

TOWN OF SMITHTOWN
FINANCIAL STATEMENTS

December 31, 2014

TOWN OF SMITHTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014
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FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014
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INTRODUCTORY SECTION

TOWN OF SMITHTOWN
PRINCIPAL OFFICIALS
December 31, 2014

ELECTED OFFICIALS

TOWN BOARD:

Supervisor	Patrick R. Vecchio
Councilman	Thomas J. McCarthy
Councilman	Edward R. Wehrheim
Councilman	Robert Creighton
Councilwoman	Lynne C. Nowick

TOWN CLERK

Vincent Puleo

RECEIVER OF TAXES

Deanna Varricchio

SUPERINTENDENT OF HIGHWAYS

Glenn Jorgensen

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, 2014, 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.

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, 2014, 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.

PERSONAL SERVICE. TRUSTED ADVICE. 

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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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015, 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.

Albert Vajjar, Zach & Conny P.C.

Hauppauge, New York
September 15, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

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TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2014

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, 2014. Please read it in conjunction with the Town's financial statements.

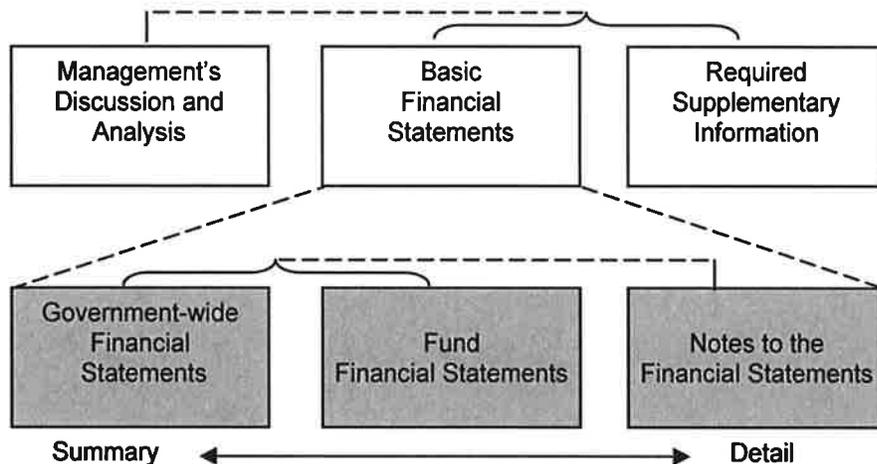
FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceed its liabilities and deferred inflows of resources at the close of 2014 by \$57,166,574 (net position).
- The Town's total net position decreased by \$12,433,302 or 17.9%.
- As of the close of 2014, the Town's governmental funds reported combined ending fund balances of \$39,989,984, a decrease of \$8,957,064. Of this amount, \$3,358,114 is not in spendable form or is required to remain intact. The remaining \$36,631,870 or approximately 91.6% 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.
- At the end of 2014, the Town's total fund balance for the general fund was \$15,619,301, a decrease of 5.3% from the prior year. The assigned and unassigned fund balance for the general fund was \$14,578,638, or 36.0% of total general fund expenditures and other uses.
- The Town's total bonded debt outstanding was \$14,120,000, a decrease of \$2,707,200 or 16.1%.

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**



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.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements (continued)

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 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.

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 in this report.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Governmental Funds (continued)

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.

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 \$57,166,574 at the close of the most recent year.

Condensed Statement of Net Position
Governmental Activities
as of December 31,

	2014	2013
Current and other assets		
Current assets	\$ 49,685,375	\$ 58,629,188
Capital assets	118,460,782	115,476,862
Other non-current assets	1,066,000	2,176,000
Total assets	169,212,157	176,282,050
Deferred outflows of resources	30,058	60,118
Current and other liabilities		
Current liabilities	14,239,793	13,455,334
Non-current liabilities	96,118,082	90,312,085
Total liabilities	110,357,875	103,767,419
Deferred inflows of resources	1,717,766	2,974,873
Net position		
Net investment in capital assets	105,855,362	103,845,270
Restricted	2,900,519	6,796,058
Unrestricted	(51,589,307)	(41,041,452)
Total net position	\$ 57,166,574	\$ 69,599,876

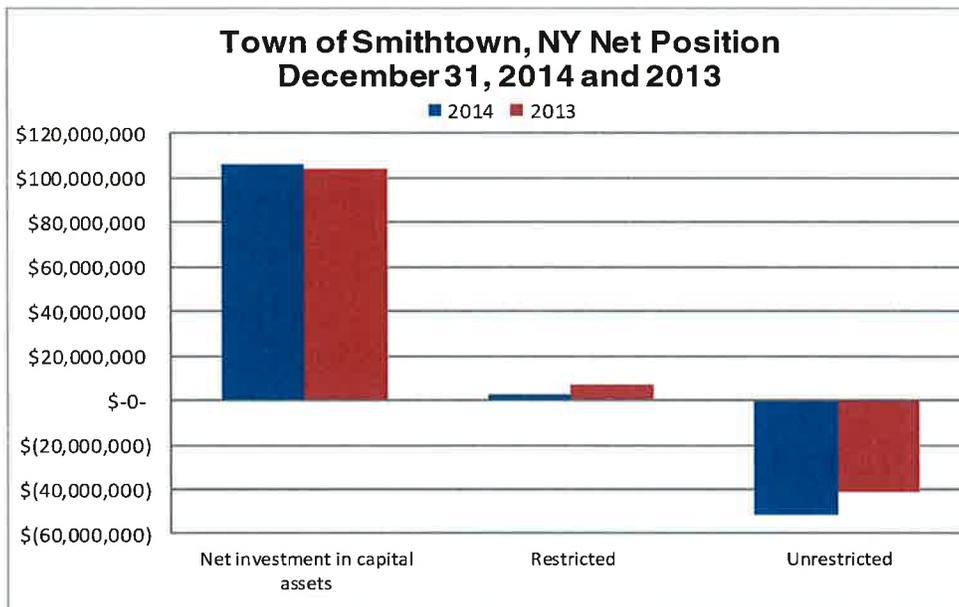
TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

By far the largest portion of the Town's net position, \$105,855,362, 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, and postemployment benefits healthcare costs (OPEB) that will be funded through future budgetary appropriations when they become payable in future periods.



The total net position of the Town as of December 31, 2014 was \$57,166,574, a decrease of \$12,433,302 from the prior year. Of this amount, \$105,855,362 was the net investment in capital assets, while \$2,900,519 was restricted by statute or other specific purpose leaving a \$51,589,307 as an unrestricted deficit.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

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 \$7,830,466 bringing the unfunded liability at year-end to \$61,194,038. Additional information on postemployment benefits healthcare costs can be found in Note 3.F to the financial statements.

Changes in Net Position
Governmental Activities
for the years ended December 31,

	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 29,874,876	\$ 29,913,913
Operating grants and contributions	2,912,637	3,553,551
Capital grants and contributions	1,902,279	2,711,114
	34,689,792	36,178,578
General revenues:		
Real property taxes	53,565,914	54,366,634
Real property tax items	879,616	787,523
Non-property tax items - franchise tax	2,469,484	2,289,837
Mortgage tax	3,421,990	4,520,173
Investment earnings - unrestricted	182,174	228,994
Sale of property and compensation for loss	742,436	194,257
State aid - unrestricted	671,178	671,178
Other	675,003	639,886
	62,607,795	63,698,482
Total revenues	97,297,587	99,877,060
Expenses		
General government support	19,298,521	16,413,188
Public safety	10,657,775	11,078,328
Health	2,947,196	2,934,110
Transportation	33,901,890	33,727,931
Economic assistance and opportunity	4,786	4,766
Culture and recreation	11,844,537	11,708,912
Home and community services	30,511,514	30,600,316
Interest on debt	564,670	520,397
	109,730,889	106,987,948
Total expenses	109,730,889	106,987,948
Change in net position	(12,433,302)	(7,110,888)
Net position - beginning	69,599,876	76,710,764
Net position - ending	\$ 57,166,574	\$ 69,599,876

The change in net position from all combined activities was a decrease of \$12,433,302.

The largest key element of the changes in net position from the prior year was the recognition of OPEB costs of \$7,830,466 across the various functions as well as decrease in mortgage tax of \$1,098,183.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2014

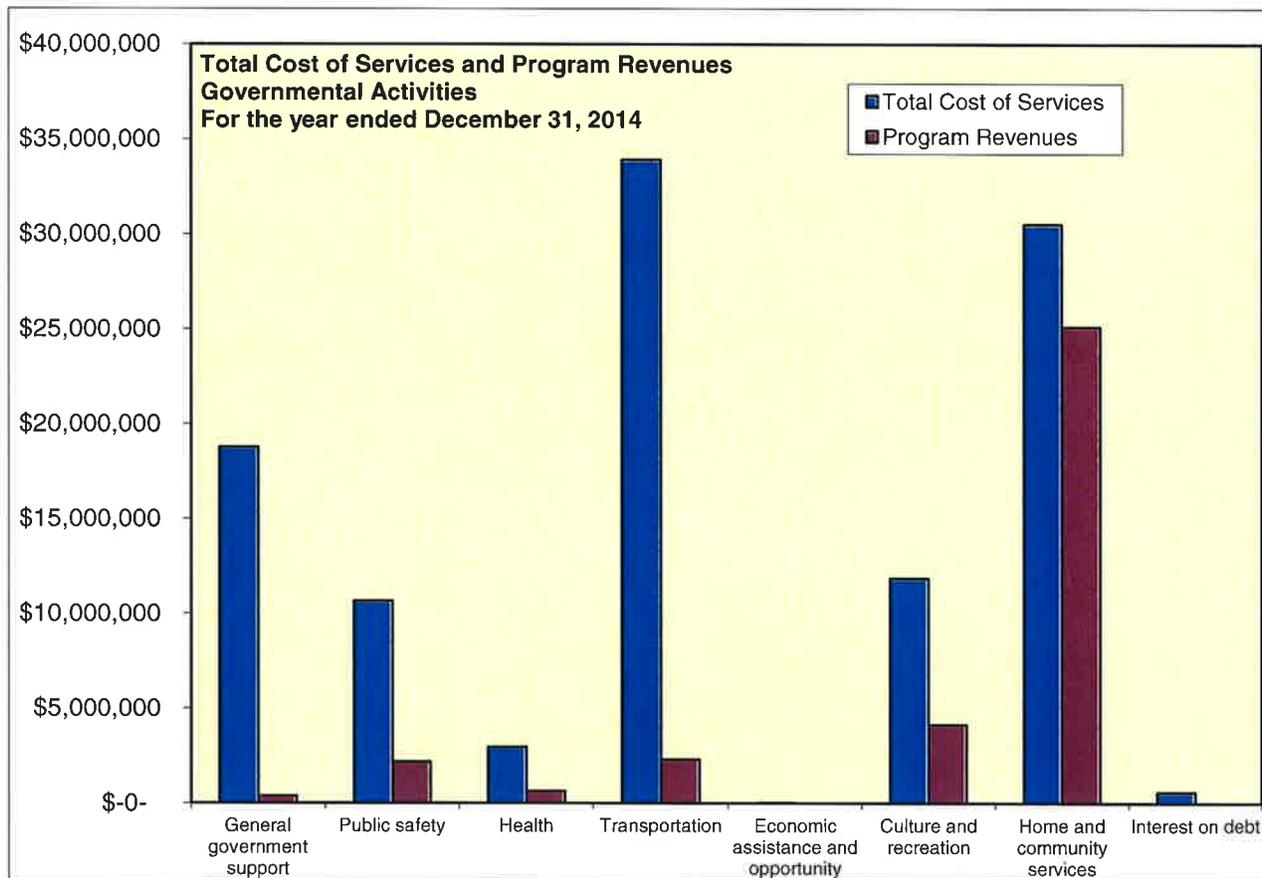
OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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,

	2014	2013	2014	2013	2014	2013
	Total Cost of Services		Program Revenue		Net (Expense) Revenue of Services	
General government support	\$ 19,298,521	\$ 16,413,188	\$ 369,650	\$ 452,732	\$ (18,928,871)	\$ (15,960,456)
Public safety	10,657,775	11,078,328	2,165,153	2,079,199	(8,492,622)	(8,999,129)
Health	2,947,196	2,934,110	617,860	571,907	(2,329,336)	(2,362,203)
Transportation	33,901,890	33,727,931	2,286,925	3,125,581	(31,614,965)	(30,602,350)
Economic assistance and opportunity	4,786	4,766			(4,786)	(4,766)
Culture and recreation	11,844,537	11,708,912	4,127,316	4,164,642	(7,717,221)	(7,544,270)
Home and community services	30,511,514	30,600,316	25,122,888	25,784,517	(5,388,626)	(4,815,799)
Interest on debt	564,670	520,397			(564,670)	(520,397)
	<u>\$ 109,730,889</u>	<u>\$ 106,987,948</u>	<u>\$ 34,689,792</u>	<u>\$ 36,178,578</u>	<u>\$ (75,041,097)</u>	<u>\$ (70,809,370)</u>



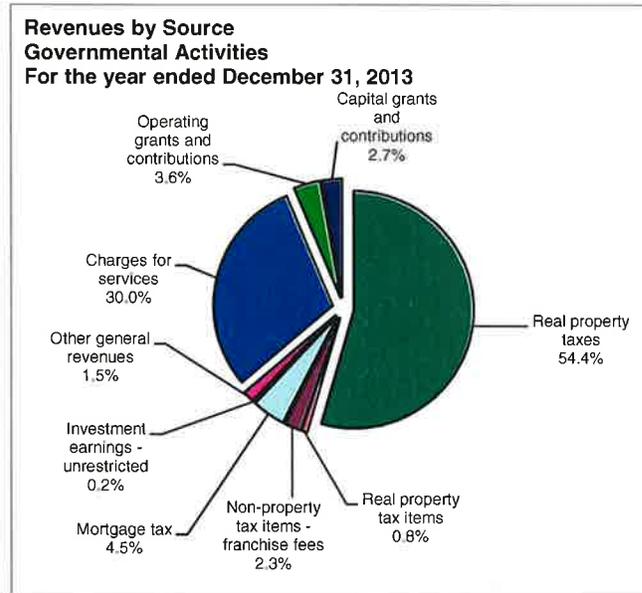
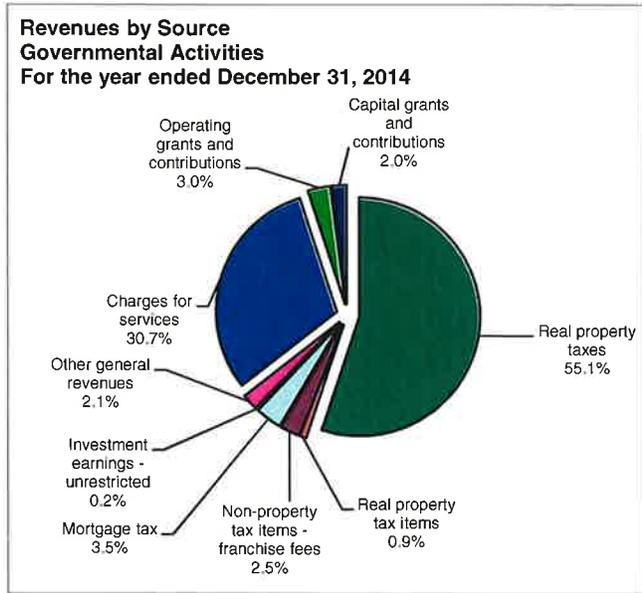
The total cost of all governmental activities this year was \$109,730,889. The net cost of these services after being partially subsidized by program revenues of \$34,689,792 was \$75,041,097.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2014

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,

	2014	2013
Real property taxes	\$ 53,565,914	\$ 54,366,634
Real property tax items	879,616	787,523
Non-property tax items - franchise fees	2,469,484	2,289,837
Mortgage tax	3,421,990	4,520,173
Investment earnings - unrestricted	182,174	228,994
Other general revenues	2,088,617	1,505,321
Charges for services	29,874,876	29,913,913
Operating grants and contributions	2,912,637	3,553,551
Capital grants and contributions	1,902,279	2,711,114
	<u>\$ 97,297,587</u>	<u>\$ 99,877,060</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, 2014

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

At December 31, 2014, the Town's governmental funds reported total ending fund balances of \$39,989,984, a decrease of \$8,957,064. The category breakdown is as follows:

- **Nonspendable fund balance** - \$3,358,114 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$2,509,759 (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** - \$22,347,468 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$11,774,643 (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 \$9,841,763 net decrease resulting from the appropriation of fund balance for the 2014 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 \$15,619,301, decreasing \$866,717, or 5.3%, from the prior year. Of this amount, \$709,214 is not in spendable form (prepaids) and \$331,449 is restricted for park and land deposits. The remaining \$14,578,638 of the fund balance is in spendable form as follows: \$2,593,885 has been assigned by the Town Board for the subsequent year's budget, \$89,524 has been assigned for purchase orders by the Town Comptroller, \$120,586 of other assignments is related to the Harned Sawmill, and the remaining \$11,774,643 represents spendable, unassigned fund balance.

The major components of the fund balance decrease of \$866,717 were:

- The general fund budget began the year with an authorized use of prior year fund balance of \$2,750,000.
- Revenue and other financing sources were less than the final budget by \$233,388. Contributing factors were as follows:
 - State aid mortgage tax was less than budget by \$1,578,010 because fewer homes were sold or refinanced than were anticipated based on 2013 results.
 - Sale of surplus equipment was \$186,560 greater than budget.
 - School Age Child Care (SACC) had receipts in excess of budget by \$209,674.
 - Verizon franchise fees were greater than budget by \$146,561 because of more Verizon FIOS customers.
 - Commercial waste was greater than budget by \$463,888 because improving market conditions caused the waste generated to exceed expectations.
 - Other revenues not budgeted or greater than budget: Radio Dispatch \$50,163, Special Assessment \$120,890 and Park Fund Fees of \$60,800.
- Actual expenditures and other financing uses, exclusive of encumbrances, were under the final budget by \$2,261,866. Contributing factors were as follows:
 - School Age Child Care had less part time salaries by \$152,080, other departments had a reduction in full time and part time salaries of \$561,175 which were due to retirements or unfilled positions.
 - Litigation and counsel had a savings of \$139,755 due to handling more cases using in house attorneys.
 - Home and community services were under budget for leachate costs of \$33,769 and for contractual expense for landfill monitoring of \$65,948.
 - Employees' benefits realized savings in social security, medicare and NYS employee retirement costs of \$84,847 due to salary savings.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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 \$108,441.
- Other costs were less than budget across the fund for fuel by \$53,749, professional fees by \$74,137 and supplies and printing by \$69,148.
- Public safety costs were less than budget by \$207,968 for civil defense costs and remediation of property.
- Expenditures for public information under a grant were less than budget by \$44,954 due to less activity for a grant.
- Unused contingency budget was \$119,471.

Highway Fund

At the end of the current year, the total fund balance of the highway fund was \$7,195,516, decreasing \$1,382,424, or 16.1%, from the prior year. Of this amount, \$1,022,258 is not in spendable form (inventory and prepaids) and \$3,492 is restricted for debt service. The remaining \$6,169,766 of the fund balance is in spendable form as follows: \$2,200,000 has been assigned by the Town Board for the subsequent year's budget, \$102,059 has been assigned for purchase orders by the Town Comptroller and the remaining \$3,867,707 is assigned for highway purposes.

The main reasons for the fund balance decrease of \$1,382,424 were:

- Highway fund began the year with a budgeted use of prior year fund balance of \$2,801,989.
- There was an increase to the budgeted use of prior year fund balance of \$957,059 in the highway snow removal accounts for expenditures related to the severe winter of 2014.
- FEMA reimbursement for Hurricane Sandy resulted in \$343,620 of unbudgeted revenue for the highway road fund.
- Highway road funds transferred to capital projects fund for the 2014 road program which were unspent, were transferred back from capital projects in the amount of \$1,418,775.
- NYS retirement expense was less than budget by \$182,178 due to decrease in pension costs along with decrease in projected salaries due to retirements and unfilled positions.
- Heavy equipment purchases were less than budget by \$131,430.
- Inventory change had a positive variance for highway snow removal account of \$116,764.
- Unused contingency budget of \$332,406.

Refuse and Garbage Fund

At the end of the current year, the total fund balance of the refuse and garbage funds was \$5,917,543, decreasing \$554,428, or 8.6%, from the prior year. Of this amount, \$88,187 is not in spendable form (prepaids) and \$22,320 is restricted for debt service. The remaining \$5,807,036 of the fund balance is in spendable form as follows: \$2,486,971 has been assigned by the Town Board for the subsequent year's budget, \$6,211 has been assigned for purchase orders by the Town Comptroller and the remaining \$3,313,854 is assigned for residential refuse and garbage purposes.

The main reasons for the fund balance decrease of \$554,428 were:

- There was a budgeted use of prior year fund balance of \$1,745,274.
- Reduced costs of \$275,718 for solid waste collection disposal costs resulted from new vendor contracts.
- Transfers to capital projects fund that were budgeted but did not occur were \$935,000.

Capital Projects Fund

At the end of the current year, the capital projects fund had a total fund balance of \$3,581,516 decreasing \$4,404,294, or 55.2%, from the prior year. Of this amount, \$2,084,397 was restricted as follows: \$1,630,757 for capital projects and \$453,640 for purchase orders. The remaining \$1,497,119 has been assigned as follows: \$1,016,501 for capital purposes and \$480,618 for purchase orders.

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Capital Projects Fund (continued)

The main reasons for the fund balance decrease of \$4,404,294 were:

- The Town expended \$3,526,325 in relation to serial bond projects and \$214,556 on capital equipment.
- Other Town funded capital projects totaled \$240,451.
- Nichols Road project expended \$433,923 to be reimbursed in subsequent year from NYS grant.

Nonmajor Governmental Funds

The net change in fund balances was a decrease of \$1,749,201 over the eight nonmajor funds, the most notable as follows:

- The Town outside village fund had a decrease of \$1,213,345. It began the year with a budgeted use of fund balance of \$900,000, appropriated from the prior year, for use in 2014. In addition, there were less revenues than anticipated of \$392,534 for building and occupancy permits.
- The special revenue funds had a \$814,489 decrease in fund balance due to a budgeted use of fund balance of \$1,529,500, along with a reduction in workers compensation insurance from budget of \$402,268 and reduction of insurance claims expense and operating expenses including reimbursements of \$129,564.
- The water districts had an increase of \$253,765 mostly due to the Smithtown water spending \$138,019 less on water than budgeted, \$37,177 less on vehicles and \$25,233 less in full time salaries and overtime and \$19,951 less on maintenance and repairs.

General Fund Budgetary Highlights

During the year, there was a \$370,790 or 0.9% 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. The following are the main components of the increase in appropriations:

- \$53,380 for trucks and heavy equipment funded by the sale of surplus equipment, \$48,290 for Parks, Buildings and Grounds department maintenance and repairs funded by reimbursement from LIPA, \$20,000 for salaries for park employees funded by ZBGA (Zoos, Botanical Gardens and Aquariums Program) NYS grant, and \$98,856 for Public Safety salaries funded by the Radio Dispatch Program revenue.
- \$44,702 for remediation of unsafe structures funded by appropriated fund balance to be reimbursed to the Town through the tax warrant or insurance reimbursements in the subsequent year.
- \$100,493 was for re-encumbrances for prior year purchases.

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, 2014 amounts to \$118,460,782 (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.

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

- Highway road, drainage, and sidewalk improvements throughout the Town were completed for \$6,155,216.
- Other infrastructure improvements were \$678,368, which mainly consisted of street lighting improvements.
- Construction in progress totaled \$1,505,722, mainly due to Nichols Road projects.
- The Town purchased machinery and equipment totaling \$3,554,855.

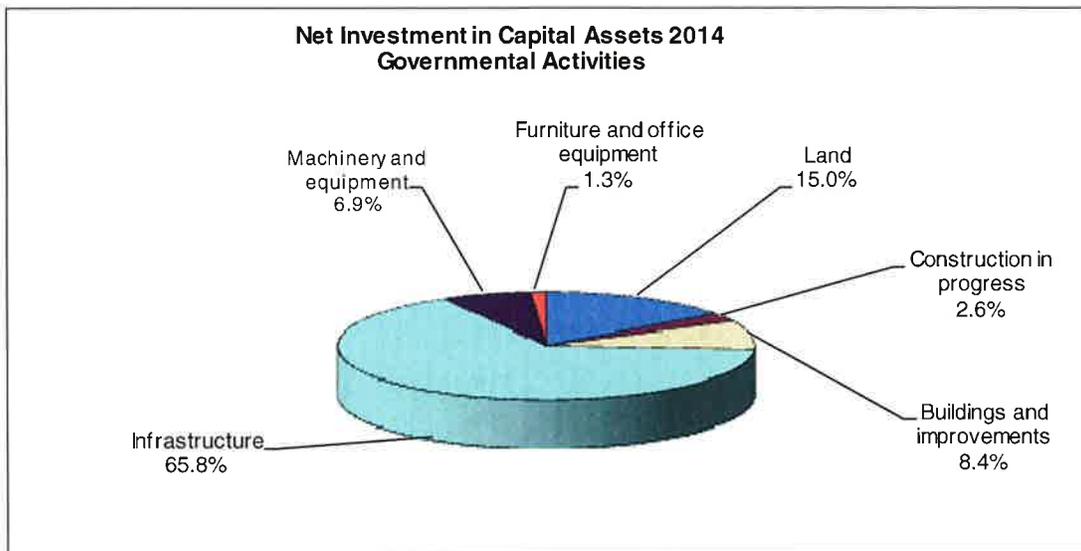
TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

Capital Assets - Net of Accumulated Depreciation

Governmental Activities:	2014	2013
Land	\$ 17,744,123	\$ 17,661,763
Construction in progress	3,066,701	1,811,541
Buildings and improvements	9,940,495	9,726,799
Infrastructure	78,040,077	77,657,724
Machinery and equipment	8,162,408	7,161,924
Furniture and office equipment	1,506,978	1,457,111
Total capital assets	\$ 118,460,782	\$ 115,476,862



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

Debt Administration

Long-Term Debt

At the end of 2014, the Town had total general obligation bonded debt outstanding of \$14,120,000, in comparison to \$16,827,200 in the prior year. For the year ended December 31, 2014, the Town's debt decreased by \$2,707,200 or 16.1%. The entire debt is backed by the full faith and credit of the Town.

In August 2013, 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 \$1,270,510,300 which is significantly in excess of the Town's outstanding general obligation debt. The percentage of debt limit exhausted at December 31, 2014 was 1.11%.

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

TOWN OF SMITHTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town has adopted a budget for 2015 that increased revenues and expenditures by \$2,544,560 in the general fund. The general fund budget includes a real property tax increase of approximately 16.1% over 2014 in an effort to reduce costs.

State Aid and Local Assistance

The Town receives financial assistance from New York State and Suffolk County. The 2015 budget includes mortgage tax of \$4,200,000; state aid per capita of \$671,178 and state government assistance of \$1,745,737. 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 June 15, 2016, 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 2015 did not exceed the 2% cap.

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.

BASIC FINANCIAL STATEMENTS

TOWN OF SMITHTOWN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
December 31, 2014

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 38,614,498
Cash - restricted	656,031
Accounts receivable	4,880,301
Due from other governments	2,475,698
Prepays	2,508,549
Inventory of materials and supplies	550,298
Total current assets	49,685,375
Non-current assets:	
Receivables, service concession arrangements	1,066,000
Non-depreciable capital assets	20,810,824
Capital assets, net of accumulated depreciation	97,649,958
Total non-current assets	119,526,782
Total assets	169,212,157
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	30,058
Total deferred outflows of resources	30,058
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	8,582,792
Accrued interest payable	114,157
Unearned revenues	25,488
Other liabilities	26,345
Non-current liabilities due within one year:	
General obligation bonds payable, inclusive of premiums	2,983,366
Compensated absences payable	1,339,561
Capital leases payable	133,994
Claims and judgments payable	548,300
Estimated liability for landfill closure and postclosure care costs	485,790
Total current liabilities	14,239,793
Non-current liabilities due in more than one year:	
General obligation bonds payable, inclusive of premiums	11,436,894
Compensated absences payable	6,995,893
Capital leases payable	135,563
Claims and judgments payable	3,989,784
Estimated liability for landfill closure and postclosure care costs	12,365,910
Postemployment benefits healthcare costs	61,194,038
Total non-current liabilities	96,118,082
Total liabilities	110,357,875
DEFERRED INFLOWS OF RESOURCES	
Deferred service concession arrangement receipts	1,395,000
Unearned revenue - property taxes	317,016
Unearned revenue - other miscellaneous items	5,750
Total deferred inflows of resources	1,717,766
NET POSITION	
Net investment in capital assets	105,855,362
Restricted for:	
Park and land deposits	331,449
Debt service	26,045
Capital projects	2,084,397
Home and community services	159,361
Permanent fund:	
Nonexpendable	299,267
Unrestricted	(51,589,307)
Total net position	\$ 57,166,574

See notes to the financial statements.

TOWN OF SMITHTOWN
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
Year ended December 31, 2014

Function/ Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT:					
Governmental Activities:					
General government support	\$ 19,298,521	\$ 369,650			\$ (18,928,871)
Public safety	10,657,775	2,164,385	\$ 768		(8,492,622)
Health	2,947,196	341,709	276,151		(2,329,336)
Transportation	33,901,890	151,067	504,325	\$ 1,631,533	(31,614,965)
Economic assistance and opportunity	4,786				(4,786)
Culture and recreation	11,844,537	3,307,108	820,208		(7,717,221)
Home and community services	30,511,514	23,540,957	1,311,185	270,746	(5,388,626)
Interest on debt	564,670				(564,670)
Total governmental activities	\$ 109,730,889	\$ 29,874,876	\$ 2,912,637	\$ 1,902,279	\$ (75,041,097)
General revenues:					
					53,565,914
					879,616
					2,469,484
					3,421,990
					182,174
					742,436
					671,178
					675,003
				Total general revenues	62,607,795
				Change in net position	(12,433,302)
				Net position - beginning	69,599,876
				Net position - ending	\$ 57,166,574

**TOWN OF SMITHTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014**

	MAJOR FUNDS			
	General	Highway	Refuse and Garbage Funds	Capital Projects
ASSETS				
Cash and investments	\$ 12,834,865	\$ 4,906,772	\$ 7,424,945	\$ 7,289,565
Cash and investments - restricted	331,449			
Accounts receivable	2,503,217	380,439	169,639	
Due from other funds	525,471	1,455,346	79,267	5,705
Due from other governments	1,227,205	310,740	23,800	818,901
Prepays	709,214	471,960	88,187	
Inventory		550,298		
Total assets	<u>\$ 18,131,421</u>	<u>\$ 8,075,555</u>	<u>\$ 7,785,838</u>	<u>\$ 8,114,171</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,396,209	\$ 871,557	\$ 1,844,392	\$ 2,578,820
Due to other funds	83,643	8,482	23,903	1,953,835
Unearned revenues	25,488			
Other liabilities	1,030			
Total liabilities	<u>2,506,370</u>	<u>880,039</u>	<u>1,868,295</u>	<u>4,532,655</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - property taxes				
Unearned revenue - other miscellaneous items	5,750			
Total deferred inflows of resources	<u>5,750</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCES				
Nonspendable	709,214	1,022,258	88,187	
Spendable:				
Restricted	331,449	3,492	22,320	2,084,397
Assigned	2,803,995	6,169,766	5,807,036	1,497,119
Unassigned	11,774,643			
Total fund balances	<u>15,619,301</u>	<u>7,195,516</u>	<u>5,917,543</u>	<u>3,581,516</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 18,131,421</u>	<u>\$ 8,075,555</u>	<u>\$ 7,785,838</u>	<u>\$ 8,114,171</u>

Non-Major Governmental Funds	Total Governmental Funds
\$ 6,158,351	\$ 38,614,498
324,582	656,031
1,089,006	4,142,301
24,866	2,090,655
95,052	2,475,698
1,239,188	2,508,549
	550,298
<u>\$ 8,931,045</u>	<u>\$ 51,038,030</u>
\$ 891,814	\$ 8,582,792
20,792	2,090,655
	25,488
25,315	26,345
<u>937,921</u>	<u>10,725,280</u>
317,016	317,016
	5,750
<u>317,016</u>	<u>322,766</u>
1,538,455	3,358,114
68,101	2,509,759
6,069,552	22,347,468
	11,774,643
<u>7,676,108</u>	<u>39,989,984</u>
<u>\$ 8,931,045</u>	<u>\$ 51,038,030</u>

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TOWN OF SMITHTOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
December 31, 2014

Total fund balances - governmental funds		\$ 39,989,984
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	\$ 20,810,824	
Capital assets - depreciable	288,036,711	
Accumulated depreciation	<u>(190,386,753)</u>	118,460,782
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	(14,120,000)	
Compensated absences	(8,335,454)	
Capital leases	(269,557)	
Claims and judgments	(4,538,084)	
Estimated liability for landfill closure and postclosure care costs	(12,851,700)	
Postemployment benefits healthcare costs	<u>(61,194,038)</u>	(101,308,833)
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.		
Deferred loss on refunding included in the Statement of Net Position		30,058
Premiums on debt issuance included in the Statement of Net Position		(300,260)
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.		
		409,000
Receivables, service concession arrangements are not available to pay for current period expenditures and therefore are not reported in the funds.		
Deferred inflows, service concession arrangements not reported in the funds.	<u>1,395,000</u> <u>(1,395,000)</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.		
		<u>(114,157)</u>
Net position of governmental activities		<u>\$ 57,166,574</u>

TOWN OF SMITHTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended December 31, 2014

	MAJOR FUNDS			
	General	Highway	Refuse and Garbage Funds	Capital Projects
REVENUES				
Real property taxes	\$ 20,188,619	\$ 26,160,759		
Real property tax items	499,462	273,001		
Non-property tax items	2,469,484			
Departmental income	9,736,189		\$ 11,075,389	
Intergovernmental charges	459,647	80,421	450,483	
Use of money and property	316,908	19,561	28,640	\$ 46
Licenses and permits	165,802	66,825		
Fines and forfeitures	205,502			
Sale of property and compensation for loss	308,154	193,199	876,268	
Miscellaneous local sources	114,484	1,439	14	33,436
Interfund revenues	1,000	272		
State aid	4,638,892	1,166,200	11,900	
Federal aid	349,264	343,620		626,038
Total revenues	<u>39,453,407</u>	<u>28,305,297</u>	<u>12,442,694</u>	<u>659,520</u>
EXPENDITURES				
Current:				
General government support	11,239,762			
Public safety	2,813,234			
Health	906,062			
Transportation	943,581	16,493,648		
Economic assistance and opportunity	665			
Culture and recreation	6,206,104			
Home and community services	5,454,108		11,578,295	
Employee benefits	10,339,169	7,381,186	1,122,088	
Capital Outlay				10,357,977
Debt Service:				
Principal	2,139,443	536,500		
Interest	332,397	123,654	24,059	
Total expenditures	<u>40,374,525</u>	<u>24,534,988</u>	<u>12,724,442</u>	<u>10,357,977</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(921,118)</u>	<u>3,770,309</u>	<u>(281,748)</u>	<u>(9,698,457)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	124,401	1,497,267	22,320	7,033,000
Transfers out	(70,000)	(6,650,000)	(295,000)	(1,738,837)
Total other financing sources (uses)	<u>54,401</u>	<u>(5,152,733)</u>	<u>(272,680)</u>	<u>5,294,163</u>
Net change in fund balances	<u>(866,717)</u>	<u>(1,382,424)</u>	<u>(554,428)</u>	<u>(4,404,294)</u>
Fund balances at beginning of year	<u>16,486,018</u>	<u>8,577,940</u>	<u>6,471,971</u>	<u>7,985,810</u>
Fund balances at end of year	<u>\$ 15,619,301</u>	<u>\$ 7,195,516</u>	<u>\$ 5,917,543</u>	<u>\$ 3,581,516</u>

Non-Major Governmental Funds	Total Governmental Funds
\$ 7,216,536	\$ 53,565,914
107,153	879,616
	2,469,484
4,750,437	25,562,015
36,075	1,026,626
31,541	396,696
1,620,426	1,853,053
	205,502
240,583	1,618,204
663,308	812,681
74,835	76,107
285,000	6,101,992
1,446,511	2,765,433
<u>16,472,405</u>	<u>97,333,323</u>
627,757	11,867,519
3,206,560	6,019,794
1,361,949	2,268,011
1,428,761	18,865,990
	665
429,298	6,635,402
6,468,837	23,501,240
4,548,063	23,390,506
	10,357,977
163,700	2,839,643
63,530	543,640
<u>18,298,455</u>	<u>106,290,387</u>
<u>(1,826,050)</u>	<u>(8,957,064)</u>
94,849	8,771,837
(18,000)	(8,771,837)
<u>76,849</u>	<u>-0-</u>
<u>(1,749,201)</u>	<u>(8,957,064)</u>
<u>9,425,309</u>	<u>48,947,048</u>
<u>\$ 7,676,108</u>	<u>\$ 39,989,984</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, 2014

Net change in fund balances - total governmental funds \$ (8,957,064)

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	\$ 12,652,200	
Depreciation expense	(9,575,918)	
Loss on disposition	(92,362)	
		2,983,920

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 (30,060)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (28,000)

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.

Repayment of debt principal	2,707,200	
Compensated absences	351,485	
Repayment of capital lease	132,443	
Claims and judgments	(335,308)	
Estimated liability for landfill closure and postclosure care costs	(1,504,850)	
Postemployment benefits healthcare costs	(7,830,466)	
Accrued interest payable	9,030	
		(6,470,466)

Premiums of bond issuances recognized in governmental funds statements when issued and capitalized and amortized in the Statement of Activities. 68,368

Change in net position of governmental activities \$ (12,433,302)

TOWN OF SMITHTOWN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2014

	Agency Fund
ASSETS	
Cash	\$ 151,972,321
Accounts receivable	34
Other assets	97,039
Total assets	\$ 152,069,394
 LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,708,518
Due to other governments	121,440,620
Other agency liabilities	28,920,256
Total liabilities	\$ 152,069,394

See notes to the financial statements.

TOWN OF SMITHTOWN
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December 31, 2014

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TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 principals.

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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. 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. The focus of the governmental funds financial statements is on the major funds. 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 other than those financed by proprietary funds. 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 – 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 – 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, 2014

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, 2014

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 compensated absences, due to employees retirement system, claims and judgments, landfill closure and postclosure care costs, pollution remediation obligations and other postemployment benefits 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 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. Expenditures for prepaids are recognized when incurred. 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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net position and the change in net position.

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 100% 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 ASSETS

Certain assets of the general fund for park and land deposits, special grants fund, and permanent fund are classified as restricted assets 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.

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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5. INVENTORY AND PREPAID ITEMS

Inventory in the highway fund is valued at cost and is accounted for under the consumption method, 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 general fund and special revenue 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 reported at historical cost or estimated historical cost. Donated assets are valued at their fair market value on the date of donation. Other costs incurred for repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized. 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.

8. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until that time. The Town reports deferred outflows from deferred loss on refunding. A deferred loss on a refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 (continued)

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The 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, claims and judgments payable, estimated liability for landfill closure and postclosure care costs, and postemployment benefits healthcare costs are recognized as liabilities 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.
- 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”.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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)

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. This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

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.

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 funds 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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES (continued)

1. INTERFUND TRANSACTIONS (continued)

b) Transfers

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.

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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES (continued)

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.

F. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purpose, 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.

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, 2014, the Town adopted:

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*.

GASB Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees*.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 69 "*Governmental Combinations and Disposals of Governmental Operations*." The statement establishes accounting and financial reporting standards related to governmental combinations and disposals of governmental operations. As used in this Statement, the term *government combination includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations*. This Statement had no effect on the Town's financial statements.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 70 "*Accounting and Reporting for Nonexchange Financial Guarantees*." The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement had no effect on the Town's financial statements.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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.
- 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, 2016, 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 2% cap in 2014.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

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					\$ 299,267	\$ 299,267
Inventory		\$ 550,298				550,298
Prepays	\$ 709,214	471,960	\$ 88,187		1,239,188	2,508,549
Total Nonspendable	<u>709,214</u>	<u>1,022,258</u>	<u>88,187</u>	<u>\$ -0-</u>	<u>1,538,455</u>	<u>3,358,114</u>
Restricted for:						
Debt service		3,492	22,320		233	26,045
Capital projects				1,630,757		1,630,757
Purchases on order and/or contractual obligations				453,640	1,000	454,640
Park and land deposits	331,449					331,449
Other reserves					66,868	66,868
Total Restricted	<u>331,449</u>	<u>3,492</u>	<u>22,320</u>	<u>2,084,397</u>	<u>68,101</u>	<u>2,509,759</u>
Assigned to:						
Subsequent year's budget	2,593,885	2,200,000	2,486,971		1,959,000	9,239,856
Capital projects				1,016,501		1,016,501
Purchases on order and/or contractual obligations	89,524	102,059	6,211	480,618	48,665	727,077
Special revenue funds		3,867,707	3,313,854		4,061,887	11,243,448
Other assignments	120,586					120,586
Total Assigned	<u>2,803,995</u>	<u>6,169,766</u>	<u>5,807,036</u>	<u>1,497,119</u>	<u>6,069,552</u>	<u>22,347,468</u>
Unassigned, reported in						
General fund	11,774,643					11,774,643
Total Unassigned	<u>11,774,643</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>11,774,643</u>
Total Fund Balances	<u>\$ 15,619,301</u>	<u>\$ 7,195,516</u>	<u>\$ 5,917,543</u>	<u>\$ 3,581,516</u>	<u>\$ 7,676,108</u>	<u>\$ 39,989,984</u>

3. DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

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, 2014, the Town's deposits were \$191,237,350. This amount is inclusive of fiduciary fund deposits of \$151,972,321 and restricted cash of \$656,031 but exclusive of petty cash of \$5,500. The bank balance was \$191,519,085. Of the total bank balance, \$1,118,985 was covered by the Federal Depository Insurance Corporation (FDIC) and \$24,719,349 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name and \$165,680,751 was covered by collateral held by the bank.

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, 2014, the Town did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

B. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At December 31, 2014, individual fund interfund receivable and payable balances are generally expected to be paid currently. These balances represent various recharges, and/or reimbursements between funds and are stated as follows:

	Receivable	Payable
Governmental Activities:		
<u>Major Funds:</u>		
General Fund	\$ 525,471	\$ 83,643
Highway Fund	1,455,346	8,482
Refuse and Garbage Fund	79,267	23,903
Capital Projects Fund	5,705	1,953,835
<u>Nonmajor Funds:</u>		
Town Outside Village	23,675	
Special Grants		20,792
Paul J. Fitzpatrick Country Club	644	
Water Districts	547	
Total Governmental Funds	\$ 2,090,655	\$ 2,090,655

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

B. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

At December 31, 2014, individual fund interfund transfers balances representing legally authorized transfers, were as follows:

	Transfer In	Transfer Out
Governmental Activities:		
<u>Major Funds:</u>		
General Fund	\$ 124,401	\$ 70,000
Highway Fund	1,497,267	6,650,000
Refuse and Garbage Fund	22,320	295,000
Capital Projects Fund	7,033,000	1,738,837
<u>Nonmajor Funds:</u>		
Town Outside Village	27,700	
Street Lighting Districts	233	
Paul J. Fitzpatrick Country Club	66,916	
Water Districts		18,000
Total Governmental Funds	\$ 8,771,837	\$ 8,771,837

C. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 was as follows:

	Balance 1/1/2014	Additions	Deletions/ Transfers	Balance 12/31/2014
<u>Governmental Activities:</u>				
Capital assets not being depreciated/amortized				
Land	\$ 17,661,763	\$ 82,360		\$ 17,744,123
Construction work in progress	1,811,541	1,505,722	\$ 250,562	3,066,701
Total capital assets not being depreciated	19,473,304	1,588,082	250,562	20,810,824
Depreciable/amortizable capital assets				
Buildings and improvements	20,141,888	658,476		20,800,364
Infrastructure	229,656,384	6,833,584	6,189,039	230,300,929
Machinery and equipment	32,430,709	3,554,855	2,533,022	33,452,542
Furniture and office equipment	3,272,850	267,765	57,739	3,482,876
Total depreciable capital assets	285,501,831	11,314,680	8,779,800	288,036,711
Less accumulated depreciation/amortization				
Buildings and improvements	10,415,089	444,780		10,859,869
Infrastructure	151,998,660	6,451,231	6,189,039	152,260,852
Machinery and equipment	25,268,785	2,477,713	2,456,364	25,290,134
Furniture and office equipment	1,815,739	202,194	42,035	1,975,898
Total accumulated depreciation	\$ 189,498,273	\$ 9,575,918	\$ 8,687,438	190,386,753
Total net depreciable capital assets				97,649,958
Total net capital assets				\$ 118,460,782

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

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

Governmental Activities:

General government support	\$ 489,245
Public safety	277,821
Health	17,289
Transportation	7,132,421
Economic assistance and opportunity	4,121
Culture and recreation	992,027
Home and community services	662,994
Total depreciation expense - governmental activities	<u>\$ 9,575,918</u>

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, 2014, the Town has not recorded any such impairment losses.

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, 2014 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, 2014.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

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 2015 through 2029.

A summary of these bonds is as follows:

	Balance 1/1/2014	Issued	Redeemed	Balance 12/31/2014
Governmental activities:				
<u>Major Funds:</u>				
General	\$ 10,187,000		\$ 2,007,000	\$ 8,180,000
Highway	4,012,900		536,500	3,476,400
Refuse and Garbage	805,000			805,000
<u>Nonmajor Funds:</u>				
Outside Village	1,030,300		136,700	893,600
Country Club	57,000		7,000	50,000
Street Lighting	510,000			510,000
Water	225,000		20,000	205,000
Total governmental activities	<u>\$ 16,827,200</u>	<u>\$ -0-</u>	<u>\$ 2,707,200</u>	<u>\$ 14,120,000</u>

At December 31, 2014, bonds payable consisted of the following individual issues:

Governmental activities:

Issue	Purpose	Remaining Interest Range	Original Amount	Outstanding Amount	Final Maturity
General Obligation Serial Bonds-1988	Water	7.750%	\$ 485,000	\$ 80,000	November 1, 2018
General Obligation Serial Bonds-2003A	Public Improvement	3.000%-3.250%	3,500,000	800,000	December 15, 2018
General Obligation Serial Bonds-2005A	Public Improvement	3.750%	1,505,000	175,000	December 1, 2015
General Obligation Serial Bonds-2006A	Public Improvement	4.250%	2,615,000	300,000	December 15, 2015
General Obligation Serial Bonds-2007A	Public Improvement	4.000%-4.100%	4,265,000	1,000,000	December 15, 2016
General Obligation Serial Bonds-2010	Public Improvement	2.000%-3.250%	3,456,000	2,855,000	September 15, 2029
General Obligation Serial Bonds-2010	Refunding Bond	4.000 %-5.000%	3,745,000	1,090,000	June 15, 2016
General Obligation Serial Bonds-2011	Public Improvement	3.000%-3.250%	2,275,000	1,465,000	October 15, 2021
General Obligation Serial Bonds-2013	Public Improvement	3.000%-3.250%	6,742,200	6,355,000	August 15, 2028
			<u>\$28,588,200</u>	<u>\$14,120,000</u>	

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

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

Governmental activities:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2015	\$ 2,915,000	\$ 445,331	\$ 3,360,331
2016	2,455,000	340,294	2,795,294
2017	1,275,000	264,319	1,539,319
2018	1,315,000	226,269	1,541,269
2019	675,000	186,644	861,644
2020-2024	3,010,000	641,956	3,651,956
2025-2029	2,475,000	215,044	2,690,044
Totals	\$ 14,120,000	\$ 2,319,857	\$ 16,439,857

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, 2014, the principal amount outstanding was \$269,557.

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

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2015	\$ 133,994	\$ 3,156	\$ 137,150
2016	135,563	1,587	137,150
Totals	\$ 269,557	\$ 4,743	\$ 274,300

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

Changes in Long-term Debt

Long-term liability activities for the year ended December 31, 2014 are as follows:

Governmental activities:

	Balance 1/1/2014	Increases	Reductions	Balance 12/31/2014	Non-current liabilities due within one year	Non-current liabilities
General obligation bonds	\$16,827,200		\$ 2,707,200	\$ 14,120,000	\$ 2,915,000	\$11,205,000
Plus deferred amounts:						
Premiums on issuance	368,628		68,368	300,260	68,366	231,894
Total bonds payable	<u>17,195,828</u>		<u>2,775,568</u>	<u>14,420,260</u>	<u>2,983,366</u>	<u>11,436,894</u>
Compensated absences	8,686,939	481,161	832,646	8,335,454	1,339,561	6,995,893
Capital leases	402,000		132,443	269,557	133,994	135,563
Claims and judgments	4,202,776	940,210	604,902	4,538,084	548,300	3,989,784
Estimated liability for landfill closure and postclosure care costs	11,346,850	1,914,544	409,694	12,851,700	485,790	12,365,910
Postemployment benefits healthcare costs	53,363,572	11,594,655	3,764,189	61,194,038		61,194,038
	<u>\$95,197,965</u>	<u>\$14,930,570</u>	<u>\$ 8,519,442</u>	<u>\$ 101,609,093</u>	<u>\$ 5,491,011</u>	<u>\$96,118,082</u>

Other long-term liabilities for compensated absences and postemployment benefits healthcare costs and costs 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. RETIREMENT SYSTEM

Plan Description

The Town participates in the New York State and Local Employees' Retirement System (NYSERS). This is a cost sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits.

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first 10 years of membership, employees who joined on or after January 1, 2010 who contribute 3% of their salary for the entire length of service, and employees who joined on or after April 1, 2012, who contribute 3% to 6% of their salary, depending upon their annual wages, for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed as proportions of payroll members, used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Contributions consist of a group term life insurance portion (GTLI) and a regular pension contribution. Contribution rates for the plan year ended March 31, 2015 are as follows:

Contribution Rates

<u>Tier</u>	<u>Plan/ Option</u>	<u>3/31/2015 Rate</u>
1	75I	27.4%
2	75I	25.1%
3	A14	20.1%
4	A15	20.1%
5	A15	16.4%
6	A15	10.8%

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 for the March 31, 2015 and two preceding years were:

Annual Required Contribution - ERS

	<u>Amount</u>	<u>Credits & Reconciliation/ Adjustments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>
March 31, 2015	\$6,279,614	\$ (203,256)	\$ (54,683)	\$6,021,675
March 31, 2014	6,651,362	261,194	(62,208)	6,850,348
March 31, 2013	5,604,656	207,859	(52,309)	5,760,206

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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Plan Description (continued)

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 rated, the retiree claim costs are based on the actual rates without adjustment for age.

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 2014.

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	<u>756</u>

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, 2014, the Town's annual other postemployment benefits cost (expenses) was \$11,594,655. Considering the annual expense as well as the payment of current health insurance premiums and Medicare reimbursements, which totaled \$3,764,189 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$7,830,466 for the year ended December 31, 2014.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Benefit Obligations and Normal Cost

	Medical Dental and Medicare B
Actuarial Accrued Liability (AAL)	
Active employees	\$ 85,257,386
Retired employees	66,973,439
Total Actuarial Accrued Liability (AAL)	152,230,825
Actuarial value of plan assets	-0-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 152,230,825
Funded ratio	0%
Annual covered payroll	\$ 36,458,332
UAAL as a percentage of covered payroll	417.5%

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. The unfunded actuarial accrued liability for the Town as of the January 1, 2014 valuation is \$152,230,825.

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	\$ 3,778,803
Amortization of unfunded actuarial liability (UAAL) over 30 years	8,707,401
Annual required contribution (ARC)	12,486,204
Interest on net OPEB obligation	2,134,543
Adjustment to ARC	(3,026,092)
Annual OPEB Cost	11,594,655
Less: Contribution for year ended December 31, 2014	3,764,189
Increase in other postemployment benefits liability	7,830,466
Other postemployment benefits liability at December 31, 2013	53,363,572
Other postemployment benefits liability at December 31, 2014	\$ 61,194,038
Percentage of annual OPEB cost contributed	32.5%

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

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
2014	\$ 11,594,655	\$ 3,764,189	32.5%	\$ 61,194,038
2013	13,005,399	3,698,869	28.4%	53,363,572
2012	12,664,492	3,558,684	28.1%	44,057,042

The primary government's funded status of the plan as of January 1, 2014 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)
1/1/2014	\$ -0-	\$ 152,230,825	\$ 152,230,825	0%	\$ 36,458,332	417.5%

The required scheduling 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%. The remaining amortization period at December 31, 2014 was 23 years.

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, 2014

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, 2014, the value of the accumulated vacation, personal leave and sick leave for governmental activities was \$8,335,454.

4. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

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 \$4,538,084. 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 \$34,277,765 excluding windstorm and hail damage. The policy also excludes new "frame" buildings in the course of construction. Physical damage coverage covers up to \$11,437,725.

General and Auto Liability

The Town carries insurance for general and auto liability protection of \$10,000,000 per occurrence and \$10,000,000 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, 2014

4. COMMITMENTS AND CONTINGENCIES (continued)

A. RISK MANAGEMENT (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	
	2014	2013	2014	2013
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 3,263,167	\$ 5,513,417	\$ 939,609	\$ 1,129,594
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	725,000	-0-	215,210	49,290
Payments:				
Claim and claim adjustment expenditures attributable to insured events of the current and prior years	368,750	2,250,250	236,152	239,275
Total unpaid claims and claim adjustment expenditures at the end of the year	<u>\$ 3,619,417</u>	<u>\$ 3,263,167</u>	<u>\$ 918,667</u>	<u>\$ 939,609</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

4. COMMITMENTS AND CONTINGENCIES (continued)

B. TAX CERTIORARIS

At December 31, 2014, there were numerous taxpayers' claims pending for the redetermination of assessed valuations (certiorari proceedings) for assessment through 2014. 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 \$543,500 per year for 2014. Actual costs for Cells 1-5 and Cell 6 were \$132,411 and \$277,283, respectively, for the year ended December 31, 2014. The remaining postclosure costs for Cells 1-5 and Cell 6 approximates \$2,583,000 and \$10,268,700, respectively.

Accordingly, as of December 31, 2014, the Town has recorded an estimated liability of \$12,851,700, 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 and other capital commitments for governmental activities capital projects are \$934,258.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 thermoplastic 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 thermoplastic pavement markings on Village streets.
- Incorporated Village of Nissequogue for the repair and maintenance of Village streets, the installation of traffic signs and the application of thermoplastic pavement markings on Village streets, the use of the Town Fire Marshals and/or other qualified personnel to make inspections and enforce violations, and the use of the Edward Mankuski Fire Training Center.
- Islip Resource Recovery Agency for construction and demolition cleanfill disposal.
- Towns of Babylon and Brookhaven with the Town of Huntington for transportation and disposal of all of the Huntington Resource Recovery Facility ash residue at the Babylon and Brookhaven landfills.
- Town of Brookhaven to accept delivery and dispose of glass cullet and street sweepings at the Brookhaven Landfill.

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 \$6,185,571 for 2014, which includes operating expenses net of electricity revenues generated by the facility and marketed excess capacity fees.

H. GRANTS

The Town has received grants in excess of \$4,800,000, 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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

4. COMMITMENTS AND CONTINGENCIES (continued)

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, 2014 are as follows:

Years Ending December 31, 2015	\$	313,053
2016		308,407
2017		309,706
2018		179,791
2019		176,965
2020-2024		358,837
2025-2028		20,800
Totals	\$	<u>1,667,559</u>

The Town leases office equipment under non-cancelable leases that commenced between August 2011 and December 2014, and expire between June 2015 and December 2017. Total rental expenditures on such leases for the year ended December 31, 2014, totaled \$42,168. The minimum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2015	\$	42,685
2016		32,257
2017		19,737
Totals	\$	<u>94,679</u>

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, 2014 amount to \$299,267 including \$3,204 in 2014 interest earnings.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

4. COMMITMENTS AND CONTINGENCIES (continued)

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 \$129,000 for the remaining period ending December 31, 2015 and \$266,000 for the period 2016 through 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, 2014, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$395,000.

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, 2015 and \$800,000 for the period 2016 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, 2014, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$1,000,000.

At December 31, 2014, the value of the two Service Concession Arrangements combined are \$1,395,000.

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

The Town's financial statements are for the year ended December 31, 2014. However, the information contained in this note is based on information for the LOSAP for the plan year ended December 31, 2013, 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.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

4. COMMITMENTS AND CONTINGENCIES (continued)

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

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 31, 2014.

Program Financial Condition

Assets and Liabilities

Actuarial Present Value of Benefits at December 31, 2013			\$ 784,719
Assets Available for Benefits			
Trust fund	100%	\$ 1,033,644	
Total Net Assets Available for Benefits			1,033,644
Total Unfunded Benefits/Surplus			(248,925)
Unfunded Liability/Surplus for Prior Service			-0-
Unfunded Normal benefits			\$ (248,925)

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

4. COMMITMENTS AND CONTINGENCIES (continued)

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

Program Financial Condition (continued)

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	\$	835,007
Changes during the year:		
(+) Plan contributions	\$	63,646
(+) Investment income earned		22,649
(+/-) Changes in fair market value of investments		133,380
(-) Plan benefit withdrawals		(12,862)
(-) Administrative and other fees/charges		(8,176)
		198,637
Plan Net Assets, end of year	\$	1,033,644

Contributions

Amount of sponsor's contribution recommended by the actuary:	\$	48,482
Amount of sponsor's actual contribution:	\$	48,482
Town of Smithtown contribution for plans with multiple sponsors	\$	31,174
Plan funding percent		132%

Administration Fees

Fees paid to designated program administrator	\$	3,788
Fees paid to trustee	\$	4,388
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 6.25%

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

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

5. 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 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 by the refuse and garbage fund over seven years through January 2022 with annual payments totaling \$261,099, including annual interest at a rate of 1.768%.

6. NEW PRONOUNCEMENTS

The following statements have been issued by the Governmental Accounting Standards Board (GASB) and are to be implemented in the year ending December 31, 2015:

GASB has issued Statement No. 68 *“Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27”*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2014.

GASB has issued Statement No. 71 *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68”*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68 *“Accounting and Financial Reporting for Pensions”*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement No. 68.

The following statement has been issued by GASB and is to be implemented in the year ending December 31, 2016:

GASB has issued Statement No. 72 *“Fair Value Measurement and Application.”* The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements and to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2015.

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

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, 2014

	Budgeted Amounts		Actual	Encumbrances	Variance with
	Original	Final			Final Budget
REVENUES					
Real property taxes	\$ 20,188,619	\$ 20,188,619	\$ 20,188,619		\$ -0-
Real property tax items	362,928	362,928	499,462		136,534
Non-property tax items	2,320,000	2,320,000	2,469,484		149,484
Departmental income	9,012,350	9,012,350	9,736,189		723,839
Intergovernmental charges	401,200	497,056	459,647		(37,409)
Use of money and property	375,150	375,150	316,908		(58,242)
Licenses and permits	136,780	136,780	165,802		29,022
Fines and forfeitures	160,000	160,000	205,502		45,502
Sale of property and compensation for loss	350	53,730	308,154		254,424
Miscellaneous local sources	8,000	59,359	114,484		55,125
Interfund revenues			1,000		1,000
State aid	6,159,527	6,179,527	4,638,892		(1,540,635)
Federal aid	460,697	460,697	349,264		(111,433)
Total revenues	39,585,601	39,806,196	39,453,407		(352,789)
EXPENDITURES					
Current:					
General government support	12,452,363	12,141,756	11,239,762	\$ 46,120	855,874
Public safety	2,931,617	3,119,123	2,813,234	22,239	283,650
Health	983,653	965,134	906,062	1,438	57,634
Transportation	921,508	963,462	943,581	1,187	18,694
Economic assistance and opportunity	2,500	2,500	665		1,835
Culture and recreation	6,506,974	6,670,966	6,206,104	1,863	462,999
Home and community services	5,641,130	5,877,594	5,454,108	16,677	406,809
Employee benefits	10,424,016	10,424,016	10,339,169		84,847
Debt service:					
Principal	2,139,443	2,139,443	2,139,443		-0-
Interest	332,397	332,397	332,397		-0-
Total expenditures	42,335,601	42,636,391	40,374,525	89,524	2,172,342
Excess (deficiency) of revenues over (under) expenditures	(2,750,000)	(2,830,195)	(921,118)	(89,524)	1,819,553
OTHER FINANCING SOURCES (USES)					
Transfers in		5,000	124,401		119,401
Transfers out		(70,000)	(70,000)		-0-
Total other financing sources (uses)	-0-	(65,000)	54,401	-0-	119,401
Net change in fund balance	\$ (2,750,000)	\$ (2,895,195)	(866,717)	\$ (89,524)	\$ 1,938,954
Fund balance at beginning of year			16,486,018		
Fund balance at end of year			\$ 15,619,301		

TOWN OF SMITHTOWN
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2014

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Real property taxes	\$ 26,160,759	\$ 26,160,759	\$ 26,160,759		\$ -0-
Real property tax items	242,736	242,736	273,001		30,265
Intergovernmental charges			80,421		80,421
Use of money and property	44,908	44,908	19,561		(25,347)
Licenses and permits	26,500	26,500	66,825		40,325
Sale of property and compensation for loss		182,378	193,199		10,821
Miscellaneous local sources			1,439		1,439
Interfund revenues			272		272
State aid	942,000	1,083,158	1,166,200		83,042
Federal aid			343,620		343,620
Total revenues	<u>27,416,903</u>	<u>27,740,439</u>	<u>28,305,297</u>		<u>564,858</u>
EXPENDITURES					
Current:					
Transportation	15,350,052	17,215,473	16,493,648	\$ 102,059	619,766
Employee benefits	7,558,685	7,566,725	7,381,186		185,539
Debt service:					
Principal	536,500	536,500	536,500		-0-
Interest	123,655	123,655	123,654		1
Total expenditures	<u>23,568,892</u>	<u>25,442,353</u>	<u>24,534,988</u>	<u>102,059</u>	<u>805,306</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,848,011</u>	<u>2,298,086</u>	<u>3,770,309</u>	<u>(102,059)</u>	<u>1,370,164</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		75,000	1,497,267		1,422,267
Transfers out	(6,650,000)	(6,650,000)	(6,650,000)		-0-
Total other financing sources (uses)	<u>(6,650,000)</u>	<u>(6,575,000)</u>	<u>(5,152,733)</u>	<u>-0-</u>	<u>1,422,267</u>
Net change in fund balance	<u>\$ (2,801,989)</u>	<u>\$ (4,276,914)</u>	<u>(1,382,424)</u>	<u>\$ (102,059)</u>	<u>\$ 2,792,431</u>
Fund balance at beginning of year			8,577,940		
Fund balance at end of year			<u>\$ 7,195,516</u>		

TOWN OF SMITHTOWN
REFUSE AND GARBAGE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2014

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Departmental income	\$ 11,120,300	\$ 11,120,300	\$ 11,075,389		\$ (44,911)
Intergovernmental charges	474,113	474,113	450,483		(23,630)
Use of money and property	41,200	41,200	28,640		(12,560)
Sale of property and compensation for loss	900,000	900,000	876,268		(23,732)
Miscellaneous local sources			14		14
Interfund revenues	173,883	173,883			(173,883)
State aid	12,000	12,000	11,900		(100)
Total revenues	<u>12,721,496</u>	<u>12,721,496</u>	<u>12,442,694</u>		<u>(278,802)</u>
EXPENDITURES					
Current:					
Home and community services	12,311,973	12,226,821	11,578,295	\$ 6,211	642,315
Employee benefits	1,130,738	1,137,936	1,122,088		15,848
Debt service:					
Interest	24,059	24,059	24,059		-0-
Total expenditures	<u>13,466,770</u>	<u>13,388,816</u>	<u>12,724,442</u>	<u>6,211</u>	<u>658,163</u>
Excess of revenues over expenditures	<u>(745,274)</u>	<u>(667,320)</u>	<u>(281,748)</u>	<u>(6,211)</u>	<u>379,361</u>
OTHER FINANCING SOURCES (USES)					
Transfers in			22,320		22,320
Transfers out	(1,000,000)	(1,230,000)	(295,000)		935,000
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>(1,230,000)</u>	<u>(272,680)</u>	<u>-0-</u>	<u>957,320</u>
Net change in fund balance	<u>\$ (1,745,274)</u>	<u>\$ (1,897,320)</u>	<u>(554,428)</u>	<u>\$ (6,211)</u>	<u>\$ 1,336,681</u>
Fund balance at beginning of year			6,471,971		
Fund balance at end of year			<u>\$ 5,917,543</u>		

TOWN OF SMITHTOWN
POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
SCHEDULE OF FUNDING PROGRESS
December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
1/1/2014	\$ -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%
1/1/2012	-0-	155,259,894	155,259,894	0%	35,426,305	438.3%

*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.

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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, 2014

	Special Revenue Funds			
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts
ASSETS				
Cash and investments	\$ 708,362	\$ 95,338	\$ 2,978,399	\$ 832,876
Cash and investments - restricted		25,315		
Accounts receivable	170,534	1,070	18,063	18,456
Due from other funds	23,675			
Due from other governments	9,785	85,267		
Prepays	177,964	91,493	911,637	20,192
Total assets	<u>\$ 1,090,320</u>	<u>\$ 298,483</u>	<u>\$ 3,908,099</u>	<u>\$ 871,524</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 362,392	\$ 93,015	\$ 128,600	\$ 63,572
Due to other funds		20,792		
Other liabilities		25,315		
Total liabilities	<u>362,392</u>	<u>139,122</u>	<u>128,600</u>	<u>63,572</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - property taxes	317,016			
Total deferred inflows of resources	<u>317,016</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCES				
Nonspendable	177,964	91,493	911,637	20,192
Restricted		67,868		233
Assigned	232,948		2,867,862	787,527
Total fund balances	<u>410,912</u>	<u>159,361</u>	<u>3,779,499</u>	<u>807,952</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,090,320</u>	<u>\$ 298,483</u>	<u>\$ 3,908,099</u>	<u>\$ 871,524</u>

Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Permanent Fund Nissequogue River Improvement Permanent Fund	Total Nonmajor Governmental Funds
\$ 165,300	\$ 359,043	\$ 1,019,033		\$ 6,158,351
	35,812	845,071	\$ 299,267	324,582
	644	547		1,089,006
	5,260	32,642		24,866
				95,052
				1,239,188
<u>\$ 165,300</u>	<u>\$ 400,759</u>	<u>\$ 1,897,293</u>	<u>\$ 299,267</u>	<u>\$ 8,931,045</u>
	\$ 22,893	\$ 221,342		\$ 891,814
				20,792
				25,315
<u>-0-</u>	<u>22,893</u>	<u>221,342</u>	<u>-0-</u>	<u>937,921</u>
				317,016
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>317,016</u>
	5,260	32,642	\$ 299,267	1,538,455
\$ 165,300	372,606	1,643,309		68,101
165,300	377,866	1,675,951	299,267	6,069,552
\$ 165,300	\$ 400,759	\$ 1,897,293	\$ 299,267	\$ 8,931,045

TOWN OF SMITHTOWN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended December 31, 2014

	Special Revenue Funds			
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts
REVENUES				
Real property taxes	\$ 4,158,609			\$ 1,699,467
Real property tax items	44,069			16,415
Departmental income	465,320			
Intergovernmental charges	32,254			3,821
Use of money and property	5,117	\$ 195	\$ 14,379	1,864
Licenses and permits	1,582,466			
Sale of property and compensation for loss	11,190		225,148	1,475
Miscellaneous local sources	2,829	11,275	649,204	
Interfund revenue	74,835			
State and local aid	285,000			
Federal aid	5,455	1,441,056		
Total revenues	<u>6,667,144</u>	<u>1,452,526</u>	<u>888,731</u>	<u>1,723,042</u>
EXPENDITURES				
Current:				
General governmental support	145,239		482,518	
Public safety	3,206,560			
Health				
Transportation				1,428,761
Culture and recreation				
Home and community services	1,910,774	1,485,326		
Employee benefits	2,473,870		1,220,702	317,838
Debt Service:				
Principal	136,700			
Interest	35,046			15,228
Total expenditures	<u>7,908,189</u>	<u>1,485,326</u>	<u>1,703,220</u>	<u>1,761,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,241,045)</u>	<u>(32,800)</u>	<u>(814,489)</u>	<u>(38,785)</u>
OTHER FINANCING SOURCES				
Operating transfers in	27,700			233
Operating transfers out				
Total other financing sources	<u>27,700</u>	<u>-0-</u>	<u>-0-</u>	<u>233</u>
Net change in fund balances	<u>(1,213,345)</u>	<u>(32,800)</u>	<u>(814,489)</u>	<u>(38,552)</u>
Fund balances at beginning of year	<u>1,624,257</u>	<u>192,161</u>	<u>4,593,988</u>	<u>846,504</u>
Fund balances at end of year	<u>\$ 410,912</u>	<u>\$ 159,361</u>	<u>\$ 3,779,499</u>	<u>\$ 807,952</u>

Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Permanent Fund Nissequogue River Improvement Permanent Fund	Total Nonmajor Governmental Funds
\$ 1,309,960		\$ 48,500		\$ 7,216,536
46,669				107,153
	\$ 492,080	3,793,037		4,750,437
				36,075
712	1,303	4,767	\$ 3,204	31,541
	37,960			1,620,426
		2,770		240,583
				663,308
				74,835
				285,000
				1,446,511
<u>1,357,341</u>	<u>531,343</u>	<u>3,849,074</u>	<u>3,204</u>	<u>16,472,405</u>
				627,757
1,361,949				3,206,560
	429,298			1,361,949
		3,072,737		1,428,761
	62,572	473,081		429,298
				6,468,837
	7,000	20,000		4,548,063
	1,765	11,491		163,700
<u>1,361,949</u>	<u>500,635</u>	<u>3,577,309</u>	<u>-0-</u>	<u>18,298,455</u>
(4,608)	30,708	271,765	3,204	(1,826,050)
	66,916			94,849
		(18,000)		(18,000)
-0-	66,916	(18,000)	-0-	76,849
(4,608)	97,624	253,765	3,204	(1,749,201)
169,908	280,242	1,422,186	296,063	9,425,309
<u>\$ 165,300</u>	<u>\$ 377,866</u>	<u>\$ 1,675,951</u>	<u>\$ 299,267</u>	<u>\$ 7,676,108</u>

TOWN OF SMITHTOWN
STATEMENT OF CHANGES IN AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
Year ended December 31, 2014

	Balance January 1, 2014	Additions	Deductions	Balance December 31, 2014
<u>ASSETS</u>				
Town Agency				
Cash and investments	\$ 2,984,423	\$ 576,150,903	\$ 575,991,614	\$ 3,143,712
Accounts receivable	5,831	134	5,931	34
Other assets		97,039		97,039
Total Assets - Town	<u>2,990,254</u>	<u>576,248,076</u>	<u>575,997,545</u>	<u>3,240,785</u>
Town Clerk Agency Fund				
Cash and investments	112,030	662,437	641,121	133,346
Total Assets - Town Clerk	<u>112,030</u>	<u>662,437</u>	<u>641,121</u>	<u>133,346</u>
Town Receiver of Taxes Agency Fund				
Cash and investments	157,432,938	477,511,532	486,249,207	148,695,263
Total Assets - Tax Receiver	<u>157,432,938</u>	<u>477,511,532</u>	<u>486,249,207</u>	<u>148,695,263</u>
Total Assets	<u>\$ 160,535,222</u>	<u>\$ 1,054,422,045</u>	<u>\$ 1,062,887,873</u>	<u>\$ 152,069,394</u>
<u>LIABILITIES</u>				
Town Agency				
Accounts payable and accrued liabilities	\$ 1,249,429	\$ 144,290,935	\$ 143,831,846	\$ 1,708,518
Agency Liabilities				
Escrow deposits	1,264,505	150,383	407,320	1,007,568
Water main deposits	42,523		751	41,772
Subdivision escrow deposits	334,505	152,023	33,000	453,528
Tax Warrant and IDA taxes	99,292	431,654,735	431,724,628	29,399
Total Liabilities - Town	<u>2,990,254</u>	<u>576,248,076</u>	<u>575,997,545</u>	<u>3,240,785</u>
Town Clerk Agency Fund	112,030	662,437	641,121	133,346
Total Liabilities - Town Clerk	<u>112,030</u>	<u>662,437</u>	<u>641,121</u>	<u>133,346</u>
Town Receiver of Taxes Agency Fund				
Due to other governments	129,413,947	412,621,237	420,594,564	121,440,620
Other liabilities	28,018,991	64,890,295	65,654,643	27,254,643
Total Liabilities - Tax Receiver	<u>157,432,938</u>	<u>477,511,532</u>	<u>486,249,207</u>	<u>148,695,263</u>
Total Liabilities	<u>\$ 160,535,222</u>	<u>\$ 1,054,422,045</u>	<u>\$ 1,062,887,873</u>	<u>\$ 152,069,394</u>