

TOWN OF BABYLON
FINANCIAL STATEMENTS
Year Ended December 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis.....	3-17
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Governmental Funds Financial Statements	
Balance Sheet	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Enterprise Fund Financial Statements	
Statement of Net Position.....	24
Statement of Revenues, Expenses, and Changes in Net Position	25
Statement of Cash Flows	26
Fiduciary Fund Financial Statement	
Statement of Fiduciary Assets and Liabilities - Agency Funds.....	27
Notes to Financial Statements	28-69
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	
General Fund.....	70-72
Residential Garbage District Fund	73
Commercial Garbage District Fund.....	74
Highway Fund	75
Special Districts Fund	76
Schedule of Funding Progress for Other Postemployment Benefits Healthcare Costs	77
Schedule of Proportionate Share of the Net Pension Liability	78
Schedule of Pension Contributions	79



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Babylon, New York (the "Town"), as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following blended component units: Babylon Human and Therapeutic Service Institute, Inc., Town of Babylon Senior Citizens Community Services, Inc., and Town of Babylon Youth Development Research Institute, Inc., which in total represent less than 1% of each of the assets/deferred outflow of resources and revenues of the governmental activities, and less than 1% of each of the assets and revenues of the governmental funds as of and for the year ended December 31, 2016. Those financial statements were audited by another auditor whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the blended component units mentioned above is based solely on the report of the other auditor.

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 basic financial statements are free of material misstatement. The financial statements of the blended component units in these financial statements were not audited in accordance with *Government Auditing Standards*.

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

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

PERSONAL SERVICE. TRUSTED ADVICE. 

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

245 PARK AVENUE, 39TH FLOOR
NEW YORK, NY 10167
T: 212.792.4075

25 SUFFOLK COURT
HAUPPAUGE, NY 11788-3715
T: 631.434.9500 F: 631.434.9518

www.avz.com
INDEPENDENT MEMBER OF BKR INTERNATIONAL

Opinions

In our opinion, based on our audit and the reports of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Babylon, New York, as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity 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, and the required supplementary information other than the management's discussion and analysis as listed in the table of contents 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017, on our consideration of the Town of Babylon, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Babylon, New York's internal control over financial reporting and compliance.

Albert, Vajro, Zuck & Gony P.C.

Hauppauge, New York
June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

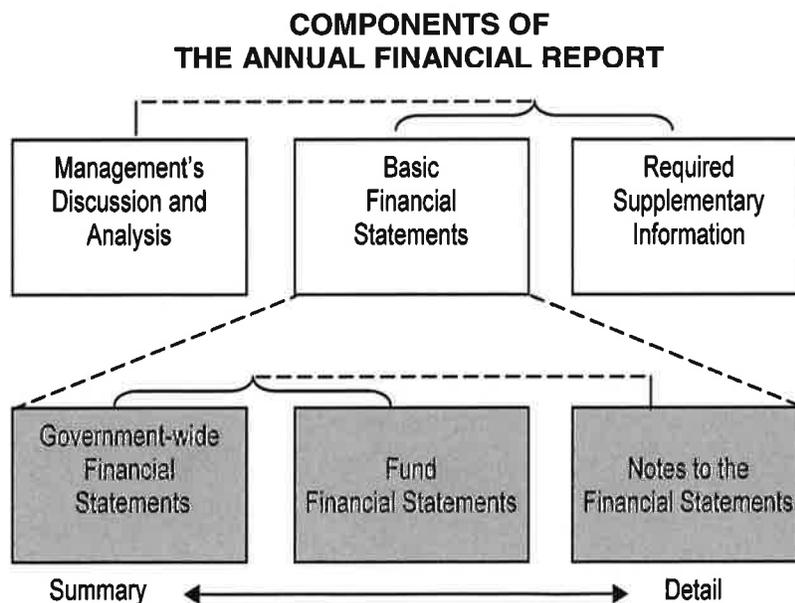
As management of the Town of Babylon, New York (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town's primary government exceeded its liabilities and deferred inflows of resources at the close of 2016 by \$115,713,523 (net position) of which \$110,708,227 was related to the governmental activities and \$5,005,296 was related to the business-type activities.
- The Town's net position related to governmental activities decreased by \$2,486,738 or 2.20%, however it is important to note this change includes the special item reported for the transfer of a capital asset with a net book value of \$14,707,883 to the County of Suffolk and the restatement of opening net position to recognize highway inventory of \$338,900. If the special item was excluded, the governmental activities' net position would have increased by \$12,221,145.
- The Town's business-type activities reported a decrease in net position of \$316,238 or 5.94%, of which \$405,139 was planned since the Town is absorbing and utilizing net position to pay for water rates, which are charged by a third party, that exceed the Town's existing water rates. The remaining change was from the recognition of grant revenue.
- As of the close of 2016, the Town's governmental funds reported combined ending fund balances of \$125,465,758. Of this amount, \$4,123,811 is not in spendable form or is required to remain intact. The remaining \$121,341,947 or approximately 96.71% of total fund balances is in spendable form with various levels of spending constraint: restricted, assigned, or unassigned making them available for spending at the Town's discretion (see Note 2.B).
- At the end of 2016, the Town's total fund balance for the general fund was \$49,289,930, an increase of \$6,498,959 or 15.19% from the prior year. The unassigned fund balance for the general fund was \$28,151,530.
- The Town's total bonded debt (inclusive of general obligation bonds and bond anticipation notes, exclusive of premiums) was \$169,410,000 for the Town's governmental and business-type activities. The total bonded debt increased by .15% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The Town's government-wide financial statements includes both the governmental and business-type activities of the Town itself (known as the primary government) and of its legally separate non-major component units for which the Town is financially accountable. Financial information for three of the component units is reported separately (discretely presented non-major) from the financial information presented for the primary government and financial information for the remaining component units has been blended with that of the primary government.

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

Business-Type Activities - The Town's business-type activities include reporting the operations of leasing its water plant to the Suffolk County Water Authority and the new water system at Oak Beach.

Component Units - Component units are legally separate organizations for which the Town is either financially accountable, or the nature and significance of their relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town includes six separate legal entities in its report, an industrial development agency and two local development corporations, which are shown as non-major discretely presented component units in the government-wide financial statements, and three not-for-profits, which are blended with the Town's primary government.

Information on separately issued financial statements is shown in Note 1.A to the financial statements.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements

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

Governmental Funds

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

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

The Town maintains ten (10) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the six (6) major funds. The general fund, residential garbage district fund, commercial garbage district fund, highway fund, capital projects fund and special districts fund are reported as major funds. Data from the five (5) other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general and special revenue funds, except for the following funds: capital projects fund, housing assistance agency fund and community development agency fund. A budgetary comparison schedule for the general fund, residential garbage district fund, commercial garbage district fund, highway fund and the special districts fund can be found in the section labeled "Required Supplementary Information Other Than Management's Discussion and Analysis."

Proprietary Fund

The Town maintains one type of proprietary fund which is classified as an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water district funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Town following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$115,713,523 at the close of the most recent year.

Our analysis below focuses on the net position and changes in net position of the Town as a whole.

Condensed Statements of Net Position
 As of December 31, 2016 and 2015

	Governmental Activities		Business-type Activities	
	2016	2015 *	2016	2015
Assets				
Current assets	\$ 208,750,633	\$ 191,683,357	\$ 1,790,908	\$ 2,128,220
Capital assets	251,000,546	259,873,514	6,180,678	6,254,914
Other noncurrent assets	32,616,600	43,528,053	1,200,000	
Total Assets	<u>492,367,779</u>	<u>495,084,924</u>	<u>9,171,586</u>	<u>8,383,134</u>
Deferred outflow of resources	<u>15,848,568</u>	<u>4,596,479</u>	<u>-0-</u>	<u>-0-</u>
Liabilities				
Current liabilities	37,623,256	39,729,512	117,466	149,281
Noncurrent liabilities	271,492,778	257,368,357	1,511,324	299,819
Total Liabilities	<u>309,116,034</u>	<u>297,097,869</u>	<u>1,628,790</u>	<u>449,100</u>
Deferred inflows of resources	<u>88,392,086</u>	<u>89,388,569</u>	<u>2,537,500</u>	<u>2,612,500</u>
Net Position				
Net investment in capital assets	125,004,834	120,090,370	7,345,068	6,254,914
Restricted	5,082,944	3,937,734		
Unrestricted	<u>(19,379,551)</u>	<u>(10,833,139)</u>	<u>(2,339,772)</u>	<u>(933,380)</u>
Total Net Position	<u>\$ 110,708,227</u>	<u>\$ 113,194,965</u>	<u>\$ 5,005,296</u>	<u>\$ 5,321,534</u>

*The 2015 governmental activities Statement of Net Position was restated to reflect the prior period adjustment related to the recognition of the highway department inventory.

Total assets and deferred outflows of resources of the Town's governmental activities, as of December 31, 2016 were \$508,216,347, an increase of \$8,534,944 inclusive of the restatement, as noted above. Total liabilities and deferred inflows of resources as of December 31, 2016 were \$397,508,120, an increase of \$11,021,682. This results in a total net position balance of \$110,708,227 for the year ended 2016, a decrease of \$2,486,738, inclusive of the adjustment to the opening net position. Of the Town's net position balance, \$125,004,834 was the net investment in capital assets, while \$5,082,944 was restricted by statute or other specific purposes leaving a \$19,379,551 unrestricted deficit net position.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Total governmental net position was again impacted in the current year, and will continue to be impacted in subsequent years due to the ongoing recognition of other postemployment benefits. The unfunded liability for postemployment benefits healthcare costs related to governmental activities increased in 2016 by \$5,461,985 bringing the unfunded liability at year end to \$62,432,097. Additional information on other postemployment benefits can be found in Note 3.G to the financial statements.

By far the largest portion of the Town's governmental activities net position, \$125,004,834, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in 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 will not be used to liquidate these liabilities.

The deficit balance of unrestricted net position does not necessarily indicate fiscal stress. At the end of the current year, the Town is able to report a positive balance in the categories of net investment in capital assets and restricted. The same situation held true for the prior year. The deficit balance in unrestricted arose primarily due to long-term liabilities which include other postemployment benefits, the proportionate share of the net pension liability, compensated absences, amounts due to employees' retirement systems, claims and judgments and landfill closure and postclosure care costs that will be funded through future budgetary appropriations when they become payable in future periods.

Total assets of the Town's business-type activities, as of December 31, 2016, were \$9,171,586 (inclusive of the internal balance), an increase of \$788,452. Total liabilities and deferred inflows of resources as of December 31, 2016 were \$4,166,290, an increase of \$1,104,690. This results in a total net position balance of \$5,005,296 for 2016, a decrease of \$316,238. Of the business-type activities net position balance, \$7,345,068 was the net investment in capital assets and the remaining \$2,339,772 is the unrestricted deficit net position.

Condensed Changes in Net Position

For the years ended December 31, 2016 and 2015

	Governmental Activities		Business-type Activities	
	2016	2015 *	2016	2015
Program Revenue				
Charges for services	\$ 59,445,799	\$ 59,671,910	\$ 75,000	\$ 75,000
Operating grants and contributions	15,596,789	17,474,412		
Capital grants and contributions	7,857,877	12,157,099	88,901	
Total Program Revenues	<u>82,900,465</u>	<u>89,303,421</u>	<u>163,901</u>	<u>75,000</u>
General Revenues				
Real property taxes	79,158,735	77,400,311		
Other real property tax items	2,455,278	2,330,973		
Non-property tax items	4,749,123	4,381,914		
Interest earnings	530,781	737,397	4,303	2,945
Gain on sale of capital assets	76,870	69,238		
Mortgage tax	4,582,494	4,134,214		
State aid	1,115,651	1,115,651		
Other	265,750	536,319	277,701	262,261
Total General Revenues	<u>92,934,682</u>	<u>90,706,017</u>	<u>282,004</u>	<u>265,206</u>
Total Revenues	<u>175,835,147</u>	<u>180,009,438</u>	<u>445,905</u>	<u>340,206</u>

(continued)

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Condensed Changes in Net Position (continued)
 For the years ended December 31, 2016 and 2015

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Program Expenses				
General government support	19,919,211	23,565,707		
Public safety	23,292,393	22,486,467		
Health	6,051,828	5,358,620		
Transportation	24,538,590	25,273,547		
Economic assistance and opportunity	168,489	366,592		
Culture and recreation	19,992,569	18,911,860		
Home and community services	64,039,919	63,945,277	762,143	813,271
Interest on debt	5,611,003	5,288,166		
Total Program Expenses	<u>163,614,002</u>	<u>165,196,236</u>	<u>762,143</u>	<u>813,271</u>
Excess (deficiency) before special item	12,221,145	14,813,202	(316,238)	(473,065)
Special Item	<u>(14,707,883)</u>			
Change in net position	(2,486,738)	14,813,202	(316,238)	(473,065)
Net position, beginning of year	113,194,965	98,296,730	5,321,534	5,794,599
Effect of prior period adjustment *		342,450		
Cumulative effect of change in accounting principle **		<u>(257,417)</u>		
Net position, beginning of year, as restated	113,194,965	98,381,763	5,321,534	5,794,599
Net position, end of year	<u>\$ 110,708,227</u>	<u>\$ 113,194,965</u>	<u>\$ 5,005,296</u>	<u>\$ 5,321,534</u>

*The condensed financial information presented above reflects the cumulative effect of the prior period adjustment on the beginning net position of fiscal year 2015 related to inventory for the highway fund.

**The Town's financial statements presented herein are for the year ended December 31, 2015 and the cumulative effect of applying GASB Statement No. 68, "Accounting and Reporting for Pensions" and GASB Statement No. 71, "Pension Transition Guidance for Contributions Made Subsequent to the Measurement Date" is shown as an adjustment to the beginning net position of fiscal year 2015.

Net position from all governmental activities, decreased by \$2,486,738 in the current year. Key elements of the governmental activities are:

- Overall program revenues decreased by \$6,402,956 from the prior year.
- There was a minimal decrease of \$226,111 in charges for services.
- Operating grants and contributions decreased by \$1,877,623 from the prior year, primarily due to the Town receiving the New York State's portion of the emergency disaster assistance program (\$1,964,507) in the prior year for costs related to Hurricane Sandy and the blizzard of 2013, a decrease in grant revenues for the Housing Choice Voucher program (\$294,044), which was offset by an increase in the Home Investment Partnership grant revenue (\$526,590) recognized in the current year.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

- Capital grants and contributions decreased by \$4,299,222 compared to the prior year, primarily related to the timing of certain projects and the related reimbursements. In 2016, the Town reported a donation of land and a building at the value of \$2,558,824 as a capital contribution and well as additional grant revenues (\$828,123) from the Community Development Block Grant Disaster Recovery Program for various project costs that were incurred in 2016. The Town recognized less Jumpstart grant revenues (\$3,564,634) in the current year for the costs related to the intermodal park development and road construction project. In the prior year, the Town recognized higher amounts of Empire State Development grants (\$4,303,555) due to the timing of the related capital costs.
- General revenues increased by \$2,228,665 from the prior year, primarily due to an increase in real property taxes (excluding special assessments) and mortgage tax in the amounts of \$1,758,424 and \$448,280, respectively.
- Overall program expenses decreased by \$1,582,234 from the prior year.
- General government support expenses decreased from the prior year by \$3,646,496, primarily a result of a decrease in general liability costs, due to a reduction of estimated payout amounts on existing claims as well as fewer claims for cases which were incurred in the current year (\$2,289,550), a settlement payment (\$1,617,918) that was paid in the prior year and did not occur in the current year, an overall reduction of salary and contractual costs (\$421,382) which was offset by an increase in employee benefit costs (\$672,320), primarily a result of the required pension contribution based on NYS retirement system's year end March 31, 2016.
- Public safety expenses increased by \$805,926 compared to prior year, primarily due to an increase in the costs to operate the fire protection districts (\$239,159), higher employee benefit costs primarily related to the required pension contribution (\$369,025) based on NYS retirement system's year end March 31, 2016, as well as an increase in compensated absences (\$98,151).
- Health expenses increased by \$693,208 compared to prior year, primarily due to an increase in the costs to operate the ambulance district (\$127,542), additional expenses due to the Youth Development Research Institute, a blended component unit, adding a new location during the year (\$165,274), an increase in employee benefit costs, primarily related to pension expense based on NYS retirement system's year end March 31, 2016 (\$302,165), and an overall increase in salary and contractual costs (\$91,953).
- Transportation expenses decreased from the prior year by \$734,957, a result of a decrease in snow removal expenses due to the significant snow fall in 2015 compared to the current year (\$975,911), a reduction of the highway and street lighting department operating costs (\$128,413), offset by an increase in employee benefit costs (\$415,255), primarily related to pension expense based on NYS retirement system's year end March 31, 2016.
- There was an increase of \$1,080,709 in culture and recreation expenses due to the higher employee benefit costs of \$996,859, primarily related to pension expense based on NYS retirement system's year end March 31, 2016.
- During 2016, Town transferred a sanitary sewer facility located in Wyandanch with a net book value of \$14,707,883 to the County of Suffolk, which was reported as a special item in the Statement of Activities.

Net position from the business-type activities decreased by \$316,238 in the current year. During 2016, the Oak Beach water district fund was created to account for the new water system at Oak Beach. The program revenues have increased by \$88,901 compared to prior year, a result of the recognition of state aid for construction costs associated with the water system. The general revenues and home and community expenses are consistent with the prior year activity.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net Cost of Services for Governmental Activities
 For the years ended December 31, 2016 and 2015

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2016	2015 *	2016	2015	2016	2015
General government support	\$ 19,919,211	\$ 23,565,707	\$ 5,632,479	\$ 3,020,403	\$ (14,286,732)	\$ (20,545,304)
Public safety	23,292,393	22,486,467	4,073,272	3,693,893	(19,219,121)	(18,792,574)
Health	6,051,828	5,358,620	1,792,448	1,806,999	(4,259,380)	(3,551,621)
Transportation	24,538,590	25,273,547	3,701,561	10,886,033	(20,837,029)	(14,387,514)
Economic assistance and opportunity	168,489	366,592	274,784	34,337	106,295	(332,255)
Culture and recreation	19,992,569	18,911,860	5,561,211	6,669,721	(14,431,358)	(12,242,139)
Home and community services	64,039,919	63,945,277	61,864,710	63,192,035	(2,175,209)	(753,242)
Interest on debt	5,611,003	5,288,166			(5,611,003)	(5,288,166)
	<u>\$ 163,614,002</u>	<u>\$ 165,196,236</u>	<u>\$ 82,900,465</u>	<u>\$ 89,303,421</u>	<u>\$ (80,713,537)</u>	<u>\$ (75,892,815)</u>

*The 2015 cost of services presented above reflects the change in transportation expense due to the adjustment of highway inventory.

The total cost of all governmental activities this year was \$163,614,002. The net cost of these services after being subsidized by programs revenues of \$82,900,465 was \$80,713,537.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

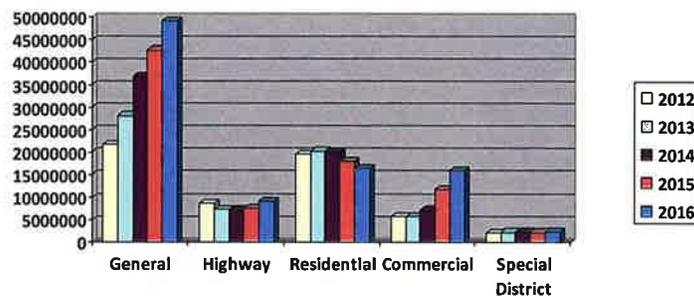
Governmental Funds

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, spendable fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the year.

At December 31, 2016, the Town's governmental funds reported total ending fund balances of \$125,465,758 an increase of \$13,399,635 in comparison with the prior year. The category breakdown is as follows:

- **Nonspendable fund balance** - \$4,123,811 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$46,508,882 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$46,681,535 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$28,151,530 (residual net resources) is the remaining fund balance in the general fund in excess of nonspendable, restricted and assigned fund balance.

Below is a summary of the Town's major funds' fund balances for 2012 through 2016.



TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

The Town began the year with an anticipated overall \$3,235,878 decrease resulting from the appropriation of fund balance for the 2016 budget. Total revenues decreased from the prior year by \$5,644,585 primarily a result of the decrease in miscellaneous local sources, state and federal aid in the amounts of \$2,931,118, \$5,258,091 and \$723,478, respectively, which was offset by increases in real property taxes and departmental income in the amounts of \$1,856,000 and \$1,436,075, respectively.

Overall, governmental expenditures decreased by \$8,225,042 from the prior year. This is primarily due to lower capital outlay costs in the amount of \$8,698,670, a result of the timing of ongoing capital projects, and less general government support expenditures in the amount of \$2,013,818, which were offset by an increase debt service principal and interest payments of \$2,277,364.

Other financing sources increased by \$3,334,739 compared to prior year, primarily a result of higher proceeds from debt obligations in the amount of \$3,355,000.

General Fund

The general fund is the chief operating fund of the Town. At the end of the current year, the total fund balance of the general fund was \$49,289,930, increasing \$6,498,959 or 15.19% from the prior year. Of this amount, \$2,645,872 is not in spendable form (property held for resale and inventory) and \$18,431,130 is restricted for debt service and for future proceeds from the sale of property held for resale which will be restricted for debt service once received. Of the remaining fund balance of \$28,212,928, \$61,398 has been assigned for purchase orders by the Town Comptroller and \$28,151,530 is shown as unassigned fund balance.

The key elements of the fund balance increase of \$6,498,959 are as follows:

- Overall revenues exceeded the budgeted expectations by \$2,724,974, primarily due to state aid, which was over the budget by \$984,357, a result of a higher collections of mortgage tax than expected, as well as franchise fees and other non-property tax items recognized in the current year which exceeded the budget by \$849,123. Departmental income and use of money and property revenues exceeded budgeted expectations by \$434,602 and \$561,975, respectively, primarily due to park and recreation fees and the realization of higher than expected rental income from Town owned property.
- Actual revenues increased by \$1,166,172 compared to prior year, which is related to the general fund's minimal real property tax increase of \$264,073, an increase in non-property taxes in the amount of \$367,209, a result of higher collections of franchise fees and income from the cleanup of abandoned homes in the Town as well as an increase in state aid for \$657,150 due to mortgage tax revenues. This was offset by the decrease in federal aid related to reimbursements of \$200,210 from the emergency disaster assistance program that were recognized in the prior year.
- General government support expenditures were under budget in the amount of \$2,473,795, primarily due to unallocated insurance which was under budget by \$731,321 and cost savings specifically related to salaries, program operations and professional services in the central garage/central fuel department in the amount of \$754,585. In addition, there was a general implementation of expenditure reductions providing additional savings of \$987,889.
- Actual general fund expenditures decreased by \$857,335 primarily due to the decrease in general government support expenditures (\$2,071,107) and employee benefits costs (\$273,677), which were offset by the increase in debt service payments (\$1,420,183). In prior year, general government support expenditures included a settlement payment in the amount of \$1,617,918, which did not occur in 2016. The change in the employee benefit costs was related to an overall reduction in retirement contribution requirements (\$658,427) which were offset by increases in medical costs (\$328,070).
- Other financing sources (uses) exceeded budgeted expectations in the amount of \$824,944 due to operating transfers in exceeding budgeted expectations by \$825,751.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

General Fund (continued)

- Actual other financing sources (uses) decreased by \$1,317,648 compared to prior year due to less debt issued in the current year (\$1,600,000), which was offset by an increase in operating transfer activity (\$357,872).

Residential Garbage District Fund

At the end of the current year, the total fund balance of the residential garbage district fund was \$16,544,358, decreasing \$1,575,331 or 8.69% from the prior year. Total fund balance is as follows: \$12,263 has been restricted for debt service, \$3,293,538 has been assigned by the Town Board for the subsequent year's budget, and \$13,238,557 is assigned for residential garbage district purposes.

The key elements of the fund balance decrease of \$1,575,331 are as follows:

- There was a budgeted use of prior year fund balance of \$3,235,878 as well as the prior year encumbrances carried forward in the amount of \$4,497.
- Total revenues did not meet budgeted expectations by \$573,879, a result of less departmental income revenues than anticipated in the amount of \$793,738, which was offset by miscellaneous local source and state aid revenues that were recognized in the current year and not budgeted for in the aggregate amount of \$211,223.
- Overall actual revenues decreased by \$641,396 compared to the prior year, a result of less state and federal aid (\$713,885), primarily related to reimbursements from the emergency disaster assistance program that were recognized in the prior year, and the decrease of miscellaneous local source revenues (\$391,321) due to higher amounts collected related to excess funds from an overfunded reserve account for a general obligation bond in prior year. These amounts were offset by an increase in departmental income (\$381,727), which was the result of the Town generating additional revenue from a new ash agreement.
- Garbage improvement area expenditures were under budget by \$1,742,770, primarily due to fewer Long Island Green Homes loans disbursed than anticipated in the amount of \$1,191,186. There were additional savings from salaries, equipment purchases and contractual costs related to refuse and garbage in the amount of \$454,977.
- Actual garbage improvement area expenditures were less than last year by \$751,414 mostly due to the reduction in the amount of Long Island Green Homes loans given in the current year in the amount of \$1,224,982 which is offset by an increase in professional and technical services in the amount of \$494,735.
- Other financing sources (uses) exceeded budgeted expectations in the amount of \$496,153 due to operating transfers in exceeding budgeted expectations by \$489,674.
- Actual other financing sources (uses) increased from the prior year in the amount of \$318,853 due to operating transfer activity that took place in the current year.

Commercial Garbage District Fund

At the end of the current year, the total fund balance of the commercial garbage district fund was \$15,920,407 increasing \$4,075,516 or 34.41% from the prior year. Total fund balance is as follows: \$11,181 has been restricted for debt service, \$54,165 has been assigned for purchase orders by the Town Comptroller and \$15,855,061 is assigned for commercial garbage district purposes.

The key elements of the fund balance increase of \$4,075,516 are as follows:

- Overall revenues were over budget by \$12,273.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Commercial Garbage District Fund (continued)

- Actual revenues decreased by \$512,422 due to decreases in revenues such as state and federal aid (\$247,837), sale of refuse containers (\$420,600) that were recognized in the prior year and did not occur in 2016, which was offset by higher refuse and garbage fees collected (\$587,577). In addition, there was a reduction in the amount recognized in miscellaneous revenues (\$451,566) for the collection of excess funds from an overfunded reserve account for a general obligation bond.
- Total expenditures were under budget by \$3,635,839 due to a surplus in the garbage improvement area expenditures in the amount of \$3,548,192, resulting from under realized professional and technical service fees (\$3,389,740) and salaries (\$81,853).
- Actual expenditures increased from the prior year in the amount of \$302,349, a result of higher professional and technical services fees incurred (\$248,192), salary costs (\$42,469), and debt service payments (\$38,225).
- Other financing sources (uses) exceeded budgeted expectations in the amount of \$427,404 due to operating transfers in exceeding budgeted expectations by \$420,925.
- Actual other financing sources (uses) increased from the prior year in the amount of \$219,161 due to operating transfer activity that took place in the current year.

Highway Fund

At the end of the current year, the total fund balance of the highway fund was \$9,186,851, increasing \$1,242,047 inclusive of a fund balance restatement of \$338,900, or 15.63%, from the prior year. Of this amount, \$392,200 is not in spendable form (inventory), \$2,174,055 has been restricted for debt service, \$710 has been assigned for purchase orders by the Town Comptroller and the remaining \$6,619,886 is assigned for highway purposes.

The key elements of the fund balance increase of \$1,242,047 are as follows:

- Total revenues exceeded budgeted expectations by \$119,863, primarily a result of the Town receiving additional payments in lieu of taxes and license and permit revenues in the amounts of \$80,934 and \$26,088, respectively, which were not anticipated.
- Actual revenues increased from the prior year by \$402,672, due to an increase in property tax assessments (\$1,009,421), offset by the overall decrease in state and federal aid (\$583,040). The decrease in state and federal aid was primarily related to additional reimbursements from the emergency disaster assistance program recognized in the prior year which did not occur in 2016. The Town received less funding for the consolidated highway aid program (\$175,283), however additional funding was recognized from a new grant program, PAVE-NY, in the current year (\$271,646).
- Total expenditures were under budget by \$852,910 primarily due to lower costs for street administration and maintenance than originally anticipated (\$564,136), as well as less snow removal costs due to the weather conditions during 2016 (\$128,726) and machinery costs (\$91,200).
- Actual expenditures were lower than prior year by \$166,844, a result of the decrease in snow removal expenditures due to the minimal snow fall in 2016 compared to the prior year (\$975,911), which was offset by an increase in debt service payments (\$711,074) and increases in salary and contractual costs for street administration and maintenance of streets (\$109,397).
- Other financing sources exceeded budgeted expectations in the amount of \$270,987 primarily due to operating transfers in exceeding budgeted expectations by \$200,000.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Highway Fund (continued)

- Actual other financing sources increased from the prior year in the amount of \$234,952 due to an increase in operating transfers in and premiums from the issuance of general obligation bonds.

Capital Projects Fund

At the end of the current year, the capital projects fund had a total fund balance of \$20,729,455. Of this amount \$15,722,892 has been assigned for purchase orders by the Town Comptroller and \$3,874,828 was restricted to specific capital project expenditures. The remaining balance of \$1,131,735 includes an amount of \$686,535 which is assigned for capital projects costs and outstanding amounts for purchases orders or contractual obligations in the amount of \$445,200.

The fund balance increased in the capital projects fund by \$409,065 from the prior year as a result of timing differences between project expenditures and the recognition of corresponding permanent financing.

Special Districts Fund

At the end of the current year, the total fund balance of the special districts fund was \$2,300,538, an increase of \$99,926, or 4.53%, from the prior year. Of this amount, \$926,762 is not in spendable form (prepaid items), \$200 has been assigned by the Town Board for the subsequent year's budget, and the remaining \$1,373,576 is assigned for residential garbage district purposes.

The key elements of the fund balance increase of \$99,926 is as follows:

- Total actual revenues exceeded budgeted expectations by \$60,583, a result of additional payments in lieu of taxes collected than anticipated. Actual revenues increased by \$528,944 compared to the prior year, primarily a result of an increase in real property taxes assessed in the amount of \$499,648.
- Total expenditures were under budget by \$40,401 due to less fire protection district costs (\$30,017) and ambulance district costs (\$10,084) than anticipated. Actual expenditures increased by \$366,701 compared to prior year, primarily a result of higher program operation costs for the fire protection districts (\$239,159) and the ambulance district (\$127,542).

Non-major Governmental Funds

The net change in fund balances was an increase of \$2,649,753.

- The part-town fund's fund balance was \$5,003,141 at December 31, 2016, which is an increase of \$1,645,029 from the prior year. Total revenues in the part-town fund of \$9,344,819 increased by \$492,056 from the prior year, a result of higher engineering and safety inspection fees collected in the amounts of \$121,068 and \$307,616, respectively. Actual revenues exceeded budgeted expectations by \$1,167,810 primarily relating to engineering and safety inspection fees. Overall, total expenditures were \$7,699,790 for 2016, an increase of \$106,429 from the prior year. The increase is attributable to an overall increase in salaries (\$83,464) and related employee benefits costs (\$34,607). Actual expenditures exceeded the final budget by \$175,610, mostly due to safety inspection salaries. In 2015, there was an operating transfer in from the capital projects fund in the amount of \$1,542,640, for unspent bond proceeds for the sewer expansion project. There was no transfer to part-town fund in 2016.
- The total fund balance of the lighting district fund was \$1,405,636, an increase of \$534,737 from the prior year. Revenues were consistent with the prior year, however expenditures decreased by \$317,446, a result of the Town recognizing inventory costs during the current year and a lower contribution payment to the retirement system compared to the prior year. Actual revenues were in line with the budgeted expectations. Actual expenditures were under budget by \$425,090, primarily due to less utility costs than anticipated and a reduction of costs relating to the Town recognizing inventory that was not budgeted for.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Non-major Governmental Funds

- The total fund balance of the other special revenue fund was \$1,569,435, an increase of \$609,878 from the prior year. Revenues increased by \$542,507, primarily related to a \$305,000 contribution from a developer related to a new development and the recognition of a \$200,000 revenue that was deferred in prior years. Expenditures increased by \$74,297 and transfers out to other funds increased by \$157,104.
- The total fund balance of the housing assistance agency fund was \$1,686,094, a decrease of \$143,761 from the prior year, which is primarily a result of the granting agency off-setting program related revenue to HUD-held funds, resulting in the reduction of the housing agency's fund balance.

Summary of All Governmental Funds Revenues and Expenditures

The following schedule presents in summary all of the governmental funds revenues and expenditures for the years ended December 31, 2016 and 2015, the amount of the change and percentage change in relation to the prior year.

	2016	2015	\$ Change	% Change
Revenues (in Millions)				
Real property taxes	\$101.1	\$99.2	\$1.9	1.92%
Other real property tax items	2.5	2.3	0.2	8.70%
Non-property tax items	4.7	4.4	0.3	6.82%
Department income	34.0	32.6	1.4	4.29%
Use of money and property	3.2	3.0	0.2	6.67%
Licenses and permits	0.4	0.4	0.0	0.00%
Fines and forfeitures	1.5	1.5	0.0	0.00%
Sale of property and compensation for loss	0.0	0.5	-0.5	-100.00%
Interfund revenue	2.8	3.0	-0.2	-6.67%
Miscellaneous local sources	4.5	7.5	-3.0	-40.00%
State aid	8.5	13.7	-5.2	-37.96%
Federal aid	15.4	16.1	-0.7	-4.35%
Total Governmental Fund Revenues	\$178.6	\$184.2	-\$5.6	-3.04%
Expenses (in Millions)				
General government support	\$14.4	\$16.5	-\$2.1	-12.73%
Public safety	20.2	19.9	0.3	1.51%
Health	5.5	5.1	0.4	7.84%
Transportation	9.7	10.0	-0.3	-3.00%
Economic assistance and opportunity	0.2	0.3	-0.1	-33.33%
Culture and recreation	11.1	11.0	0.1	0.91%
Home and community services	61.9	61.5	0.4	0.65%
Employee benefits	18.7	19.1	-0.4	-2.09%
Capital outlay	17.8	26.5	-8.7	-32.83%
Debt Service:				
Principal	18.4	16.6	1.8	10.84%
Interest	6.0	5.5	0.5	9.09%
Bond issuance costs	0.1	0.2	-0.1	-50.00%
Total Governmental Fund Expenses	\$184.0	\$192.2	-\$8.2	-4.27%

GENERAL FUND BUDGETARY HIGHLIGHTS

The differences between the 2016 original budget and the final amended budget are adopted by Town Board resolution throughout the year. During the year the Town increased the original budget for departmental income, miscellaneous local sources and other financing sources (operating transfers in) by \$20,000, \$7,558 and \$75,732, respectively. The original budget for the Town's expenditures decreased by \$75,701 and other financing uses (transfers out) increased by \$178,991. The following are the main components of the overall increase in the Town's appropriations: increase in public safety (\$119,703), culture and recreation (\$229,223), home and community services (\$261,167), debt service (\$269,995) offset by decreases in general government support (\$526,188) and employee benefits (\$439,064). There are no variances between the budgeted and actual amounts 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 budgets and actual amounts.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2016 amounted to \$251,000,546 and \$6,180,678, respectively. The Town's capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges and the water system infrastructure.

In 2016, the Town of Babylon's major capital expenditures were as follows:

Various highway road improvements	\$ 5,129,183
Various park improvements	2,878,280
Reconstruction of Town buildings	3,136,089
Acquisition of machinery	2,238,871
Geiger Park improvements	2,194,748
Waste management building/ machinery	1,301,665

Capital Assets at December 31, 2016 and 2015
 (Net of depreciation)

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Land	\$ 32,360,635	\$ 32,169,917	\$ 194,964	\$ 194,964
Construction in progress	39,974,870	30,847,321	88,901	-0-
Building and improvements	65,481,673	65,735,541	438,256	462,446
Machinery and equipment	10,353,334	10,263,178	6,168	10,738
Infrastructure *	102,830,034	120,857,557	5,452,389	5,586,766
Totals	\$ 251,000,546	\$ 259,873,514	\$ 6,180,678	\$ 6,254,914

*During 2016, the Town transferred a sanitary sewer facility located in Wyandanch with a net book value of \$14,707,883 to the County of Suffolk.

The Town has a five-year capital improvement plan which allows for the continued improvements to infrastructure, buildings and equipment while remaining consistent with the Town's debt service requirements. Annually, the Town Board reviews, updates, and amends the capital plan.

Additional information on the Town's capital assets can be found in Note 3.C to the financial statements.

Long-Term Debt

At the end of the current year, the Town has total long-term bonded debt outstanding of \$168,210,000 and long-term bond anticipation notes outstanding of \$1,200,000. The entire debt is backed by the full faith and credit of the Town. The Town also has \$3,475,000 outstanding in guaranteed assistance contract loans payable.

Outstanding Debt

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
General obligation bonds payable *	\$168,210,000	\$154,505,000		\$ -0-
Bond anticipation notes		14,650,000	\$ 1,200,000	
Guaranteed assistance contract loans payable	3,475,000	2,641,000		
	\$171,685,000	\$171,796,000	\$ 1,200,000	\$ -0-

*This does not include the bond premium as presented in the Statement of Net Position.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Long-Term Debt (continued)

In 2016 the Town's total long-term debt increased by \$1,089,000 or .63% which is a net change in the debt retired and new borrowings.

In the second quarter of 2016, Standard and Poor's Corporation reaffirmed the Town's credit rating of AA+ and Moody's Investors Service, Inc. upgraded the Town's underlying rating from Aa2 to AA1.

State statutes limit the amount of general obligation a governmental entity may issue to 7% of a 5-year average full valuation. The current debt limitation for the Town is \$1,433,588,899. The percentage of debt contracting exhausted at December 31, 2016 was 10.9% of the current debt limitation

Additional information on the Town's debt activity can be found in Note 3.E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town's elected and appointed officials considered many factors when setting the upcoming 2017 budget, tax rates, and fees that will be charged. One of those factors is the economy. The Town, located in Suffolk County, New York, generally has more favorable financial statistical data than the county or New York State.
- Inflation in the Town's geographic area is consistent with the metropolitan area and is similar though somewhat higher than national averages. Stable contractual increases in negotiated labor contracts are comparable with regional municipalities while providing similar fringe benefits. These factors form the basis for estimating the 2017 budget lines.
- Revenues are subject to regional economic trends. The Town notes stabilization in mortgage tax revenue and interest earnings on deposited funds. As a result, the Town is expecting the general fund's fund balance to remain stable at the close of 2017.
- New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012, and lasting through at least June 15, 2020, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however the permitted increase will not be less than 1%. Local governments can exceed the tax levy limit by a 60% vote of the governing body, or local law. The Town did not exceed the 2% tax cap in the 2017 budget.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Comptroller at 200 East Sunrise Highway, Lindenhurst, New York 11757.

BASIC FINANCIAL STATEMENTS

TOWN OF BABYLON
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF NET POSITION
 December 31, 2016

	Primary Government			Non-major Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 125,946,368	\$ 1,768,248	\$ 127,714,616	\$ 3,817,378
Cash with fiscal agent	3,962,906		3,962,906	
Accounts receivable, net of allowance and noncurrent portion	5,236,297		5,236,297	503,860
Taxes receivable	59,356,593		59,356,593	
Long Island Green Homes receivable, net of noncurrent portion	1,174,362		1,174,362	
Internal balances	12,950	(12,950)	-	
Due from other governments, net of noncurrent portion	9,674,813	35,610	9,710,423	
Inventory	822,819		822,819	
Prepaid items	1,907,601		1,907,601	20,021
Restricted cash	340,142		340,142	
Property held for resale	315,782		315,782	
Total Current Assets	<u>208,750,633</u>	<u>1,790,908</u>	<u>210,541,541</u>	<u>4,341,259</u>
Noncurrent Assets:				
Accounts receivable, noncurrent portion	7,215,589		7,215,589	
Long Island Green Homes receivable, noncurrent portion	6,282,467		6,282,467	
Due from other governments, noncurrent portion	812,640	1,200,000	2,012,640	
Property held for resale	18,305,904		18,305,904	
Non-depreciable capital assets	72,335,505	283,865	72,619,370	
Capital assets, net of accumulated depreciation	178,665,041	5,896,813	184,561,854	
Total Noncurrent Assets	<u>283,617,146</u>	<u>7,380,678</u>	<u>290,997,824</u>	<u>-0-</u>
Total Assets	<u>492,367,779</u>	<u>9,171,586</u>	<u>501,539,365</u>	<u>4,341,259</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred charge on refunding	136,375		136,375	
Pension	15,712,193		15,712,193	207,611
Total Deferred Outflow of Resources	<u>15,848,568</u>	<u>-0-</u>	<u>15,848,568</u>	<u>207,611</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	9,185,019	117,466	9,302,485	596
Accrued interest payable	1,499,776		1,499,776	
Due to other governments	428,072		428,072	1,205,340
Unearned revenues	383,211		383,211	
Grant advances	1,072,359		1,072,359	
Noncurrent liabilities due within one year:				
Bonds payable	19,486,843		19,486,843	
Guaranteed assistance contract loan payable	172,000		172,000	
Due to employees' retirement system	274,425		274,425	
Compensated absences	3,230,000		3,230,000	
Claims and judgments payable	491,371		491,371	
Estimated liability for landfill closure and postclosure care costs	1,400,180		1,400,180	
Total Current Liabilities	<u>37,623,256</u>	<u>117,466</u>	<u>37,740,722</u>	<u>1,205,936</u>
Noncurrent Liabilities:				
Unearned revenues	1,067,764		1,067,764	
Due to other governments	7,215,589		7,215,589	
Bond anticipation notes payable		1,200,000	1,200,000	
Bonds payable	150,200,713		150,200,713	
Guaranteed assistance contract loan payable	3,303,000		3,303,000	
Due to employees' retirement system	1,348,605		1,348,605	
Compensated absences	2,057,177		2,057,177	73,736
Claims and judgments payable	6,546,588		6,546,588	
Estimated liability for landfill closure and postclosure care costs	24,146,544		24,146,544	
Net pension liability - proportionate share	13,486,025		13,486,025	195,413
Other postemployment benefits payable	62,120,773	311,324	62,432,097	571,450
Total Noncurrent Liabilities	<u>271,492,778</u>	<u>1,511,324</u>	<u>273,004,102</u>	<u>840,599</u>
Total Liabilities	<u>309,116,034</u>	<u>1,628,790</u>	<u>310,744,824</u>	<u>2,046,535</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - property taxes	86,793,543		86,793,543	
Deferred service concession arrangement receipt		2,537,500	2,537,500	
Pension	1,598,543		1,598,543	31,537
Total Deferred Inflows of Resources	<u>88,392,086</u>	<u>2,537,500</u>	<u>90,929,586</u>	<u>31,537</u>
NET POSITION				
Net investment in capital assets	125,004,834	7,345,068	132,349,902	
Restricted - Public safety	25,786		25,786	
Health	674,420		674,420	
Transportation	220,000		220,000	
Economic assistance and opportunity	240,236		240,236	
Culture and recreation	269,199		269,199	
Home and community services	3,653,303		3,653,303	
Unrestricted	(19,379,551)	(2,339,772)	(21,719,323)	2,470,798
Total Net Position	<u>\$ 110,708,227</u>	<u>\$ 5,005,296</u>	<u>\$ 115,713,523</u>	<u>\$ 2,470,798</u>

See notes to the financial statements.

TOWN OF BABYLON
 GOVERNMENT-WIDE FINANCIAL STATEMENT
 STATEMENT OF ACTIVITIES
 Year Ended December 31, 2016

Function/ Program	Expenses	Program Revenues			Total Program Revenues	Net (Expenses) Revenues and Changes in Net Position			Non-major Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:									
Governmental Activities:									
General government support	\$ 19,919,211	\$ 3,003,307		\$ 2,629,172	\$ 5,632,479	\$ (14,286,732)		\$ (14,286,732)	
Public safety	23,292,393	4,073,272			4,073,272	(19,219,121)		(19,219,121)	
Health	6,051,828	753,064	\$ 989,384	50,000	1,792,448	(4,259,380)		(4,259,380)	
Transportation	24,538,590	176,088	33,000	3,492,473	3,701,561	(20,837,029)		(20,837,029)	
Economic assistance and opportunity	168,489	475	34,309	240,000	274,784	106,295		106,295	
Culture and recreation	19,992,569	4,047,505	331,884	1,181,822	5,561,211	(14,431,358)		(14,431,358)	
Home and community services	64,039,919	47,392,088	14,208,212	264,410	61,864,710	(2,175,209)		(2,175,209)	
Interest on debt	5,611,003					(5,611,003)		(5,611,003)	
Total Governmental Activities	163,614,002	59,445,799	15,596,789	7,857,877	82,900,465	(80,713,537)	\$ -0-	(80,713,537)	
Business-type Activities:									
Water	762,143	75,000		88,901	163,901		(598,242)	(598,242)	
Total Business-type Activities	762,143	75,000	-0-	88,901	163,901	-0-	(598,242)	(598,242)	
Total Primary Government	\$ 164,376,145	\$ 59,520,799	\$ 15,596,789	\$ 7,946,778	\$ 83,064,366	\$ (80,713,537)	\$ (598,242)	\$ (81,311,779)	
NON-MAJOR COMPONENT UNITS:									
Economic assistance and opportunity	\$ 1,684,343	\$ 1,768,072							\$ 83,729
Total Component Units	\$ 1,684,343	\$ 1,768,072							\$ 83,729
GENERAL REVENUES:									
Real property taxes						\$ 79,158,735		\$ 79,158,735	
Other real property tax items						2,455,278		2,455,278	
Non-property tax items						4,749,123		4,749,123	
Interest earnings						530,781	\$ 4,303	535,084	\$ 9,268
Gain on sale of capital assets						76,870		76,870	
Mortgage tax						4,582,494		4,582,494	
State aid						1,115,651		1,115,651	
Other						265,750	277,701	543,451	
SPECIAL ITEM						(14,707,883)		(14,707,883)	
Total General Revenues and Special Item						78,226,799	282,004	78,508,803	9,268
Change in Net Position						(2,486,738)	(316,238)	(2,802,976)	92,997
Net Position at Beginning of Year, as Restated						113,194,965	5,321,534	118,516,499	2,377,801
Net Position at End of Year						\$ 110,708,227	\$ 5,005,296	\$ 115,713,523	\$ 2,470,798

TOWN OF BABYLON
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

MAJOR FUNDS

	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Highway Fund	Capital Projects Fund	Special Districts Fund	Total Major Governmental Funds	Non-major Governmental Funds	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 38,481,941	\$ 22,141,581	\$ 16,520,240	\$ 11,906,696	\$ 17,670,143	\$ 6,139,947	\$ 112,860,548	\$ 13,085,820	\$ 125,946,368
Cash with fiscal agent	1,748,456	12,263	11,181	2,174,055			3,945,955	16,951	3,962,906
Accounts receivable	2,001,204	633,693	2,042,628		3,271		4,680,796	7,771,090	12,451,886
Taxes receivable	26,971,285			16,141,671			55,721,206	3,635,387	59,356,593
Long Island Green Homes receivable		7,456,829					7,456,829		7,456,829
Due from other funds	256,482			298,364			554,846	442	555,288
Due from other governments	1,933,830	15,405		535,860	6,528,929		9,014,024	1,473,429	10,487,453
Inventory	274,142			392,200			666,342	156,477	822,819
Prepaid items							926,762	2,500	929,262
Restricted cash							-	340,142	340,142
Property held for resale	18,305,904						18,305,904	315,782	18,621,686
Total Assets	<u>\$ 89,973,244</u>	<u>\$ 30,259,771</u>	<u>\$ 18,574,049</u>	<u>\$ 31,448,846</u>	<u>\$ 24,202,343</u>	<u>\$ 19,674,959</u>	<u>\$ 214,133,212</u>	<u>\$ 26,798,020</u>	<u>\$ 240,931,232</u>
LIABILITIES									
Accounts payable and accrued liabilities	\$ 1,322,699	\$ 2,037,870	\$ 847,199	\$ 266,439	\$ 3,074,524	\$ 193,706	\$ 7,742,437	\$ 882,166	\$ 8,624,603
Due to other funds					298,364		298,364	243,974	542,338
Due to other governments	48,066				100,000		148,066	7,495,595	7,643,661
Unearned revenue	1,334,705	116,270					1,450,975		1,450,975
Grant advance								1,072,359	1,072,359
Liabilities payable from restricted cash							-	340,142	340,142
Total Liabilities	<u>2,705,470</u>	<u>2,154,140</u>	<u>847,199</u>	<u>266,439</u>	<u>3,472,888</u>	<u>193,706</u>	<u>9,639,842</u>	<u>10,034,236</u>	<u>19,674,078</u>
DEFERRED INFLOWS OF RESOURCES									
Unearned revenue- property taxes	36,752,602	4,104,444	1,806,443	21,995,556			17,180,715	81,839,760	4,953,783
Unavailable revenue	1,225,242	7,456,829					8,682,071	315,782	8,997,853
Total Deferred Inflow of Resources	<u>37,977,844</u>	<u>11,561,273</u>	<u>1,806,443</u>	<u>21,995,556</u>	<u>-0-</u>	<u>17,180,715</u>	<u>90,521,831</u>	<u>5,269,565</u>	<u>95,791,396</u>
FUND BALANCES									
Nonspendable	2,645,872			392,200			926,762	3,964,834	158,977
Restricted	18,431,130	12,263	11,181	2,174,055	19,597,720		40,226,349	6,282,533	46,508,882
Assigned	61,398	16,532,095	15,909,226	6,620,596	1,131,735	1,373,776	41,628,826	5,052,709	46,681,535
Unassigned	28,151,530						28,151,530		28,151,530
Total Fund Balances	<u>49,289,930</u>	<u>16,544,358</u>	<u>15,920,407</u>	<u>9,186,851</u>	<u>20,729,455</u>	<u>2,300,538</u>	<u>113,971,539</u>	<u>11,494,219</u>	<u>125,465,758</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 89,973,244</u>	<u>\$ 30,259,771</u>	<u>\$ 18,574,049</u>	<u>\$ 31,448,846</u>	<u>\$ 24,202,343</u>	<u>\$ 19,674,959</u>	<u>\$ 214,133,212</u>	<u>\$ 26,798,020</u>	<u>\$ 240,931,232</u>

TOWN OF BABYLON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2016

Total Fund Balance - Governmental Funds \$ 125,465,758

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

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

Capital assets - non-depreciable	\$ 72,335,505	
Capital assets - depreciable	568,445,484	
Accumulated depreciation	<u>(389,780,443)</u>	
		251,000,546

Prepaid retirement expenses are included in the Statement of Net Position, since the payment made in the current year is through March 31st of the subsequent year. 978,339

Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds:

Long Island Green Homes receivable	7,456,829	
Due from other governments	1,225,242	
Assets held for resale	<u>315,782</u>	
		8,997,853

Deferred outflows of resources are included in the Statement of Net Position. 15,848,568

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

Bonds payable, inclusive of related premiums	(169,687,556)	
Guaranteed assistance contract loans payable	(3,475,000)	
Due to employees' retirement system	(1,623,030)	
Compensated absences	(5,287,177)	
Claims and judgments payable	(7,037,959)	
Estimated liability for landfill closure and postclosure care costs	(25,546,724)	
Net pension liability - proportionate share	(13,486,025)	
Other postemployment benefits payable	<u>(62,120,773)</u>	
		(288,264,244)

Interest and retainage payable applicable to the Town's governmental activities is not due and payable in the current period and accordingly is not reported in the funds. However, these liabilities are included in the Statement of Net Position. (1,720,050)

Deferred inflow of resources related to the pension plan is included in the Statement of Net Position. (1,598,543)

Net Position of Governmental Activities \$ 110,708,227

TOWN OF BABYLON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 Year Ended December 31, 2016

	MAJOR FUNDS						Total Major Governmental Funds	Non-major Governmental Funds	Total Governmental Funds
	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Highway Fund	Capital Projects Fund	Special Districts Fund			
REVENUES									
Real property taxes	\$ 35,140,048	\$ 15,120,928	\$ 6,804,117	\$ 20,988,530		\$ 16,873,901	\$ 94,927,524	\$ 6,156,256	\$ 101,083,780
Other real property tax items	1,096,378			630,934		543,408	2,270,720	184,558	2,455,278
Non-property tax items	4,749,123						4,749,123		4,749,123
Departmental income	3,499,602	7,239,344	18,442,423				29,181,369	4,807,473	33,988,842
Use of money and property	2,711,975	358,636	20,848	20,490	\$ 52,592	2,997	3,167,538	14,461	3,181,999
Licenses and permits	239,194			176,088			415,282		415,282
Fines and forfeitures	1,474,890						1,474,890		1,474,890
Sale of property and compensation for loss	8,766				900		9,666		9,666
Interfund revenue	2,801,385						2,801,385		2,801,385
Miscellaneous local sources	672,433	195,818	237,961	27,352	1,545,021		2,678,585	1,863,272	4,541,857
State aid	4,822,357	15,405		1,473,977	797,437		7,109,176	1,339,822	8,448,998
Federal aid	560,329						560,329	14,846,569	15,406,898
Total Revenues	57,776,480	22,930,131	25,505,349	23,317,371	2,395,950	17,420,306	149,345,587	29,212,411	178,557,998
EXPENDITURES									
Current:									
General government support	14,038,227						14,038,227	415,775	14,454,002
Public safety	1,667,705						17,350,316	2,814,606	20,164,922
Health	2,843,945						4,482,014	1,002,068	5,484,082
Transportation				7,544,842			7,544,842	2,175,976	9,720,818
Economic assistance and opportunity	121,194						121,194	42,664	163,858
Culture and recreation	10,191,081						10,191,081	935,723	11,126,804
Home and community services	1,362,674	23,854,669	20,675,549				45,892,892	15,979,431	61,872,323
Employee benefits	11,468,934	399,082	451,162	3,380,639			15,699,817	2,990,873	18,690,690
Capital Outlay					17,799,148		17,799,148		17,799,148
Debt Service:									
Principal	7,681,425	515,155	469,988	8,873,373			17,539,941	821,060	18,361,001
Interest	3,043,732	53,903	50,939	2,551,014			5,699,588	318,750	6,018,338
Bond issuance costs	85,289	2,091	2,092	31,443			120,915		120,915
Total Expenditures	52,504,206	24,824,900	21,649,730	22,381,311	17,799,148	17,320,680	156,479,975	27,496,926	183,976,901
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,272,274	(1,894,769)	3,855,619	936,060	(15,403,198)	99,626	(7,134,388)	1,715,485	(5,418,903)
OTHER FINANCING SOURCES (USES)									
Principal amount of bond proceeds					17,100,000		17,100,000		17,100,000
Loan proceeds from guarantee assistance contract								1,150,000	1,150,000
Premium on obligations	260,381	6,479	6,479	105,987			379,326		379,326
Operating transfers in	951,483	500,232	433,347	200,000	581,593		2,666,655		2,666,655
Operating transfers out	(174,391)	(187,273)	(219,929)		(1,869,330)		(2,450,923)	(215,732)	(2,666,655)
Sale of capital assets	179,045						179,045		179,045
Insurance recovery	10,167						10,167		10,167
Total Other Financing Sources (Uses)	1,226,685	319,438	219,897	305,987	15,812,263	-0-	17,884,270	934,268	18,818,538
Net Change in Fund Balances	6,498,959	(1,575,331)	4,075,516	1,242,047	409,065	99,626	10,749,882	2,649,753	13,399,635
Fund Balances at Beginning of Year, as Restated	42,790,971	18,119,689	11,844,891	7,944,804	20,320,390	2,200,912	103,221,657	8,844,466	112,066,123
Fund Balances at End of Year	\$ 49,289,930	\$ 16,544,358	\$ 15,920,407	\$ 9,186,851	\$ 20,729,455	\$ 2,300,538	\$ 113,971,539	\$ 11,494,219	\$ 125,465,758

TOWN OF BABYLON
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

Net Change in Fund Balance \$ 13,399,635

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

Capital outlay	\$ 23,413,963	
Depreciation expense	(16,882,881)	
Loss on disposal of capital assets	(696,167)	
Asset donated to Suffolk County (special item)	<u>(14,707,883)</u>	(8,872,968)

Prepaid retirement expenses are expensed in the fund statements, but not in the Statement of Activities, since the payment made in the current year is through March 31st of the subsequent year. (154,369)

Some revenues will not be collected for several months after the Town's year end. These are not considered "available" revenues in the governmental funds until received. The change in the amount is reported as a deferred inflow of resources in the fund statements. (1,586,385)

Mortgage tax revenues are reported in the governmental funds when considered "available" and in the Statement of Activities when "earned." (9,785)

Net change in deferred outflows of resources not reported in the governmental fund statements:

Amortization of deferred charges on refundings	(40,587)	
Pension related amounts	<u>11,292,676</u>	11,252,089

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. The following amounts are the effect of these differences in the treatment of long-term debt and related items:

Repayment of bond anticipation note	450,000	
Bonds issued	(17,100,000)	
Repayment of bond principal	17,595,000	
Premiums received	(379,326)	
Amortization of bond premiums	288,913	
Loan proceeds from guarantee assistance contract	(1,150,000)	
Repayment of guarantee assistance contract loans	316,000	
Employees' retirement system	265,286	
Compensated absences	(76,042)	
Claims and judgments	1,752,556	
Estimated liability for landfill closure and postclosure care costs	(940,134)	
Net pension liability - proportionate share	(10,750,940)	
Other postemployment benefits payable	<u>(5,450,480)</u>	(15,179,167)

Bond interest is recorded as an expenditure on the fund statements when it is paid, and on the Statement of Activities when it is incurred. 182,134

Retainage is recorded as an expenditure on the fund statements when the relating capital project is substantially complete, and on the Statement of Activities when it is incurred. 80,621

The net change in deferred inflows of resources not reported in the governmental fund statements related to pensions. (1,598,543)

Change in Net Position of Governmental Activities \$ (2,486,738)

TOWN OF BABYLON
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
 December 31, 2016

	<u>East Farmingdale Water District</u>	<u>Oak Beach Water District</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,768,248		\$ 1,768,248
Due from other governments		\$ 35,610	35,610
Total Current Assets	<u>1,768,248</u>	<u>35,610</u>	<u>1,803,858</u>
Noncurrent Assets:			
Due from other governments		1,200,000	1,200,000
Non-depreciable capital assets	194,964	88,901	283,865
Capital assets, net of accumulated depreciation	5,896,813		5,896,813
Total Noncurrent Assets	<u>6,091,777</u>	<u>1,288,901</u>	<u>7,380,678</u>
Total Assets	<u>7,860,025</u>	<u>1,324,511</u>	<u>9,184,536</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	94,806	22,660	117,466
Due to other fund		12,950	12,950
Total Current Liabilities	<u>94,806</u>	<u>35,610</u>	<u>130,416</u>
Noncurrent Liabilities:			
Bond anticipation note payable		1,200,000	1,200,000
Other postemployment benefits payable	311,324		311,324
Total Noncurrent Liabilities	<u>311,324</u>	<u>1,200,000</u>	<u>1,511,324</u>
Total Liabilities	<u>406,130</u>	<u>1,235,610</u>	<u>1,641,740</u>
DEFERRED INFLOW OF RESOURCES			
Deferred service concession arrangement receipt	2,537,500		2,537,500
Total Deferred Inflow of Resources	<u>2,537,500</u>	<u>-0-</u>	<u>2,537,500</u>
NET POSITION			
Net investment in capital assets	6,091,777	1,253,291	7,345,068
Unrestricted	(1,175,382)	(1,164,390)	(2,339,772)
Total Net Position	<u>\$ 4,916,395</u>	<u>\$ 88,901</u>	<u>\$ 5,005,296</u>

TOWN OF BABYLON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
ENTERPRISE FUNDS
Year Ended December 31, 2016

	East Farmingdale Water District	Oak Beach Water District	Total
OPERATING REVENUES			
Rental income from water plant	\$ 75,000		\$ 75,000
Total Operating Revenues	<u>75,000</u>	<u>\$ -0-</u>	<u>75,000</u>
OPERATING EXPENSES - HOME AND COMMUNITY			
Retiree benefits	157,138		157,138
Management and administration fees	440,538		440,538
Depreciation	163,137		163,137
Insurance	1,330		1,330
Total Operating Expenses	<u>762,143</u>	<u>-0-</u>	<u>762,143</u>
Loss from Operations	<u>(687,143)</u>	<u>-0-</u>	<u>(687,143)</u>
NON-OPERATING REVENUE			
Rental income from cell tower rentals	277,701		277,701
State aid		88,901	88,901
Interest income	4,303		4,303
Total Non-Operating Revenue	<u>282,004</u>	<u>88,901</u>	<u>370,905</u>
Change in Net Position	(405,139)	88,901	(316,238)
Net Position - Beginning of Year	<u>5,321,534</u>	<u>-0-</u>	<u>5,321,534</u>
Net Position - End of Year	<u>\$ 4,916,395</u>	<u>\$ 88,901</u>	<u>\$ 5,005,296</u>

TOWN OF BABYLON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended December 31, 2016

	East Farmingdale Water District	Oak Beach Water District	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash paid to third party management and others	\$ (495,918)		\$ (495,918)
Cash paid on behalf of retirees	(146,058)		(146,058)
Net Cash Used for Operating Activities	(641,976)	\$ -0-	(641,976)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets		(66,241)	\$ (66,241)
Capital grant		53,291	53,291
Due to other fund		12,950	12,950
Cash Provided by (Used for) Capital and Related Financing Activities	-0-	-0-	-0-
CASH FLOWS FROM INVESTING ACTIVITIES			
Rental income from cell towers	277,701		277,701
Interest income	4,303		4,303
Net Cash Provided by Investing Activities	282,004	-0-	282,004
Net decrease in cash and cash equivalents	(359,972)	-0-	(359,972)
Cash and Cash Equivalents at Beginning of Year	2,128,220	-0-	2,128,220
Cash and Cash Equivalents at End of Year	\$ 1,768,248	\$ -0-	\$ 1,768,248
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES			
Loss from operations	\$ (687,143)	\$ -0-	\$ (687,143)
Adjustments to reconcile loss from operations to net cash used for operating activities:			
Depreciation expense	163,137		163,137
Increase (decrease) in:			
Accounts payable	(54,475)		(54,475)
Deferred service concession arrangement receipts	(75,000)		(75,000)
Other postemployment benefits payable	11,505		11,505
Net Cash Used for Operating Activities	\$ (641,976)	\$ -0-	\$ (641,976)

NONCASH CAPITAL AND FINANCING ACTIVITIES:

The Oak Beach Water District's acquisition and construction of capital assets in the amount of \$66,241 is reported net of the change in accounts payable of \$22,660.

The Oak Beach Water District's capital grant in the amount of \$53,291 is reported net of the change in due from other governments related to this grant of \$35,610.

The Oak Beach Water District's due from other government in the amount of \$1,200,000 is reported net of the bond anticipation note payable of \$1,200,000.

TOWN OF BABYLON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2016

ASSETS

Cash	\$ 28,778,650
Total Assets	<u>\$ 28,778,650</u>

LIABILITIES

Due to school districts	\$ 24,831,885
Due to fire districts	2,359,681
Due to other Counties for tuition tax	810,295
Agency fund liabilities	<u>776,789</u>
Total Liabilities	<u>\$ 28,778,650</u>

NOTES TO FINANCIAL STATEMENTS

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Babylon (the "Town") which was established in 1872 is governed by Town Law, 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 and four council members who are elected for a term of four years. The Town Board appoints the Town Attorney and the Commissioner of Public Works whose terms are fixed by Town Law. The Town Clerk and Receiver of Taxes are elected and serve for two years and four years, respectively. The Comptroller and Director of Youth Services are appointed by the Supervisor. The Town Board appoints the following five Commissioners: General Services, Human Resources, Parks, Planning and Development and Environmental Control. The Commissioners serve at the discretion of the Town Board.

The Town provides the following principal services either directly or through Town-operated special districts: parks and recreation, highway construction and maintenance, inland waterways and marinas, building inspection and zoning administration, fire protection, street lighting, garbage pick-up and disposal, water services, and administration of certain state and federal grants.

The financial statements of the Town of Babylon 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 standard setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below:

A. REPORTING ENTITY

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

The decision to include a potential component unit in the Town's reporting entity is based on several criteria including legal standing, dependency and financial accountability. Based on the application of these criteria, the following is a summary of certain entities considered in determining the Town's reporting entity.

Discretely Presented Component Units:

The following entities are discretely presented component units of the Town of Babylon:

- a) The Town of Babylon Industrial Development Agency (the "Agency") was created as a New York State public benefit corporation. The Agency was established on April 10, 1973 pursuant to Code Section 907-a of the New York State General Municipal Law. The Agency was created to promote the economic welfare, recreation opportunities and prosperity of the Town of Babylon's residents. The governing body of the Town of Babylon appoints the Agency's Board of Directors which results in interdependency with the Town of Babylon. However the Agency's Board of Directors has complete responsibility for approval and adoption of policies of the Agency and accountability for fiscal matters. Accordingly, the Agency has been determined to be a discretely presented component unit of the Town of Babylon.
- b) The Town of Babylon L.D. Corporation II (the "Corporation"), was created as a New York State not-for-profit public benefit corporation. The Corporation was established on August 18, 1988 pursuant to Section 1411 of the Not-for-Profit Corporation Law as defined in section 102(a)(5). The Corporation is a government instrumental tax-exempt corporation that was created to promote the economic welfare, recreation opportunities and prosperity of the inhabitants of the Town of Babylon. The Corporation provides companies with federally tax-exempt and taxable revenue bonds as incentives.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

Discretely Presented Component Units (continued):

- c) Wyandanch Rising, Inc. ("WRI") was created as a New York State not-for-profit public benefit corporation. WRI was established on September 13, 2011 pursuant to Section 1411 of the New York State Not-for-Profit Corporation law as defined in section 102(a)(5). WRI is a government instrumental tax-exempt corporation that was created to promote the economic welfare, recreation opportunities and prosperity of the inhabitants of the Town of Babylon. WRI provides companies with federally tax-exempt and taxable revenue bonds, sales tax exemptions for construction materials and equipment and mortgage recording tax exemptions as incentives.

The governing body of the Town of Babylon appoints the Town of Babylon L.D. Corporation II's and Wyandanch Rising, Inc.'s Board of Directors which results in interdependency with the Town of Babylon. However both the Corporation's and WRI's Boards of Directors have complete responsibility for approval and adoption of policies and accountability for fiscal matters. Accordingly, the Corporation and WRI have been determined to be discretely presented component units of the Town of Babylon.

All of the Town of Babylon's discretely presented component units are considered non-major.

Complete financial statements of the individual discretely presented component units can be obtained from their respective administrative offices:

1. The Town of Babylon Industrial Development Agency
47 West Main Street
Babylon, New York 11702
2. The Town of Babylon L.D. Corporation II
816 Deer Park Avenue
North Babylon, NY 11703
3. Wyandanch Rising, Inc.
816 Deer Park Avenue
North Babylon, NY 11703

Blended Component Units:

Some component units, despite being legally separate from the primary government, are so integrated with the primary government that they are, in substance, part of the primary government. These component units are blended with the primary government. The blended component units of the Town are reported within the Special Revenue Funds in the Town's basic financial statements.

The following is a list of the Town's blended component units:

- a) The Town of Babylon Youth Development Research Institute, Inc. (the "Institute") is a not-for-profit organization located in North Babylon, New York. The Institute operates various youth programs at the Town's youth centers. The Institute's Board of Directors consists of members of the Town Board. The Town funds certain salary and fringe benefit costs of the Institute as well as acting as a pass through entity for funding received from state and county contracts. The Town provides operating space and equipment for the Institute. As a result of this fiscal dependency and potential for financial burden, the Town is financially accountable for the Institute. Accordingly, this Institute is included in the Town's reporting entity.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

Blended Component Units (continued):

- b) The Town of Babylon Human & Therapeutic Services, Inc. ("Human & Therapeutic Services") is a not-for-profit organization located in North Babylon, New York. The purpose of Human & Therapeutic Services is to operate programs which provide humanitarian services for the benefit of the residents of the Town of Babylon, the County of Suffolk, and the State of New York; drug and alcohol abuse prevention; improvement of the quality of life of persons afflicted with physical or mental handicaps; and assistance to senior citizens of the Town. Human & Therapeutic Services' Board of Directors consists of members of the Town Board. The Town provides funds for certain salary and fringe benefit costs to the Human & Therapeutic Services as well as acts as a pass through entity for funding received from state and county contracts. The Town provides operating space and equipment for Human & Therapeutic Services. As a result of this fiscal dependency and potential for financial burden, the Town is financially accountable for the Human & Therapeutic Services and accordingly is included in the Town's reporting entity.

- c) The Town of Babylon Senior Citizens Community Services, Inc. ("Senior Citizens Community Services") is a not-for-profit organization located in North Babylon, New York. Senior Citizens Community Services operates various programs benefiting senior citizens of the Town of Babylon. Senior Citizens Community Services' Board of Directors consists of members of the Town Board. The Town acts as a pass through entity for funding received from federal and county contracts. The Town acquires equipment and provides operating space and real property for Senior Citizens Community Services. As a result of this fiscal dependency and potential for financial burden, the Town is financially accountable for the Senior Citizens Community Services and accordingly is included in the Town's reporting entity.

Complete financial statements of the individual blended component units can be obtained from their respective administrative offices:

- 1. The Town of Babylon Youth Development Research Institute, Inc.
Town Hall Annex
281 Phelps Lane
North Babylon, New York 11703

- 2. The Town of Babylon Human & Therapeutic Services, Inc.
Town Hall Annex
281 Phelps Lane
North Babylon, New York 11703

- 3. The Town of Babylon Senior Citizens Community Services, Inc.
Town Hall Annex
281 Phelps Lane
North Babylon, New York 11703

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Town as a whole with separate columns for the primary governmental activities and business-type activities as well as the non-major discretely presented component units. For the most part, the effect of interfund activity has been eliminated from the government-wide financial statements, except for interfund services provided and used.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-wide Financial Statements (continued)

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

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

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are presented by type in the fund financial statements. Certain funds of the Town are utilized to account for resources derived from and/or expenditures applicable to an area less than the entire town. The focus of the governmental funds financial statements is on the major funds. Accordingly, the Town maintains the following fund types:

Governmental Funds – Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position. Governmental funds are further classified as major and non-major funds.

The Town reports the following major governmental funds:

General Fund – is the principal operating fund of the Town. This fund is used to account for all financial resources except those required to be accounted for in other funds.

Capital Projects Fund – is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets other than those financed by the proprietary fund.

Special Revenue Funds – are used to account for 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 Town reports the following major Special Revenue governmental funds:

Garbage District Funds – which consists of the commercial garbage and residential garbage improvement districts, are used to account for transactions for the operation of refuse collection and disposal.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

Governmental Funds (continued)

Highway Fund – is used to account for revenues and expenditures for highway purposes including construction of Town bridges, purchase of highway machinery and equipment, snow removal and control of brush and weeds as well as other miscellaneous highway purposes.

Special Districts Fund – is used to account for operations and maintenance of the Town's fire protection and ambulance districts.

Additionally, the Town reports the following non-major Special Revenue governmental funds:

Part-Town Fund – is used to account for activities, which are required by statute, in the areas of the Town outside of the Incorporated Villages.

Lighting District Fund – is used to account for lighting repairs and construction within the Town.

Housing Assistance Agency Fund – is used to account for the Town's housing assistance programs.

Community Development Agency Fund – is used to account for the Town's community development programs.

Other Special Revenue Fund – is used to account for miscellaneous revenues with restrictions for specific purposes.

Proprietary Funds – Proprietary funds are used to account for ongoing activities, which are similar to those often found in the private sector. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) and deferred outflows and inflows are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position.

The Town reports the following major proprietary funds:

East Farmingdale Water District – In accordance with a lease agreement dated October 2010, East Farmingdale Water District leases its water plant to Suffolk County Water Authority. See Note 4. H.

Oak Beach Water District – is used to account for the new water system at Oak Beach.

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

The Town has presented the following fiduciary funds:

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

Revenues susceptible to accrual are mortgage tax, franchise fees, charges for services, state and federal aid, intergovernmental revenue and operating transfers. Permit fees and other similar revenues are not susceptible to accrual because they are not measurable until received in cash. In those instances where expenditures are the prime factor in determining eligibility for state and federal grants, revenues are recognized when the expenditure is incurred.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services. The principal operating revenues consists of charges to others for sales and services and the rental income from leasing the water plant which is the primary activity. Operating expenses include costs of sales and services and leasing the property as well as administrative and depreciation expenses. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities.

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.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. CASH AND CASH EQUIVALENTS

Cash consists of funds deposited in demand accounts, both interest bearing and non-interest bearing, time deposit accounts and petty cash. For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

State statutes govern the Town's investment policies. The Town has a written investment policy stating that Town money must be deposited in FDIC-insured commercial banks. The Town is authorized to use demand accounts, special time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, and obligations of New York State and its localities and participation in State authorized cooperative investment programs. All demand deposits and time deposit accounts are carried at cost. The Town has no investments as of December 31, 2016.

Collateral is required for demand deposits and time deposits accounts at 100% of all deposits not covered by federal deposit insurance. The Town's investment policy defines acceptable forms of collateral as: (1) certain defined eligible securities, including but not limited to obligations of the United States and its agencies, obligations of the State and its municipalities and school districts, (2) certain irrevocable letters of credit issued in favor of the Town, and (3) certain eligible surety bonds issued in favor of the Town.

2. RECEIVABLES

Receivables relating to governmental-type activities primarily include amounts due from federal, state, and other local governments; individuals and entities for services provided by the Town, as well as amounts due related to various grant and franchise agreements.

The receivable balances relating to the business-type activities primarily consists of amounts due from the New York State Environmental Facilities Corporation for a grant and a bond anticipation note, as well as an amount due from a third party for reimbursement of remediation costs incurred. Collection is not certain as of December 31, 2016 and therefore the balance is reported net of an allowance of \$342,000, which represents the entire balance of the East Farmingdale Water District fund's receivables.

Taxes receivable represent amounts due for Town and County real estate taxes levied on December 1st that have not been paid as of year-end. Responsibility for the collection of unpaid taxes rests with the County, and accordingly, the Town is assured of 100% collection of real property taxes.

The Long Island Green Homes receivables are loans that have been provided to the Town's residents for specific energy efficiency improvements. These loans bear interest at 3%, are secured by liens on real property and are payable in monthly installments through December of 2027.

In the Statement of Net Position, receivables, including amounts due from federal, state, and other local governments, are reported as current or noncurrent based on the expected timing of repayment. The noncurrent accounts receivable and amounts due from other governments consists of federal rehabilitation mortgages receivable and other miscellaneous amounts not expected to be collected in the subsequent year.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. RECEIVABLES (continued)

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

a) Interfund Revenues

Interfund revenues and interfund services provided and used, in the general fund represent amounts charged for services or facilities provided by the general fund. The amounts paid by the fund receiving the benefits of the service or facilities are reflected as expenditure in that fund.

b) Operating Transfers

Other transactions between funds include residual equity transfers to close out completed capital projects as well as transfers to fund certain capital projects.

3. INVENTORY AND PREPAID ITEMS

Inventory in the governmental funds, consisting of salt, expendable supplies and spare parts held for consumption, are valued at cost. These inventories are accounted for using the purchase method and recorded as an expenditure at the time of purchase.

Payments to special districts in the Town for the remittances of 2017 real property taxes collected reflect amounts applicable to future accounting periods and therefore are reported as prepaid expenses in both the government-wide and fund financial statements. In addition, the government-wide financial statements include amounts paid in advance for retirement costs.

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

4. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets purchased or acquired with an original cost of \$2,500 through December 31, 2010 and \$10,000 subsequent to December 31, 2010, and have a useful life of greater than a year are reported at historical cost or estimated historical cost. Contributed assets are valued at acquisition value as of the date of donation to the Town. Costs incurred for repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant or equipment.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Improvements	20 years
Machinery and equipment	3-20 years
Infrastructure	10-50 years

Infrastructure assets consisting of certain improvements and plant structures (excluding buildings), including but not limited to the landfill, roads, curbs, sidewalks, drainage system, street lighting, and the water system are capitalized along with other capital assets.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. CAPITAL ASSETS (continued)

In the fund financial statements, capital assets are recorded as capital outlay expenditures in the governmental fund upon acquisition.

5. PROPERTY HELD FOR RESALE

Real property presented in the general fund and community development agency fund is recorded at cost and is adjusted for any costs to maintain the property. Property is acquired from various sources and held for redevelopment and resale to eligible individuals or developers. Management reviews annually for any impairment issues.

6. UNEARNED REVENUE/ GRANT ADVANCE

Unearned revenues, reported as liabilities in the fund and government-wide financial statements, are those which asset recognition criteria have been met, but which revenue recognition criteria have not been met for exchange type transactions. Such amounts include collections in advance for leases and fee income relating to 2017.

Grant advances relate to housing assistance payments for the January 2017 rents.

7. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for the deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported deferred outflows of resources of approximately \$136,000 for a deferred charge on refunding bonds and \$15,712,000 for pension related activities in the government-wide Statement of Net Position. A deferred charge on a refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The pension plan deferred outflow represents the effect of the net change in the Town's proportion of the collective net pension liability and the difference during the measurement period between the Town's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. This amount also includes the Town's contributions to the pension system subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for the deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Town's governmental funds report the following items as deferred inflows on the Balance Sheet: unearned revenues which relate to 2017 real estate taxes of approximately \$86,794,000 and unavailable revenues of approximately \$8,998,000 which primarily consist of mortgage tax revenue and deferrals related to Long Island Green Home loans and Community Development property held for resale. Unavailable revenues, which arise only under a modified accrual basis of accounting, are only reported in the governmental funds Balance Sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The unearned revenues, relating to the collection of real estate taxes for a future period, are accordingly reported as a deferred inflow in the government-wide Statement of Net Position as well as the governmental funds Balance Sheet. On the government-wide financial statements, the governmental activities reports a deferred inflow of resources of approximately \$1,599,000 related to the change in proportion and differences between the contributions and proportionate share of the Town's net pension liability as well as differences between expected and actual experience.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES (continued)

The Town's proprietary fund has reported deferred inflows of resources of approximately \$2,538,000 resulting from lease income received in advance in a service concession arrangement which is being amortized and recognized in revenue over the lease term.

8. LONG-TERM OBLIGATIONS

In the government-wide and proprietary fund financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences, guaranteed assistance contract loans, amounts due to employees' retirement system, judgments and claims, liability for landfill closure and postclosure care costs, the proportionate share of the net pension liability, and other postemployment benefits ("OPEB") are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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.

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

9. NET POSITION AND FUND BALANCE CLASSIFICATION

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

- a) Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Accounts payable in the capital projects fund are capital related debt and are used in the calculation of net investment in capital assets.
- b) Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

When outlays for a particular purpose can be funded from both restricted and unrestricted net position resources in the government-wide and proprietary fund financial statements, it is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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. Not all of the Town's funds will necessarily have all of the components of fund balance available to that fund.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. NET POSITION AND FUND BALANCE CLASSIFICATION (continued)

- 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), (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, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Town's highest decision making authority is the Town Board, who by adoption of a Town ordinance prior to year end, can commit fund balance. Those committed amounts cannot be used for any other purpose unless the Town Board removes or changes the specified use by taking the same type of action imposing the commitment.
- 4) Assigned fund balance reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. The Town Board and the Town Comptroller have 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 reflects the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

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

E. REVENUES AND EXPENDITURES/EXPENSES

1. REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES

Real property taxes are levied annually no later than December 1st and are recognized as revenue January 1st of the year for which they were levied. The Town has its own Assessor's Office whose responsibilities are independent and distinct from those of the Receiver of Taxes. The Town assessment rolls are used for the levy of property taxes by the Town and the school districts, as well as by the County of Suffolk, New York (the "County") and by special districts based upon a single tax bill.

The Town of Babylon Receiver of Taxes collects all real property taxes for the Town, Suffolk County, Town Special Districts, and School Districts located within the Town of Babylon. Real property taxes are levied annually no later than December 1st and are due in two installments without penalty, 50% on January 10th and 50% on May 31st. Penalties are imposed thereafter at the rate of 1% per month on delinquent taxes until May 31st, after which taxes are payable to the County Treasurer. The Town retains the total amount of Town, highway, special district, special lighting district, and the commercial and residential garbage districts' levies from the amount collected, prior to distributing the remaining balance collected to the County.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES/EXPENSES (continued)

2. OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the Town provides health insurance coverage, including reimbursement of Medicare Part B premiums, and survivor benefits for retired employees and their dependents. Substantially all of the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town as well as meet certain years of service requirements.

Health care benefits are currently provided by the New York State Health Insurance Program NYSHIP (Empire Plan) whose premiums are based on the benefits paid throughout the State during the year. In addition, the Town offers medical coverage through HIP Health Plan of New York (HIP).

The Town recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid. The Town's union contracts and ordinances require that it provide its eligible enrollees with the Empire Plan benefit coverage, or if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Town has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss. The liability for these other postemployment benefits payable is recorded as long-term debt in both the government-wide and proprietary fund statements. The current year increase in the liability is based upon the most recent actuarial report.

3. COMPENSATED ABSENCES

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

The amount that is expected to be liquidated with expendable available financial resources is reported as a liability in the funds statement in the respective fund that will pay it.

F. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purpose, is employed in the governmental funds, excluding the housing assistance and community development agency 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 basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. NEW ACCOUNTING PRINCIPLES

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. For the year ended December 31, 2016, the Town adopted:

Statement No. 72 "*Fair Value Measurement and Application*" includes requirements that will enhance the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this Statement did not have any impact on the Town's financial statements.

Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68,*" clarifies the existing guidance as well as establishes new requirements for pensions not covered by GASB 67 and 68. The requirements of this Statement that clarify the existing guidance is effective for the current year. The requirements that address the accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions not within the scope of GASB Statement 68 will be effective for the year ended December 31, 2017. The current year implementation requirements of this Statement did not have any impact on the Town's financial statements.

Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,*" the objective of which is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles. The implementation this Statement had no impact on the Town's financial statements.

Statement No. 77 "*Tax Abatement Disclosures*" provides the users of the Town's financial statements with information about the nature and magnitude of tax abatements, to help the users understand how tax abatements affect the Town's future ability to raise resources and meet its financial obligations, as well as the impact on the Town's financial position and economic condition. The implementation of this Statement resulted in the Town disclosing certain information related to tax abatement agreements that were entered into by other organizations that reduce the Town's tax revenues (See Note 3.J).

Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", amends the scope and applicability of Statement No. 68. This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to employees of a state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that meets certain criteria of Statement No. 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state/local governmental employers as well as to employees of non-state/local governmental employers and (c) has no predominant state or local governmental employer, either individually or collectively with other state or local governmental employers that provide pensions through the pension plan. The implementation of this Statement had no impact on the Town's financial statements.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. SUBSEQUENT EVENTS

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

- a) The Town Charter establishes the fiscal year as the twelve-month period beginning January 1st.
- b) On or before September 30th (October 30th for the Town's Special and Garbage District funds), each department, officer or district submits a detailed budget request to the Comptroller, who then prepares a tentative budget, which is submitted to the Town Clerk. The tentative budget includes proposed expenditures and the proposed means of financing the entire Town's governmental, special revenue, and proprietary funds, with the exception of the blended component units, the capital projects fund, and the housing assistance and community development agency funds, for which legally adopted budgets are not required.
- c) After public hearings are conducted to obtain taxpayer comments and no later than November 20th, the Town Board adopts the budget. All modifications of the budget must be approved by the Town Board. However, the Comptroller is authorized to transfer certain budgeted amounts within departments.
- d) Budgets for the general 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 year. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations are made. The capital projects, housing assistance and community development agency funds are budgeted on a project or grant basis.

New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012 and lasting through at least June 15, 2020, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however, local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. The Town did not exceed the 2% property tax cap for 2016.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. FUND BALANCE

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

	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Highway Fund	Capital Projects Funds	Special District Fund	Other Governmental Funds	Total
Fund Balances:								
Nonspendable:								
Property held of resale	\$ 2,371,730							\$ 2,371,730
Prepaid items						\$ 926,762	\$ 2,500	929,262
Inventory	274,142			\$ 392,200			156,477	822,819
Total Nonspendable	2,645,872	\$ -0-	\$ -0-	392,200	\$ -0-	926,762	158,977	4,123,811
Restricted for:								
Debt service	2,496,956	12,263	11,181	2,174,055			1,199,591	5,894,046
Property held of resale	15,934,174							15,934,174
Capital projects					3,874,828			3,874,828
Purchases on order or contractual obligations					15,722,892			15,722,892
Grantors and donors restrictions							4,696,335	4,696,335
Guaranteed assistance contract							386,607	386,607
Total Restricted	18,431,130	12,263	11,181	2,174,055	19,597,720	-0-	6,282,533	46,508,882
Assigned to:								
Subsequent year's budget		3,293,538				200	599,858	3,893,596
Capital projects					686,535			686,535
Purchases on order or contractual obligations	61,398		54,165	710	445,200		15,713	577,186
Special revenue funds		13,238,557	15,855,061	6,619,886		1,373,576	4,437,138	41,524,218
Total Assigned	61,398	16,532,095	15,909,226	6,620,596	1,131,735	1,373,776	5,052,709	46,681,535
Unassigned, reported in								
General Fund	28,151,530							28,151,530
Total Unassigned	28,151,530	-0-	-0-	-0-	-0-	-0-	-0-	28,151,530
Total Fund Balances	\$ 49,289,930	\$ 16,544,358	\$ 15,920,407	\$ 9,186,851	\$ 20,729,455	\$ 2,300,538	\$ 11,494,219	\$ 125,465,758

3. DETAILED NOTES ON ALL FUNDS

A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits/ Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Town may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town had no investments as of December 31, 2016.

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND CASH EQUIVALENTS (continued)

At December 31, 2016 the Town's cash book balance was \$160,309,197. This amount is inclusive of Fiduciary fund deposits of \$28,778,650 cash with fiscal agent of \$3,962,906 and restricted cash of \$340,142 but exclusive of petty cash of \$3,814 and blended component unit cash of \$479,489. The Town's available bank balance was \$161,113,698 excluding the blended component units. Of the Town's available bank balance, \$2,292,772 was covered by Federal deposit insurance, and \$158,820,926 was covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name. The blended component unit's available balance was \$488,729, of which \$412,015 was covered by Federal deposit insurance. The remaining balance of \$76,714 was under collateralized.

At December 31, 2016 the Town's discretely presented component units' bank balances were \$3,826,538. Of this balance, \$516,181 was covered by Federal deposit insurance and \$3,310,357 was covered by collateral held by the discretely presented component unit's agent, a third-party financial institution, in the Town of Babylon Industrial Development Agency's name.

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

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

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

As of December 31, 2016, the Town of Babylon did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

Certain resources set aside for the Family Self Sufficiency Program, a Section 8 program accounted for in the Housing Assistance Agency Fund, are shown as restricted cash on the Balance Sheet and Statement of Net Position.

B. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

In the government-wide financial statements any residual balances outstanding between the governmental activities and business-type activities are reported as "internal balances."

At December 31, 2016, individual fund interfund receivable and payable balances represent either loans, services provided, or reimbursements which are expected to be paid currently. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. These balances, representing various short-term loans for operating purposes, are stated as follows:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	\$ 256,482	
Commercial Garbage District Fund		
Highway Fund	298,364	
Capital Projects Fund		\$ 298,364
Non-major Funds	442	243,974
Enterprise Fund:		
Oak Beach Water District		12,950
Total	\$ 555,288	\$ 555,288

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

B. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (continued)

The individual fund interfund transfer balances for the primary government generally represent residual equity transfers related to completed and closed capital projects back to the fund servicing the debt and transfers of funds to provide funding for capital projects.

	Transfers out:					Total
	Major Funds:			Non-major Fund:		
Transfers in:	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Capital Projects Fund	Other Special Revenue Fund	
Governmental Funds:						
Major Funds:						
General Fund				\$ 935,751	\$ 15,732	\$ 951,483
Residential Garbage District Fund				500,232		500,232
Commercial Garbage District Fund				433,347		433,347
Highway Fund					200,000	200,000
Capital Projects Fund	\$ 174,391	\$ 187,273	\$ 219,929			581,593
Total	\$ 174,391	\$ 187,273	\$ 219,929	\$ 1,869,330	\$ 215,732	\$ 2,666,655

C. CAPITAL ASSETS

Capital assets activity for the governmental activities for the year ended December 31, 2016 is as follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 32,169,917	\$ 248,251	\$ (57,533)	\$ 32,360,635
Construction in progress	30,847,321	12,374,001	(3,246,452)	39,974,870
Total capital assets not being depreciated	63,017,238	12,622,252	(3,303,985)	72,335,505
Depreciable capital assets:				
Building and improvements	106,416,349	3,134,810	(19,500)	109,531,659
Machinery and equipment	35,273,788	2,290,004	(1,393,613)	36,170,179
Infrastructure	429,902,656	8,029,024	(15,188,034) *	422,743,646
Total depreciable capital assets	571,592,793	13,453,838	(16,601,147)	568,445,484
Less: accumulated depreciation				
Buildings and improvements	40,680,808	3,388,678	(19,500)	44,049,986
Machinery and equipment	25,010,610	2,145,539	(1,339,304)	25,816,845
Infrastructure	309,045,099	11,348,664	(480,151) *	319,913,612
Total accumulated depreciation	\$ 374,736,517	\$ 16,882,881	\$ (1,838,955)	389,780,443
Total net depreciable capital assets				178,665,041
Total net capital assets				\$ 251,000,546

* During 2016, the Town transferred a sanitary sewer facility located in Wyandanch with a net book value of \$14,707,883 to the County of Suffolk. This is reported as a special item in the government-wide Statement of Activities for year ended December 31, 2016.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

Depreciation was charged to functions and programs as follows:

General government support	\$	363,991
Public safety		109,087
Health		124,706
Transportation		12,091,507
Culture and recreation		2,941,350
Home and community services		<u>1,252,240</u>
Total depreciation expense - governmental activities	\$	<u>16,882,881</u>

Capital assets activity for the business-type activities for the year ended December 31, 2016 is as follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 194,964			\$ 194,964
Construction in progress		\$ 88,901		88,901
Total capital assets not being depreciated	<u>194,964</u>	<u>88,901</u>	<u>\$ -0-</u>	<u>283,865</u>
Depreciable capital assets:				
Building and improvements	1,306,327			1,306,327
Machinery and equipment	351,670			351,670
Infrastructure	6,859,993			6,859,993
Total depreciable capital assets	<u>8,517,990</u>	<u>-0-</u>	<u>-0-</u>	<u>8,517,990</u>
Less: accumulated depreciation				
Buildings and improvements	843,881	24,190		868,071
Machinery and equipment	340,932	4,570		345,502
Infrastructure	1,273,227	134,377		1,407,604
Total accumulated depreciation	<u>\$ 2,458,040</u>	<u>\$ 163,137</u>	<u>\$ -0-</u>	<u>2,621,177</u>
Total net depreciable capital assets				<u>5,896,813</u>
Total net capital assets				<u>\$ 6,180,678</u>

Depreciation expense in the amount of \$163,137 for the business-type activities was charged to the home and community services function.

Capital assets activity for the discretely presented non-major component unit for the year ended December 31, 2016 is as follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
<u>Discretely Presented Non-major Component Unit- Wyandanch Rising, Inc.:</u>				
Capital assets not being depreciated:				
Land	\$ 539,200		\$ (539,200)	\$ -0-
Total capital assets not being depreciated	<u>\$ 539,200</u>	<u>\$ -0-</u>	<u>\$ (539,200)</u>	<u>-0-</u>
Total net capital assets				<u>\$ -0-</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

Depreciation for the Town is recorded on the straight-line basis over the estimated useful lives, in years, of the respective assets.

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. During the year ended December 31, 2016, the Town has not recorded any such impairment loss.

D. PROPERTY HELD FOR RESALE

The Town is currently undergoing a major community revitalization program in the northern central part of the Town. Since 2008, the Town has been purchasing commercial properties with available surplus funds of the general and residential garbage funds, which has since been repaid with the issuance of authorized general obligation bonds. The Town is completing the pre-development work for the first phase ("phase I") of the project which includes rezoning, securing necessary permits and community approvals, demolishing existing structures, and grading the projects. Phase I of the construction began in 2013 and specifically relates to the construction of new residential, retail, commercial and civic space in downtown Wyandanch. To date, three buildings have been completed, of which two were transferred to Wyandanch Rising, Inc. (see below). In connection with the completion of Phase I, which is expected to occur by the end of 2018, the remaining land purchased for the revitalization program will be sold to a private developer.

As of December 31, 2016, the Town invested \$28,722,921 for the cost of these properties, which includes the purchase price of the properties held for resale, the cost of the surrounding areas that will be used by the Town for roads and parks, the properties sold to an outside developer, and the costs of maintaining the properties. The Town has issued a total of \$28,990,000 of general obligations bonds for the revitalization program. The Town accounts for this program in the general fund and property held for resale is considered a noncurrent asset in the Statement of Net Position. The general fund's fund balance related to this program is classified as either nonspendable or restricted.

In October 2011, the Town entered into a Master Developer Designation Agreement ("Master Agreement") with Wyandanch Rising Inc., a discretely presented non-major component unit of the Town and a third party developer. Per the guidelines defined in this Agreement, during 2013 the Town transferred title of two parcels of land classified as property held for resale to Wyandanch Rising Inc. The third party developer paid the Town \$748,500 for the two parcels on behalf of WRI. At the time of the title transfer of land, WRI entered into a Development Lease Agreement ("Lease agreement") with the third party developer in which the third party acting as the lessee, subleased the land to the Babylon IDA, who in turn subleased the property back to the third party developer for a \$1 per annum. The purpose of the lease leaseback transaction is to provide future financial benefits to the third party developer such as certain sales tax and mortgage recording tax exemptions and real estate tax abatements as this community revitalization program progresses. In October 2015 and April 2016, the WRI transferred the titles of these parcels to the third party developer upon completion of the building.

As of December 31, 2016, the Town's community development agency fund owned three properties purchased with grant proceeds in the amount of \$315,782, for the purpose of resale to individuals in accordance with the Neighborhood Stabilization Program, under the Housing and Economic Recovery Act. The Town intends to sell these properties in 2017; therefore the property held for resale is classified as a current asset in the Statement of Net Position.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT

Guaranteed Assistance Contract Loans

The Town's guaranteed assistance contract loans payable at January 1, 2016 consisted of two loans due to the U.S. Department of Housing and Urban Development issued under Section 108 of the Housing and Community Development Act of 1974. In August 2016, one of the guaranteed contract loans matured and the outstanding balance of \$150,000 was repaid, resulting in no outstanding liability at December 31, 2016. The second loan dated December 2012, stipulates a maximum commitment amount of \$4,100,000 for a specific capital project. During 2012, the Town received \$2,950,000 of this commitment amount and the remaining balance of \$1,150,000 was received in 2016. As of December 31, 2016, the Town spent \$3,716,643 of the loan proceeds. The remaining amount of \$386,607, inclusive of interest earnings, is reported as restricted fund balance. This loan bears interest at a variable rate, which is adjusted monthly at the London Interbank Offered Rate plus .20%, and will mature in August 2032. The variable rate as of December 31, 2016 was 1.00%, which is the rate used to determine the future interest payments below.

The future principal and interest payments for the guaranteed assistance contract loan for the governmental activities are as follows:

Years Ending December 31,	Principal	Interest	Total Principal and Interest
2017	\$ 172,000	\$ 41,329	\$ 213,329
2018	180,000	39,199	219,199
2019	187,000	36,978	223,978
2020	195,000	34,666	229,666
2021	202,000	32,262	234,262
2022-2026	1,143,000	121,706	1,264,706
2027-2031	1,166,000	50,126	1,216,126
2032	230,000	1,622	231,622
Total	<u>\$ 3,475,000</u>	<u>\$ 357,888</u>	<u>\$ 3,832,888</u>

The loan is secured by all current and future community development block grant allocations and will be liquidated from the community development agency fund.

Bond Anticipation Notes (BANs)

Bond anticipation notes (BANs) are generally used as a temporary means of financing various expenditures in the funds. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. BANs are expected to be paid from the proceeds of future bond issues or renewal of the notes.

In June 2016, the Town issued 2016 general obligation bonds in the amount of \$14,200,000 which were used to refinance the 2015 bond anticipation notes after a principal payment of \$450,000.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

Bond Anticipation Notes (BANs) (continued)

In March 2016, the New York State Environmental Facilities Corporation provided available financing in the amount of \$1,200,000 through a bond anticipation note in the Town's name to provide a portion of the funding for the new water system at Oak Beach. The bond anticipation note matures March 31, 2021 and bears interest ranging from 0% to .58%. As of the date of this report, the Town does not expect to draw down cash from the bond anticipation note until 2018 and accordingly has reported this as noncurrent amount due from other governments and bond anticipation note payable in the Oak Beach Water District Fund.

General Obligation Bonds Payable

The Town borrows money in order to acquire land or equipment or construct buildings and improvements. These long-term liabilities are backed by the full faith and credit of the Town, bear interest at rates ranging from .65% to 5.38% and mature at varying dates through May 2043.

Future principal and interest payments for bonds payable related to governmental activities are as follows:

Years Ending December 31,	Principal	Interest	Total Principal and Interest
2017	\$ 19,220,000	\$ 5,465,690	\$ 24,685,690
2018	15,540,000	4,797,218	20,337,218
2019	13,170,000	4,321,112	17,491,112
2020	12,980,000	3,884,089	16,864,089
2021	12,585,000	3,453,641	16,038,641
2022-2026	43,320,000	12,609,781	55,929,781
2027-2031	31,440,000	5,608,351	37,048,351
2032-2036	13,920,000	2,102,312	16,022,312
2037-2041	5,000,000	568,928	5,568,928
2042-2043	1,035,000	24,672	1,059,672
Total	<u>\$ 168,210,000</u>	<u>\$ 42,835,794</u>	<u>\$ 211,045,794</u>

There were no outstanding bonds payable for the business-type activities or the discretely presented non-major component units as of December 31, 2016.

Prior Year Defeasance of Debt

In prior years, the Town of Babylon defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At December 31, 2016, \$3,270,000 of these bonds outstanding are considered defeased.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2016 is as follows:

	Balance 1/1/16	Issued/ Additions	Maturities/ Reductions	Other Net Increase or (Decrease)	Balance 12/31/16
Governmental activities:					
General obligation bonds	\$ 154,505,000	\$ 17,100,000	\$ 17,595,000	\$ 14,200,000	\$ 168,210,000
Plus: premiums on issuance	1,387,143	379,326	288,913		1,477,556
General obligation bonds, net	155,892,143	17,479,326	17,883,913	14,200,000	169,687,556
Bond anticipation notes payable	14,650,000		450,000	(14,200,000)	-0-
Guaranteed assistance contract loans payable	2,641,000	1,150,000	316,000		3,475,000
Due to employees' retirement system	1,888,316		265,286		1,623,030
Compensated absences	5,211,135	3,330,006	3,253,964		5,287,177
Claims and judgments payable	8,790,515	506,500	496,282	(1,762,774)	7,037,959
Estimated liability for landfill closure and postclosure care costs	24,606,590		476,300	1,416,434	25,546,724
Net pension liability - proportionate share	2,735,085	16,880,305	6,129,365		13,486,025
Other postemployment benefits payable	56,670,293	9,855,210	4,404,730		62,120,773
Business-type activities:					
Bond anticipation notes payable	-0-	1,200,000			1,200,000
Other postemployment benefits payable	299,819	47,905	36,400		311,324
	<u>\$ 273,384,896</u>	<u>\$ 50,449,252</u>	<u>\$ 33,712,240</u>	<u>\$ (346,340)</u>	<u>\$ 289,775,568</u>

A summary of current and long-term debt amounts as of December 31, 2016 is as follows:

	Noncurrent Liabilities due Within One Year	Noncurrent Liabilities	Balance at 12/31/16
Governmental activities:			
General obligation bonds	\$ 19,220,000	\$ 148,990,000	\$ 168,210,000
Plus: premiums on issuance	266,843	1,210,713	1,477,556
General obligation bonds, net	19,486,843	150,200,713	169,687,556
Guaranteed assistance contract loans payable	172,000	3,303,000	3,475,000
Due to employees' retirement system	274,425	1,348,605	1,623,030
Compensated absences	3,230,000	2,057,177	5,287,177
Claims and judgments payable	491,371	6,546,588	7,037,959
Estimated liability for landfill closure and postclosure care costs	1,400,180	24,146,544	25,546,724
Net pension liability - proportionate share		13,486,025	13,486,025
Other postemployment benefits payable		62,120,773	62,120,773
Business-type activities:			
Bond anticipation notes payable		1,200,000	1,200,000
Other postemployment benefits payable		311,324	311,324
	<u>\$ 25,054,819</u>	<u>\$ 264,720,749</u>	<u>\$ 289,775,568</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

Other Long-Term Debt

The liabilities for compensated absences, amounts due to employees' retirement system, the Town's proportionate share of the net pension liability and other postemployment benefits payable will be liquidated through future budgetary appropriations in the funds that gave rise to the liability. In most instances these amounts will be liquidated from the general fund, highway fund, and certain special revenue funds. Payments for estimated claims and judgments will be liquidated primarily from the general fund, and the residential and commercial garbage district funds. The estimated liability for landfill closure and postclosure care costs will be liquidated by the residential and commercial garbage district funds.

Conduit Debt Obligations

The Town of Babylon Industrial Development Agency has issued various series of bonds, considered conduit debt obligations of the Town, to finance a number of capital projects for the Town's Solid Waste Management Plan to handle, process, recycle and dispose of solid waste. Such bonds do not legally constitute a debt of the Town although the Town makes service payments sufficient to pay the principal and interest due thereon. The bonds are special and limited obligations of the Agency, payable solely from and secured by the revenues and assets pledged under the indenture. As of December 31, 2016, the outstanding Series 2009 A and B bond balances were \$25,355,000.

Bond proceeds were primarily used to finance the construction of a solid waste disposal facility, beneficially owned by Covanta Babylon, Inc. ("Covanta"), with whom the Town entered into a service agreement. Pursuant to the agreement, Covanta agreed to process the municipal solid waste of the Town for a service fee. One component of the service fee charged to the Town is the debt service.

F. RETIREMENT SYSTEM

Plan Description

The Town and the Agency, a non-major discretely presented component unit, participate in the New York State and Local Employees' Retirement System (NYSERS) (the "System"), a cost sharing multiple public employer retirement system. The net position of the System is held in the New York Common Retirement Fund (the "Fund"), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable.

The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Town and the Agency also participate in the Public Employees' Group Life Insurance Plan ("GLIP"), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Benefits Provided

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

Tiers 1 and 2

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

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

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

Tiers 3, 4, and 5

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

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

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

Tier 6

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

Benefit calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Benefits Provided (continued)

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

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

Ordinary Disability Benefits

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

Accidental Disability Benefits

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

Ordinary Death Benefits

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

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: 1) all pensioners who have attained age 62 and have been retired for five years; 2) all pensioners who have attained age 55 and have been retired for ten years; 3) all disability pensioners, regardless of age, who have been retired for five years; 4) recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and 5) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual consumer price index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

Contributions

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership; and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3% of their salary for the entire length of service. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Contributions (continued)

The required contributions, for the primary government, for the current year and two preceding years were:

	<u>Annual Required Contribution</u>	<u>Credits & Miscellaneous Adjustments</u>	<u>Amortization Payments</u>	<u>2010 Incentive Installments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>
2016	\$3,823,328	\$ 122,983	\$ 330,398	\$ -0-	\$ (34,357)	\$ 4,242,352
2015	4,453,925	118,042	330,398	456,637	(46,651)	5,312,351
2014	4,710,847	(134,827)	461,877	456,637	(47,487)	5,447,047

The actual contributions were equal to 100% of the actuarially required amounts. The credits and miscellaneous adjustments represent modifications made by the NYSERS to the prior year's contributions due to differences between estimated and actual salaries for the plan year. Amortization payments relate to the pension related debt, as discussed below.

The State, at various times, will enact laws which allow local employers to defer a portion of their retirement bill and enact laws authorizing local governments to make available various retirement incentive programs and amortize certain contribution costs. Below is a summary of these programs with which the Town opted to participate.

For years ending December 31, 2010, 2011 and 2012, the Town elected to defer a portion of its retirement bill under Chapter 57 of the Laws of 2010 of the State of New York, subject to certain stipulations. The amount deferred under Chapter 57 is payable in ten annual installments including a rate of interest set by the New York State Comptroller annually, 5% for 2012. At December 31, 2016 the amount due to the System related to this deferral is \$1,623,030.

Below are the stipulations contained in the law that allows local employers to amortize a portion of their retirement bill for 10 years:

- For State fiscal year 2010-11, the amount in excess of the graded rate of 9.5% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to 1% depending upon the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the Systems' average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

The Agency has not elected to amortize the contribution costs under Chapter 57 of the Laws of 2010 of the State of New York.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Contributions (continued)

The total principal and interest payments payable by the primary government for the aforementioned programs are as follows:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2017	\$ 274,425	\$ 54,576	\$ 329,001
2018	283,891	45,109	329,000
2019	293,695	35,306	329,001
2020	303,850	25,149	328,999
2021	271,671	14,629	286,300
2022	195,498	5,865	201,363
	\$ 1,623,030	\$ 180,634	\$ 1,803,664

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

At December 31, 2016, the Town and Agency reported a liability of \$13,486,025 and \$195,413, respectively for its proportionate share of the net pension liability for the System. The net pension liability was measured as of March 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015. The Town and Agency's proportion of the net pension liability was based on a projected contributions of all participating members, actuarially determined.

Below is the proportionate share of the net pension liability of the System and the related employer allocation percentage as of March 31, 2016:

	Net Pension Liability	Allocation of the System's Total Net Pension Liability	Change in allocation of the System's Total Net Pension Liability since Prior Measurement Date
Town	\$ 13,486,025	0.0840236%	0.0030619%
Agency	195,413	0.0012175%	-0.0003901%

There was no significant change in the Town and Agency's proportion from March 31, 2015 to March 31, 2016.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

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

For the year ended December 31, 2016, the Town and Agency recognized pension expense of \$5,124,527 and \$68,038, respectively. At December 31, 2016 deferred outflows of resources related to the pension were reported from the following sources:

	Deferred Outflows of Resources	
	Town	Agency
Differences between expected and actual experience	\$ 68,148	\$ 987
Changes of assumptions	3,596,318	52,111
Net difference between projected and actual earnings on pension plan investments	8,000,650	115,929
Changes in proportion and differences between the employer contributions and proportionate share of contributions	1,112,063	1,250
Employer's contribution subsequent to the measurement date	2,935,014	37,334
Total Deferred Outflow - Pension	\$ 15,712,193	\$ 207,611

At December 31, 2016 deferred inflows of resources related to the pension were reported from the following sources:

	Deferred Inflows of Resources	
	Town	Agency
Differences between expected and actual experience	\$ 1,598,543	\$ 23,163
Changes in proportion and differences between the employer contributions and proportionate share of contributions		8,374
Total Deferred Inflow - Pension	\$ 1,598,543	\$ 31,537

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Town	Agency
Plan year ending March 31, 2017	\$ 2,859,826	\$ 35,223
2018	2,859,826	35,223
2019	2,859,826	35,223
2020	2,599,156	33,071
	\$ 11,178,634	\$ 138,740

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Actuarial Assumptions

The total pension liability as of the measurement date of March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuation used the following actuarial assumptions:

Measurement date	March 31, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7.0%
Salary increases	3.8%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%

Annuitant mortality rates are based on the April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

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

Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for the System. The prior year discount rate was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's/Agency's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Town's/Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Town's proportionate share of the net pension liability (asset)	\$ 30,410,007	\$ 13,486,025	\$ (814,016)
Agency's proportionate share of the net pension liability (asset)	440,641	195,413	(11,795)

Pension Plan Fiduciary Net Position

The components of the current year net pension liability of the employers as of the respective valuation date of April 1, 2015 were as follows (in thousands):

Valuation date	April 1, 2015
Employers' total pension liability	\$ 172,303,544
Plan Fiduciary Net Position	(156,253,265)
Employers' net pension liability	\$ 16,050,279

Ratio of plan fiduciary net position to the Employers' total pension liability	90.68%
---	--------

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

G. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Town, as an agent multiple-employer defined benefit OPEB plan, per its contracts with employees, will pay the premium costs for medical insurance coverage (currently provided by through the New York State Empire Plan and HIP) and reimburse the Medicare Part B premiums at retirement for the retiree and covered spouse provided the employee has met certain eligibility requirements. The Agency, a non-major discretely presented component unit, has employees that participate in the OPEB plan. Eligibility and the Town's cost share vary upon employee designation and date of hire as described below.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Description (continued)

For Civil Service Employees Association members, eligibility requirements for coverage upon retirement are: five consecutive years of service with the Town and has attained the age of 55 years. The Town will contribute 100% of the premium for these eligible employees hired prior to November 1, 2009 and 85% of the premium for those hired after November 1, 2009.

For defined administrative personnel, eligibility requirements for coverage upon retirement are: five consecutive years of service with the Town and has attained the age 55 for those hired prior to November 1, 2009 and for those hired after November 1, 2009 twenty-five years of service and has attained the age of 55 years. The Town will contribute 75% - 100% of the premium for eligible retired administrative employees based on the hire date and years of service.

For members of Local 237, eligibility requirements for coverage upon retirement are: five consecutive years of service with the Town and has attained the age of 55 years for those hired prior to November 14, 2011 and for those hired after November 14, 2011 twenty-five years of service and has attained the age of 55 years. The Town will contribute 100% of the premium for eligible retired Local 237 employees.

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

The number of participants as of January 1, 2015, the effective date of the OPEB valuation is as follows:

	Total	Town	Agency
Active employees	296	292	4
Retirees	305	303	2
Surviving spouses *	30	29	1
	631	624	7

*Surviving spouses are considered participants in the OPEB Plan but there is no benefit cost or OPEB liability for these individuals as the premiums paid by the Town and Agency are reimbursed 100%.

There have been no significant changes in the number of employees or the type of coverage since that date. The Agency had two additional active employees and one less retiree as of December 31, 2016.

Funding Policy

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

Annual Other Postemployment Benefit Cost and Net Obligation

For the year ended December 31, 2016, the Town's (excluding the non-major discretely presented component units) annual other postemployment benefits cost (expense) was \$9,903,115. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$4,441,130 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$5,461,985 for the year ended December 31, 2016. The Town's discretely presented component unit's annual other postemployment benefits cost (expense) was \$47,108. The payment of current health insurance premiums totaled \$9,520 for retirees and the component unit's beneficiaries, resulting in an increase in the other postemployment benefits liability of \$37,588 for the year ended December 31, 2016.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefit Obligations and Normal Cost

	Total	Town	Agency
Actuarial Accrued Liability (AAL)			
Retired employees	\$ 65,920,217	\$ 65,680,863	\$ 239,354
Active employees	65,213,644	64,937,017	276,627
Total Actuarial Accrued Liability (AAL)	131,133,861	130,617,880	515,981
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 131,133,861	\$ 130,617,880	\$ 515,981
Funded ratio	0%	0%	0%
Normal cost at the beginning of the year	\$ 3,344,107	\$ 3,321,287	\$ 22,820
Amortization cost at the beginning of the year	\$ 6,723,878	\$ 6,694,985	\$ 28,893
Annual covered payroll	\$ 25,824,991	\$ 25,372,427	\$ 452,564
UAAL as a percentage of covered payroll	507.78%	514.80%	114.01%

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

The unfunded actuarial accrued liability for the Town for the year ended December 31, 2016 amounted to \$130,617,880. The unfunded actuarial accrued liability for the component unit for the year ended December 31, 2016 amounted to \$515,981.

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

Level Percentage of Projected Pay Amortization
Calculation of ARC under the Projected Unit Credit Cost Method

	Total	Town	Agency
Normal cost	\$ 3,427,710	\$ 3,404,319	\$ 23,391
Amortization of unfunded actuarial liability (UAAL) over 30 years	7,148,823	7,117,907	30,916
Interest	333,781	332,066	1,715
Annual required contribution (ARC)	10,910,314	10,854,292	56,022
Interest on net OPEB obligation	2,300,159	2,278,805	21,354
Adjustment to ARC	(3,260,250)	(3,229,982)	(30,268)
Annual OPEB cost	9,950,223	9,903,115	47,108
Less: Contribution for year ended December 31, 2016	(4,450,650)	(4,441,130)	(9,520)
Increase in other postemployment benefits liability	5,499,573	5,461,985	37,588
Other postemployment benefits liability at December 31, 2015	57,503,974	56,970,112	533,862
Other postemployment benefits liability at December 31, 2016	\$ 63,003,547	\$ 62,432,097	\$ 571,450
Percent of annual OPEB cost contributed	44.73%	44.85%	20.21%

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress

The percentage contributed, as it relates to the primary government, for the current year and preceding two years were:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2016	\$ 9,903,115	\$ 4,441,130	44.85%	\$ 62,432,097
2015	9,554,567	4,076,796	42.67%	56,970,112
2014	9,818,390	4,461,666	45.44%	51,492,341

The projected funded status of the plan as of December 31, 2016, based on the January 1, 2015 valuation is as follows:

	Actuarial Accrued Liability (AAL)	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Town	\$ 130,617,880	\$ -0-	\$ 130,617,880	0.00%	\$ 25,372,427	514.80%
Agency	515,981	-0-	515,981	0.00%	452,564	114.01%

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

Actuarial Methods and Assumptions

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

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

In the January 1, 2015 actuarial valuation, the liabilities were computed using the projected unit credit cost method and level percentage of projected payroll of active plan members on a closed basis. The actuarial assumptions utilized a 4.00% discount rate and a 2.50% payroll growth rate. The valuation assumes a 9.0% (pre 65) and a 6.0% (post 65) healthcare cost trend for 2015, with an ultimate medical trend rate of 5% to be reached in 2019 for pre and in 2016 for post 65. The remaining amortization period at December 31, 2016 was twenty-one years.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. SERVICE AWARD PROGRAM

Plan Description

The Town of Babylon sponsors five Volunteer Firefighters Workers Service Award Programs (“the Plans”): North Amityville, East Farmingdale, Wyandanch, North Babylon, and North Lindenhurst. All plans are single-employer defined benefit plans covering the Town’s volunteer firefighters. The Plans were established pursuant to Article 11A of General Municipal Law. The Plans provide municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters.

Participation, Vesting, and Service Credit

Active volunteer firefighters who have reached the age of 18 on the last day of the year and who have completed one year of firefighting service are eligible to participate in the Plan. Participants acquire a nonforfeitable right to a service award after being credited with five years of firefighting service or upon attaining the Plan’s entitlement age while active or becoming totally and permanently disabled or upon death while an active member. The Plan’s entitlement age is the later of age 62 or the age after first year of service credit. In general, an active volunteer firefighter is credited with a year of firefighting service for each calendar year after the establishment of the Plan in which he or she becomes eligible to participate. A Participant may also receive credit for five years of firefighting service (called “Prior Service”) rendered prior to the establishment of the Plan.

Benefits

A Participant’s benefit under the Plan is the actuarial equivalent of a monthly payment for life equal to \$15 to \$20 (as determined by each Plan), multiplied by the Participant’s total number of years of firefighting service. The number of years of firefighting service used to compute the benefit cannot exceed forty years (including Prior Service credits). Except in the case of disability or death, benefits are payable when the Participant has attained the entitlement age of 62. The program provides statutorily mandated death and disability benefits. As defined by some of the Plans, an active firefighter is credited with a year of service for each calendar year after the establishment of the program in which they accumulate fifty points. Points are granted for the performance of certain activities in accordance with a system established by the Town of Babylon on the basis of a statutory list of activities and point values.

Fiduciary Investment Control

Service credit is determined based on information certified to the Town Board by each Fire Department. Each Fire Department must maintain all required records on forms prescribed by the Town Board.

The Town Board has retained and designated Hometown Insurance to assist in the administration of the Plans, except for Wyandanch for which the Town retained Volunteer Fireman’s Insurance Services. The designated Plan administrator’s functions include calculating the amount to be contributed at the end of each year based upon the criteria set forth in the Plan Documents, and calculation of participant benefits annually and at entitlement. Disbursements of Plan assets for the payment of benefits or administrative expenses must be approved by the Town Board. The Town Board has retained and designated New York Life Insurance Co. and its subsidiaries as the Custodians of the Plans’ assets, except for Wyandanch for which the Town retained Hartford Life Insurance Company. The Custodians shall make payments to Plan Participants and their beneficiaries in accordance with the Plan Documents.

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

The Trustees of the Service Award Program are the Town Board. Authority to invest Plan assets is vested in the Town Board. Subject to restrictions in the Plan document, Plan assets are invested in accordance with a statutory “prudent person” rule. The Town is required to retain an actuary to determine the amount of the Town’s contributions to the plan. The actuary retained by the Town for this purpose is BSAS Actuarial and Pension Services, LLC except for Wyandanch for which the Town retained JF Actuarial Services, Inc. Portions of the following information are derived from reports prepared by the actuaries.

Plan financial condition as of and for the year ended December 31, 2016:

	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
<u>Assets</u>					
Actuarial present value of					
benefits at January 1	\$ 5,422,121	\$ 1,985,378	\$ 6,636,041	\$ 4,029,865	
benefits at February 1					\$ 673,893
Less: assets available for benefits	<u>3,924,128</u>	<u>1,714,470</u>	<u>3,645,302</u>	<u>2,488,955</u>	<u>491,635</u>
Total unfunded benefits	1,497,993	270,908	2,990,739	1,540,910	182,258
Less: unfunded liability for prior service	<u>(1,497,993)</u>	<u>(270,908)</u>	<u>(2,990,739)</u>	<u>(1,540,910)</u>	<u>(357,029)</u>
Unfunded (overfunded) normal benefits	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (174,771)</u>
<u>Assets Available for Benefits</u>					
Cash & short-term investments	\$ 100,073	\$ 44,755	\$ 76,878	\$ 22,971	
Annuities	3,158,372	1,406,234	2,887,584	1,883,476	\$ 491,635
Insurance contracts	<u>665,683</u>	<u>263,481</u>	<u>680,840</u>	<u>582,508</u>	
Total assets available for benefits	<u>\$ 3,924,128</u>	<u>\$ 1,714,470</u>	<u>\$ 3,645,302</u>	<u>\$ 2,488,955</u>	<u>\$ 491,635</u>
<u>Receipts and Disbursements</u>					
Plan assets, beginning of year	\$ 3,739,156	\$ 1,607,513	\$ 3,407,605	\$ 2,313,591	\$ 408,852
Plan contributions - 2016	163,750	111,000	342,000	202,000	108,568
Investment income earned	104,473	52,561	97,531	65,872	14,708
Change in insurance contracts	38,252	1,889	(412,410)	39,117	
Other receipts	6,802	48,282	466,820	4,989	
Plan benefit withdrawals	(128,305)	(106,775)	(256,244)	(136,614)	(32,222)
Transfers					
Administrative fees / premiums					<u>(8,271)</u>
Plan assets, end of year	<u>\$ 3,924,128</u>	<u>\$ 1,714,470</u>	<u>\$ 3,645,302</u>	<u>\$ 2,488,955</u>	<u>\$ 491,635</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

Plan financial condition as of and for the year ended December 31, 2016:

	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Prior Service Costs					
Amortization period	6-10 years	10-11 years	10-17 years	10-17 years	25 years
Discount rate	5.25%	5.25%	5.25%	5.25%	4.75%
Contributions					
Recommended by actuary - 2016					
Minimum	\$ 342,819	\$ 87,312	\$ 456,921	\$ 266,529	\$ 98,260
Maximum	\$ 428,286	\$ 90,148	\$ 571,593	\$ 326,123	\$ 98,260
2016 Actual Contribution	\$ 163,750	\$ 111,000	\$ 342,000	\$ 202,000	\$ 108,568
Administration Fees					
Paid to Plan Administrator by:					
Sponsor	\$ 2,755	\$ 2,523	\$ 7,706	\$ 4,716	\$ -0-
Plan	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 3,595
Paid to Trustee	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other					
Effective date of Plan	1/1/1990	1/1/1990	1/1/1990	1/1/1990	2/1/2005
Valuation date	1/1/2017	1/1/2017	1/1/2017	1/1/2017	2/1/2017
Actuary report date	February 2017	February 2017	March 2017	March 2017	May 2017
Assumed rate of return	5.25%	5.25%	5.25%	5.25%	4.75%
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Unit Credit	Entry Age Normal Frozen Initial Liability
Mortality table used	**	**	**	**	*
Asset valuation method	Fair value	Fair value	Fair value	Fair value	Fair value

* RP2000 > 2030

** RP2 - RP- 2000 Mortality Table

I. COMPENSATED ABSENCES

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

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the Statement of Net Position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2016, the value of the accumulated vacation time and sick leave of the primary government was \$5,287,177.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

J. TAX ABATEMENT PROGRAMS

The Town is subject to real estate tax abatements granted by the Suffolk County Industrial Development Agency and the Town of Babylon Industrial Development Agency, a discretely presented component unit of the Town. The purpose of the real estate tax abatements is to offer tax saving incentives to stimulate economic development and revitalization within the Town. This growth promotes job creation, additional economic activity for local businesses, Town beautification, rising property values, and a higher quality of life for all residents and businesses in the Town.

Town of Babylon Industrial Development Agency Tax Abatement Programs

Local businesses apply to the Town of Babylon Industrial Development Agency for financial assistance. The assistance generally includes exemptions from real property tax, mortgage recording tax, and sales and use tax and issuance of low interest revenue bonds (not an obligation of the Town of Babylon Industrial Development Agency or the Town). As part of the transaction, the Town of Babylon Industrial Development Agency takes title to the project's real property. In doing so, under the provisions of Article 18-A of General Municipal Law ("GML"), the Town of Babylon Industrial Development Agency is not required to pay real estate taxes or assessments on any of the property acquired by or under the jurisdiction, control or supervision of the Town of Babylon Industrial Development Agency's activities. A portion of the real estate tax exemption is usually recaptured in the form of payments in lieu of taxes, which are less significant than the real property taxes that are abated.

The Town of Babylon Industrial Development Agency has a Board adopted Uniform Tax Exemption Policy, which outlines how the local businesses' real estate taxes are reduced and how the amount of the real estate abatement is determined. During the term of the agreements, the local business must operate and maintain the property consistent with the terms of the agreement. If the local business does not comply, financial penalties may be imposed, such as the recapture of the benefits received, depending upon the severity of the noncompliance.

For the year ended December 31, 2016, the Town's property tax revenues were reduced by \$3,523,200 and payments in lieu of taxes, including recapture payments, were collected in the amount of \$2,175,937 under the agreements entered into by the Town of Babylon Industrial Development Agency. The amount of the abated taxes reported is based on the assessed value of property per the official assessment tax rolls and tax rates in effect on December 1, 2015, the tax lien date.

Suffolk County Industrial Development Agency Tax Abatement Programs

Similar to the Town of Babylon Industrial Development Agency, the Suffolk County Industrial Development Agency offers several abatement programs on certain qualified projects to promote, encourage, attract and develop job and recreational opportunities and economically-sound commerce and industry in Suffolk County. The Suffolk County Industrial Development Agency operates under the same provisions of GML and has adopted its own Uniform Tax Exempt Policy.

For the year ended December 31, 2016, the Town's property tax revenues were reduced by \$144,629 and payments in lieu of taxes were billed in the amount of \$95,293 under the agreements entered into by the Suffolk County Industrial Development Agency. The amount of the abated taxes reported is based on the assessed value of property per the official assessment tax rolls and tax rates in effect on December 1, 2015, the tax lien date.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

4. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

In common with other municipalities, the Town receives numerous notices of claims. The Town carries excess liability insurance coverage of \$5,000,000 per occurrence with a \$5,000,000 annual aggregate, excess of a \$1,000,000 self-insured retention, except for Public Officials and Employment Practices claims, which are subject to a \$100,000 self-insured retention. The Town established a self-insurance program for its general and auto liability coverage. This program is administered by an independent company, which furnishes claims review and processing. Although the eventual outcome of these claims cannot presently be determined, the Town Attorney and the independent company have estimated unsettled claims and litigation to be \$6,181,300. 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 procures "All Risk" property protection, subject to a deductible of \$50,000 per loss. The perils of earthquake and flood are limited at \$1,000,000.

The Town ceased being self-insured in June of 1999, and purchased an insurance policy for the workers' compensation coverage in order to minimize the costs. Any open claims prior to June 1999 have been reserved for as reported below. The Town estimates its workers' compensation reserves by consulting with legal counsel and past experience with similar claims.

There have been no significant reductions in insurance coverage as compared to the prior year and there were no settlements in excess of insurance coverage over the last three years. The Town has not purchased any annuity contracts with regard to its workers' compensation or general liability claims. The schedule below presents the changes in claims liabilities for the past two years for workers' compensation and general liability and includes an estimate of claims that have been incurred but not yet reported:

	General & Auto Liability Coverage		Workers' Compensation	
	2016	2015	2016	2015
Beginning balances of claims liabilities at January 1	\$ 7,776,850	\$ 7,082,850	\$ 1,013,665	\$ 1,178,805
Claims incurred	506,500	830,000	-0-	-0-
Claims payments	(128,754)	(132,826)	(367,528)	(371,476)
Change to prior year estimates	(1,973,296)	(3,174)	210,522	206,336
Ending balance of claims liabilities at December 31	<u>\$ 6,181,300</u>	<u>\$ 7,776,850</u>	<u>\$ 856,659</u>	<u>\$ 1,013,665</u>

B. GENERAL LITIGATION

Consistent with other municipalities, the Town has been named a defendant in various legal actions in the course of ordinary operations. The Town has accrued for all estimated and probable contingent losses. The Town primarily funds settlements of legal actions through current operating funds; however, the Town has the ability to fund settlements through bonding if deemed necessary. An estimate cannot be made on certain legal actions that 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

4. COMMITMENTS AND CONTINGENCIES (continued)

C. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Town to place a final cover on its landfill sites and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid near or after the date that each landfill stops accepting waste, the Town reports a portion of these closure and postclosure care costs as a program expense based on the landfill capacity used as of year end. The Town has accrued \$25,546,724 at December 31, 2016, which represents the cumulative amount based on the use of 100% of the solid waste landfill, 100% of the estimated capacity of the northern ash landfill and 62.18% of the estimated capacity of the southern ash landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$5,504,102 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care costs in 2016 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The solid waste landfill was closed in 1997 and the Town expects to close the northern ash landfill and southern ash landfill in 2018 and 2033, respectively.

The majority of the closure and postclosure care costs will be funded through the issuance of bonds and surplus earnings in the garbage district funds. The Town complies with State and Federal law requirements for owners to demonstrate financial assurance for closure and postclosure costs, and/or federal action (if applicable).

D. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS INCLUDING ENCUMBRANCES

The Town is committed to capital improvements to its various facilities and infrastructure. At December 31, 2016, these commitments, reported in the capital project fund amounted to \$16,168,092.

E. POLLUTION REMEDIATION OBLIGATION

The Town's policy is to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

The Town:

- Is compelled to take remediation action because of imminent endangerment
- Violates a pollution related permit or license
- Is named or will be named as a responsible party or potentially responsible party for a remediation
- Is named, or will be named in a lawsuit to compel pollution remediation
- Commences or obligates itself to remediate pollution

The Town has purchased properties throughout the Town with the intent to redevelop and resell to eligible individuals and businesses. Prior to the purchase of these properties, an outside engineer performs a site assessment of the land for any potential pollution remediation. If a potential liability exists, the seller of the property places the estimated costs for the cleanup in a third party escrow account to fund these future costs. Therefore, while certain Town owned properties have been identified as having contaminated land as of December 31, 2016, the Town does not have any liability related to these future costs and has not reported a liability on the government-wide statements.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

4. COMMITMENTS AND CONTINGENCIES (continued)

F. RESOURCE RECOVERY FACILITY

The Town has entered into a 30 year agreement, expiring in 2019, with Covanta Babylon, Inc. ("Covanta") which owns and operates a resource recovery facility (the "Facility") in the Town. Under this service agreement, the Town has committed to deliver certain tonnages of municipal solid waste ("MSW") to Covanta. The MSW is used to generate electricity at the Facility which is sold to the Public Service Enterprise Group (formerly the Long Island Power Authority) pursuant to an Electricity Agreement. Additionally, Covanta reclaims and sells recoverable materials from the Facility's Ash residue.

Under the terms of the agreement, the Town has obligated itself to pay service fees for the processing of the Town's municipal waste. As mentioned in Note 3E Conduit Debt Obligations, one component of the service fee charged to the Town is the amount of Covanta's debt service requirements. However the Town receives certain credits to be applied against the service fee as follows: approximately 90% of revenues Covanta receives from the sale of electricity to Public Service Enterprise Group as well as 50% of the revenues Covanta receives from the sale of recoverable materials.

G. FUTURE MINIMUM OPERATING LEASES

The Town leases various buildings and land to various parties under operating lease agreements with remaining terms ranging from one year to thirty-five years. The leases generally require the lessees to pay repairs and maintenance and utilities. Future minimum rentals under existing operating leases at December 31, 2016 are as follows:

Years Ending December 31, 2017	\$	683,339
2018		648,533
2019		602,938
2020		521,706
2021		456,733
Thereafter		3,389,506
		<u>\$ 6,302,755</u>

The Town is party to various leases with individuals for certain Town owned beach front properties. In October 1996, the Town entered into a sublease agreement with a third party which transferred the Town's rights including the right to receive and retain future rental income from these beach front properties. The sublease agreement commenced January 1997 and expires in December 2021. Under the terms of the sublease agreement, the Town has guaranteed the future rents due under the terms of the lease at the discounted present value.

The Town leases equipment accounted for as operating leases. Total rental expenditures on such leases for the year ended December 31, 2016 approximated \$307,000. The maximum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2017	\$	290,983
2018		258,846
2019		205,134
2020		160,256
2021		84,575
		<u>\$ 999,794</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

4. COMMITMENTS AND CONTINGENCIES (continued)

H. SERVICE CONCESSION ARRANGEMENT

Pursuant to an agreement dated October 2010, the Town is leasing the East Farmingdale Water Plant to the Suffolk County Water Authority ("SCWA"). Under the terms of the agreement, SCWA will operate and maintain the water plant as well as provide retail sales of water to the East Farmingdale Water District's residents using rates established by the Town Board. The cost and net book value of the leased water plant is \$8,517,990 and \$5,896,813, respectively. In consideration, SCWA paid the East Farmingdale Water District an upfront payment of \$3 million which is being amortized over the forty year term of the agreement. As of December 31, 2016, the Town reported a deferred inflow of resources in the amount of \$2,537,500 in the proprietary fund and government-wide financial statements. As mentioned previously, the authority to set the water billing rates resides with the Town Board. However, pursuant to the lease agreement, SCWA is entitled to receive management fee revenue equal to the revenues it would have received if the SCWA rates were billed. The differential between revenues earned from the actual billings (using East Farmingdale Water District's set rates) and the management fee (calculated using SCWA rates) is billed quarterly. The East Farmingdale Water District paid \$440,538 of management fees to SCWA during the year ended December 31, 2016. Any billings in excess of the SCWA management fee will be remitted back to the East Farmingdale Water District.

I. OTHER COMMITMENTS

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

5. RESTATEMENT OF PRIOR YEAR NET POSITION AND FUND BALANCE

During year ended December 31, 2016, the Town quantified the value of the highway fund's inventory for the first time, which resulted in the retroactive reporting of the inventory and net position/ fund balance as of the beginning of the year. As a result, the Town's January 1, 2016 governmental activities net position was increased by \$338,900 from \$112,856,065 to \$113,194,965 and the highway fund's fund balance also increased by \$338,900 from \$7,605,904 to \$7,944,804.

6. NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following Statements that may have an impact on the Town's financial reporting:

Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 68 - and amendments to Certain Provisions of GASB 67 and 68*" the objective is to clarify the existing guidance as well as establishes new requirements for pensions not covered by Statement No. 67 and No. 68. The requirements of this Statement that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016. The remaining requirements were effective in the current year (see Note 1.H).

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

Statement No. 80, "*Blending Requirements for Certain Component Units – an Amendment of Statement No.14*," the objective of which is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

6. NEW PRONOUNCEMENTS (continued)

Statement No. 82, "*Pension Issues – an Amendment of Statements No. 67, 68, and 73*," the objective of which is to address issues regarding (a) the presentation of payroll-related measures in required supplementary information, (b) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (c) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of the Statement are effective for reporting beginning after June 15, 2016, except for the requirements for selection of assumptions in a certain circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Statement No. 84, "*Fiduciary Activities*," the objective of which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018.

Statement No. 85, "*Omnibus 2017*," the objective of which is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement specifically addresses issues related to blending component units, goodwill, fair value measurement and application and postemployment benefits (pensions and OPEB). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

Statement No. 86, "*Certain Debt Extinguishment Issues*," the objective of which is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

The Town is currently evaluating the impact of the above pronouncements.

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

**Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
Major Governmental Funds and Schedules**

The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations are made. The capital projects and special grant funds (non-major funds) are budgeted on a project or grant basis.

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

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

REVENUES	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 35,140,048	\$ 35,140,048	\$ 35,140,048	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	800,000	800,000	817,037	17,037
Interest and penalties on real property taxes	225,000	225,000	279,341	54,341
Total Other Real Property Tax Items	<u>1,025,000</u>	<u>1,025,000</u>	<u>1,096,378</u>	<u>71,378</u>
NON-PROPERTY TAX ITEMS				
Franchise fees	3,100,000	3,100,000	3,499,957	399,957
Other non-property tax items	800,000	800,000	1,249,166	449,166
Total Non-Property Tax Items	<u>3,900,000</u>	<u>3,900,000</u>	<u>4,749,123</u>	<u>849,123</u>
DEPARTMENTAL INCOME				
Assessor's fees	15,000	15,000		(15,000)
Town Clerk's fees	375,000	375,000	313,271	(61,729)
Public health fees	125,000	125,000	175,971	50,971
Public pound fees and dog control service	50,000	50,000	47,275	(2,725)
Wyandanch program fees	80,000	80,000	81,805	1,805
Other health department fees	450,000	470,000	475,147	5,147
Park and recreation charges and fees	1,950,000	1,950,000	2,406,133	456,133
Total Departmental Income	<u>3,045,000</u>	<u>3,065,000</u>	<u>3,499,602</u>	<u>434,602</u>
USE OF MONEY AND PROPERTY				
Interest and earnings	50,000	50,000	60,757	10,757
Rental of real property	2,100,000	2,100,000	2,651,218	551,218
Total Use of Money and Property	<u>2,150,000</u>	<u>2,150,000</u>	<u>2,711,975</u>	<u>561,975</u>
LICENSES AND PERMITS				
Bingo licenses	10,000	10,000	12,536	2,536
Dog licenses	11,000	11,000	11,511	511
Licenses - other	500	500	500	-0-
Plumbing permits	45,000	45,000	54,772	9,772
Impact fees	100,000	100,000	100,000	-0-
Permits - other	50,000	50,000	59,875	9,875
Total Licenses and Permits	<u>216,500</u>	<u>216,500</u>	<u>239,194</u>	<u>22,694</u>
FINES AND FORFEITURES				
Fines and forfeited bail	1,300,000	1,300,000	1,372,253	72,253
Forfeitures of deposits	75,000	75,000	102,637	27,637
Total Fines and Forfeitures	<u>1,375,000</u>	<u>1,375,000</u>	<u>1,474,890</u>	<u>99,890</u>
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Sale of scrap and excess materials	10,000	10,000	8,766	(1,234)
INTERFUND REVENUE				
Interfund revenue	3,100,000	3,100,000	2,801,385	(298,615)
MISCELLANEOUS LOCAL SOURCES				
Gifts and donations	105,000	105,000	102,066	(2,934)
Refunds of prior years' expenditures	20,000	20,000	59,927	39,927
Grants from local governments	15,000	22,558	16,557	(6,001)
Miscellaneous local sources	60,000	60,000	60,000	-0-
Narcotics guidance counsel - local aid	50,000	50,000	76,492	26,492
Youth Project safe - local aid	18,000	18,000	16,383	(1,617)
Youth programs - local aid	310,000	310,000	285,650	(24,350)
Residential repair - local aid	2,400	2,400	2,392	(8)
Wyandanch nutrition program - local aid	20,000	20,000	21,172	1,172
Other miscellaneous revenue	100,000	100,000	31,794	(68,206)
Total Miscellaneous Local Sources	<u>700,400</u>	<u>707,958</u>	<u>672,433</u>	<u>(35,525)</u>

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
STATE AID				
Mortgage tax	3,500,000	3,500,000	4,592,280	1,092,280
Youth programs	140,000	140,000	147,635	7,635
Youth project S.A.F.E.	18,000	18,000	18,279	279
Therapeutic recreation and senior day training program	80,000	80,000	58,257	(21,743)
State grants - other	100,000	100,000	5,906	(94,094)
Total State Aid	<u>3,838,000</u>	<u>3,838,000</u>	<u>4,822,357</u>	<u>984,357</u>
FEDERAL AID				
Narcotics guidance counsel	280,000	280,000	326,096	46,096
Residential repair	24,000	24,000	21,525	(2,475)
Wyandanch nutrition program	220,000	220,000	212,708	(7,292)
Total Federal Aid	<u>524,000</u>	<u>524,000</u>	<u>560,329</u>	<u>36,329</u>
Total Revenues	<u>55,023,948</u>	<u>55,051,506</u>	<u>57,776,480</u>	<u>2,724,974</u>
EXPENDITURES				
GENERAL GOVERNMENT SUPPORT				
Town Board	482,692	492,490	480,245	12,245
Municipal court	135,186	136,736	53,476	83,260
Traffic violations bureau	154,643	155,482	144,371	11,111
Town Supervisor	916,470	1,020,206	940,997	79,209
Comptroller	707,721	752,536	693,140	59,396
Auditor	225,000	225,000	206,000	19,000
Receiver of taxes	723,385	726,334	676,829	49,505
Purchasing	288,064	290,085	289,776	309
Assessor	1,964,143	1,773,381	1,643,735	129,646
Town Clerk	542,822	546,776	528,113	18,663
Town Attorney	1,220,714	1,227,651	1,205,520	22,131
Personnel	180,256	196,313	196,180	133
Engineering	350,050	350,050	341,229	8,821
Board of ethics	1,500	101		101
Records management	131,506	130,501	104,936	25,565
Public works administration	193,151	196,951	189,171	7,780
Buildings and grounds	3,854,704	3,613,262	3,416,888	196,374
Central garage and central fuel facility	1,977,179	1,788,527	1,033,942	754,585
Central printing and mailing	699,874	682,877	552,829	130,048
Central data processing	1,019,927	1,019,800	931,554	88,246
Unallocated insurance	1,100,000	1,074,500	343,179	731,321
Municipal association dues	500	1,950	1,950	-
Taxes and assessments on municipal property	5,000	4,948	4,948	-
Contingencies - contractual and other	143,723	40,065		40,065
Other general government support	20,000	65,500	59,219	6,281
Total General Government Support	<u>17,038,210</u>	<u>16,512,022</u>	<u>14,038,227</u>	<u>2,473,795</u>
PUBLIC SAFETY				
Traffic control	677,434	691,519	620,575	70,944
Control of animals	901,783	1,007,401	1,007,397	4
Examining boards	32,500	32,500	31,027	1,473
Civil defense	9,100	9,100	8,706	394
Total Public Safety	<u>1,620,817</u>	<u>1,740,520</u>	<u>1,667,705</u>	<u>72,815</u>
HEALTH				
Narcotics addition control	1,026,773	1,046,773	972,337	74,436
Therapeutic recreation program	227,335	205,946	205,946	-
Nutrition program	661,810	616,212	611,976	4,236
Youth Institute CCS	654,500	704,600	703,711	889
Other public health	354,486	354,728	349,975	4,753
Total Health	<u>2,924,904</u>	<u>2,928,259</u>	<u>2,843,945</u>	<u>84,314</u>
ECONOMIC ASSISTANCE AND OPPORTUNITY				
Publicity	63,800	63,800	27,021	36,779
Promotion of industry	53,428	53,428	48,334	5,094
Veterans' services	9,400	9,400	4,975	4,425
Programs for the aging	38,990	45,098	40,864	4,234
Total Economic Assistance and Opportunity	<u>165,618</u>	<u>171,726</u>	<u>121,194</u>	<u>50,532</u>

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
CULTURE AND RECREATION				
Council on the arts	10,000	10,000	10,000	-0-
Parks and recreation administration	895,306	1,023,821	1,014,686	9,135
Parks	4,549,969	4,728,353	4,585,361	142,992
Playground and recreation centers	486,500	509,394	509,100	294
Special recreation facilities	2,303,170	2,197,823	2,194,321	3,502
Youth programs	897,043	843,022	834,015	9,007
Town historian	85,607	96,505	95,418	1,087
Adult recreation	902,060	949,960	948,180	1,780
Total Culture and Recreation	<u>10,129,655</u>	<u>10,358,878</u>	<u>10,191,081</u>	<u>167,797</u>
HOME AND COMMUNITY SERVICES				
Environmental control	1,071,514	1,148,799	1,148,792	7
Other home and community services	30,000	213,882	213,882	-0-
Total Home and Community Services	<u>1,101,514</u>	<u>1,362,681</u>	<u>1,362,674</u>	<u>7</u>
EMPLOYEE BENEFITS				
Retirement system	3,048,348	2,568,443	2,541,304	27,139
Social security	1,504,539	1,504,539	1,487,422	17,117
Workers' compensation	1,147,236	1,169,215	1,169,215	-0-
Life insurance	19,940	19,940	19,070	870
Unemployment benefits	54,924	72,387	72,387	-0-
Disability benefits	23,000	20,815	20,118	697
Hospital, medical, vision and dental	5,768,147	5,769,559	5,736,246	33,313
Other employee benefits	421,000	423,172	423,172	-0-
Total Employee Benefits	<u>11,987,134</u>	<u>11,548,070</u>	<u>11,468,934</u>	<u>79,136</u>
DEBT SERVICE				
Principal	7,641,425	7,681,425	7,681,425	-0-
Interest	2,848,116	3,078,111	3,043,732	34,379
Bond issuance costs	125,000	125,000	85,289	39,711
Total Debt Service	<u>10,614,541</u>	<u>10,884,536</u>	<u>10,810,446</u>	<u>74,090</u>
Total Expenditures	<u>55,582,393</u>	<u>55,506,692</u>	<u>52,504,206</u>	<u>3,002,486</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(558,445)</u>	<u>(455,186)</u>	<u>5,272,274</u>	<u>5,727,460</u>
OTHER FINANCING SOURCES (USES)				
Premium on obligations	200,000	200,000	260,381	(60,381)
Sale of capital assets	225,000	225,000	179,045	45,955
Insurance recovery	30,000	30,000	10,167	19,833
Operating transfers in	50,000	125,732	951,483	(825,751)
Operating transfers out		(178,991)	(174,391)	(4,600)
Total Other Financing Sources (Uses)	<u>505,000</u>	<u>401,741</u>	<u>1,226,685</u>	<u>(824,944)</u>
Net Change in Fund Balance	<u>\$ (53,445)</u>	<u>\$ (53,445)</u>	<u>6,498,959</u>	<u>\$ 6,552,404</u>
Fund Balance at Beginning of Year			<u>42,790,971</u>	
Fund Balance at End of Year			<u>\$ 49,289,930</u>	

TOWN OF BABYLON
RESIDENTIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 15,120,928	\$ 15,120,928	\$ 15,120,928	\$ -0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	6,033,082	6,033,082	5,554,664	(478,418)
Long Island Green Homes	2,000,000	2,000,000	1,684,680	(315,320)
Total Departmental Income	<u>8,033,082</u>	<u>8,033,082</u>	<u>7,239,344</u>	<u>(793,738)</u>
USE OF MONEY AND PROPERTY				
Interest earnings	350,000	350,000	358,636	8,636
Total Use of Money and Property	<u>350,000</u>	<u>350,000</u>	<u>358,636</u>	<u>8,636</u>
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			195,818	195,818
STATE AID				
Home and community services aid			15,405	15,405
Total Revenues	<u>23,504,010</u>	<u>23,504,010</u>	<u>22,930,131</u>	<u>(573,879)</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Refuse and garbage	24,127,853	23,939,218	23,484,241	454,977
Long Island Green Homes program	1,500,000	1,500,000	308,814	1,191,186
Unallocated insurance	50,000	61,614	61,614	-0-
Total Home and Community Services	<u>25,677,853</u>	<u>25,500,832</u>	<u>23,854,669</u>	<u>1,646,163</u>
EMPLOYEE BENEFITS				
Retirement system	162,650	157,169	106,409	50,760
Social security	53,080	53,387	53,387	-0-
Workers' compensation	47,500	47,500	45,460	2,040
Life insurance	621	817	817	-0-
Unemployment benefits	5,000	4,978		4,978
Disability benefits	1,000	1,000	998	2
Hospital, medical, vision and dental	202,900	202,929	175,705	27,224
Union welfare benefits	25,000	25,000	16,306	8,694
Total Employee Benefits	<u>497,751</u>	<u>492,780</u>	<u>399,082</u>	<u>93,698</u>
DEBT SERVICE				
Principal	515,155	515,155	515,155	-0-
Interest	48,626	53,903	53,903	-0-
Bond issuance costs	5,000	5,000	2,091	2,909
Total Debt Service	<u>568,781</u>	<u>574,058</u>	<u>571,149</u>	<u>2,909</u>
Total Expenditures	<u>26,744,385</u>	<u>26,567,670</u>	<u>24,824,900</u>	<u>1,742,770</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,240,375)</u>	<u>(3,063,660)</u>	<u>(1,894,769)</u>	<u>1,168,891</u>
OTHER FINANCING SOURCES				
Premium on obligations			6,479	6,479
Operating transfers in		10,558	500,232	489,674
Operating transfers out		(187,273)	(187,273)	-0-
Total Other Financing Sources	<u>-0-</u>	<u>(176,715)</u>	<u>319,438</u>	<u>496,153</u>
Net Change in Fund Balance	<u>\$ (3,240,375)</u>	<u>\$ (3,240,375)</u>	<u>(1,575,331)</u>	<u>\$ 1,665,044</u>
Fund Balance at Beginning of Year			<u>18,119,689</u>	
Fund at Balance End of Year			<u>\$ 16,544,358</u>	

TOWN OF BABYLON
COMMERCIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 6,804,117	\$ 6,804,117	\$ 6,804,117	\$ -0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	18,680,959	18,680,959	18,442,423	(238,536)
USE OF MONEY AND PROPERTY				
Interest earnings	8,000	8,000	20,848	12,848
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			237,961	237,961
Total Revenues	<u>25,493,076</u>	<u>25,493,076</u>	<u>25,505,349</u>	<u>12,273</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Refuse and garbage	24,325,891	24,081,452	20,533,260	3,548,192
Landfill closure/postclosure costs	125,000	135,548	85,548	50,000
Unallocated insurance	44,000	56,741	56,741	-0-
Total Home and Community Services	<u>24,494,891</u>	<u>24,273,741</u>	<u>20,675,549</u>	<u>3,598,192</u>
EMPLOYEE BENEFITS				
Retirement system	175,000	174,500	143,330	31,170
Social security	72,008	74,891	74,891	-0-
Workers' compensation	45,000	45,500	45,459	41
Life insurance	277	277	248	29
Unemployment benefits	500	500		500
Disability benefits	1,500	1,519	1,519	-0-
Hospital, medical, vision and dental	175,250	178,622	174,920	3,702
Union welfare benefits	13,000	13,000	10,795	2,205
Total Employee Benefits	<u>482,535</u>	<u>488,809</u>	<u>451,162</u>	<u>37,647</u>
DEBT SERVICE				
Principal	469,988	469,988	469,988	-0-
Interest	45,662	50,939	50,939	-0-
Bond issuance costs		2,092	2,092	-0-
Total Debt Service	<u>515,650</u>	<u>523,019</u>	<u>523,019</u>	<u>-0-</u>
Total Expenditures	<u>25,493,076</u>	<u>25,285,569</u>	<u>21,649,730</u>	<u>3,635,839</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-0-</u>	<u>207,507</u>	<u>3,855,619</u>	<u>3,648,112</u>
OTHER FINANCING SOURCES (USES)				
Premium on obligations			6,479	6,479
Operating transfers in		12,422	433,347	420,925
Operating transfers out		(219,929)	(219,929)	-0-
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>(207,507)</u>	<u>219,897</u>	<u>427,404</u>
Net Change in Fund Balance	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>4,075,516</u>	<u>\$ 4,075,516</u>
Fund Balance at Beginning of Year			<u>11,844,891</u>	
Fund at Balance End of Year			<u>\$ 15,920,407</u>	

TOWN OF BABYLON
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 20,988,530	\$ 20,988,530	\$ 20,988,530	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	550,000	550,000	630,934	80,934
USE OF MONEY AND PROPERTY				
Interest earnings	20,000	20,000	20,490	490
LICENSES AND PERMITS				
Street inspection fees	100,000	100,000	157,453	57,453
Other permits	50,000	50,000	18,635	(31,365)
Total Licenses and Permits	<u>150,000</u>	<u>150,000</u>	<u>176,088</u>	<u>26,088</u>
MISCELLANEOUS LOCAL SOURCES				
Refund of prior year expenditures			24,852	24,852
Other miscellaneous revenue	15,000	15,000	2,500	(12,500)
Total Miscellaneous Local Sources	<u>15,000</u>	<u>15,000</u>	<u>27,352</u>	<u>12,352</u>
STATE AID				
Consolidated local street and highway improvement program	1,200,000	1,202,331	1,202,331	-0-
PAVE-NY program		271,647	271,646	(1)
Total State Aid	<u>1,200,000</u>	<u>1,473,978</u>	<u>1,473,977</u>	<u>(1)</u>
Total Revenues	<u>22,923,530</u>	<u>23,197,508</u>	<u>23,317,371</u>	<u>119,863</u>
EXPENDITURES				
TRANSPORTATION				
Street administration	568,422	570,172	511,834	58,338
Maintenance of streets	4,287,634	4,197,518	3,691,720	505,798
Permanent improvements	1,270,000	1,523,978	1,508,765	15,213
Machinery	986,055	1,097,772	1,006,572	91,200
Snow removal	900,000	900,000	771,274	128,726
Unallocated insurance	113,596	54,677	54,677	-0-
Total Transportation	<u>8,125,707</u>	<u>8,344,117</u>	<u>7,544,842</u>	<u>799,275</u>
EMPLOYEE BENEFITS				
Retirement system	871,373	698,730	698,730	-0-
Social security	415,444	403,472	383,945	19,527
Workers' compensation	327,123	330,355	330,355	-0-
Life insurance	664	664	618	46
Unemployment benefits	24,000	23,762	11,900	11,862
Disability benefits	647	737	737	-0-
Hospital, medical, vision and dental	1,877,890	1,846,275	1,846,271	4
Union welfare benefits	111,101	111,101	108,083	3,018
Total Employee Benefits	<u>3,628,242</u>	<u>3,415,096</u>	<u>3,380,639</u>	<u>34,457</u>
DEBT SERVICE				
Principal	8,873,373	8,873,373	8,873,373	-0-
Interest	2,282,921	2,551,635	2,551,014	621
Bond issuance costs	50,000	50,000	31,443	18,557
Total Debt Service	<u>11,206,294</u>	<u>11,475,008</u>	<u>11,455,830</u>	<u>19,178</u>
Total Expenditures	<u>22,960,243</u>	<u>23,234,221</u>	<u>22,381,311</u>	<u>852,910</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(36,713)</u>	<u>(36,713)</u>	<u>936,060</u>	<u>972,773</u>
OTHER FINANCING SOURCES				
Premium on obligations	35,000	35,000	105,987	70,987
Operating transfers in			200,000	200,000
Total Other Financing Sources	<u>35,000</u>	<u>35,000</u>	<u>305,987</u>	<u>270,987</u>
Net Change in Fund Balance	<u>\$ (1,713)</u>	<u>\$ (1,713)</u>	<u>1,242,047</u>	<u>\$ 1,243,760</u>
Fund Balance at Beginning of Year, as Restated			<u>7,944,804</u>	
Fund Balance at End of Year			<u>\$ 9,186,851</u>	

TOWN OF BABYLON
SPECIAL DISTRICTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 16,873,901	\$ 16,873,901	\$ 16,873,901	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	484,122	484,122	543,408	59,286
USE OF MONEY AND PROPERTY				
Interest earnings	1,700	1,700	2,997	1,297
Total Revenues	17,359,723	17,359,723	17,420,306	60,583
EXPENDITURES				
PUBLIC SAFETY				
Fire protection districts	15,712,928	15,712,928	15,682,611	30,317
HEALTH				
Ambulance districts	1,648,153	1,648,153	1,638,069	10,084
Total Expenditures	17,361,081	17,361,081	17,320,680	40,401
Net Change in Fund Balance	\$ (1,358)	\$ (1,358)	99,626	\$ 100,984
Fund Balance at Beginning of Year			2,200,912	
Fund Balance at End of Year			\$ 2,300,538	

TOWN OF BABYLON
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
December 31, 2016

<u>Actuarial Valuation Date January 1,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
2016	\$ -0-	\$ 130,617,880	\$ 130,617,880	0.00%	\$ 25,372,427	514.80%
2015	-0-	126,270,456	126,270,456	0.00%	25,160,396	501.86%
2014	-0-	128,924,737	128,924,737	0.00%	23,497,449	548.68%
2013	-0-	124,464,133	124,464,133	0.00%	23,592,704	527.55%
2012	-0-	139,087,715	139,087,715	0.00%	23,373,403	595.07%
2011	-0-	133,862,762	133,862,762	0.00%	23,119,181	579.01%
2010	-0-	125,873,809	125,873,809	0.00%	24,137,139	521.49%
2009	-0-	119,897,070	119,897,070	0.00%	24,886,220	481.78%

Changes in assumptions

January 1, 2015 actuarial valuation:

- a) Healthcare cost trend for non-medicare plans (post 65) was reset to 6.5%, grading down 1.5% per annum to an ultimate rate of 5.0% in 2019
- b) Mortality projection scale was updated to reflect the Society of Actuaries MP 2014 projection scale

TOWN OF BABYLON
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the collective net pension liability	0.0840236%	0.0809617%	0.0809617%
Town's proportionate share of the net collective pension liability	\$ 13,486,025	\$ 2,735,085	\$ 3,658,547
Town's covered-employee payroll	\$ 25,415,483	\$ 25,090,978	\$ 24,462,213
Town's proportionate share of the net collective pension liability as a percentage of its covered-employee payroll	53.06%	10.90%	14.96%
Plan fiduciary net position as a percentage of the total pension liability coming from plan	90.68%	97.90%	97.20%

Notes:

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

There were no significant changes in benefits for the years presented above.

Changes in assumptions were as follows:

- a) The interest (discount) rate was lowered from 7.5% to 7.0% in the actuarial valuation used in the System's March 31, 2016 financial statement.
- b) The inflation rate was lowered from 2.7% to 2.5% in the actuarial valuation used in the System's March 31, 2016 financial statement.

TOWN OF BABYLON
SCHEDULE OF PENSION CONTRIBUTIONS
 December 31, 2016

NYSERS
 Years Ended December 31,

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 3,913,352	\$ 4,531,827	\$ 4,685,568	\$ 4,986,312	\$ 4,170,015	\$ 3,001,407	\$ 2,494,291	\$ 1,770,792	\$ 1,974,730	\$ 2,166,963
Contributions in relation to the contractually required contribution	\$ 3,913,352	\$ 4,531,827	\$ 4,685,568	\$ 4,986,312	\$ 2,452,354	\$ 2,303,832	\$ 2,164,576	\$ 1,770,792	\$ 1,974,730	\$ 2,166,963
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 1,717,661	\$ 697,575	\$ 329,715	\$ -0-	\$ -0-	\$ -0-
Town's covered-employee payroll	\$26,625,919	\$25,739,585	\$24,718,125	\$24,096,222	\$23,920,750	\$23,443,413	\$24,931,112	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	14.70%	17.61%	18.96%	20.69%	10.25%	9.83%	8.68%	N/A	N/A	N/A

N/A Covered-employee payroll for years ended December 2007 through December 2009 was not available.

Notes:

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

There was a change in assumption for the pensioner mortality improvement in the April 1, 2014 actuarial valuation from the Society of Actuaries Scale AA to Scale MP-2014.