

TOWN OF SMITHTOWN, NEW YORK
FINANCIAL STATEMENTS AND REQUIRED REPORTS
December 31, 2019
together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

TOWN OF SMITHTOWN, NEW YORK

C O N T E N T S

	<u>Page</u>
INTRODUCTORY SECTION (UNAUDITED)	
Principal Officials	i
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	4-16
FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position.....	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental funds.....	19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental funds	21
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances- Governmental Funds to the Statement of Activities.....	22
Statement of Fiduciary Net Position Funds - Fiduciary Funds	23
Notes to Financial Statements.....	24-57
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, Highway Fund, Refuse and Garbage Fund (Unaudited)	58-60
Schedule of Changes in Total OPEB Liability & Related Ratios (Unaudited).....	61
Schedule of Proportionate Share of Net Pension Liability (Unaudited).....	62
Schedule of Contributions – Pension Plans (Unaudited).....	63

C O N T E N T S (Continued)

SUPPLEMENTARY INFORMATION

Combining Fund Statements - Nonmajor Governmental Funds:

Combining Balance Sheet..... 64

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 65

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* 66-67

INTRODUCTORY SECTION

**TOWN OF SMITHTOWN
PRINCIPAL OFFICIALS
DECEMBER 31, 2019**

ELECTED OFFICIALS

TOWN BOARD:

Supervisor
Councilman / Deputy Supervisor
Councilman
Councilwoman
Councilwoman

Edward R. Wehrheim
Thomas J. McCarthy
Thomas W. Lohmann
Lisa M. Inzerillo
Lynne C. Nowick

TOWN CLERK

Vincent Puleo

RECEIVER OF TAXES

Deanna Varricchio

SUPERINTENDENT OF HIGHWAYS

Robert Murphy

APPOINTED OFFICIALS

Town Assessor
Town Attorney
Town Comptroller
Town Engineer

Peter D. Johnson
Matthew Jakubowski
Donald P. Musgnug
Mark Riley

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

July 30, 2020

To the Honorable Supervisor and Town Board of the
Town of Smithtown, New York:

Report on the Financial Statements

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 (the Town), New York, as of and for the year ended December 31, 2019, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

488 Madison Ave., 23rd Floor
New York, NY 10022
p (212) 600-2854

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

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 as of December 31, 2019 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in total other postemployment benefits (OPEB) liability and related ratios, schedule of contributions – pension plan and schedule of proportionate share of the net pension liability – pension system 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 fund 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.

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

TOWN OF SMITHTOWN, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2019

INTRODUCTION

As management of the Town of Smithtown, New York (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended December 31, 2019. It should be read in conjunction with the basic financial statements, which immediately follow this section, to enhance understanding of the Town's financial performance.

USING THIS ANNUAL REPORT

This annual report consists of a set of financial statements and notes. The Statement of Net Position and the Statement of Activities provide information about the activities of the Town as a whole and present a long-term view of the Town's finances. Fund financial statements begin thereafter. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year ended 2019 are as follows:

Government-Wide Financial Statements

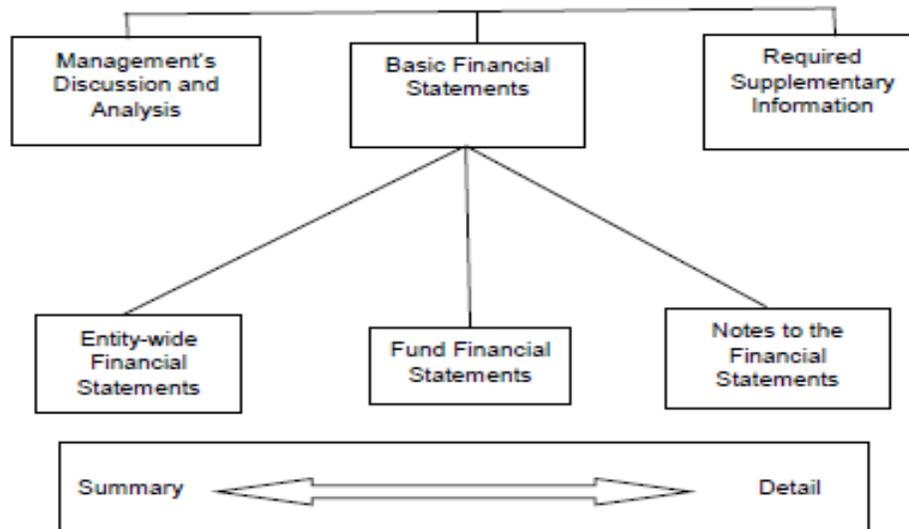
- The assets and deferred outflows of resources of the Town were below its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$115,055,266 primarily due to recording the projected full cost of Other Post employee Benefits (OPEB) – healthcare costs.

Fund Financial Statements

- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$50,003,291 representing an increase in fund balance of \$4,226,507 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$15,527,240, which is 32.8% of total General Fund expenditures for 2019; an increase from the previous year of \$783,148.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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 *statement of net position* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave, and other postemployment benefit obligations ("OPEB")).

The government-wide financial statements distinguish functions of the Town that are *governmental activities* (those principally supported by taxes and intergovernmental revenues). The governmental activities of the Town include general governmental support, public safety, health, transportation, economic opportunity and development, culture and recreation, home and community services, and interest.

The government-wide financial statements can be found on the pages immediately following this section as the first two pages of the basic financial statements.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the 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 individual governmental funds. Information is presented separately in the governmental fund balance sheets and in the governmental fund statements of revenues, expenditures, and changes in fund balances for the General Fund, Highway Fund, Refuse and Garbage Fund, and Capital Projects Fund, which are considered to be major funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support Town programs. The Town maintains only one type of fiduciary fund that is known as an Agency Fund. The Town holds resources in this fund purely in a custodial capacity. The activity in this fund is limited to the receipt, temporary investment, and remittance of resources to the appropriate individual, organization, or government.

The fiduciary fund financial statements can be found in the basic financial statements section of this report.

NOTES TO 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 financial statements are located following the basic financial statements section of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

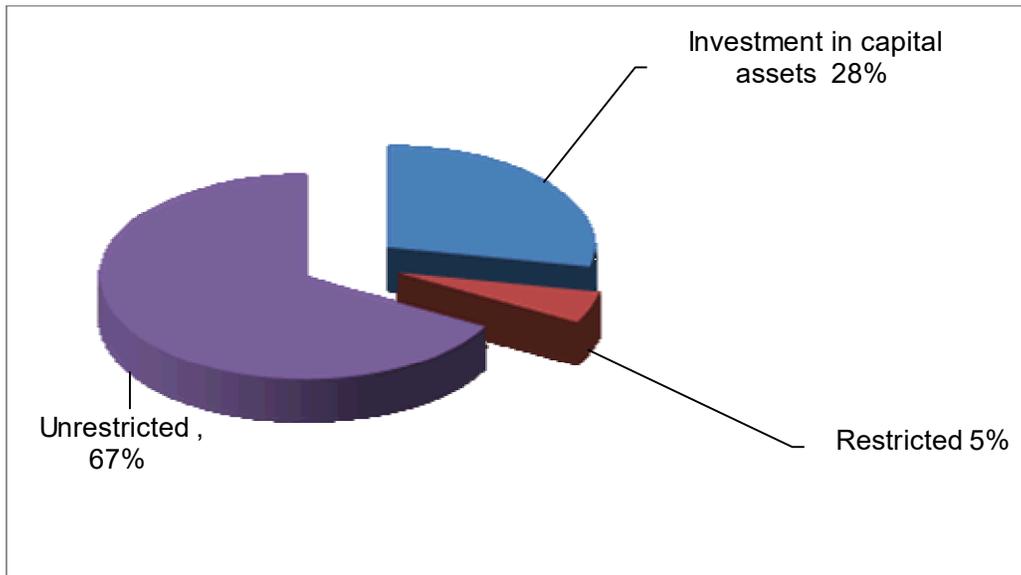
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Town, assets and deferred outflows of resources were below liabilities and deferred inflows of resources by \$115,055,266 at the close of 2019.

NET POSITION:

	<u>Fiscal Year 2019</u>	<u>Fiscal Year 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:				
Current assets	\$ 61,227,479	\$ 55,422,254	\$ 5,805,225	10.5%
Capital assets, net	130,767,188	127,012,151	3,755,037	3.0%
Other non-current assets	<u>868,000</u>	<u>1,144,000</u>	<u>(276,000)</u>	-24.1%
Total assets	<u>192,862,667</u>	<u>183,578,405</u>	<u>9,284,262</u>	5.1%
Deferred outflows of resources	<u>30,684,102</u>	<u>37,092,539</u>	<u>(6,408,437)</u>	-17.3%
Total assets and deferred outflows	<u>223,546,769</u>	<u>220,670,944</u>	<u>2,875,825</u>	1.3%
Liabilities:				
Current liabilities	16,070,215	13,764,533	2,305,682	16.8%
Non-current liabilities	<u>318,638,042</u>	<u>298,743,021</u>	<u>19,895,021</u>	6.7%
Total liabilities	<u>334,708,257</u>	<u>312,507,554</u>	<u>22,200,703</u>	7.1%
Deferred inflows of resources	<u>3,893,778</u>	<u>8,468,024</u>	<u>(4,574,246)</u>	-54.0%
Net position				
Investment in capital assets	94,715,248	105,525,039	(10,809,791)	-10.2%
Restricted	17,700,756	5,550,609	12,150,147	218.9%
Permanent	306,344	302,801	3,543	
Unrestricted	<u>(227,777,614)</u>	<u>(211,683,083)</u>	<u>(16,094,531)</u>	7.6%
Total net position	<u>\$(115,055,266)</u>	<u>\$(100,304,634)</u>	<u>\$ (14,750,632)</u>	14.7%

NET POSITION (Continued)

Net Position Distribution December 31, 2019



By far, the largest component of the Town's net position is its investment in capital assets (land improvements, building improvements, infrastructure, machinery and equipment and construction-in-progress). The Town uses these capital assets to provide services to its citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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, capital leases, claims and judgments, net pension liability-proportionate share, estimated liability for landfill closure and postclosure care costs, pollution remediation obligations and postemployment benefits healthcare costs (OPEB) that will be funded through future budgetary appropriations when they become payable in future periods. At the end of the current year, the Town was able to report positive balances in the categories of net investment in capital assets and restricted net position. The same held true for the prior year.

Total assets increased by \$9,284,262, mainly due to an increase in capital assets of \$3,755,037 and current assets by \$5,805,225.

Deferred outflows of resources decreased by \$6,408,437 due to a decrease of \$6,335,736 in postemployment benefits healthcare costs. See Note 3.D. for breakdown of deferred outflows of resources related to postemployment benefits healthcare costs and see Note 3.C. for breakdown of deferred outflows of resources related to pensions.

Restricted fund balance also increased by \$7,355,703 mainly due to an increase in funds restricted for capital projects of \$3,048,322 and Special Revenue funds restriction of \$4,597,074.

The total net position of the Town as of December 31, 2019 was a deficit of \$115,055,266, an increase of \$14,750,632 from the prior year. Of the total net position, \$94,715,248 was the net investment in capital assets, while \$17,700,756 was restricted by statute or other specific purpose and \$227,777,614 was the unrestricted deficit.

NET POSITION (Continued)

Total net position deficit was again increased in the current year by \$14,750,632 and will likely continue to increase in subsequent years due to the ongoing recognition of the Town's postemployment benefits healthcare (OPEB) costs. The unfunded liability for postemployment healthcare benefit costs increased due to the \$9,981,789 change in total liability, bringing the OPEB liability at year end to \$258,719,035 and the related deferred outflow of resources to \$22,872,007. Additional information on postemployment benefits healthcare costs can be found in Note 3.D to the financial statements.

In addition, the Town's share of the New York State Pension Plan net pension liability increased by \$4,373,713 due to changes in the actuarial valuation. Additional information on the Town's pension plan can be found in Note 3.C. to the financial statements.

Change in Net Position

	<u>Fiscal Year 2019</u>	<u>Fiscal Year 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenue:				
Program revenue:				
Charges for services	\$ 36,888,553	\$ 33,208,132	\$ 3,680,421	11.1%
Operating grants and contributions	1,829,290	1,674,312	154,978	9.3%
Capital grants and contributions	1,760,955	1,922,059	(161,104)	-8.4%
General revenue:				
Real property taxes	57,034,129	55,497,999	1,536,130	2.8%
Other tax items	1,198,976	1,251,511	(52,535)	-4.2%
Non-property tax items	2,804,631	2,820,596	(15,965)	-0.6%
Mortgage tax	4,438,112	5,189,221	(751,109)	-14.5%
Use of money and property	1,360,055	589,116	770,939	130.9%
Sale of property and compensation for loss	872,953	548,888	324,065	59.0%
State aid	653,191	671,178	(17,987)	-2.7%
Other	1,856,158	923,686	932,472	
Total revenue	<u>110,697,003</u>	<u>104,296,698</u>	<u>6,400,305</u>	6.1%
Expenses:				
General support	25,944,705	24,006,745	1,937,960	8.1%
Public safety	12,280,271	13,557,795	(1,277,524)	-9.4%
Health	3,961,476	3,812,788	148,688	3.9%
Transportation	35,628,529	36,437,639	(809,110)	-2.2%
Economic assistance and opportunity	220	110	110	100.0%
Culture and recreation	16,515,753	15,092,509	1,423,244	9.4%
Home and community services	30,290,699	28,422,174	1,868,525	6.6%
Interest on debt	825,982	657,087	168,895	25.7%
Total expenses	<u>125,447,635</u>	<u>121,986,847</u>	<u>3,460,788</u>	2.8%
Change in Net Position	<u>(14,750,632)</u>	<u>(17,690,149)</u>	<u>2,939,517</u>	-16.6%

GOVERNMENTAL ACTIVITIES:

For the fiscal year ended December 31, 2019, revenues from governmental activities totaled \$110,697,003.

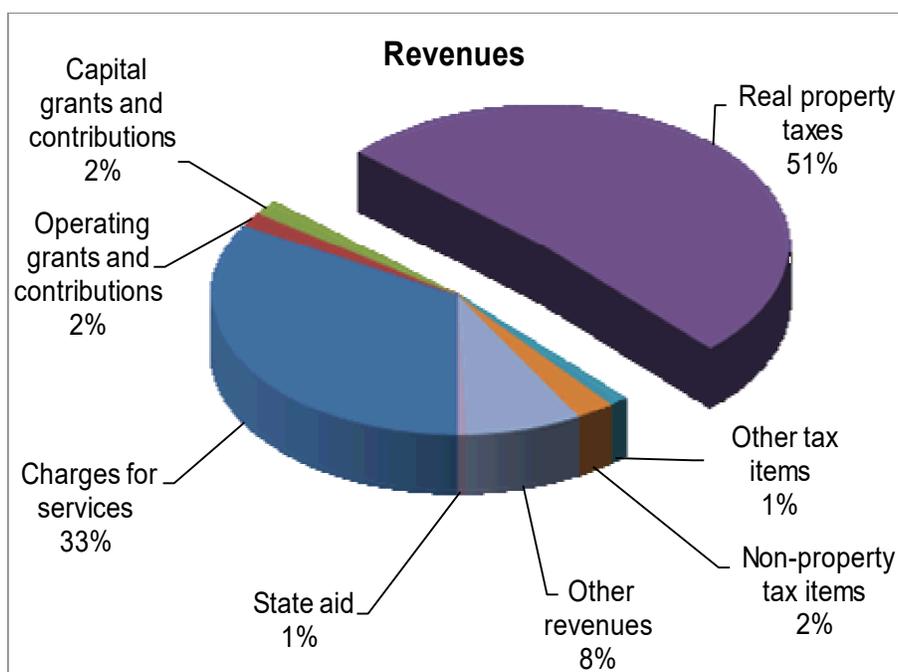
- Tax, other tax items and non-property taxes revenues totaling \$61,037,736 represent the largest revenue source (55.1%).
- The \$6,400,305 increase in total governmental activities revenues from the prior year is the result of a combination of the following significant factors:
 - Property taxes increased by approximately \$1.5 million
 - Departmental Income increased by \$3.7 million

NET COST OF SERVICES:

Total Cost of Services 2019	Total Cost of Services 2018	Total Revenue 2019	Total Revenue 2018	Net Cost of Services 2019	Net Cost of Services 2018
-----------------------------	-----------------------------	--------------------	--------------------	---------------------------	---------------------------

Functions:

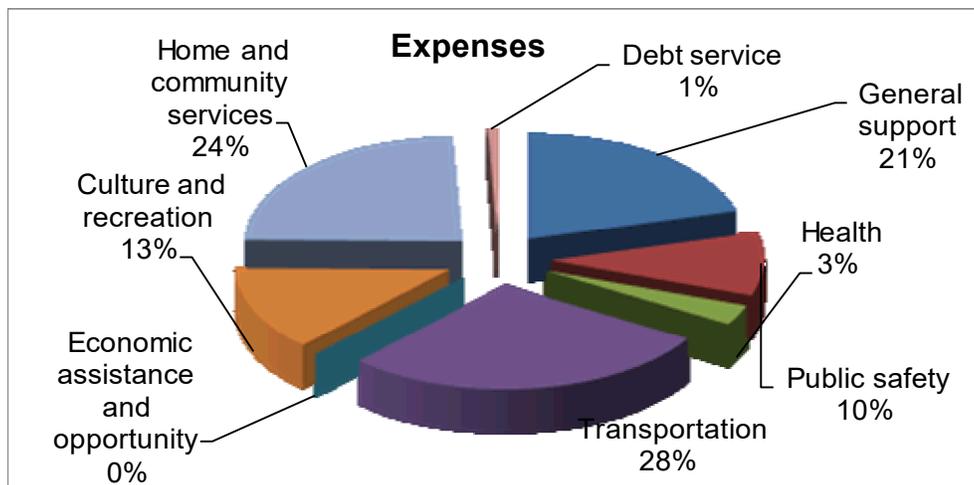
General government support	\$ 25,944,705	\$ 24,006,745	\$ 3,715,667	\$ 361,315	\$(22,229,038)	\$(23,645,430)
Public safety	12,280,271	13,557,795	1,932,514	3,450,755	(10,347,757)	(10,107,040)
Health	3,961,476	3,812,788	712,268	687,244	(3,249,208)	(3,125,544)
Transportation	35,628,529	36,437,639	1,749,270	2,223,682	(33,879,259)	(34,213,957)
Economic assistance and opportunity	220	110	186,305	128,855	186,085	128,745
Culture and recreation	16,515,753	15,092,509	1,739,106	3,975,236	(14,776,647)	(11,117,273)
Home and community services	30,290,699	28,422,174	30,443,668	25,977,416	152,969	(2,444,758)
Interest on debt	825,982	657,087	-	-	(825,982)	(657,087)
Total	\$125,447,635	\$121,986,847	\$ 40,478,798	\$ 36,804,503	\$(84,968,837)	\$(85,182,344)



GOVERNMENTAL ACTIVITIES (Continued)

For the fiscal year ended December 31, 2019, expenses from governmental activities totaled \$125,447,635. The largest components of governmental activities expenses are general governmental support \$25,944,705 (21%), public safety \$12,280,271 (10%), transportation \$35,628,529 (28%), home and community services \$30,290,699 (24%), and culture and recreation \$16,515,753 (13%). Expenses increased from the prior year by \$3,460,788, or 2.8%, primarily as a result of a combination of the following significant factors:

- General support increased by \$1,937,960
- Home and community services increased by \$1,868,525
- Public Safety decreased by \$1,277,524
- Culture and recreation increased by \$1,423,244



	2019	2018
Real property taxes	\$ 57,034,129	\$ 55,497,999
Other real property tax items	1,198,976	1,251,511
Non-property tax items - franchise fees	2,804,631	2,820,596
Mortgage tax	4,438,112	5,189,221
Investment earnings - Unrestricted	1,360,055	589,116
Other general revenues	3,382,302	2,143,752
Charges for services	36,888,553	33,208,132
Operating grants and contributions	1,829,290	1,674,312
Capital Grants and contributions	1,760,955	1,922,059
	<u>\$110,697,003</u>	<u>\$104,296,698</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds

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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$50,003,291 an increase of \$4,226,507 compared to last years ending balance of \$45,776,784. The non-spendable fund balance component is \$3,381,207 consisting of amounts representing prepaid items and inventory. Fund balance of \$17,700,756 is restricted primarily for capital reserves, special revenue funds and capital project fund restrictions. The assigned fund balance classification aggregates \$13,394,088 consisting primarily of amounts for special revenue funds, and capital projects. The remaining fund balance of \$15,527,240 is unassigned and represents the remaining positive fund balance in the General Fund after amounts that have been restricted, committed or assigned for other purposes.

The **General Fund** is the primary operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$15,527,240, representing 71.7% of the total General fund balance of \$21,657,805. This is an increase from the prior year, when the total unassigned fund balance was \$14,744,092. This increase in the unassigned general fund balance of \$783,148 or 5.3% resulted from not using \$738,542 appropriated in the 2018 budget for the subsequent year's budget. In 2019, funds were not appropriated for the subsequent year's budget.

Two useful measures of liquidity are the percentage of unassigned fund balance to total expenditures and total fund balance to total expenditures. At the end of the current fiscal year, the General Fund showed unassigned fund balance as compared to total expenditures and other financing uses of 32.2% in 2019 as compared to 32.5% in the prior year.

The fund balance of the General Fund increased by \$34,064 during the fiscal year ended December 31, 2019. This surplus was due to the following:

- Actual revenues and other financing sources were higher than the **final** budget by \$696,527, a positive variance of 1.4% of the final budget.
- Actual expenditures and other financing uses were favorable to budget by \$1,200,331 before encumbrances representing a positive variance of 2.4% of the total budget.
- The General Fund balance was reduced by the authorized use of prior year fund balance of \$782,316.
- Additional use of fund balance primarily for capital improvements during the year was \$1,080,478,

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued)

Governmental Funds (Continued)

Contributing factors for the positive revenue variance of \$696,527 were Commercial Waste Revenue which was \$400,920 greater than budget, Use of money and property and Premium on debt issuance was \$647,359 greater than budget and Mortgage Tax was \$361,888 less than budget.

Contributing factors for the positive expense variance of \$1,200,329 were:

- Public Safety salaries of \$229,257 and Transportation salaries of \$122,578 were less than budget due to retirements or unfilled positions.
- Other Public Safety expenditures for communications and equipment rental were less than budget by \$135,702
- Culture and Recreation program expenditures were less by \$123,048.
- Home and Community were less than budget for the Landfill costs at Montclair Yard and less leachate costs of \$66,495
- Less general government expense due to unexpended encumbrances of \$187,129.

The Highway Fund's total fund balance at the end of the current fiscal year was \$5,584,368, an increase of \$1,006,803 from the previous year. The increase in fund balance of \$1,006,803 was primarily due to positive operating variances as compared the **final** budget before encumbrances of \$1,231,391 and the prior use of fund balance for the year of \$224,588, the majority of which was for Appropriated Debt Reserve.

Contributing factors for the operating variance were:

- Positive revenue variance in use of money and property (interest) of \$154,268.
- Licenses and permit revenues had a positive variance of \$142,733
- Expenditures were less than budget in transportation costs of \$966,394
 - Due to a mild winter snow related expenditures were less than budget by \$219,596,
 - Road Maintenance expenditures were below final budget by \$418,833
 - Unexpended encumbrance of \$289,489 due to a delay in the delivery of a new truck

The Refuse and Garbage Fund reflects a fund balance of \$2,688,762 at the end of the current fiscal year, a decrease of \$194,772 from the previous year. The Refuse and Garbage fund had a prior use of fund balance of \$1,123,696, the majority of which was appropriated in the original budget. The use of fund balance along with a positive variance to final budget before encumbrances of \$928,924 accounted for the decrease of \$194,772. Contributing factors to the Positive variance to final budget consisted of the following revenue amounts greater than budget:

- Intergovernmental charges of \$443,008,
- Sale of property and compensation for loss \$232,359,
- Use of money and property of \$91,869.

The Capital Projects Fund reflects a fund balance of \$11,466,384 at the end of the current fiscal year, an increase of \$2,755,431 from the previous year, mainly due to debt issuance proceeds of \$10,526,459 and transfers in of \$5,594,536 offset by capital outlay of \$14,564,427.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued)

The Other Governmental Funds' consisting of eight non-major funds had a total fund balance at the end of the current fiscal year of \$8,605,972, an increase of \$624,981 from the previous year. The most notable contributing factors are:

The **Town Outside Village** had an increase in fund balance of \$247,932. The Town Outside Village had a prior use of fund balance of \$419,675, of which \$300,000 were for capital projects. The use of fund balance along with positive revenue variances in Departmental Revenue, Use of Money and Property and State Aid and Premium of debt issuance of \$371,821 and expenses less than budget for salaries and other of \$269,921 accounted for most the increase in fund balance.

The **Special Revenue** fund had an increase in fund balance of \$379,864. The Special Revenue fund had a prior use of fund balance of \$510,788, the majority of which was for legal settlements. The use of fund balance along with positive variances in Miscellaneous Revenues of \$149,804 and expenses less than budget for insurance were \$675,867 accounted for most of the increase in fund balance.

The **Street Lighting Districts** had a decrease in fund balance of \$172,147. The Street Lighting Districts had a prior use of fund balance of \$214,098, the majority of which was appropriated in the original budget. The use of fund balance along with positive variances in use of money and property of \$16,430 accounted for most of the decrease in fund balance.

The **Ambulance Districts** had an increase in fund balance of \$126,690. The Ambulance Districts had a prior use of fund balance of \$64,300. The use of fund balance along with Departmental income greater than budget of \$116,598 and Health Contractual services less than budget of \$71,937 accounted for most of the increase.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, there was a \$1,527,240 or 3.2% increase in overall spending between the original budget of \$47,905,875 and the final budget of \$49,433,115. There are no variances that are expected to have a significant effect on future services or liquidity. Please see the "General Fund" section for more details on the comparison of final budget and actual amounts. Over the course of the year, the Town Board revises the budget as needed so that expenditures do not exceed appropriations. The following are the main components of the increase in appropriations:

- \$849,697 was funded by fund balance for transfers to capital projects fund and other improvements.
- \$139,232 for remediation of unsafe structures to be reimbursed to the Town through the Tax Warrant.
- \$120,779 for prior year encumbrances transferred over to current year.
- \$100,000 was funded by fund balance for a legal settlement as well as \$90,000 for litigation and counsel expenses funded from revenue received from a legal settlement.
- \$34,149 for equipment costs funded by sale of surplus equipment.
- \$88,115 for marina dock costs funded by miscellaneous sales.
- \$47,500 for grant expense in relation to grant revenue for Economic Assistance and Opportunity (Zombie) Grant.

Capital Assets

The Town's investment in capital assets for governmental activities at December 31, 2019, net of \$213,694,434 of accumulated depreciation, was \$130,767,188. The investment in capital assets includes land, land improvements, buildings and improvements, infrastructure, machinery and equipment and construction-in-progress.

More detailed information on capital assets can be found in Note 3. B. Capital Assets in the notes to the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Major capital asset activity during the current fiscal year included the following:

- Highway road, drainage, and sidewalk improvements throughout the Town were completed for \$7,058,241
- Other infrastructure improvements were \$1,370,239, which mainly consisted of lighting upgrades, park improvements and regional fuel facility improvements.
- Construction in progress additions totaled \$3,270,009. While dispositions totaled \$735,342.
- The Town reported \$667,535 in capital lease obligations for new five-year leased vehicles obtained through a fleet management agreement with Enterprise Fleet Management.
- The Town purchased machinery and equipment totaling \$4,439,408

Capital Assets (Net of Accumulated Depreciation)

	<u>Fiscal Year 2019</u>	<u>Fiscal Year 2018</u>	<u>Percent Change</u>
Land	\$ 18,101,396	\$ 18,101,396	0.0%
Construction in progress	3,887,674	1,353,007	187.3%
Buildings and improvements	9,097,372	9,045,907	0.6%
Infrastructure	87,236,810	86,694,058	0.6%
Machinery and equipment	11,462,892	10,859,380	5.6%
Furniture and office equipment	<u>981,044</u>	<u>958,403</u>	2.4%
 Total capital assets	 <u>\$130,767,188</u>	 <u>\$127,012,151</u>	 3.0%

Long-term Debt

In 2016, Moody's Investors Services reaffirmed the Town's rating of Aaa to the Town. The Aaa rating, which is the highest rating achievable, reflects the Town's substantial, diverse and wealthy tax base that includes Fortune 500 corporate headquarters, a low debt burden, adequate reserve levels and strong fiscal management. The stable outlook reflects Moody's belief that the Town continues to restore structure balance and its reserves. This was reaffirmed by Moody's in February 2020.

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$29,277,260 in comparison to \$22,454,380 at the end of the prior year. For the year ended December 31, 2019, the Town's debt increased by \$6,822,880. As required by New York State Law, all bonds issued by the Town are general obligation bonds, backed by the full faith and credit of the Town.

More detailed information on long-term debt can be found in Note 3. D. Long-term Liabilities in the notes to the financial statements.

Known as the "constitutional debt limit", and pursuant to New York State Local Finance Law §104, the Town must limit total outstanding long-term debt to no more than 7% of the five-year average full valuation of real property. At December 31, 2019, the Town had only utilized 2.08% of its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Town has adopted a budget for 2020 that increased revenue and expenditures by \$1,064,978 over the 2019 adopted budget in the general fund. The general fund budget includes a real property tax increase of approximately 6.72% over 2019. In 2019, no funds in the operating funds were appropriated for the subsequent year's budget.

Overall the Town's real property tax increased approximately 3.5% in 2020 which did not exceed the tax cap limitation.

The Town receives financial assistance from New York State and Suffolk County. The 2020 budget includes mortgage tax of \$4,300,000. State aid per capita of \$500,000 and state government assistance of \$2,548,722. 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 addition, the United States is presently in the midst of a national health emergency related to a virus, commonly known as Novel Coronavirus (COVID-19). A national emergency was declared on March 13, 2020. The Governor of New York signed an Executive Order on March 20, 2020 placing certain restrictions upon residents and businesses which includes a plan to re-open the economy in phases. The overall consequences of COVID-19 on the Town of Smithtown as it relates to State grants and other departmental revenues are unknown at this time.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to:

Donald Musgnug, Town Comptroller
Town of Smithtown, New York
99 W. Main Street
P.O. Box 9090
Smithtown, NY 11787

TOWN OF SMITHTOWN, NEW YORK

**STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Governmental Activities
ASSETS	
Cash - Unrestricted	46,384,069
Cash - Restricted	4,784,630
Receivables:	
Accounts receivable	3,192,635
Due from other governments	2,935,279
Due from other funds	856,003
Prepaid items	2,328,991
Inventory of materials and supplies	<u>745,872</u>
 Total current assets	 <u>61,227,479</u>
Non-current assets:	
Receivables, service concession arrangements, net of current	868,000
Non-depreciable capital assets	21,989,070
Depreciable assets, net of accumulated depreciation	<u>108,778,118</u>
 Total non-current assets	 <u>131,635,188</u>
 Total assets	 <u>192,862,667</u>
Deferred outflows of resources:	
Deferred outflows of resources - Postemployment benefits healthcare costs	22,872,007
Deferred outflows of resources - pensions	<u>7,812,095</u>
 Total deferred outflows of resources	 <u>30,684,102</u>
 Total assets and deferred outflows of resources	 <u>223,546,769</u>
LIABILITIES	
Accounts payable and accrued liabilities	9,686,892
Accrued interest	232,642
Unearned revenues	735,111
Other liabilities	4,935
Current portion of long term debt	<u>5,410,635</u>
 Total current liabilities	 <u>16,070,215</u>
Non-current liabilities:	
Bonds payable	27,314,140
Compensated absences	6,586,082
Net pension liability	8,061,901
Capital leases	2,636,039
Claims and judgments	1,576,191
Estimated liability for landfill closure and post closure costs	13,544,654
Total other postemployment benefits healthcare	258,719,035
Pollution remediation obligations	<u>200,000</u>
 Total long-term liabilities	 <u>318,638,042</u>
 Total liabilities	 <u>334,708,257</u>
Deferred inflows of resources:	
Deferred inflows of resources - Deferred service concession arrangement receipts	1,144,000
Deferred inflows of resources - Pensions	2,707,528
Deferred inflows of resources - Other miscellaneous items	<u>42,250</u>
 Total deferred inflows of resources	 <u>3,893,778</u>
 Total liabilities and deferred inflows of resources	 <u>338,602,035</u>
NET POSITION	
Net investment in capital assets	94,715,248
Restricted	17,700,756
Permanent fund:	
Nonspendable	306,344
Unrestricted	<u>(227,777,614)</u>
 Total net position	 <u>\$ (115,055,266)</u>

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
Governmental activities -					
General governmental support	\$ 25,944,705	\$ 2,630,391	\$ 1,085,276	\$ -	\$ (22,229,038)
Public safety	12,280,271	1,602,485	330,029	-	(10,347,757)
Health	3,961,476	451,012	261,256	-	(3,249,208)
Transportation	35,628,529	124,338	76,940	1,547,992	(33,879,259)
Economic opportunity and development	220	186,305	-	-	186,085
Culture and recreation	16,515,753	1,663,317	75,789	-	(14,776,647)
Home and community services	30,290,699	30,230,705	-	212,963	152,969
Interest	<u>825,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(825,982)</u>
Total governmental activities	<u>\$ 125,447,635</u>	<u>\$ 36,888,553</u>	<u>\$ 1,829,290</u>	<u>\$ 1,760,955</u>	<u>\$ (84,968,837)</u>
GENERAL REVENUES:					
Real property taxes					57,034,129
Other real property tax items					1,198,976
Non-property tax items - franchise fees					2,804,631
Mortgage tax					4,438,112
Investment earnings					1,360,055
Sale of property and compensation for loss					872,953
State aid					653,191
Miscellaneous					<u>1,856,158</u>
Total general revenues					<u>70,218,205</u>
Change in net position					(14,750,632)
Total net position - beginning of year					<u>(100,304,634)</u>
Net position - end of year					<u>\$ (115,055,266)</u>

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	General Fund	Highway Fund	Refuse and Garbage Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 13,539,176	\$ 5,418,557	\$ 4,299,596	\$ 14,996,889	\$ 8,129,851	\$ 46,384,069
Cash - restricted	4,471,078	-	-	-	313,552	4,784,630
Accounts receivable	1,622,345	13,735	9,563	10,555	781,437	2,437,635
Due from other funds	1,063,604	227,106	4,688	648,562	114,810	2,058,770
Due from other governments	2,371,746	13,073	67,508	366,468	116,484	2,935,279
Prepays	1,186,212	668,054	148,776	-	325,949	2,328,991
Inventory	-	745,872	-	-	-	745,872
Total assets	\$ 24,254,161	\$ 7,086,397	\$ 4,530,131	\$ 16,022,474	\$ 9,782,083	\$ 61,675,246
LIABILITIES:						
Accounts payable and accrued liabilities	\$ 2,516,831	\$ 757,169	\$ 1,841,369	\$ 3,489,681	\$ 1,081,842	\$ 9,686,892
Due to other funds	91	108,963	-	1,028,594	65,119	1,202,767
Unearned revenue	32,249	635,897	-	37,815	29,150	735,111
Other liabilities	4,935	-	-	-	-	4,935
Total liabilities	2,554,106	1,502,029	1,841,369	4,556,090	1,176,111	11,629,705
DEFERRED INFLOWS OF RESOURCES:						
Other miscellaneous items	42,250	-	-	-	-	42,250
Total deferred inflows of resources	42,250	-	-	-	-	42,250
FUND BALANCES:						
Nonspendable	1,186,212	1,413,926	148,776	-	632,293	3,381,207
Restricted	4,540,316	193,213	2,539,986	7,842,766	2,584,475	17,700,756
Assigned	404,037	3,977,229	-	3,623,618	5,389,204	13,394,088
Unassigned	15,527,240	-	-	-	-	15,527,240
Total fund balances	21,657,805	5,584,368	2,688,762	11,466,384	8,605,972	50,003,291
Total liabilities, deferred inflow of resources and fund balances	\$ 24,254,161	\$ 7,086,397	\$ 4,530,131	\$ 16,022,474	\$ 9,782,083	\$ 61,675,246

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION DECEMBER 31, 2019

Total fund balance - governmental funds	\$ 50,003,291
Total net position reported for governmental activities in the Statement of Net Position is different because:	
Deferred outflows of resources not reported in governmental funds, related to the following:	
Pension	7,812,095
Postemployment benefits healthcare costs	22,872,007
Deferred inflow of resources not reported in governmental funds, related to the following:	
Pension	(2,707,528)
Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.	130,767,188
Long-term liabilities that are not due and payable in the current period are not reported in the funds	
General obligation bonds	(29,277,260)
Compensated absences	(7,383,341)
Capital leases	(3,780,021)
Claims and judgement	(1,701,191)
Net pension liability, proportionate share	(8,061,901)
Estimated liability for landfill closure and post closure care costs	(14,110,780)
Postemployment benefits healthcare costs	(258,719,035)
Pollution remediation obligations	(200,000)
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	(815,148)
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	479,000
Receivables, service concession arrangements are not available to pay for current period expenditures and therefore are not reported in the funds.	1,144,000
Deferred inflows, service concession arrangements not reported in the funds.	(1,144,000)
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.	(232,642)
Total net position of governmental activities	<u>\$ (115,055,266)</u>

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General Fund	Highway Fund	Refuse and Garbage Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
REVENUES:						
Real property taxes	\$ 25,280,351	\$ 23,923,575	\$ -	\$ -	\$ 7,830,203	\$ 57,034,129
Other tax items	663,488	365,039	-	-	170,449	1,198,976
Nonproperty tax items	2,804,631	-	-	-	-	2,804,631
Departmental income	10,654,366	-	15,019,498	-	6,544,197	32,218,061
Intergovernmental charges	628,036	35,220	1,091,240	-	50,509	1,805,005
Use of money and property	819,471	219,268	119,973	-	201,343	1,360,055
Licenses and permits	130,214	192,733	-	-	2,088,955	2,411,902
Fines and forfeitures	445,252	-	38,333	-	-	483,585
Sale of property and compensation for loss	163,279	185,125	484,105	-	40,444	872,953
Interfund revenue	54,127	2,082,297	3,943	-	10,325	2,150,692
State aid	5,846,239	1,170,532	90,572	186,920	320,524	7,614,787
Federal aid	385,400	-	-	453,181	198,180	1,036,761
Miscellaneous	44,816	553	-	696,671	1,106,118	1,848,158
	<u>47,919,670</u>	<u>28,174,342</u>	<u>16,847,664</u>	<u>1,336,772</u>	<u>18,561,247</u>	<u>112,839,695</u>
Total revenues						
EXPENDITURES:						
General governmental support	13,830,243	-	-	-	270,706	14,100,949
Public safety	3,498,045	-	-	-	3,240,498	6,738,543
Health	933,500	-	-	-	2,067,876	3,001,376
Transportation	1,145,073	14,610,299	-	-	1,090,593	16,845,965
Economic opportunity and development	220	-	-	-	-	220
Culture and recreation	7,648,464	-	-	-	429,390	8,077,854
Home and community services	5,442,442	-	15,028,183	-	5,620,226	26,090,851
Employee benefits	12,516,081	7,857,589	1,808,655	-	3,838,491	26,020,816
Debt service -						
Principal	1,919,691	690,350	221,277	-	506,937	3,338,255
Interest	430,078	178,455	49,126	-	141,409	799,068
Capital outlay	-	-	-	14,564,427	-	14,564,427
	<u>47,363,837</u>	<u>23,336,693</u>	<u>17,107,241</u>	<u>14,564,427</u>	<u>17,206,126</u>	<u>119,578,324</u>
Total expenditures						
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>555,833</u>	<u>4,837,649</u>	<u>(259,577)</u>	<u>(13,227,655)</u>	<u>1,355,121</u>	<u>(6,738,629)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	69,316	476,965	29,929	5,594,536	11,699	6,182,445
Transfers out	(868,947)	(4,395,000)	-	(137,909)	(780,589)	(6,182,445)
Debt issuance proceeds	-	-	-	9,192,260	-	9,192,260
Capital lease proceeds	-	-	-	1,334,199	-	1,334,199
Premium on debt issuance	277,862	87,189	34,876	-	38,750	438,677
	<u>(521,769)</u>	<u>(3,830,846)</u>	<u>64,805</u>	<u>15,983,086</u>	<u>(730,140)</u>	<u>10,965,136</u>
Total other financing sources and uses						
CHANGE IN FUND BALANCE	<u>34,064</u>	<u>1,006,803</u>	<u>(194,772)</u>	<u>2,755,431</u>	<u>624,981</u>	<u>4,226,507</u>
FUND BALANCE - beginning of year	<u>21,623,741</u>	<u>4,577,565</u>	<u>2,883,534</u>	<u>8,710,953</u>	<u>7,980,991</u>	<u>45,776,784</u>
FUND BALANCE - end of year	<u>\$ 21,657,805</u>	<u>\$ 5,584,368</u>	<u>\$ 2,688,762</u>	<u>\$ 11,466,384</u>	<u>\$ 8,605,972</u>	<u>\$ 50,003,291</u>

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2019

Net change in fund balances - governmental funds \$ 4,226,507

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

Governmental funds report 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. This is the
amount by which capital outlay exceeded depreciation expense in the current period.

Capital outlay expenditures less disposals	16,075,619
Depreciation expense	(12,216,977)
Loss on disposition	(103,605)

Net change in deferred outflows of recourses related to pensions

Pensions	(72,701)
Postemployment benefits healthcare costs	(6,335,736)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds.

8,000

The issuance of long-term debt and increase in obligations provides current financial
resources to governmental funds, while the repayment of the principal of longer term debt
consumes the current financial resources of governmental funds. Neither transaction has any
effect on net position

Debt issued	(9,192,260)
Repayment of debt principal	2,369,380
Compensated absences	183,496
Capital Lease proceeds	(1,334,199)
Repayment of capital lease	968,875
Claims and judgements	1,762,303
Net pension liability - proportionate share	(4,373,713)
Estimated liability for landfill closure and post closure care costs	18,470
Pollution remediation obligations	-
Postemployment benefits healthcare costs	(9,981,789)
Accrued interest payable	(62,922)

Net Change in deferred inflows of resources related to pensions 3,713,288

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

(402,668)

Change in net position of governmental activities

\$ (14,750,632)

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
DECEMBER 31, 2019**

	<u>Agency</u>
ASSETS	
Cash and cash equivalents	\$ 107,888,111
Due from other funds	<u>91</u>
Total assets	<u>\$ 107,888,202</u>
LIABILITIES	
Due to other governments	86,230,421
Due to other funds	856,094
Other agency liabilities	<u>20,801,687</u>
Total liabilities	<u>\$ 107,888,202</u>

The accompanying notes are an integral part of these statements.

TOWN OF SMITHTOWN, NEW YORK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. Financial Reporting Entity

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

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the Town's reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal burden and financial accountability. Based upon the application of these criteria, there are no other entities which would be included in the financial statements.

B. 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 non-fiduciary activities of the Town as a whole. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide Financial Statements (Continued)

The Statement of Net Position presents the financial position of the Town at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and (3) interest earned on grants that is required to be used to support a particular program. Taxes and other items not identified as program revenues are reported as general revenues. The Town does not allocate indirect expenses to functions in the Statement of Activities.

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

C. Fund Financial Statements

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Town maintains the minimum number of funds consistent with legal and managerial requirements. The focus of governmental fund financial statements is on major funds as that term is defined in professional pronouncements. Each major fund is to be presented in a separate column, with non-major funds, if any, aggregated and presented in a single column. Fiduciary funds are reported by type. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, reconciliation is presented on the pages following, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental activity's column of the government-wide presentation. The Town's resources are reflected in the fund financial statements in two broad fund categories, in accordance with generally accepted accounting principles as follows:

- a. Governmental Funds - Governmental Funds are those through which most general government functions are financed. The acquisition use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the Town's major governmental funds:
 - General Fund - The General Fund constitutes the primary operating fund of the Town and is used to account for and report all financial resources not accounted for and reported in another fund.
 - Capital Projects Fund - is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This includes financial resources to be used for the acquisition, construction, renovation, expansion and major improvement of various Town facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects. It is also used to account for some grants received from Federal, State and/or County sources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Financial Statements (Continued)

a. Governmental Funds – (Continued)

- Special Revenue Funds – Special revenue funds are established to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects. The major special revenue funds of the Town are as follows:
 - Highway Fund – is used to account for revenues and expenditures for highway purposes. This includes all operations relating to the repair and maintenance of roads, bridges, machinery, snow removal and miscellaneous. Expenditures for repairs and improvements are financed by the areas outside the villages in accordance with Highway Law §277. The Town maintains a town wide and part-town highway fund that are combined for reporting purposes into the highway fund and shown as a major fund.
 - Refuse and Garbage Funds – is used to account for garbage collection and solid waste disposal in the Town. This includes 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 the solid waste. Only residential properties contribute to the operations of the district via user fees on a benefit derived basis .

Additionally, the Town reports the following non major funds:

Special Revenue Funds include the following:

- Town Outside Village Fund – 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 operations of the Community Development Block Grant 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 operation 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.
- Paul J. Fitzpatrick County Club Fund – 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Financial Statements (Continued)

Special Revenue Funds include the following (Continued):

- Special Districts Fund – The Special Districts Fund is provided to account for the operation and maintenance of the Town's water funds. The majority of revenue resources consist of property taxes, departmental income and rental income.
 - 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 Commissionaires. 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.

Permanent Fund include the following:

- Nissequogue River Improvement 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.
- b. Fiduciary Funds (Not Included in Government-Wide Financial Statements) - Fiduciary funds are used to account for assets held by the Town in an agency capacity on behalf of others.
- Agency Funds - These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the Town as agent for various deposits that are payable to other jurisdictions or individuals.
 - 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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 indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial reports.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus and utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded 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 after the year end. However, certain revenues may be considered available if received within one year after the end of the current year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to net pension liability, compensated absences, capital leases, due to employees' retirement system, claims and judgments, landfill closure and postclosure care costs, pollution remediation obligations and other postemployment benefits healthcare costs are recorded when payment is due or matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities Deferred Inflows/Outflows of Resources and Net Position or Fund Balances

1. 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 (FDIC) insured commercial banks located within the state.

Cash and Cash Equivalents – Cash and cash equivalents consist 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.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. The Town has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

2. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Town's name. The Town's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2019.
3. Restricted Cash – Certain assets of the general fund for park and land deposits, special grants fund, and permanent fund are classified as restricted cash because their use is restricted by law and/or contractual agreement.
4. Other Receivables – Other receivables include amounts due from other governments and individuals for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred. Allowances are recorded when appropriate.
5. Due From/To Other Funds – During the course of its operations, the Town has numerous transactions between funds to finance operations, provide services and construct assets. To the extent that certain transactions between funds had not been paid or received as of December 31, 2019, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.
6. Inventory - Inventory in the highway fund consists of tires and fuel for use in Town vehicles, sand and salt, and other various equipment and supplies on hand and is valued at cost, utilizing the first-in, first-out method (FIFO).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities Deferred Inflows/Outflows of Resources and Net Position or Fund Balances (Continued)

7. Prepaid Expenses/Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items using the consumption method in both the government-wide and fund financial statements. Prepaid expenses/expenditures consist of employee retirement and other costs which have been satisfied prior to the end of the fiscal year but represent items which have been provided for in the subsequent years budget and will benefit such periods. Reported amounts in the fund financial statements are equally offset by nonspendable fund balance, in the fund financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.
8. Capital Assets – Capital assets are reported in the governmental activities columns in the government-wide financial statements. Capital assets purchased or acquired with an original cost of \$5,000 or more and a five-year useful life are capitalized and are reported at cost or estimated historical cost. Donated assets are valued at their acquisition value on the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Life in Years</u>
Buildings	40
Improvements other than buildings	25
Infrastructure	20
Machinery and equipment	5

Infrastructure assets, consisting of certain improvements other than buildings, 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.

9. Unearned Revenues – Unearned revenues arise when assets are recognized before revenue recognition criteria has been satisfied. In government-wide financial statements, unearned revenues consist of revenue received in advance and/or revenue from grants received before the eligibility requirements have been met.

Unearned revenues in fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The Town has reported unearned revenues of \$635,897 for real property taxes in the Highway Fund. Such amounts have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities Deferred Inflows/Outflows of Resources and Net Position or Fund Balances (Continued)

10. Long-Term Obligations – In the government-wide financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences payable, capital leases payable, net pension liability, claims and judgments payable, estimated liability for landfill closure and postclosure care costs, pollution remediation obligations and postemployment benefits healthcare costs are recognized in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of applicable bond premium or discount. Debt issuance costs are expensed as incurred. Premiums related to the issuance of long-term debt are amortized on a straight-line basis over the life of the issue and are presented as part of the general obligation bonds payable in the non-current liabilities.

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 uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

11. Compensated Absences – The various collective bargaining agreements provide for the payment of accumulated vacation and sick leave upon separation from service. The liability for such accumulated leave is reflected in the government-wide Statement of Net Position as current and long-term liabilities. A liability for these amounts is reported in the governmental funds only if the liability has matured through employee resignation or retirement. The liability for compensated absences includes salary related payments, where applicable.
12. In addition to assets, the Balance Sheet or the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until that time. The Town reports deferred outflows of resources for pension related amounts and postemployment benefits healthcare costs. The amounts related to pensions consists of differences between the pension plan's expected and actual experience, changes in assumptions, changes in proportion and difference between the Town's contributions and proportionate share of contributions, and contributions made subsequent to the measurement date. The amounts related to postemployment benefits healthcare costs consists of differences between expected and actual experience and changes in assumptions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities Deferred Inflows/Outflows of Resources and Net Position or Fund Balances (Continued)

13. In addition to liabilities, the Balance Sheet or the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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 pension related amounts, service concession arrangements, and unearned revenues. In the governmental funds Balance Sheet, unearned revenue represents amounts 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. In the Statement of Net Position, the Town reports deferred inflows of resources associated with its pension and the amounts are derived from the differences between expected and actual experience, net difference between projected and actual investment earnings on pension plan investments, and the changes in proportion and differences between the Town's contributions and proportionate share of contributions. Additionally, it reports amounts related to service concession arrangements that will be recognized as revenues in future years as it is earned.

- Net Position - Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources.
- Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation/amortization 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.
- Restricted - consists of net position with constraints placed on the use either by (1) external groups such as creditors, granters, 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.
- Unrestricted - all other net position that does not meet the definition of "restricted" or "net investment in capital assets".
- In the fund financials statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are 1) nonspendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.
 - 1) Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (i.e. prepaid items or inventories), or (b) will not convert to cash within the current period (i.e. long-term receivables and financial assets held for resale), or (c) 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, granters, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities Deferred Inflows/Outflows of Resources and Net Position or Fund Balances (Continued)

- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision-making authority. The Town's highest decision-making authority is the Town Board, who by adoption of a Town ordinance prior to year-end, can commit fund balance. Those committed amounts cannot be used for any other purpose unless the Town Board removes or changes the specified use by taking the same type of action imposing the commitment.
 - 4) Assigned fund balance reflects the amounts constrained by the Town's "intent" to be used for specific purposes but are neither restricted nor committed. The Town Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.
 - 5) Unassigned fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.
- 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.
 - Fund Balance Policy - The Town has, by resolution, adopted a fund balance policy that states that the Town must maintain a minimum unrestricted (the total of committed, assigned and unassigned) fund balance ranging from 5% to 10% of the subsequent year's budgeted expenditures and outgoing transfers. Unrestricted fund balance below the minimum should be replenished within five years. Authority to assign fund balance for specific purposes is given to the Town Supervisor. The Town Board has the authority to remove or change the assignment of the funds with a simple majority vote.

F. Encumbrances

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

G. Use of Estimates

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

2. STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Town generally 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 cover periods other than the Town's calendar year adopted budget for their programs. 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, however there are permitted exceptions and adjustments that can increase the property tax cap percentage. Beginning in 2012, no local government is authorized to increase its property tax levy by more than the calculated property tax cap; however local governments can exceed the property tax cap limit by a 60% vote of the governing body and annually adopting a local law. The Town did not exceed the tax levy limit in 2019.

3. DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents 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.

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Cash Equivalents and Investments (Continued)

Cash and cash equivalents consist 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.

Financial institutions can satisfy collateral requirements by furnishing an eligible letter of credit, by pledging eligible securities as specified in Section 10 of New York State General Municipal Law (GML) and the Town's investment policy or participating in a deposit placement program pursuant to Section 9-r of the New York State Banking Law. Eligible securities that may be pledged as collateral include but are not limited to obligations of the United States or its agencies, obligations of New York State and obligations of municipalities of New York State.

At December 31, 2019, the Town's deposits were \$159,051,085. This amount is inclusive of fiduciary fund deposits of \$107,888,111 and restricted cash of \$4,784,630, but exclusive of petty cash of \$5,725. The bank balance was \$158,835,012. Of the total bank balance, \$7,367,039 was covered by the Federal Depository Insurance Corporation (FDIC), \$15,715,847 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name, \$75,267,472 was covered by collateral held by the bank, in the Town's name, and \$60,484,653 was covered by an irrevocable letter of credit from a federal home loan bank.

Credit Risk - The Town's written investment guidelines and policies are designed to protect principal by limiting risk. State law and Town law limit investments to those authorized by State statutes.

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, 2019, the Town did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

3. DETAILED NOTES ON ALL FUNDS (Continued)

B. Capital Assets

Changes in the Town's capital assets are as follows:

	January 1, 2019 Balance	Additions	Disposals	December 31, 2019 Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 18,101,396	\$ -	\$ -	\$ 18,101,396
Construction in progress	<u>1,353,007</u>	<u>3,270,009</u>	<u>735,342</u>	<u>3,887,674</u>
Total non-depreciable cost	<u>19,454,403</u>	<u>3,270,009</u>	<u>735,342</u>	<u>21,989,070</u>
Capital assets that are depreciated:				
Buildings and improvements	21,703,112	441,255	5,950	22,138,417
Infrastructure	248,400,259	8,428,480	2,823,294	254,005,445
Machinery and equipment	40,591,440	4,439,408	1,996,075	43,034,773
Furniture and office equipment	<u>3,077,782</u>	<u>231,809</u>	<u>15,674</u>	<u>3,293,917</u>
Total depreciable historical cost	<u>313,772,593</u>	<u>13,540,952</u>	<u>4,840,993</u>	<u>322,472,552</u>
Less accumulated depreciation:				
Buildings and improvements	12,657,205	389,790	5,950	13,041,045
Infrastructure	161,706,201	7,881,493	2,819,059	166,768,635
Machinery and equipment	29,732,060	3,743,306	1,903,485	31,571,881
Furniture and office equipment	<u>2,119,379</u>	<u>202,388</u>	<u>8,894</u>	<u>2,312,873</u>
Total accumulated depreciation	<u>206,214,845</u>	<u>12,216,977</u>	<u>4,737,388</u>	<u>213,694,434</u>
Total cost, net	<u>\$127,012,151</u>	<u>\$ 4,593,984</u>	<u>\$ 838,947</u>	<u>\$130,767,188</u>

Depreciation expense was charged to the Town's functions and programs as follows:

General government support	\$ 1,317,311
Public safety	618,037
Transportation	8,172,593
Culture and recreation	1,022,164
Home and community services	<u>1,086,872</u>
Total depreciation expense	<u>\$ 12,216,977</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, 2019, the Town has not recorded any such impairment losses.

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Pension Plans

Plan Description

The Town of Smithtown participates in the New York State and Local Employees' Retirement system (ERS) which is referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer defined benefit retirement system. The net position of the system is held in the New York State Common retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November 2018 he was elected for a new term commencing January 1, 2019. System benefits are established under the provisions of the New York State Retirement and Social Security law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Town of Smithtown also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report may be found at www.osc.state.ny.us/retire/underpublications, financial reports or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244

Funding Policy

The Systems are non-contributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of service. For employees who joined after April 1, 2012, employees in NYSERS contribute 3% of their salary until April 1, 2013 and then contribute 3% to 6% of their salary throughout their active membership.

Contributions made to the Systems for the current and two preceding years were as follows:

	<u>ERS</u>
2019	\$ 4,761,401
2018	\$ 4,774,422
2017	\$ 4,844,570

The ERS contributions were equal to 100% of the actuarially required contribution for each respective fiscal year

The current ERS contribution for the Town was charged to various departments within the funds identified below.

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Pension Plans

New York State Employee Retirement System

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

At December 31, 2019, the Town reported a liability of \$8,061,901 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2019, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2019, the Town's proportion was 0.1137834 percent, which was a decrease from its proportion measured December 31, 2018 of 0.1142758 percent.

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

For the year ended December 31, 2019, the Town recognized pension expense of \$5,497,782 related to the NYS Retirement System. At December 31, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 1,587,557	\$ 541,180
Changes of Assumptions	2,026,432	-
Net difference between projected and actual earnings on pension plan investments	-	2,069,129
Changes in proportion and differences between the Town's contributions and proportionate share of contributions	627,055	97,219
Contributions subsequent to the measurement date	3,571,051	-
Total	<u>\$ 7,812,095</u>	<u>\$ 2,707,528</u>

\$3,571,051 was reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ending March 31,	2020	1,854,050
	2021	(1,439,657)
	2022	(25,603)
	2023	1,144,726
	2024	-
	Thereafter	-
		<u>\$ 1,533,516</u>

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Pension Plans

New York State Employee Retirement System (Continued)

Actuarial Assumptions

The total pension liability at March 31, 2019 was determined by using an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019. The actuarial valuation used the following actuarial assumptions:

Inflation	2.50%
Salary scale	4.2% in ERS, indexed by service
Investment Rate of Return, including inflation	7.0% compounded annually, net of investment expenses
Cost of living adjustments	1.3% annually
Decrements	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic of real rates of return for each major asset class are summarized as of March 31, 2019 in the following table:

Long-term Expected Rate of Return

<u>Asset Type</u>	Target Allocations in %	Long-Term expected real rate of return in %
Domestic Equity	36%	4.55%
International Equity	14%	6.35%
Private Equity	10%	7.50%
Real Estate	10%	5.55%
Absolute Return Strategies	2%	3.75%
Opportunistic Portfolio	3%	5.68%
Real Assets	3%	5.29%
Bonds & Mortgages	17%	1.31%
Cash	1%	-0.25%
Inflation-Indexed Bonds	4%	1.25%
	<u>100%</u>	

Discount Rate

The discount rate used to calculate the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Pension Plans (Continued)

New York State Employee Retirement System (Continued)

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

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease <u>(6%)</u>	Assumption <u>(7%)</u>	1% Increase <u>(8%)</u>
Proportionate Share of Net Pension liability	\$ 35,247,919	\$ 8,061,901	\$ (14,776,282)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the plan as of March 31, 2019, were as follows:

	<u>Pension Plan's Fiduciary Net Position</u>
Total pension liability	\$ 189,803,429,000
Net position	(182,718,124,000)
Net pension liability (asset)	<u>\$ 7,085,305,000</u>
Fiduciary net position as a percentage of total pension liability	96.27%

D. Long-Term Liabilities

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.

The long-term liabilities, which are backed by the full faith and credit of the Town, bear interest at various rates from 2.00% to 3.25% and have maturity dates from 2020 through 2039.

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

The following table summarizes changes in the Town's long-term indebtedness for the year ended December 31, 2019:

	Beginning 1/1/2019	Issued	Redeemed	Balance 12/31/2019
Governmental activities				
Capital Project Fund:				
Major Funds:				
General	\$ 10,894,446	\$ 5,822,460	\$ 1,427,394	\$ 15,289,512
Highway	4,889,459	1,827,000	381,863	6,334,596
Refuse and Garbage	1,614,893	730,800	130,917	2,214,776
Nonmajor Funds:				
Town Outside Village	987,375	304,500	116,375	1,175,500
Paul J. Fitzpatrick Country Club	144,275	-	18,100	126,175
Street Lighting Districts	3,275,182	-	241,918	3,033,264
Water Districts	648,750	507,500	52,813	1,103,437
Total governmental activity	<u>\$ 22,454,380</u>	<u>\$ 9,192,260</u>	<u>\$ 2,369,380</u>	<u>\$ 29,277,260</u>

Bonds Payable

Bonds payable at December 31, 2019 are comprised of the following individual issues:

Bond Issue	Original	Issued	Maturity	Interest Rate	Balance
General Obligation Serial Bonds - 2010	\$ 3,456,000	2010	2024	2.500%-3.250%	\$ 2,020,000
General Obligation Serial Bonds - 2011	2,275,000	2011	2026	3.250%	360,000
General Obligation Serial Bonds - 2013	6,742,200	2013	2022	3.000%-3.250%	3,105,000
General Obligation Serial Bonds - 2015	5,770,710	2015	2030	2.000%-2.500%	4,075,000
General Obligation Serial Bonds - 2016	5,365,000	2016	2037	2.000%-2.500%	3,840,000
General Obligation Serial Bonds - 2017	4,086,390	2017	2032	2.000%-2.375%	3,535,000
General Obligation Serial Bonds - 2018	3,544,380	2018	2033	3.000%	3,150,000
General Obligation Serial Bonds - 2019	9,192,260	2019	2039	3.000%	9,192,260
					<u>\$ 29,277,260</u>

Interest at December 31, 2019 was as follows:

Interest paid - long-term debt	\$ 799,068
Less: Interest accrued in the prior year	(169,720)
Amortization on bond premiums	(36,008)
Plus: Interest accrued in the current year	<u>232,642</u>
Total expense	<u>\$ 825,982</u>

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

Payments to Maturity

The annual requirements to amortize all bonded debt outstanding as of December 31, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Fiscal Year Ending December 31,</u>			
2020	\$ 2,742,260	\$ 889,200	\$ 3,631,460
2021	3,045,000	699,319	3,744,319
2022	2,550,000	620,431	3,170,431
2023	2,530,000	552,831	3,082,831
2024	2,345,000	488,681	2,833,681
2025-2029	10,960,000	1,535,144	12,495,144
2030-2034	4,695,000	348,563	5,043,563
2035-2039	<u>410,000</u>	<u>31,200</u>	<u>441,200</u>
Totals	<u>\$ 29,277,260</u>	<u>\$ 5,165,369</u>	<u>\$ 34,442,629</u>

Capital Leases

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 over seven years through January 2022 with annual payments totaling \$261,099, including annual interest rate of 1.768%. Beginning principal in 2019 was \$999,816. After the 2019 principal payment of \$258,904, the ending principal was \$740,912 at December 31, 2019.

In January 2016, the Town entered into a Fleet Management Master Equity Lease Agreement with Enterprise Fleet Management Inc. At December 31, 2019, the principal amount outstanding was \$2,372,446. The interest rates for the vehicles vary based on the rate at the time of acquisition and range from 4.37% to 5.41%.

In 2019, the Town entered into two Highway Equipment Leases. One is for \$246,248 and another for \$420,416. Interest rates are 3.644% and 3.211% respectively. They both have a term of 5 years and end in the year 2024.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Fiscal Year Ending December 31,</u>			
2020	\$ 1,143,982	\$ 224,144	\$ 1,368,126
2021	1,094,022	203,578	1,297,600
2022	874,953	145,373	1,020,326
2023	458,033	94,473	552,506
2024	<u>209,031</u>	<u>21,807</u>	<u>230,838</u>
Totals	<u>\$ 3,780,021</u>	<u>\$ 689,375</u>	<u>\$ 4,469,396</u>

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

Equipment under these capital leases have been reported in the capital assets at December 31, 2019 as follows:

	<u>Asset Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Machinery and equipment	\$ 5,753,959	\$ 3,118,326	\$ 2,635,633
Furniture and office equipment	<u>6,504</u>	<u>4,553</u>	<u>1,951</u>
	<u>\$ 5,760,463</u>	<u>\$ 3,122,879</u>	<u>\$ 2,637,584</u>

Other Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	\$ 22,454,380	\$ 9,192,260	\$ 2,369,380	\$ 29,277,260	\$ 2,742,260
Plus					
Premiums on issuance	<u>412,479</u>	<u>438,677</u>	<u>36,008</u>	<u>815,148</u>	<u>36,008</u>
	<u>22,866,859</u>	<u>9,630,937</u>	<u>2,405,388</u>	<u>30,092,408</u>	<u>2,778,268</u>
Compensated absences	7,566,837	-	183,496 (A)	7,383,341	797,259
Capital leases	3,414,697	1,334,199	968,875	3,780,021	1,143,982
Claims and judgments	3,463,494	-	1,762,303	1,701,191	125,000
Net pension liability, proportionate share	3,688,188	4,373,713	-	8,061,901 (A)	-
Estimated liability for landfill closure and postclosure care costs	14,129,250	-	18,470	14,110,780	566,126
Pollution remediation obligations	200,000	-	-	200,000	-
Postemployment benefits healthcare costs	<u>248,737,246</u>	<u>9,981,789</u>	<u>-</u>	<u>258,719,035</u>	<u>-</u>
Total other liabilities	<u>281,199,712</u>	<u>15,689,701</u>	<u>2,933,144</u>	<u>293,956,269</u>	<u>2,632,367</u>
Total long-term liabilities	<u>\$304,066,571</u>	<u>\$ 25,320,638</u>	<u>\$ 5,338,532</u>	<u>\$324,048,677</u>	<u>\$ 5,410,635</u>

(A) Additions and deletions to compensated absences and net pension liability are shown net because it is impracticable to determine these amounts separately.

Other Post Employment Benefit Obligations Payable

Plan Description

The Town, as a single-employer defined benefit, other postemployment benefits (OPEB) plan, per its contract with employees, 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 85% to 100% of the full premium costs of the cost for individual coverage and 85% 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

Other Post Employment Benefit Obligations Payable (Continued)

Civil Service Employees Association (CSEA) member and exempt 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 28, 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 28, 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 full-time service immediately prior to retirement.

Employees Covered by Benefit Terms

At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefits	344
Active employees	<u>415</u>
Total participants	<u><u>759</u></u>

Total OPEB Liability

The Town's total OPEB liability of \$258,719,035 was measured as of December 31, 2019 and was determined by actuarial valuation as of January 1, 2018. The changes in the OPEB liability are as follows:

Balance at December 31, 2018, as restated	<u>\$248,737,246</u>
Changes for the Year	
Service cost	6,923,951
Interest	10,054,790
Benefit payments	<u>(6,996,952)</u>
Net changes	<u>9,981,789</u>
Balance at December 31, 2019	<u><u>\$258,719,035</u></u>

Actuarial Assumptions and Other Inputs

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

The discount rate was based on the index provided by Bond Buyer 20-bond General Obligation Index based on the 20-year AA municipal bond rate as of January 1, 2018.

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

Other Post Employment Benefit Obligations Payable (Continued)

Mortality was based on the SOA RP-2014 total Dataset mortality with Scale MP-2017 (Base Year 2006).

Inflation	9.50%
Payroll Growth	2.00%
Discount Rate	4.10%
Healthcare Cost Trend Rates	9.0% for 2020, decreasing 0.5% annually to an ultimate rate of 5.0% by 2028.
Cost Method	Entry Age Normal Cost
Participation Rate	100% of active employees covered under the active plan will enroll in the retiree plan
Mortality	Future mortality improvements were projected using the Society of Actuaries RP-2014 Total Dataset Mortality with Scale MP-2017

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

The following presents the OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease <u>(3.10%)</u>	Current Discount <u>(4.10%)</u>	1% Increase <u>(5.10%)</u>
Total OPEB Liability	<u>\$273,272,384</u>	<u>\$258,719,035</u>	<u>\$247,201,838</u>

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

The following presents the OPEB liability of the Town, as well as what the Town's total OPEB liability would be if were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	Healthcare		
	1% Decrease <u>(1.75-8.50%)</u>	Current Discount <u>(2.75-9.50%)</u>	1% Increase <u>(3.75-10.50%)</u>
Total OPEB Liability	<u>\$206,049,715</u>	<u>\$258,719,035</u>	<u>\$315,502,885</u>

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-Term Liabilities (Continued)

Other Post Employment Benefit Obligations Payable (Continued)

OPEB Expense and Deferred Outflow of Resources Related to OPEB

For the year ended December 31, 2019, the Town recognized OPEB expense of \$23,314,477. At December 31, 2019, the Town reported deferred outflows of resources related to OPEB as follows:

	Deferred Outflows of <u>Resources</u>
Actual vs. expected	\$ 249,284
Changes in assumption	<u>22,622,723</u>
Total	<u><u>\$ 22,872,007</u></u>

The amounts reported as deferred outflow of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending December</u>	<u>Amount</u>
2020	6,335,736
2021	6,335,736
2022	6,335,736
2023	3,864,799
Thereafter	<u>-</u>
	<u><u>\$22,872,007</u></u>

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers

Interfund Receivables and Payables

At December 31, 2019, individual fund interfund receivable and payable balances are generally expected to be paid currently. These balances represent various temporary loans, recharges, and/or reimbursements between funds and are stated as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Activities:		
Major Funds:		
General Fund	\$ 1,063,604	\$ 91
Highway Fund	227,106	108,963
Refuse and Garbage Fund	4,688	-
Capital Projects Fund	648,562	1,028,594
Nonmajor Funds:		
Town Outside Village	94,646	11,104
Special Grants	-	41,457
Special Revenue	4,713	-
Street Lighting Districts	300	-
Ambulance	1,073	-
Paul J. Fitzpatrick Country Club	1,122	-
Water Districts	<u>12,956</u>	<u>12,558</u>
 Total government activities	 <u>2,058,770</u>	 <u>1,202,767</u>
 Agency fund	 <u>91</u>	 <u>856,094</u>
 Total	 <u>\$ 2,058,861</u>	 <u>\$ 2,058,861</u>

The interfund transfers reflected below have been reflected as transfers:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Activities:		
Major Funds:		
General Fund	\$ 69,316	\$ 868,947
Highway Fund	476,965	4,395,000
Refuse and Garbage Fund	29,929	-
Capital Projects Fund	5,594,536	137,909
Nonmajor Funds:		
Town Outside Village	114	330,589
Special Grants	-	-
Special Revenue	-	450,000
Street Lighting Districts	6,572	-
Paul J. Fitzpatrick Country Club	394	-
Water Districts	<u>4,619</u>	<u>-</u>
 Total government activities	 <u>\$ 6,182,445</u>	 <u>\$ 6,182,445</u>

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables and Transfers (Continued)

Interfund Transfers (Continued)

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due and 2) to move amounts earmarked in the operating funds to fulfill commitments for Capital Projects Fund expenditures.

F. Fund Balances

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 Fund	Capital Projects Fund	Non-major Governmental Funds	Total
Nonspendable:						
Permanent fund	\$ -	\$ -	\$ -	\$ -	\$ 306,344	\$ 306,344
Inventory	-	745,872	-	-	-	745,872
Prepays	1,186,212	668,054	148,776	-	325,949	2,328,991
Total Nonspendable	1,186,212	1,413,926	148,776	-	632,293	3,381,207
Restricted:						
Debt service	69,238	193,213	363,975	-	13,148	639,574
Purchases on order and/or contractual obligations	-	-	5,830	1,353,294	39,207	1,398,331
Special revenue funds	-	-	2,170,181	-	2,524,912	4,695,093
Park and land deposits	21,162	-	-	-	-	21,162
Capital reserves	4,143,801	-	-	6,489,472	-	10,633,273
Other reserves	306,115	-	-	-	7,208	313,323
Total Restricted	4,540,316	193,213	2,539,986	7,842,766	2,584,475	17,700,756
Assigned:						
Subsequent year's budget	-	-	-	-	660,000	660,000
Capital projects	-	-	-	3,170,047	-	3,170,047
Purchases on order and/or contractual obligations	235,065	289,489	-	453,571	65,764	1,043,889
Special revenue funds	-	3,687,740	-	-	4,441,764	8,129,504
Other assignments	168,972	-	-	-	221,676	390,648
Total Assigned	404,037	3,977,229	-	3,623,618	5,389,204	13,394,088
Unassigned						
General Fund	15,527,240	-	-	-	-	15,527,240
Total Unassigned	15,527,240	-	-	-	-	15,527,240
Total fund balances	\$ 21,657,805	\$ 5,584,368	\$ 2,688,762	\$ 11,466,384	\$ 8,605,972	\$ 50,003,291

4. COMMITMENTS AND CONTINGENCIES

A. RISK RETENTION

In common with other municipalities, the Town receives numerous notices of claims. Although the eventual outcome of these claims cannot be determined, the Town has estimated unsettled claims and litigation to be \$1,701,191. 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-nine (49) locations, for blanket building and contents of \$35,063,815 excluding windstorm and hail damage. EDP Included under contents limit. The policy also excludes new "frame" buildings in the course of construction. Auto Physical damage coverage covers up to \$19,362,318, various boats, \$1,002,913/\$10,000 deductible.

General and Auto Liability/Cyber Liability

The Town carries insurance for general and auto liability protection of \$1,000,000 per occurrence and \$2,000,000 in the aggregate in excess of self-insurance retention of \$1,500,000. The town also carries excess general, auto and public officials' insurance of \$9,000,000 per occurrence. Cyber liability \$1,000,000/\$10,000 deductible.

General and Auto Liability/Cyber Liability (Continued)

The Town carries an umbrella policy of \$10,000,000 over and above general liability, auto liability and public officials' coverage. The public official's coverage is for \$1,000,000 with deductibles of \$250,000 for each wrongful act \$100,000 for each employment practices violation.

The Town carries a crime policy for various incidents of theft, forgery and counterfeiting with deductibles up to \$10,000 and Employee Dishonesty 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.

Scheduled Equipment - \$2,012,350 (\$25,000 Deductible)

Unscheduled Equipment - \$1,374,266 (\$25,000 Deductible)

The Town has equipment and electronic data processing coverage (EDP). Equipment has a \$25,000 deductible. There is total limit of \$3,009,856 for scheduled and unscheduled equipment with a maximum of \$750,000 for any one item. EDP hardware and software have coverage of \$750,000 and \$100,000, respectively, with a \$5,000 deductible. In addition, the Town carries coverage for contractor's equipment up to a limit of \$3,000,000, with a maximum of \$750,000 for any one item subject to a \$25,000 deductible.

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.

4. COMMITMENTS AND CONTINGENCIES (Continued)

A. RISK RETENTION (Continued)

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.

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

	General Liability		Workers' Compensation	
	2019	2018	2019	2018
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 3,217,611	\$ 4,052,667	\$ 245,883	\$ 297,892
Incurring claims and claim adjustment expenditures:				
Provision for the insured events of the current year and increases (decreases) in provisions for insured events of prior years	(1,320,263)	824,000	-	-
Payments:				
Claims and claim adjustment expenditures attributable to insured events of the current and prior years	429,848	1,659,056	12,192	52,009
Total unpaid claims and claim adjustment expenditures at the end of the year	\$ 1,467,500	\$ 3,217,611	\$ 233,691	\$ 245,883

B. 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 reserved for an estimated amount for 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.

4. COMMITMENTS AND CONTINGENCIES (Continued)

C. TAX CERTIORARIS

At December 31, 2019, there were numerous taxpayers' claims pending for the redetermination of assessed valuations (certiorari proceedings) for assessment through 2019. In essence, petitioners complain that their assessed valuations are improper in that they represent overvaluations and unequal treatment. Under the Suffolk County Tax Act, any adjustments to petitioners' assessments for prior years 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 petitioner's 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.

D. LANDFILL CLOSURE AND POST CLOSURE CARE COST

State and Federal laws and Regulations required that the Town place a final cover on its landfill sites when they stopped 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 \$566,000 per year for 2019. Actual costs for Cells 1-5 and Cell 6 were \$95,014 and \$369,318 respectively, for the year ended December 31, 2019. The remaining postclosure costs for Cells 1-5 and Cell 6 approximates \$2,197,000 and \$11,913,780 respectively. The estimated remaining life of the landfill is expected to expire in 2048.

Accordingly, as of December 31, 2019, the Town has recorded an estimated liability of \$14,110,780 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 regulation, applicable laws or condition on the ground.

E. POLLUTION REMEDIATION OBLIGATIONS

During 2018, the Town received a deferred consent order penalty from the NYS DEC that a penalty amounting to approximately \$450,000 could be assessed to the Town unless the Town undertook remediation of accumulated debris at the Montclair Avenue Yard. An engineer was engaged by the Town to estimate the amount of material that needed to be removed and transported to an appropriate landfill. It was estimated that there was 37,000 tons of material to be excavated. Under an inter-municipal agreement with the Town of Brookhaven, the material consisting primarily of construction debris would be transported to the Brookhaven Landfill and charged \$26.00 per ton for disposal. Accordingly, as of December 31, 2018, the Town incurred an expenditure amounting to \$906,000 in the Highway Fund. An additional amount of \$54,795 was spent in 2019 in fees for excavation of material. The Town estimates a remaining balance of \$200,000 that will be recorded in the government-wide financial statements.

4. COMMITMENTS AND CONTINGENCES (Continued)

F. CONSTRUCTION AND OTHER CAPITAL ACQUISITION COMMITMENTS

Capital project encumbrances, commitments for equipment purchases, and other capital acquisition commitments amount to \$1,806,865 at December 31, 2019.

G. MUNICIPAL COOPERATION AGREEMENTS

In December 1989, the Town entered into a Municipal Cooperation Agreement with the Town of Huntington in order to address the municipal solid waste disposal concerns of both Towns. The Agreement provided for the use of the Town of Smithtown landfill by the Town of Huntington during the construction of a Waste of Energy (Resource Recovery) Facility in the Town of Huntington which would be shared by both towns. The Agreement calls for the Town of Huntington to pay certain continuing costs for the Town of Smithtown landfill based upon the relative percentages of waste contributed by each town when filling the landfill. The Town of Huntington pays 52.44% of these continuing landfill costs while the Town of Smithtown is responsible for 47.56%. The agreement further provides that the two towns pay for the ongoing costs of the successor Waste to Energy (Resource Recovery) Facility based upon the relative populations of the two towns that send waste to the facility. This population percentage is calculated on a five-year rolling average based upon US Bureau of Census data. For 2019, the Town of Smithtown pays 37.5% of the Waste to Energy (Resource Recovery) facility expense while the Town of Huntington is responsible for 62.5%.

The Town of Huntington and the Town jointly established a length of service award program defined benefit (LOSAP) plan for the active ambulance workers of Commack Volunteer Ambulance Corps. The program took effect on January 1, 2002. The Town of Huntington is a one hundred percent sponsor of the plan. The Town remits an annual payment, to the Town of Huntington, for the reimbursement of 64.3% of the actuarially determined LOSAP program and administrative costs.

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

Annual agreements with the Village of the Branch for repair and maintenance of Village Streets, and installation of traffic signs and application of pavement markings on Village streets.

Annual agreement with the Village of Head of the Harbor for the repair and maintenance of Village streets, and the installation of traffic signs and the application of pavement markings on Village streets. A 3-year agreement expiring December 31, 2016 with 3-one-year renewals for the use of Town Fire Marshals and/or other qualified personnel to make inspections and enforce violations.

Agreements with the Villages of the Branch, Nissequogue and Head of the Harbor for shared use of a vacuum truck starting in 2018 and expiring in 3 years (with possible extensions for 3 one-year terms for Nissequogue and Head of the Harbor).

Agreements with the Villages of the Branch, Head of the Harbor and Nissequogue for the Town to provide solid waste disposal services to all non-residential parcels effective March 1, 2018 to continue for a term of 20 years.

Agreements with the Villages of Head of the Harbor, Nesconset and Branch and the St. James and Nesconset Fire Districts for shared record management services to be provided by the Town starting in 2018 and are expiring in 3 years with a 3-year extension.

4. COMMITMENTS AND CONTINGENCES (Continued)

G. MUNICIPAL COOPERATION AGREEMENTS (Continued)

Annual agreements with the Incorporated Village of Nissequogue for snow and ice removal and for the repair and maintenance of Village streets, the installation of traffic signs and the application of pavement markings on Village streets. Also, for the use of Town Fire Marshals and/or other qualified personnel to make inspections and enforce violations, the use of the Town's emergency vehicle traffic signal preemption equipment, and the use of the Edward Mankuski Fire Training Center.

- The Towns of Brookhaven, Huntington and Smithtown for disposal of Huntington Resource Recovery Facility acceptable ash residue at the Brookhaven Landfill agreement expired December 31, 2019. This agreement has been replaced with a new agreement that expires December 31, 2024 between the Towns of Huntington and Smithtown, and Covanta Huntington in which Covanta Huntington has assumed the responsibility for ash disposal until the end of the agreement.
- An agreement with the Town of Brookhaven to accept demolition debris and street sweepings, at the Brookhaven Landfill expired December 31, 2019 was renewed for one year. Also, an agreement was entered into for the Town of Brookhaven to accept roadway construction and demolition debris potentially mixed with street sweepings at the Brookhaven Landfill starting May 1, 2018 and is expiring April 30, 2021.
- Annual agreements with Kings Park Central School District to utilize the Town's non-residential Solid Waste Disposal Capacity Generation Fee System and for Town Highway Department to perform road maintenance work, snow removal and supply materials at School Facilities.
- Annual agreements with the Nesconset, Nissequogue and St. James Fire Districts providing dispatch services by the Town.
- Agreement with the following entities to utilize fuel pumps at Town-Owned filling stations for their authorized vehicles and equipment as follows:
 - Village of Head of the Harbor
 - Kings Park Central School District
 - Nesconset Fire Department
 - Smithtown Central School District
 - St. James Fire District
 - Village of Nissequogue
 - Village of the Branch
 - Smithtown Library
- Agreements are for 5 years beginning at various times in 2017. In 2018, new agreements were entered into by all but the Kings Park Central School District and the Smithtown Library. There is no expiration date on the new agreements.
- Agreement with the Towns of Brookhaven and Southold and the Villages of Asharoken and Lloyd Harbor for acceptance of their recyclable materials delivered to the Smithtown MSF commencing November 20, 2018 expired November 30, 2019. The Town of Southold and Villages of Lloyd Harbor and Asharoken contracts are renewable every six months for five terms.

4. COMMITMENTS AND CONTINGENCES (Continued)

G. MUNICIPAL COOPERATION AGREEMENTS (Continued)

State of New York for snow and ice removal and mitigation on certain State roads located within the Town.

- An annual agreement with the Incorporated Village of Lloyd Harbor to deliver e-waste to the Town expiring December 31, 2019 with two possible one-year extensions.
- Annual agreements with Commack Fire District, Hauppauge Fire District, Kings Park Fire District, Nesconset Fire District, St. James Fire District and Smithtown Fire District for the use of the Edward Mankuski Fire Training Center.
- County of Suffolk to make certain capital improvements to Harned Road to strengthen and improve County roads, including drainage improvements, curb and sidewalk installation and resurfacing and for the Town to be responsible for the related repairs and maintenance of certain portions of Harned Road. Term of agreement is 10 years, expiring in 2026.
- Annual agreements with Smithtown Central School District to have Town Highway Department perform road maintenance work, snow removal and supply materials at School Facilities.
- Annual agreements with the Nesconset Fire District, Kings Park Fire District, St. James Fire District, Smithtown Fire District, Central Islip/Hauppauge Ambulance, Inc. and Commack Volunteer Ambulance Corps. for the use of the Town's emergency vehicle traffic signal pre-emption equipment.

H. 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 \$7,198,129 for 2019, which includes operating expenses net of electricity revenues generated by the facility and marketed excess capacity fees.

I. GRANTS

The Town has received grants in excess of \$3,500,000 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.

4. COMMITMENTS AND CONTINGENCES (Continued)

J. 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, 2019 are as follows:

Fiscal Year Ending December 31,

2020	\$	665,569
2021		607,991
2022		543,090
2023		387,084
2024		335,694
2025-2028		<u>271,359</u>
Totals	\$	<u>2,810,787</u>

The Town leases office equipment under non-cancelable leases that commenced between April 2016 and December 2019 and expire between January 2020 and June 2022. Total rental expenditures on such leases for the year ended December 31, 2019 totaled \$61,469. The minimum future non-cancelable operating lease payments are as follows:

Fiscal Year Ending December 31,

2020	\$	52,378
2021		21,435
2022		<u>6,074</u>
Totals	\$	<u>79,887</u>

K. 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 un-expendable 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.

4. COMMITMENTS AND CONTINGENCIES (Continued)

K. PERMANENT FUND (Continued)

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 fund balance restricted as nonspendable at December 31, 2019 amount to \$306,344 including \$3,543 in 2019 interest earnings.

L. 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 2017, the Town extended the agreement for a second term of five years, ending on December 31, 2022. Lessing's Inc. will pay the Town an annual license fee with an annual increase of \$2,000 each year. The value of these payments is estimated to be \$429,000 for the remaining period ending December 31, 2022, without further 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, 2019, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$429,000, of which \$141,000 will be received in 2020.)

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 2018, another amendment was issued that extends the agreement through 2024. 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 license fee with an annual increase of \$2,000 each year. The value of these payments is estimated to be \$715,000 for the remaining period ending December 31, 2024, 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, 2019, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$715,000, of which \$139,000 will be received in 2020.

At December 31, 2019, the value of the two Service Concession Arrangements combined is \$1,144,000 of which \$280,000 is current.

5. PROPERTY TAX ABATEMENT

The Town is subject to real property tax abatements granted by the Suffolk County Industrial Development Agency (“SCIDA”), an entity created as a New York State public benefit corporation. The SCIDA was established by Code Section 922, which became Chapter 674 of the Laws of 1975. The SCIDA offers several abatement programs on certain qualified projects to promote, retain, attract and encourage sound commerce and industry base to prevent unemployment and promote economic development. At December 31, 2019, only the real property tax abatement program offered by SCIDA impacts the Town’s revenues. Generally, a qualified project is an applicant submitted project which meets certain economic development criteria (such as job creation/retention) and which either 1) has been or will be financed by the issuance of SCIDA issued bonds, notes or other evidences of indebtedness with respect thereto or 2) is a straight lease transaction which the SCIDA has determined to undertake pursuant to a lease policy. The SCIDA, based on the agreement and as a condition of providing assistance, may require that the benefiting company remit a PILOT payment to offset the amount of taxes abated. The SCIDA is authorized to enter into PILOT agreements per Real Property Tax Law, Section 412-a and General Municipal Law, Section 874. During the year ended December 31, 2019, the agreements the SCIDA approved resulted in an abatement of \$1,289,900 of the Town’s real property taxes and the receipt of \$898,744 in PILOT payments.

6. SUBSEQUENT EVENTS

In March 2020, the Town issued \$10,037,090 of 2020 public improvement serial bonds for various capital projects. The bonds mature in February 2040 and bear an interest rate of 2%. The premium on the bonds was \$283,031 resulting in an effective net interest rate of 1.68%.

The United States is presently in the midst of a national health emergency related to a virus, commonly known as Novel Coronavirus (COVID-19). The President of the United States declared a national emergency on March 13, 2020. The Governor of New York State signed an Executive Order on March 20, 2020 placing certain restrictions upon residents and businesses. The overall consequences of COVID-19 on a national, regional and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the Town and its future results and financial position is not presently determinable.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SMITHTOWN, NEW YORK

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	General Fund				Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	Encumbrances	
REVENUES:					
Real property taxes	\$ 25,280,351	\$ 25,280,351	\$ 25,280,351	\$ -	\$ -
Other tax items	537,407	676,639	663,488	-	(13,151)
Nonproperty tax items	2,824,800	2,824,800	2,804,631	-	(20,169)
Departmental income	10,391,150	10,439,881	10,654,366	-	214,485
Intergovernmental charges	629,000	638,100	628,036	-	(10,064)
Use of money and property	449,974	449,974	819,471	-	369,497
Licenses and permits	137,900	137,900	130,214	-	(7,686)
Fines and forfeitures	231,505	321,505	445,252	-	123,747
Sale of property and compensation for loss	50,200	181,714	163,279	-	(18,435)
Interfund revenues	-	-	54,127	-	54,127
State aid	6,062,275	6,068,274	5,846,239	-	(222,035)
Federal aid	513,697	513,697	385,400	-	(128,297)
Miscellaneous - Including debt reserve	15,300	17,300	44,816	-	27,516
Total revenues	47,123,559	47,550,135	47,919,670	-	369,535
EXPENDITURES:					
General governmental support	14,532,093	13,999,167	13,830,242	187,128	(18,203)
Public safety	3,851,141	3,989,024	3,498,045	13,514	477,465
Health	1,000,755	990,812	933,500	-	57,312
Transportation	1,187,472	1,280,824	1,145,073	4,314	131,437
Economic opportunity and development	2,000	2,000	220	-	1,780
Culture and recreation	7,611,476	7,867,026	7,648,464	11,907	206,655
Home and community services	5,464,901	5,559,463	5,442,442	18,202	98,819
Employee Benefits	12,507,350	12,516,081	12,516,081	-	-
Debt service - principal	1,433,409	1,919,692	1,919,692	-	-
Debt service - interest	315,278	430,079	430,078	-	1
Total expenditures	47,905,875	48,554,168	47,363,837	235,065	955,266
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(782,316)	(1,004,033)	555,833	(235,065)	1,324,801
OTHER FINANCING SOURCES (USES):					
Transfers in	-	20,186	69,316	-	49,130
Transfers out	-	(878,947)	(868,947)	-	10,000
Premiums on debt issuance	-	-	277,862	-	277,862
Total other financing sources and uses	-	(858,761)	(521,769)	-	336,992
CHANGE IN FUND BALANCE	(782,316)	(1,862,794)	34,064	(235,065)	1,661,793
FUND BALANCE - beginning of year			21,623,741		
FUND BALANCE - end of year			<u>\$ 21,657,805</u>		

TOWN OF SMITHTOWN, NEW YORK

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - HIGHWAY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Highway Fund				Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	Encumbrances	
REVENUES:					
Real property taxes	\$ 23,923,575	\$ 23,923,575	\$ 23,923,575	\$ -	\$ -
Other tax items	365,305	365,305	365,039	-	(266)
Intergovernmental charges	-	19,803	35,220	-	15,417
Use of money and property	65,000	65,000	219,268	-	154,268
Licenses and permits	50,000	50,000	192,733	-	142,733
Sale of property and compensation for loss	50,000	183,022	185,125	-	2,103
Interfund revenue	2,028,104	2,096,831	2,082,297	-	(14,534)
State aid	1,335,328	1,339,666	1,170,532	-	(169,134)
Miscellaneous	-	-	553	-	553
Total revenues	27,817,312	28,043,202	28,174,342	-	131,140
EXPENDITURES:					
Transportation	15,042,941	15,576,693	14,610,299	289,489	676,905
Employee benefits	7,837,220	7,877,290	7,857,589	-	19,701
Debt service - principal	528,911	690,351	690,350	-	1
Debt service - interest	138,091	178,456	178,455	-	1
Total expenditures	23,547,163	24,322,790	23,336,693	289,489	696,608
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,270,149	3,720,412	4,837,649	(289,489)	827,748
OTHER FINANCING SOURCES (USES):					
Transfers in	-	450,000	476,965	-	26,965
Transfers out	(4,395,000)	(4,395,000)	(4,395,000)	-	-
Premiums on debt issuance	-	-	87,189	-	87,189
Total other financing sources and uses	(4,395,000)	(3,945,000)	(3,830,846)	-	114,154
CHANGE IN FUND BALANCE	(124,851)	(224,588)	1,006,803	(289,489)	941,902
FUND BALANCE - beginning of year			4,577,565		
FUND BALANCE - end of year			\$ 5,584,368		

TOWN OF SMITHTOWN, NEW YORK

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - REFUSE AND GARBAGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Refuse and Garbage Fund				Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	Encumbrances	
REVENUES:					
Departmental income	\$ 15,002,258	\$ 15,002,258	\$ 15,019,498	\$ -	\$ 17,240
Intergovernmental charges	546,286	648,232	1,091,240	-	443,008
Use of money and property	28,104	28,104	119,973	-	91,869
Fines and forfeitures	20,000	20,000	38,333	-	18,333
Sale of property and compensation for loss	180,000	251,746	484,105	-	232,359
Interfund revenues	-	3,943	3,943	-	-
State aid	45,000	45,000	90,572	-	45,572
Total revenues	15,821,648	15,999,283	16,847,664	-	848,381
EXPENDITURES:					
Home and community services	14,858,518	15,043,920	15,028,183	5,830	9,907
Employee benefits	1,788,692	1,808,655	1,808,655	-	-
Debt service - principal	221,278	221,278	221,277	-	1
Debt service - interest	49,126	49,126	49,126	-	-
Total expenditures	16,917,614	17,122,979	17,107,241	5,830	9,908
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,095,966)	(1,123,696)	(259,577)	(5,830)	858,289
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	29,929	-	29,929
Transfers out	-	-	-	-	-
Premiums on debt issuance	-	-	34,876	-	34,876
Total other financing sources and uses	-	-	64,805	-	64,805
CHANGE IN FUND BALANCE	(1,095,966)	(1,123,696)	(194,772)	(5,830)	923,094
FUND BALANCE - beginning of year			2,883,534		
FUND BALANCE - end of year			\$ 2,688,762		

TOWN OF SMITHTOWN, NEW YORK

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2019

	Last Ten Fiscal Years *	Last Ten Fiscal Years *
	2019	2018
Total OPEB Liability		
Service cost	\$ 6,923,951	\$ 8,073,512
Interest	10,054,790	9,080,053
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	-	(29,010,649)
Benefit payments	<u>(6,996,952)</u>	<u>(6,721,373)</u>
Total change in total OPEB liability	9,981,789	(18,578,457)
OPEB Plan Fiduciary Position	-	-
Total OPEB liability - beginning	<u>248,737,246</u>	<u>267,315,703</u>
Total OPEB liability - ending	<u>\$ 258,719,035</u>	<u>\$ 248,737,246</u>
Covered payroll	\$ 34,969,865	\$ 34,284,181
Total OPEB liability as a percentage of covered-payroll	739.83%	725.52%
Notes to schedule:	<u>2019</u>	<u>2018</u>
Discount rate	4.10%	3.44%
Healthcare trend rate:		
Initial rate	9.50%	9.25%
Decreasing per year	0.50%	0.50%
Ultimate rate	5.00%	5.00%
Ultimate rate year	2028	2026

* This Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

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

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable

- Plan assets must be dedicated to providing OPEB to Plan members in accordance with the benefit terms.

- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.

TOWN OF SMITHTOWN, NEW YORK

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years*					
	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset)	0.113783%	0.114276%	0.114353%	0.118408%	0.119748%	11.974830%
Proportionate share of the net pension liability (asset)	\$ 8,061,901	\$ 3,688,188	\$ 10,744,827	\$ 19,004,764	\$ 4,045,391	\$ 5,411,259
Covered payroll	\$ 33,326,979	\$ 32,944,369	\$ 32,443,248	\$ 31,658,188	\$ 32,227,296	\$ 32,498,633
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	24.19%	11.20%	33.12%	60.03%	12.55%	16.65%
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.27%	98.24%	94.70%	90.70%	97.95%	97.20%

* This Schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

TOWN OF SMITHTOWN, NEW YORK

**SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years*									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 4,761,401	\$ 4,774,422	\$ 4,844,570	\$ 4,930,204	\$ 5,520,698	\$ 6,228,840	\$ 6,577,816	\$ 5,452,428	\$ 4,227,579	\$ 3,024,895
Contributions in relation to the contractually required contribution	<u>4,761,401</u>	<u>4,774,422</u>	<u>4,844,570</u>	<u>4,930,204</u>	<u>5,520,698</u>	<u>6,228,840</u>	<u>6,577,816</u>	<u>5,452,428</u>	<u>4,227,579</u>	<u>3,024,895</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 33,326,979	\$ 33,379,436	\$ 32,802,922	\$ 32,200,243	\$ 33,273,118	\$ 32,514,803	\$ 31,848,580	\$ 31,870,671	\$ 30,729,230	\$ 30,318,846
Contributions as a percentage of covered payroll	14.29%	14.30%	14.77%	15.31%	16.59%	19.16%	20.65%	17.11%	13.76%	9.98%

SUPPLEMENTARY INFORMATION

TOWN OF SMITHTOWN, NEW YORK

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	Special Revenue Funds						Permanent Fund		Total Nonmajor Governmental Funds 2019
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts	Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Nissequoque River Improvement Permanent Fund	
Cash and Cash equivalents	\$ 3,035,678	\$ 45,435	\$ 1,819,808	\$ 568,276	\$ 574,011	\$ 432,295	\$ 1,654,348	\$ -	\$ 8,129,851
Cash - restricted	-	7,208	-	-	-	-	-	306,344	313,552
Accounts receivable	1,022	-	10,951	5,075	91,348	12,082	660,959	-	781,437
Due from other funds	94,646	-	4,713	300	1,073	1,122	12,956	-	114,810
Due from other governments	37,946	36,456	42,082	-	-	-	-	-	116,484
Prepays	<u>235,779</u>	<u>-</u>	<u>-</u>	<u>37,482</u>	<u>-</u>	<u>4,022</u>	<u>48,666</u>	<u>-</u>	<u>325,949</u>
Total assets	<u>3,405,071</u>	<u>89,099</u>	<u>1,877,554</u>	<u>611,133</u>	<u>666,432</u>	<u>449,521</u>	<u>2,376,929</u>	<u>306,344</u>	<u>9,782,083</u>
LIABILITIES:									
Accounts payable and accrued liabilities	258,106	11,284	290,612	77,021	254,196	14,294	176,329	-	1,081,842
Due to other funds	11,104	41,457	-	-	-	-	12,558	-	65,119
Unearned revenue	<u>-</u>	<u>29,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,150</u>
Total liabilities	<u>269,210</u>	<u>81,891</u>	<u>290,612</u>	<u>77,021</u>	<u>254,196</u>	<u>14,294</u>	<u>188,887</u>	<u>-</u>	<u>1,176,111</u>
FUND BALANCES:									
Nonspendable	235,779	-	-	37,482	-	4,022	48,666	306,344	632,293
Restricted	114	7,208	-	6,572	-	431,205	2,139,376	-	2,584,475
Assigned	2,899,968	-	1,586,942	490,058	412,236	-	-	-	5,389,204
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>3,135,861</u>	<u>7,208</u>	<u>1,586,942</u>	<u>534,112</u>	<u>412,236</u>	<u>435,227</u>	<u>2,188,042</u>	<u>306,344</u>	<u>8,605,972</u>
Total liabilities and fund balances	<u>\$ 3,405,071</u>	<u>\$ 89,099</u>	<u>\$ 1,877,554</u>	<u>\$ 611,133</u>	<u>\$ 666,432</u>	<u>\$ 449,521</u>	<u>\$ 2,376,929</u>	<u>\$ 306,344</u>	<u>\$ 9,782,083</u>

The accompanying notes are an integral part of this supplementary information.

TOWN OF SMITHTOWN, NEW YORK

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Special Revenue Funds						Permanent Fund		Total Nonmajor Governmental Funds 2019
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts	Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Nissequogue River Improvement Permanent Fund	
REVENUES:									
Real property taxes	5,195,830	\$ -	\$ -	\$ 1,607,150	\$ 1,011,223	\$ -	\$ 16,000	\$ -	\$ 7,830,203
Other tax items	80,648	-	-	23,178	66,623	-	-	-	170,449
Departmental income	700,221	-	-	-	1,106,675	443,229	4,294,072	-	6,544,197
Intergovernmental charges	50,509	-	-	-	-	-	-	-	50,509
Use of money and property	62,570	630	83,037	18,430	10,045	5,153	17,935	3,543	201,343
Licenses and permits	2,047,430	-	-	-	-	41,525	-	-	2,088,955
Fines and forfeitures	-	-	-	-	-	-	-	-	-
Sale of property and compensation for loss	5,963	-	-	9,247	-	-	25,234	-	40,444
Interfund revenue	10,325	-	-	-	-	-	-	-	10,325
State aid	320,524	-	-	-	-	-	-	-	320,524
Federal aid	-	198,180	-	-	-	-	-	-	198,180
Miscellaneous	1,501	-	1,065,804	-	-	-	38,813	-	1,106,118
Total revenues	8,475,521	198,810	1,148,841	1,658,005	2,194,566	489,907	4,392,054	3,543	18,561,247
EXPENDITURES:									
General governmental support	196,344	-	45,151	-	-	-	29,211	-	270,706
Public safety	3,240,498	-	-	-	-	-	-	-	3,240,498
Health	-	-	-	-	2,067,876	-	-	-	2,067,876
Transportation	-	-	-	1,090,593	-	-	-	-	1,090,593
Economic opportunity and development	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	429,390	-	-	429,390
Home and community services	1,712,256	198,726	-	-	-	-	3,709,244	-	5,620,226
Employee benefits	2,559,765	-	273,826	430,567	-	25,797	548,536	-	3,838,491
Debt service - principal	163,369	-	-	241,918	-	18,100	83,550	-	506,937
Debt service - interest	39,413	-	-	73,646	-	3,274	25,076	-	141,409
Total expenditures	7,911,645	198,726	318,977	1,836,724	2,067,876	476,561	4,395,617	-	17,206,126
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	563,876	84	829,864	(178,719)	126,690	13,346	(3,563)	3,543	1,355,121
OTHER FINANCING SOURCES (USES):									
Transfers in	114	-	-	6,572	-	394	4,619	-	11,699
Transfers out	(330,589)	-	(450,000)	-	-	-	-	-	(780,589)
Premiums on debt issuance	14,531	-	-	-	-	-	24,219	-	38,750
Total other financing sources and uses	(315,944)	-	(450,000)	6,572	-	394	28,838	-	(730,140)
CHANGE IN FUND BALANCE	247,932	84	379,864	(172,147)	126,690	13,740	25,275	3,543	624,981
FUND BALANCE - beginning of year	2,887,929	7,124	1,207,078	706,259	285,546	421,487	2,162,767	302,801	7,980,991
FUND BALANCE - end of year	3,135,861	\$ 7,208	\$ 1,586,942	\$ 534,112	\$ 412,236	\$ 435,227	\$ 2,188,042	\$ 306,344	\$ 8,605,972

The accompanying notes are an integral part of this supplementary information.

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

July 30, 2020

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithtown (the Town), New York, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated July 30, 2020.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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