calls for the Town of Huntington to pay the Town certain charges for use of the landfill. Allocation of charges is based on the percentage of total solid waste disposed by each Town. The Town of Smithtown is responsible for 37.1% of the landfill costs and the Town of Huntington is responsible for 62.9% of the landfill costs.

In addition, the Town is party to a number of Intermunicipal Agreements as follows:

- Village of the Branch for solid waste collection and disposal services, repair and maintenance of Village streets, and the installation of traffic signs and the application of pavement markings on Village streets.
- Village of Head of the Harbor for the repair and maintenance of Village streets, and the installation of traffic signs and the application of pavement markings on Village streets.
- Incorporated Village of Nissequoque for the repair and maintenance of Village streets, the installation of traffic signs and the application of pavement markings on Village streets, the use of the Town Fire Marshals and/or other qualified personnel to make inspections and enforce violations, the use of the Town's emergency vehicle traffic single preemption equipment, and the use of the Edward Mankuski Fire Training Center.
- Town of Brookhaven with the Town of Huntington for transportation and disposal of all of the Huntington Resource Recovery Facility ash residue at the Brookhaven landfill.
- Town of Brookhaven to accept construction and demolition debris at the Brookhaven Landfill.
- Town of Brookhaven to accept delivery and dispose of street sweepings at the Brookhaven Landfill.
- Kings Park School District to utilize the Town's non-residential solid waste disposal capacity generation fee system.
- Town of Brookhaven to accept recyclable materials at the Brookhaven Landfill under the Single Stream Recycling Program.
- Incorporated Village of Lloyd Harbor to deliver recyclable materials to the Town and for the Town to deliver such recyclables to the Brookhaven Landfill under the Single Stream Recycling Program.
- Commack Fire District, Hauppauge Fire District, Kings Park Fire District, Nesconset Fire District, Nissequoque Fire District, St. James Fire District, and Smithtown Fire District for the use of the Edward Mankuski Fire Training Center.
- County of Suffolk to make certain capital improvements to Harned Road to strengthen and improve County roads, including drainage improvements, curb and sidewalk installation and resurfacing and for the Town to be responsible for the related repairs and maintenance of certain portions of Harned Road.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

G. RESOURCE RECOVERY FACILITY

In 1989, the Town entered into an agreement with the Town of Huntington to construct a resource recovery facility. The facility was financed with \$176,550,000 of bonds issued by the Environmental Facilities Corporation. These bonds were refunded on July 29, 1999 by the issuance of \$136,045,000 of Suffolk County Industrial Development Agency bonds. There is no longer any debt to be paid on the resource recovery facility. Total resource recovery facility charges were \$6,266,886 for 2015, which includes operating expenses net of electricity revenues generated by the facility and marketed excess capacity fees.

H. GRANTS

The Town has received grants and contributions in excess of \$5,400,000, 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 to the Federal and State Government. Based on past experience, the Town administration believes disallowances, if any, will be immaterial.

I. LEASE COMMITMENTS AND LEASED ASSETS

The Town leases various buildings and land to various parties under operating lease agreements with terms ranging from one year to fifteen years. The leases generally require the lessees to pay repairs and maintenance and utilities. Future minimum rental income under existing operating leases at December 31, 2015 are as follows:

Years Ending December 31, 2016	\$	400,907
2017		378,412
2018		383,589
2019		376,706
2020		141,535
2021-2025		278,450
2026-2028		14,300
Totals	\$	1,973,899

The Town leases office equipment under non-cancelable leases that commenced between July 2012 and December 2015, and expire between April 2016 and November 2018. Total rental expenditures on such leases for the year ended December 31, 2015, totaled \$45,579. The minimum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2016	\$	41,833
2017		29,312
2018		6,538
Totals	\$	77,683

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

J. PERMANENT FUND

The Town established the Nissequogue River Improvement Trust Fund (NRITF) upon acceptance of a donation from PMV Smithtown Associates in the amount of \$125,000 and the adoption of a Town Board Resolution (TBR) on August 26, 1997. This was a private donation for the express purpose of assisting in the protection and improvement of the Nissequogue River. The guidelines provided that the original amount is invested in secured or guaranteed instruments as per the Town's investment policy and all interest and income derived to be either reinvested as additional unexpendable principal or used for defined purposes. There was a second donation of \$66,000 from P. J. Venture accepted by TBR on July 10, 2001. There have also been a number of small donations and income from the sale of recyclable inkjet cartridges deposited in the NRITF. The funds are invested as unexpendable principal and income from those investments can either be invested as additional principal or used for defined purposes. The purpose, as defined in the NRITF administrative guidelines, for which the income can be used include but are not limited to fish stock enhancement, wildlife habitat improvement, public assess improvements, drainage and erosion control projects designed to improve river water quality, and the acquisition of interest up to and including fee simple interest in lands necessary for the maintenance or improvement of environmental quality of the Nissequogue River. Expenditure of funds can only occur upon the joint approval of the Environmental Protection Director and the Conservation board of the Town. It is understood and acceptable for the income from the NRITF to be accumulated over a number of years to allow for the funding of projects larger than would otherwise be possible. Upon the absence of direction to the contrary, the Comptroller is required to automatically reinvest income as unexpendable principal. There have been no authorized expenditures from the NRITF. The amount of total fund balance recorded as nonspendable and total net assets restricted as nonexpendable at December 31, 2015 amounted to \$299,507 including \$240 in 2015 interest earnings.

K. SERVICE CONCESSION ARRANGEMENTS

In 2002, the Town entered into an agreement with Lessing's Inc. for the exclusive right to operate, manage and assume responsibility for all restaurants, banquet catering, snack bars, cafeterias, liquor bars, refreshment stand, candy stand, vending machines and other such food facilities at the Smithtown Landing Country Club for the next ten years and with provision for a five year extension. In 2012, the Town extended the agreement for an additional term of five years, ending on December 31, 2017 with provision of an additional five year extension. Lessing's Inc. will pay the Town an annual license fee. The value of these payments is estimated to be \$131,000 for the remaining period ending December 31, 2016 and \$135,000 for 2017, without further without extension. The Town reports the Smithtown Landing Country Club as a capital asset and adds improvements over the course of the licensing agreement as they are made. At December 31, 2015, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$266,000.

In 1994, the Town entered into an agreement with Michael Hebron for the professional management and operation of the Town of Smithtown Golf Course. This contract was extended in 2000 for a fifteen (15) year period ending December 31, 2014 and further extended in 2008 to cover years 2015 through 2019. There was an additional amendment on December 13, 2011 regarding capital improvement funding and fee payments. There was also an additional amendment in March 2015 which decreased the annual payments to \$200,000 for the years 2013 through 2019 and removed the capital improvement funding. In addition to the management and operation of the golf course, the agreement covers operation and maintenance of the Pro Shop, providing professional golf lessons and maintaining gas powered and hand carts. Michael Hebron will pay the Town an annual fee of \$200,000 through 2019. The value of these payments is estimated to be \$200,000 for the remaining period ending December 31, 2016 and \$600,000 for the period 2017 through 2019, without further extension. The Town reports the Smithtown Golf Course Club as a capital asset and adds improvements over the course of the licensing agreement as they are made. At December 31, 2015, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$800,000.

At December 31, 2015, the value of the two Service Concession Arrangements combined are \$1,066,000.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

L. COMMACK VOLUNTEER AMBULANCE CORPS. SERVICE AWARD PROGRAM (LOSAP)

The Town's financial statements are for the year ended December 31, 2015. However, the information contained in this note is based on information for the LOSAP for the plan year ended December 31, 2014, which is the most recent plan year for which complete information is available.

The Town of Huntington and the Town of Smithtown established a defined benefit (LOSAP) plan for the active volunteer firefighters of the Commack Volunteer Ambulance Corps. The program took effect on January 1, 2002. The program was established pursuant to Article 11-AAA, section 219-p of New York State General Municipal Law. The program provides municipally funded pension-like benefits to facilitate the recruitment and retention of active volunteer ambulance workers. Along with the Town of Huntington, the Town of Smithtown is a sponsor of the program. The plan is administered by Penflex, Inc. with all provisions and amendments subject to approval of the plan sponsors. The plan does not issue a separate audited report.

Program Description

Participation, vesting and service credit

Active volunteer ambulance workers who have reached the age of 65, except in the case of total and permanent disability or death, and have completed five years of firefighting service are eligible to participate in the program. Participants acquire a non-forfeitable right to a service award after being credited with 5 years of firefighting service, upon attaining the program's entitlement age, or is awarded a finding of total and permanent disability. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the program in which they accumulate the required number of points in accordance with the system adopted by the program sponsor. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values. Participants also received credit for 5 years of firefighting service rendered prior to the establishment of the program.

Benefits

A participant's benefit under the program is a straight life annuity equal to \$20 multiplied by the person's total number of volunteer ambulance service years with a maximum award of \$800 for 40 or more years of service. Except in the case of total and permanent disability or death, benefits are payable when a participant reaches entitlement age of 65. The program provides statutorily mandated death and disability benefits.

Fiduciary Investment and Control

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

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program.

Authority to invest program assets is vested in the trustee, Glen Falls National Bank and Trust Company, in accordance with the trust agreement dated October 18, 2001. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule.

The sponsor is required to retain an actuary to determine the amount of the sponsor's contributions to the plan. The actuary retained by the sponsor for this purpose is Penflex, Inc. Portions of the following information are derived from a report prepared by the actuary dated July 17, 2015.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

L. COMMACK VOLUNTEER AMBULANCE CORPS. SERVICE AWARD PROGRAM (LOSAP)
(continued)

Program Financial Condition

Assets and Liabilities

Actuarial Present Value of Benefits at December 31, 2014		\$	882,442
Assets Available for Benefits			
Trust fund	100%	\$	1,124,558
Total Net Assets Available for Benefits			1,124,558
Total Unfunded Benefits/Surplus			(242,116)
Unfunded Liability/Surplus for Prior Service			-0-
Unfunded Normal benefits		\$	(242,116)

Prior Service Costs

Prior service costs were paid off over the first five years of the plan.

Receipts and Disbursements

Plan Net Assets, beginning of year		\$	1,033,644
Changes during the year:			
(+) Plan contributions		\$	48,482
(+) Investment income earned			23,850
(+/-) Changes in fair market value of investments			48,028
(-) Plan benefit withdrawals			(19,499)
(-) Administrative and other fees/charges			(9,947)
			90,914
Plan Net Assets, end of year		\$	1,124,558

Contributions

Amount of sponsor's contribution recommended by the actuary:		\$	59,507
Amount of sponsor's actual contribution:		\$	59,507
Town of Smithtown contribution for plans with multiple sponsors		\$	38,263
Plan funding percent			127%

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

4. COMMITMENTS AND CONTINGENCIES (continued)

L. COMMACK VOLUNTEER AMBULANCE CORPS. SERVICE AWARD PROGRAM (LOSAP)
(continued)

Program Financial Condition (continued)

Administration Fees

Fees paid to designated program administrator	\$	4,645
Fees paid to trustee	\$	5,302
Fees paid for investment management		None
Fee paid to actuary		None
Other administration fees		None

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the sponsor's contributions is the Attained Age Normal Frozen Initial Liability Cost Method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return of investment 6.00%

Mortality Tables used for:

Withdrawal	None
Disability	None
Retirement	50/50 blend 1994 US Uninsured Pensioner Mortality Table for Females and Males projected to 2007 with scale AA
Death (Actives)	None
Death (Inactive)	None

5. CUMMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During 2015, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, and amendment to GASB 68*. The implementation of Statement No. 68 and No. 71 resulted in the retroactive reporting of a liability and deferred outflows of resources related to the Town's participation in the NYSLRS.

As a result, the Town's January 1, 2015 governmental activities net position was decreased by \$895,002 as follows:

Net position - beginning, as originally reported	\$	57,166,574
Net pension liability - proportionate share		(5,411,259)
Deferred outflows of resources for contributions made subsequent to the measurement date		4,516,257
Net position - beginning, as restated	\$	<u>56,271,572</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date of the financial statements.

In January 2016, the Town entered into a fleet management master equity lease agreement with Enterprise. Currently, the Town has a vehicle fleet of approximately 190 vehicles which were purchased by the Town with age ranges from 3 to 17 years old. The Town's plan is to phase in the leasing of all Town vehicles over the next 5 years and trade-in their current vehicles with an estimated value of approximately \$925,000 while also reducing the fleet to approximately 170 vehicles. This will allow the Town to lease newer vehicles while reducing repair costs. Currently, the Town has 16 vehicles under this lease agreement with monthly lease payments of approximately \$10,000 for a 5 year period with various commencement dates in 2016.

7. NEW PRONOUNCEMENTS

The following statements have been issued by the Governmental Accounting Standards Board (GASB):

GASB has issued Statement No. 72 "*Fair Value Measurement and Applicant*". The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

GASB has issued Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB 68 – and Amendments to Certain Provisions of GASB 67 and 68*". The objective is to clarify the existing guidance as well as establish new requirements for pensions not covered by Statement No. 67 and No. 68. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for fiscal years beginning after June 15, 2016.

GASB has issued Statement No. 74 "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

GASB has issued Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The objective is to outline reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

GASB has issued Statement No. 76 "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The objective of which is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

GASB has issued Statement No. 77 "*Tax Abatement Disclosures*". The objective is to improve financial reporting by providing the users of financial statements with information about the nature and magnitude of tax abatements and helping the users understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations, as well as the impact of the government's financial position and economic condition. The requirements of this Statement are effective for financial statements beginning after December 15, 2015.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

7. NEW PRONOUNCEMENTS (continued)

GASB has issued Statement No. 78 "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to employees of a state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that meets certain criteria of Statement No. 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state/local governmental employers as well as to employees of non-state/local governmental employers and (c) has no predominant state or local governmental employer, either individually or collectively with other state or local governmental employers that provide pensions through the pension plan. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

GASB has issued Statement No. 79 "*Certain External Investment Pools and Pool Participants*". This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

GASB has issued Statement No. 82 "*Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73*". The objective of which is to address issues regarding (a) the presentation of payroll-related measures in required supplementary information, (b) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (c) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting beginning after June 15, 2015 except for the requirements for selection of assumption in certain circumstances. In those certain circumstances, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT’S DISCUSSION AND ANALYSIS**

Schedules of Revenues, Expenditures, and
Change in Fund Balance – Budget and Actual
Major Governmental Funds and Schedules
Postemployment Benefits Healthcare Costs – Schedule of Funding Progress
Schedule of Pension Contributions
Schedule of Proportionate Share of the Net Pension Liability

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations can be made. The capital projects fund is budgeted on a project or grant basis.

The Town adopts the budget and establishes legal level of control of the budget at the object level expenditures. The object level identifies expenditures by the article purchased or service obtained to carry out a function.

TOWN OF SMITHTOWN
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2015

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Real property taxes	\$ 23,447,215	\$ 23,447,215	\$ 23,447,215		\$ -0-
Real property tax items	423,272	429,179	472,556		43,377
Non-property tax items	2,420,000	2,420,000	2,590,482		170,482
Departmental income	9,148,247	9,228,034	9,939,096		711,062
Intergovernmental charges	406,200	551,611	528,972		(22,639)
Use of money and property	350,500	350,500	219,914		(130,586)
Licenses and permits	130,880	130,880	109,890		(20,990)
Fines and forfeitures	160,000	160,000	191,892		31,892
Sale of property and compensation for loss	350	41,535	323,527		281,992
Miscellaneous local sources	8,000	12,815	54,494		41,679
State aid	5,377,915	5,397,915	5,050,259		(347,656)
Federal aid	413,697	429,408	342,322		(87,086)
Total revenues	<u>42,286,276</u>	<u>42,599,092</u>	<u>43,270,619</u>		<u>671,527</u>
EXPENDITURES					
Current:					
General government support	13,118,092	12,825,932	11,594,062	\$ 53,163	1,178,707
Public safety	3,082,147	3,444,544	3,053,934	54,382	336,228
Health	1,025,934	1,074,146	908,314		165,832
Transportation	932,653	922,398	881,957		40,441
Economic assistance and opportunity	2,500	2,500	640		1,860
Culture and recreation	6,853,021	6,998,707	6,439,618	15,134	543,955
Home and community services	5,717,312	5,774,072	5,352,475	387	421,210
Employee benefits	10,798,113	10,798,113	10,463,672		334,441
Debt service:					
Principal	2,090,633	2,090,633	2,090,633		-0-
Interest	259,756	259,756	259,756		-0-
Total expenditures	<u>43,880,161</u>	<u>44,190,801</u>	<u>41,045,061</u>	<u>123,066</u>	<u>3,022,674</u>
Excess (deficiency) of revenues over (under) expenditures					
	<u>(1,593,885)</u>	<u>(1,591,709)</u>	<u>2,225,558</u>	<u>(123,066)</u>	<u>3,694,201</u>
OTHER FINANCING SOURCES (USES)					
Transfers in			246,965		246,965
Transfers out	(1,000,000)	(1,244,000)	(994,000)		250,000
Premiums of debt issuance			27,571		27,571
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>(1,244,000)</u>	<u>(719,464)</u>	<u>-0-</u>	<u>524,536</u>
Net change in fund balance					
	<u>\$ (2,593,885)</u>	<u>\$ (2,835,709)</u>	<u>1,506,094</u>	<u>\$ (123,066)</u>	<u>\$ 4,218,737</u>
Fund balance at beginning of year					
			<u>15,619,301</u>		
Fund balance at end of year					
			<u>\$ 17,125,395</u>		

TOWN OF SMITHTOWN
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2015

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Real property taxes	\$ 23,139,456	\$ 23,139,456	\$ 23,139,456		\$ -0-
Real property tax items	330,221	330,221	285,088		(45,133)
Intergovernmental charges			25,432		25,432
Use of money and property	17,300	17,300	13,540		(3,760)
Licenses and permits	50,000	50,000	60,975		10,975
Sale of property and compensation for loss	200,000	200,000	6,384		(193,616)
Miscellaneous local sources			440		440
Interfund revenues		891,152	1,296,679		405,527
State aid	942,000	1,277,530	2,013,469		735,939
Federal aid			2,672		2,672
Total revenues	<u>24,678,977</u>	<u>25,905,659</u>	<u>26,844,135</u>		<u>938,476</u>
EXPENDITURES					
Current:					
Transportation	13,916,843	15,557,389	14,564,158	\$ 31,009	962,222
Employee benefits	6,538,991	6,828,211	6,789,001		39,210
Debt service:					
Principal	665,611	665,611	665,611		-0-
Interest	107,532	107,532	107,532		-0-
Total expenditures	<u>21,228,977</u>	<u>23,158,743</u>	<u>22,126,302</u>	<u>31,009</u>	<u>1,001,432</u>
Excess of revenues over expenditures	<u>3,450,000</u>	<u>2,746,916</u>	<u>4,717,833</u>	<u>(31,009)</u>	<u>1,939,908</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	(5,650,000)	(5,650,000)	(5,150,000)		500,000
Premiums of debt issuance			7,382		7,382
Total other financing sources (uses)	<u>(5,650,000)</u>	<u>(5,650,000)</u>	<u>(5,142,618)</u>	<u>-0-</u>	<u>507,382</u>
Net change in fund balance	<u>\$ (2,200,000)</u>	<u>\$ (2,903,084)</u>	<u>(424,785)</u>	<u>\$ (31,009)</u>	<u>\$ 2,447,290</u>
Fund balance at beginning of year			7,195,516		
Fund balance at end of year			<u>\$ 6,770,731</u>		

TOWN OF SMITHTOWN
REFUSE AND GARBAGE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2015

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Departmental income	\$ 11,860,875	\$ 11,860,875	\$ 11,810,419		\$ (50,456)
Intergovernmental charges	450,275	450,275	449,653		(622)
Use of money and property	29,416	29,416	23,547		(5,869)
Sale of property and compensation for loss	180,000	180,000	233,412		53,412
Interfund revenues	193,305	193,305	8,572		(184,733)
State aid	12,000	12,000	15,984		3,984
Total revenues	<u>12,725,871</u>	<u>12,725,871</u>	<u>12,541,587</u>		<u>(184,284)</u>
EXPENDITURES					
Current:					
Home and community services	13,390,371	13,495,573	12,013,723	\$ 42,342	1,439,508
Employee benefits	1,471,535	1,370,663	1,160,934		209,729
Debt service:					
Principal	292,438	292,438	49,538		242,900
Interest	58,498	58,498	24,398		34,100
Total expenditures	<u>15,212,842</u>	<u>15,217,172</u>	<u>13,248,593</u>	<u>42,342</u>	<u>1,926,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,486,971)</u>	<u>(2,491,301)</u>	<u>(707,006)</u>	<u>(42,342)</u>	<u>1,741,953</u>
OTHER FINANCING SOURCES					
Transfers in			128,820		128,820
Premiums of debt issuance			330		330
Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>129,150</u>	<u>-0-</u>	<u>129,150</u>
Net change in fund balance	<u>\$ (2,486,971)</u>	<u>\$ (2,491,301)</u>	<u>(577,856)</u>	<u>\$ (42,342)</u>	<u>\$ 1,871,103</u>
Fund balance at beginning of year			5,917,543		
Fund balance at end of year			<u>\$ 5,339,687</u>		

TOWN OF SMITHTOWN
POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
SCHEDULE OF FUNDING PROGRESS
December 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2015	\$ -0-	\$ 161,528,296	\$ 161,528,296 *	0%	\$ 37,187,499	434.4%
1/1/2014	-0-	152,230,825	152,230,825 **	0%	36,458,332	417.5%
1/1/2013	-0-	165,144,220	165,144,220 *	0%	36,134,831	457.0%

*Projected in prior year valuation.

**Decrease in UAAL in 2014 resulted from an assumed medical trend rate of 9% in 2013 while the actual trend was 1% to 2.3% in 2014.

TOWN OF SMITHTOWN
PENSION PLAN
SCHEDULE OF PENSION CONTRIBUTIONS
December 31, 2015

Years Ended December 31,	Contractually Required Contributions (a)	Contributions Recognized by the Plan in Relation to the Contractually Required Contributions (b)	Unfunded Contributions Deficiency/ (Excess) (a - b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b / c)
2015	\$ 5,520,698	\$ 5,520,698	\$ -0-	\$ 33,273,118	16.59%
2014	6,228,840	6,228,840	-0-	32,514,803	19.16%
2013	6,577,816	6,577,816	-0-	31,848,580	20.65%
2012	5,452,428	5,452,428	-0-	31,870,671	17.11%
2011	4,227,579	4,227,579	-0-	30,729,230	13.76%
2010	3,024,895	3,024,895	-0-	30,318,846	9.98%
2009	2,190,103	2,190,103	-0-	29,458,769	7.43%
2008	2,330,423	2,330,423	-0-	28,257,799	8.25%
2007	2,382,016	2,382,016	-0-	27,356,234	8.71%
2006	2,713,487	2,713,487	-0-	26,943,080	10.07%

Amounts presented for each year were determined as of December 31 and the contractually required contributions are based on the amounts invoiced by the New York State Local Retirement System

Additional Pension Plan information is shown in Note 3.E to the financial statements.

TOWN OF SMITHTOWN
PENSION PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
December 31, 2015

	March 31,	
	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability	0.1197483%	0.1197483%
Town's proportionate share of the net pension	\$ 4,045,391	\$ 5,411,259
Covered payroll	\$ 32,227,296	\$ 32,498,633
Town's proportionate share of the net pension liability as a percentage of its covered payroll	12.55%	16.65%

Amounts presented were determined as of the System's measurement date of March 31.

Additional Pension Plan information is shown in Note 3.E to the financial statements.

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OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances Nonmajor Governmental Funds
Statement of Changes in Agency Assets and Liabilities Fiduciary Funds

TOWN OF SMITHTOWN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2015

	Special Revenue Funds			
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts
ASSETS				
Cash and investments	\$ 1,246,509	\$ 108,587	\$ 1,477,349	\$ 634,418
Cash and investments - restricted		26,429		
Accounts receivable	4,152	1,592	525,140	181
Due from other funds	9,370		3,124	
Due from other governments	2,791	22,892	38,369	
Prepays	164,645	97,113	959,937	17,988
Total assets	<u>\$ 1,427,467</u>	<u>\$ 256,613</u>	<u>\$ 3,003,919</u>	<u>\$ 652,587</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 269,407	\$ 49,101	\$ 17,450	\$ 111,343
Due to other funds	1,483	6,730		
Other liabilities		26,429		
Total liabilities	<u>270,890</u>	<u>82,260</u>	<u>17,450</u>	<u>111,343</u>
FUND BALANCES				
Nonspendable	164,645	97,113	959,937	17,988
Restricted		77,240		233
Assigned	991,932		2,026,532	523,023
Total fund balances	<u>1,156,577</u>	<u>174,353</u>	<u>2,986,469</u>	<u>541,244</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,427,467</u>	<u>\$ 256,613</u>	<u>\$ 3,003,919</u>	<u>\$ 652,587</u>

Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Permanent Fund Nissequogue River Improvement Permanent Fund	Total Nonmajor Governmental Funds
\$ 143,737	\$ 471,211	\$ 876,971	\$ 299,507	\$ 4,958,782
	9,760	915,401		325,936
	247	614		1,456,226
	3,447	29,012		13,355
				64,052
				1,272,142
<u>\$ 143,737</u>	<u>\$ 484,665</u>	<u>\$ 1,821,998</u>	<u>\$ 299,507</u>	<u>\$ 8,090,493</u>
	\$ 22,934	\$ 181,210		\$ 651,445
				8,213
				26,429
<u>-0-</u>	<u>22,934</u>	<u>181,210</u>	<u>-0-</u>	<u>686,087</u>
	3,447	29,012	\$ 299,507	1,571,649
	160			77,633
\$ 143,737	458,124	1,611,776		5,755,124
143,737	461,731	1,640,788	299,507	7,404,406
<u>\$ 143,737</u>	<u>\$ 484,665</u>	<u>\$ 1,821,998</u>	<u>\$ 299,507</u>	<u>\$ 8,090,493</u>

TOWN OF SMITHTOWN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended December 31, 2015

	Special Revenue Funds			
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts
REVENUES				
Real property taxes	\$ 5,700,898			\$ 1,416,770
Real property tax items	71,116			16,402
Departmental income	616,299			
Intergovernmental charges	30,007			1,923
Use of money and property	5,483	\$ 99	\$ 11,715	1,007
Licenses and permits	1,700,008			
Sale of property and compensation for loss			643,687	
Miscellaneous local sources	12,081	10,333	628,125	
Interfund revenue	18,650			
State and local aid	301,252			16,949
Federal aid	55			
	55	1,370,649		
Total revenues	<u>8,455,849</u>	<u>1,381,081</u>	<u>1,283,527</u>	<u>1,453,051</u>
EXPENDITURES				
Current:				
General governmental support	147,471		446,958	
Public safety	3,276,641			
Health				
Transportation				1,361,674
Culture and recreation				
Home and community services	1,802,380	1,377,089		
Employee benefits	2,307,846		1,629,599	361,109
Debt Service:				
Principal	176,800			31,599
Interest	29,811			15,442
	29,811			
Total expenditures	<u>7,740,949</u>	<u>1,377,089</u>	<u>2,076,557</u>	<u>1,769,824</u>
Excess (deficiency) of revenues over (under) expenditures	<u>714,900</u>	<u>3,992</u>	<u>(793,030)</u>	<u>(316,773)</u>
OTHER FINANCING SOURCES				
Premiums on debt issuance	765			50,065
Operating transfers in	30,000	11,000		
Operating transfers out				
Total other financing sources	<u>30,765</u>	<u>11,000</u>	<u>-0-</u>	<u>50,065</u>
Net change in fund balances	<u>745,665</u>	<u>14,992</u>	<u>(793,030)</u>	<u>(266,708)</u>
Fund balances at beginning of year	410,912	159,361	3,779,499	807,952
Fund balances at end of year	<u>\$ 1,156,577</u>	<u>\$ 174,353</u>	<u>\$ 2,986,469</u>	<u>\$ 541,244</u>

Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Permanent Fund Nissequogue River Improvement Permanent Fund	Total Nonmajor Governmental Funds
\$ 1,301,605		\$ 42,350		\$ 8,461,623
56,600				144,118
	\$ 487,195	4,075,798		5,179,292
415	1,044	4,512	\$ 240	31,930
	31,690	15,747		24,515
				1,731,698
				659,434
				650,539
				18,650
	927			319,128
				1,370,704
<u>1,358,620</u>	<u>520,856</u>	<u>4,138,407</u>	<u>240</u>	<u>18,591,631</u>
				594,429
1,380,183				3,276,641
	396,083			1,380,183
		3,608,153		1,361,674
	33,348	445,470		396,083
				6,787,622
	7,000	27,813		4,777,372
	1,555	9,994		243,212
<u>1,380,183</u>	<u>437,986</u>	<u>4,091,430</u>	<u>-0-</u>	<u>18,874,018</u>
<u>(21,563)</u>	<u>82,870</u>	<u>46,977</u>	<u>240</u>	<u>(282,387)</u>
	835			51,665
	160			41,160
		(82,140)		(82,140)
<u>-0-</u>	<u>995</u>	<u>(82,140)</u>	<u>-0-</u>	<u>10,685</u>
<u>(21,563)</u>	<u>83,865</u>	<u>(35,163)</u>	<u>240</u>	<u>(271,702)</u>
<u>165,300</u>	<u>377,866</u>	<u>1,675,951</u>	<u>299,267</u>	<u>7,676,108</u>
<u>\$ 143,737</u>	<u>\$ 461,731</u>	<u>\$ 1,640,788</u>	<u>\$ 299,507</u>	<u>\$ 7,404,406</u>

TOWN OF SMITHTOWN
STATEMENT OF CHANGES IN AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
Year ended December 31, 2015

	Balance January 1, 2015	Additions	Deductions	Balance December 31, 2015
ASSETS				
Town Agency				
Cash and investments	\$ 3,143,712	\$ 606,350,460	\$ 607,379,842	\$ 2,114,330
Accounts receivable	34	34	68	-0-
Other assets	97,039		97,039	-0-
Total Assets - Town	<u>3,240,785</u>	<u>606,350,494</u>	<u>607,476,949</u>	<u>2,114,330</u>
Town Clerk Agency Fund				
Cash and investments	133,346	700,737	756,249	77,834
Total Assets - Town Clerk	<u>133,346</u>	<u>700,737</u>	<u>756,249</u>	<u>77,834</u>
Town Receiver of Taxes Agency Fund				
Cash and investments	148,695,263	521,019,333	502,364,863	167,349,733
Total Assets - Tax Receiver	<u>148,695,263</u>	<u>521,019,333</u>	<u>502,364,863</u>	<u>167,349,733</u>
Total Assets	<u>\$ 152,069,394</u>	<u>\$ 1,128,070,564</u>	<u>\$ 1,110,598,061</u>	<u>\$ 169,541,897</u>
LIABILITIES				
Town Agency				
Accounts payable and accrued liabilities	\$ 1,708,518	\$ 153,864,043	\$ 155,117,918	\$ 454,643
Agency Liabilities				
Escrow deposits	1,007,568	66,078	156,309	917,337
Water main deposits	41,772			41,772
Subdivision escrow deposits	453,528	88,045	85,045	456,528
Tax Warrant and IDA taxes	29,399	452,332,328	452,117,677	244,050
Total Liabilities - Town	<u>3,240,785</u>	<u>606,350,494</u>	<u>607,476,949</u>	<u>2,114,330</u>
Town Clerk Agency Fund				
Total Liabilities - Town Clerk	<u>133,346</u>	<u>700,737</u>	<u>756,249</u>	<u>77,834</u>
Town Receiver of Taxes Agency Fund				
Due to other governments	121,440,620	452,316,454	434,358,175	139,398,899
Other liabilities	27,254,643	68,702,879	68,006,688	27,950,834
Total Liabilities - Tax Receiver	<u>148,695,263</u>	<u>521,019,333</u>	<u>502,364,863</u>	<u>167,349,733</u>
Total Liabilities	<u>\$ 152,069,394</u>	<u>\$ 1,128,070,564</u>	<u>\$ 1,110,598,061</u>	<u>\$ 169,541,897</u>