

TOWN OF BABYLON

FINANCIAL STATEMENTS

Year Ended December 31, 2017

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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, 2017 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, net position and revenues of the governmental activities, and less than 1% of each of the assets fund balance and revenues of the governmental funds as of and for the year ended December 31, 2017. 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.

BEYOND THE NUMBERS...

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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, 2017, 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.

Emphasis of Matters

As described in Note 6 to the basic financial statements, the Town discovered that certain Town sponsored length of service award programs for volunteer firefighters met the requirements of Governmental Accounting Standard Board Statements ("GASB") No. 67 "*Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*" and GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions- An Amendment of Statement No. 27.*" Accordingly, the net position of the Pension Trust Fund and the governmental activities have been restated as of January 1, 2017.

As described in Notes 1.H and 6 to the basic financial statements, the Town adopted new accounting guidance, GASB 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.*" Accordingly, the restricted fund balance of the special districts fund (major fund) and the net position of the governmental activities has been restated as of January 1, 2017.

Our opinions are not modified with respect to these matters.

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 August 17, 2018, 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, Vigginio, Zarf & Conny P.C.

Hauppauge, New York
August 17, 2018

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

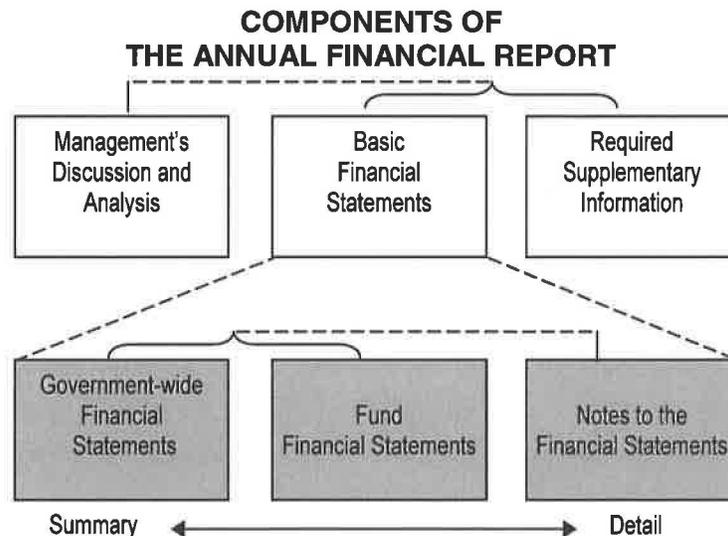
As management of the Town of Babylon, New York (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2017.

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 2017 by \$105,163,598 (net position) of which \$100,098,636 was related to the governmental activities and \$5,064,962 was related to the business-type activities.
- The Town's net position related to governmental activities decreased by \$1,127,549 from the current year activity, however it is important to note that the net position at the beginning of the year was restated and decreased by \$9,482,042 due to the reporting of the Town's length of service award program plans as required by GASB.
- The Town's business-type activities reported an increase in net position of \$59,666 or 1.19%.
- As of the close of 2017, the Town's governmental funds reported combined ending fund balances of \$126,725,035. Of this amount, \$4,550,884 is not in spendable form or is required to remain intact. The remaining \$122,174,151 or approximately 96.41% 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 2017, the Town's total fund balance for the general fund was \$53,153,266, an increase of \$3,863,336 or 7.84% from the prior year. The unassigned fund balance for the general fund was \$30,456,899.
- The Town's special districts fund's beginning of year fund balance was restated by \$743,733 to reflect the Town's length of service award program assets that meet the criteria of GASB Statement No. 73 (except for paragraph 4).
- The Town's total bonded debt (inclusive of general obligation bonds and bond anticipation notes, exclusive of premiums) was \$167,585,000 for the Town's governmental and business-type activities. The total bonded debt decreased by 1.08% 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, 2017

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 two 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, 2017

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 eleven (11) 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. Proprietary 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

The fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the Town's other financial statements because the resources of those funds are not available to support the Town's programs or operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Town's pension trust fund reports the plan assets and related annual activity for the Town' sponsored length of service award programs that meet the requirements of GASB Statement No. 67, 68 and paragraph 4 of Statement No. 73.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

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 \$105,163,598 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,

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Assets				
Current assets	\$ 210,635,984	\$ 208,750,633	\$ 1,763,886	\$ 1,790,908
Capital assets	259,292,538	251,000,546	6,106,614	6,180,678
Other noncurrent assets	31,095,335	32,616,600	1,200,000	1,200,000
Total Assets	501,023,857	492,367,779	9,070,500	9,171,586
Deferred outflow of resources	9,618,631	15,848,568	-0-	-0-
Liabilities				
Current liabilities	37,480,597	37,623,256	75,625	117,466
Noncurrent liabilities	285,005,827	281,492,778	1,467,413	1,511,324
Total Liabilities	322,486,424	319,116,034	1,543,038	1,628,790
Deferred inflows of resources	88,057,428	88,392,086	2,462,500	2,537,500
Net Position				
Net investment in capital assets	128,205,420	125,004,834	6,069,472	7,345,068
Restricted	4,471,106	5,082,944		
Unrestricted	(32,577,890)	(19,379,551)	(1,004,510)	(2,339,772)
Total Net Position	\$ 100,098,636	\$ 110,708,227	\$ 5,064,962	\$ 5,005,296

Total assets and deferred outflows of resources of the Town's governmental activities, as of December 31, 2017 were \$510,642,488, an increase of \$2,426,141. Total liabilities and deferred inflows of resources as of December 31, 2017 were \$410,543,852, an increase of \$3,035,732. This results in a total net position balance of \$100,098,636 for the year ended 2017, a decrease of \$1,127,549, exclusive of the adjustments to the opening net position. Of the Town's net position balance, \$128,205,420 was the net investment in capital assets, while \$4,471,106 was restricted by statute or other specific purposes leaving a \$32,577,890 unrestricted deficit net position.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

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 2017 by \$7,417,003 bringing the unfunded liability at year end to \$69,537,776. 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, \$128,205,420, 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 employees retirement system pension liability, compensated absences, amounts due to employees' retirement systems, claims and judgments, landfill closure and postclosure care costs and length of service award programs plan liabilities 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, 2017, were \$9,070,500 (inclusive of the internal balance), a decrease of \$101,086. Total liabilities and deferred inflows of resources as of December 31, 2017 were \$4,005,538, a decrease of \$160,752. This results in a total net position balance of \$5,064,962 for 2017, an increase of \$59,666. Of the business-type activities net position balance, \$6,069,472 was the net investment in capital assets and \$1,004,510 is the unrestricted deficit net position.

Condensed Changes in Net Position
 For the years ended December 31,

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Program Revenue				
Charges for services	\$ 59,856,623	\$ 59,445,799	\$ 75,000	\$ 75,000
Operating grants and contributions	14,656,819	15,596,789		
Capital grants and contributions	3,257,777	7,857,877	88,071	88,901
Total Program Revenues	77,771,219	82,900,465	163,071	163,901
General Revenues				
Real property taxes	80,882,656	79,158,735		
Other real property tax items	3,062,234	2,455,278		
Non-property tax items	4,930,571	4,749,123		
Interest earnings	744,929	530,781	7,893	4,303
Gain on sale of capital assets	205,378	76,870		
Mortgage tax	5,127,340	4,582,494		
State aid	1,115,651	1,115,651		
Other	438,160	265,750	404,600	277,701
Total General Revenues	96,506,919	92,934,682	412,493	282,004
Total Revenues	174,278,138	175,835,147	575,564	445,905

(continued)

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

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

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Program Expenses				
General government support	23,698,771	19,919,211		
Public safety	23,884,776	23,292,393		
Health	6,212,241	6,051,828		
Transportation	26,108,053	24,538,590		
Economic assistance and opportunity	173,213	168,489		
Culture and recreation	21,792,210	19,992,569		
Home and community services	68,370,628	64,039,919	515,898	762,143
Interest on debt	5,165,795	5,611,003		
Total Program Expenses	<u>175,405,687</u>	<u>163,614,002</u>	<u>515,898</u>	<u>762,143</u>
Excess (deficiency) before special item	<u>(1,127,549)</u>	<u>12,221,145</u>	<u>59,666</u>	<u>(316,238)</u>
Special Item	-0-	(14,707,883)	-0-	-0-
Change in net position	<u>(1,127,549)</u>	<u>(2,486,738)</u>	<u>59,666</u>	<u>(316,238)</u>
Net position, beginning of year, as reported	110,708,227	113,194,965	5,005,296	5,321,534
Effect of prior period adjustment *	(8,923,615)			
Cumulative effect of change in accounting principle **	(558,427)			
Net position, beginning of year, as restated	<u>101,226,185</u>	<u>113,194,965</u>	<u>5,005,296</u>	<u>5,321,534</u>
Net position, end of year	<u>\$ 100,098,636</u>	<u>\$ 110,708,227</u>	<u>\$ 5,064,962</u>	<u>\$ 5,005,296</u>

*The Town's financial statements presented herein are for the year ended December 31, 2017 and the effect of the prior period adjustment due to applying GASB Statements No. 67, "Financial Reporting for Pension Plans – an Amendment of GASB 25" and No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB 27" to the applicable Town sponsored length of service award programs is shown as an adjustment to the beginning net position of fiscal year 2017. Accordingly, the condensed financial information presented above also reflects this cumulative effect of the prior period adjustment to beginning net position of fiscal year 2017. The condensed financial information for the year ended December 31, 2016 was not restated as the information was not available.

**The Town's financial statements presented herein are for the year ended December 31, 2017 and the cumulative effect of applying GASB 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" is shown as an adjustment to the beginning net position of fiscal year 2017. Accordingly, the condensed financial information presented above also reflects this cumulative effect of the accounting change to beginning net position of fiscal year 2017. The condensed financial information for the year ended December 31, 2016 was not restated as the information was not available.

Net position from all governmental activities, decreased by \$1,127,549 in the current year. This is excluding the cumulative effect of the prior period adjustment and effect of a change in accounting principle that were reported as decreases to the beginning of year net position in the amounts of \$8,923,615 and \$558,427, respectively. Key elements of the governmental activities are:

- Overall program revenues decreased by \$5,129,246 from the prior year.
- There was a minimal increase of \$410,824 in charges for services.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

- Operating grants and contributions decreased by \$939,970 from the prior year, primarily due to the Town receiving a third-party contribution for environment improvements (\$300,000) in the prior year and decreases in grant revenues for the Housing Choice Voucher program (\$325,759), the Home Investment Partnership Program (\$228,415), and Community Development Block Grant (\$26,335) compared to the prior year.
- Capital grants and contributions decreased by \$4,600,100 compared to the prior year, primarily related to the timing of certain projects and the related reimbursements. In 2016, the Town reported the following one-time capital contributions: 1) a donation of land and a building at the value of \$2,558,824, 2) a contribution from a third-party developer for specific façade improvements in the amount of \$240,000, and 3) recognition of a contribution from a developer for road improvements in the amount of \$200,000. In addition, in the prior year, the Town recognized more grant revenues related to the Community Development Block Grant Disaster Recovery Program (\$498,999), Suffolk County Jumpstart grant (\$592,683) and Suffolk County Force Main grant (\$939,822). These amounts were offset by additional revenues recognized in the current year for donated assets (\$163,326) and additional PAVE NY funds (\$230,371).
- General revenues increased by \$3,572,237 from the prior year, primarily due to an increase in real property taxes (excluding special assessments), other real property tax items, and mortgage tax in the amounts of \$1,723,921, \$606,956 and \$544,846, respectively.
- Overall program expenses increased by \$11,791,685 from the prior year.
- General government support expenses increased from the prior year by \$3,779,560, primarily a result of an increase in unallocated insurance costs (\$511,440), general liability costs due to an increase in estimated payout amounts on existing claims as well as higher claims for cases which were incurred in the prior year (\$2,047,922), other postemployment benefit costs (\$773,137), and an overall increase of salary and contractual costs (\$491,981), which were offset by lower compensated absence expenses (\$156,577) compared to prior year.
- Public safety expenses increased by \$592,383 compared to prior year, primarily due to an overall increase in the salary and contractual costs (\$232,195), an increase in the other postemployment benefit costs (\$235,982), and higher costs to operate the fire protection districts and the effect of current year activity for the firefighter length of service award programs, a result of the Town implementing the required GASB statements (\$239,159), which were offset by lower compensated absences expenses (\$111,125) compared to prior year.
- Transportation expenses increased from the prior year by \$1,569,463, a result of the Town expensing previously capitalized costs that were determined to be other government assets (\$972,347), an overall increase in salary and contractual costs (\$1,001,944), other postemployment benefits costs (\$319,135), and other employee benefits (\$206,266), which were offset by a decrease in depreciation expense (\$1,010,289).
- Culture and recreation expenses increased by \$1,799,641 compared to the prior year due to the higher depreciation expense (\$1,066,566), other postemployment benefit costs (\$393,305) and an overall increase in salary and contractual costs (\$408,659), mostly related to the parks department.
- Home and community expenses increased from the prior year by \$4,330,709, a result of a litigation settlement (\$4,100,000) that was recognized in the current year and increases in other postemployment benefit costs (\$201,143), compensated absences expenses (\$125,203) landfill closure and postclosure care costs (\$611,349), Housing Choice Voucher program costs (\$159,013), which were offset by an aggregate reduction of garbage district costs (\$631,020) and less Home Improvement Program expenses (\$509,811).
- Interest recognized on debt decreased by \$445,208 compare to the prior year.
- In the prior year, the 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.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net position from the business-type activities increased by \$59,666 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 current year program revenues were consistent with prior year. General revenues increased by \$130,489 primarily due to the increase in cell tower rental income. Program expenses decreased by \$246,245 as there was a reduction in retiree benefit costs (\$57,876) and management fees paid to Suffolk County Water Authority (\$188,110).

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

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2017	2016	2017	2016	2017	2016
General government support	\$ 23,698,771	\$ 19,919,211	\$ 3,560,194	\$ 5,632,479	\$ (20,138,577)	\$ (14,286,732)
Public safety	23,884,776	23,292,393	4,062,074	4,073,272	(19,822,702)	(19,219,121)
Health	6,212,241	6,051,828	1,644,948	1,792,448	(4,567,293)	(4,259,380)
Transportation	26,108,053	24,538,590	3,195,327	3,701,561	(22,912,726)	(20,837,029)
Economic assistance and opportunity	173,213	168,489	22,674	274,784	(150,539)	106,295
Culture and recreation	21,792,210	19,992,569	4,500,347	5,561,211	(17,291,863)	(14,431,358)
Home and community services	68,370,628	64,039,919	60,785,655	61,864,710	(7,584,973)	(2,175,209)
Interest on debt	5,165,795	5,611,003			(5,165,795)	(5,611,003)
	<u>\$ 175,405,687</u>	<u>\$ 163,614,002</u>	<u>\$ 77,771,219</u>	<u>\$ 82,900,465</u>	<u>\$ (97,634,468)</u>	<u>\$ (80,713,537)</u>

The total cost of all governmental activities this year was \$175,405,687. The net cost of these services after being subsidized by programs revenues of \$77,771,219 was \$97,634,468.

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, 2017, the Town's governmental funds reported total ending fund balances of \$126,725,035 an increase of \$515,544, not including the cumulative effect of a change in accounting principle of \$743,733, in comparison with the prior year. The category breakdown is as follows:

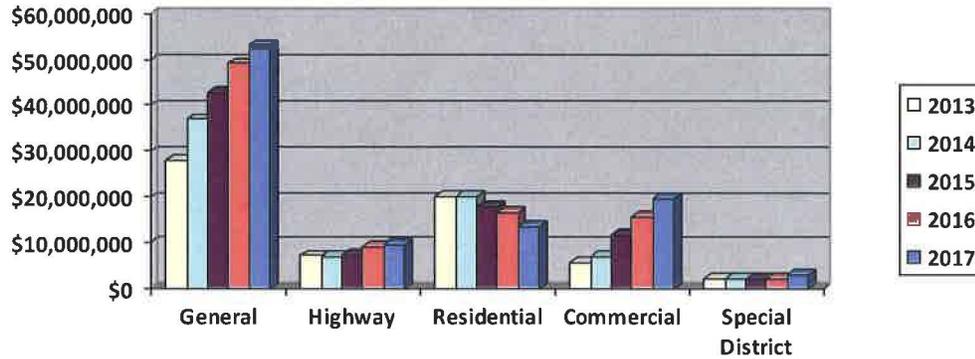
- **Nonspendable fund balance** - \$4,550,884 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$38,154,512 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$53,562,740 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$30,456,899, (residual net resources) is the remaining fund balance in the general fund in excess of nonspendable, restricted and assigned fund balance.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Below is a summary of the Town's major funds' fund balances for 2013 through 2017.



The Town began the year with an anticipated overall \$3,893,596 decrease resulting from the appropriation of fund balance for the 2017 budget. Total revenues decreased from the prior year by \$2,015,521 primarily a result of the decrease in interfund revenues, miscellaneous local sources, and federal aid in the amounts of \$2,690,906, \$2,237,573 and \$1,081,458, respectively, which was offset by increases in real property taxes, other real property tax items, departmental income and state aid in the amounts of \$2,008,614, \$606,956, \$479,794 and \$442,385, respectively.

Overall, governmental expenditures increased by \$9,969,137 from the prior year. This is primarily due to higher capital outlay costs in the amount of \$6,436,894, a result of the timing of ongoing capital projects, an increase in general government support and transportation expenditures in the amounts of \$1,077,184 and 1,033,192, respectively, as well as an increase debt service principal payments in the amount of \$1,030,999.

Other financing sources (uses) decreased by \$624,644 compared to prior year, primarily a result of overall lower proceeds from debt obligations, including loan proceeds from guaranteed assistance contracts, refunded debt, and premiums, in the amount of \$646,975.

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 \$53,153,266, increasing \$3,863,336 or 7.84% from the prior year. Of this amount, \$3,375,707 is not in spendable form (property held for resale and inventory) and \$17,121,344 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 \$32,656,215, \$1,963,534 has been assigned by the Town Board for the subsequent year's budget, \$235,782 has been assigned for purchase orders by the Town Comptroller and \$30,456,899 is shown as unassigned fund balance.

The key elements of the fund balance increase of \$3,863,336 are as follows:

- Overall revenues exceeded the budgeted expectations by \$1,292,509, due to state aid, which was over the budget by \$595,277, a result of a higher collections of mortgage tax than expected, as well as payments in lieu of taxes and interest and earnings recognized in the current year which exceeded the budget by \$236,573 and \$118,752, respectively.
- Actual revenues increased by \$438,042 compared to prior year, which is related to the general fund's real property tax increase of \$1,612,554, an increase in state aid of \$453,150 mainly due to mortgage tax revenues, as well as increase in departmental income of \$289,813, related to the Town hiring an outside company to assist with the collection of fees related to abandoned properties. This was offset by the decrease in interfund revenues recognized in the amount of \$2,690,906 for interfund chargebacks as the Town decided to cease charging other funds for certain centralized costs per a recommendation from the New York State.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

General Fund (continued)

- Overall expenditures were under budget in the amount of \$2,618,089, primarily due to a lower than anticipated contribution to the New York State Retirement System of \$493,283, workers' compensation costs of \$241,859 and an overall cost savings, specifically related to salaries, program operations and professional services, in the amount of \$1,667,403, which was most significant in the assessor, engineering, central garage/central fuel, central data processing, narcotics addiction control, and parks departments.
- Actual expenditures increased by \$1,829,779 primarily due to the increase in general government support and culture and recreation expenditures in the amounts of \$1,090,461 and \$408,072, respectively. The general government support increase related to a legal settlement for an eminent domain case that was recognized in the current year, an overall increase in costs for the central garage and central fuel facility for repair and maintenance and program operations, as well as an increase in the Comptroller and Town Attorney's department costs. Culture and recreation expenditures primarily related to higher costs in the parks department. There were also minimal increases in home and community expenditures (\$179,635), public safety costs (\$116,549), and debt service payments (\$191,587), which were offset by a decrease in employee benefits costs (\$240,959).
- Other financing sources (uses) decreased by \$969,097 due a reduction in the amount of operating transfers in as the Town had less residual equity from capital projects in the current year.

Residential Garbage District Fund

At the end of the current year, the total fund balance of the residential garbage district fund was \$13,655,619, decreasing \$2,888,739 or 17.46% from the prior year. Total fund balance is as follows: \$9,810 has been restricted for debt service, \$1,179,717 has been assigned by the Town Board for the subsequent year's budget, \$4,146 has been assigned for purchase orders by the Town Comptroller and \$12,461,946 is assigned for residential garbage district purposes.

The key elements of the fund balance decrease of \$2,888,739 are as follows:

- There was a budgeted use of prior year fund balance in the amount of \$3,306,874.
- Total revenues did not meet budgeted expectations by \$581,198, a result of less departmental income revenues than anticipated in the amount of \$617,110, which was offset by state aid revenue that was recognized in the current year and not budgeted for in the amount of \$50,431.
- Overall actual revenues increased by \$204,382 compared to the prior year, a result of an increase in the special assessments and refuse and garbage charges received in the current year compared to prior year in the amounts of \$301,228 and \$132,192, respectively, which was offset by a reduction of \$195,749 of miscellaneous local source revenues due to amounts collected in prior year related to excess funds from an overfunded reserve account for a general obligation bond.
- Total expenditures were under budget by \$499,333, primarily due to fewer Long Island Green Homes loans disbursed than anticipated in the amount of \$323,129. There were additional savings from salaries, equipment purchases, and contractual costs related to refuse and garbage in the amount of \$96,400 and lower than anticipated contribution costs for the New York State Retirement System of \$43,450.
- Actual expenditures were greater than last year by \$1,198,352 mostly due to increases in professional and technical services and salary costs compared to the prior year in the amounts of \$914,499 and \$163,929, respectively.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Residential Garbage District Fund (continued)

- Other financing uses exceeded budgeted expectations in the amount of \$500,000 due to the Town budgeting for operating transfers out that were not realized.
- Actual other financing sources (uses) decreased from the prior year in the amount of \$319,438 primarily due to operating transfer activity that took place in the prior year that was not necessary in 2017.

Commercial Garbage District Fund

At the end of the current year, the total fund balance of the commercial garbage district fund was \$19,842,176 increasing \$3,921,769 or 24.63% from the prior year. Total fund balance is as follows: \$8,945 has been restricted for debt service and \$19,833,231 is assigned for commercial garbage district purposes.

The key elements of the fund balance increase of \$3,921,769 are as follows:

- Overall revenues were over budget by \$194,119.
- Actual revenues decreased by \$425,765 due to less refuse and garbage fees collected in the amount of \$223,831 and a reduction in the amount recognized in miscellaneous revenues of \$237,961 for the collection of excess funds from an overfunded reserve account for a general obligation bond in the prior year.
- Total expenditures were under budget by \$3,281,815 due to a surplus in the garbage improvement area expenditures in the amount of \$3,132,391, resulting from under realized professional and technical service fees (\$2,974,008), equipment costs (\$41,947) and salaries (\$84,468).
- Actual expenditures decreased from the prior year in the amount of \$491,915, primarily a result of a reduction in the amount of professional and technical services fees incurred (\$4,394,718) and salary costs (\$117,039), which were offset by a litigation settlement recognized in the current year (\$4,100,000).
- Other financing sources (uses) exceeded budgeted expectations in the amount of \$500,000 due to the Town budgeting for operating transfers out that were not realized.
- Actual other financing sources (uses) decreased from the prior year in the amount of \$219,897 primarily due to operating transfer activity that took place in the prior year that was not necessary in 2017.

Highway Fund

At the end of the current year, the total fund balance of the highway fund was \$9,539,841 increasing \$352,990 or 3.84%, from the prior year. Of this amount, \$241,725 is not in spendable form (inventory), \$1,749,729 has been restricted for debt service, \$12,107 has been assigned by the Town Board for the subsequent year's budget, \$1,707 has been assigned for purchase orders by the Town Comptroller and the remaining \$7,534,573 is assigned for highway purposes.

The key elements of the fund balance increase of \$352,990 are as follows:

- Total revenues exceeded budgeted expectations by \$313,176, primarily a result of the Town receiving additional payments in lieu of taxes, license and permit revenues and recognizing a refund of prior years' expenditures in the amounts of \$223,391, \$46,520 and \$40,745, respectively, which were not anticipated.
- Actual revenues increased from the prior year by \$1,474,134, due to an increase in property tax assessments (\$1,007,026), other payments in lieu of taxes (\$167,457) as well as the overall increase in state aid (\$232,787) compared to the prior year.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Highway Fund (continued)

- Total expenditures were under budget by \$3,836.
- Actual expenditures were higher than prior year by \$2,351,066, a result of the increases in expenditures for capital improvements (\$258,795), snow removal costs (\$404,894), workers' compensation (\$593,526), hospital and medical insurance costs (\$197,535) as well as an increase in debt service payments (\$612,444).
- Other financing sources exceeded budgeted expectations in the amount of \$192,261 primarily due to the Town budgeting for operating transfers in that were not realized.
- Actual other financing sources (uses) decreased from the prior year in the amount of \$12,125.

Capital Projects Fund

At the end of the current year, the capital projects fund had a total fund balance of \$15,096,619, a decrease of \$5,632,836. Of this amount \$4,315,394 has been assigned for purchase orders or contractual obligations by the Town Comptroller and \$9,615,309 was restricted to specific capital project expenditures. The remaining balance of \$1,165,916 includes an amount of \$846,144 which is assigned for capital projects costs and outstanding amounts for purchases orders or contractual obligations in the amount of \$319,772.

The fund balance decreased in the capital projects fund by \$5,632,836 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 \$3,539,587, an increase of \$495,316, or 16.27%, from the prior year, as restated for implementation of GASB Statement No. 73. Of this amount, \$383,312 is not in spendable form (prepaid items), \$849,314 is restricted for length of service award program plan benefits, and the remaining \$2,306,961 is assigned for the special districts fund.

The key elements of the fund balance increase of \$495,316 is as follows:

- Total actual revenues exceeded budgeted expectations by \$315,650, a result of additional payments in lieu of taxes collected than anticipated (\$253,682) and investment income related to length of service aware program plan assets (\$54,174) that was not budgeted for.
- Actual revenues increased by \$594,134 compared to the prior year, primarily a result of an increase in real property taxes assessed (\$306,814), additional payments in lieu of taxes related to prior years as well as increases to the current payments (\$226,649) and investment income for length of service award program plan assets recognized in the current year as a result of implementation of GASB Statement No. 73 (\$54,174).
- Total expenditures were under budget by \$179,866 due to less fire protection district costs than anticipated.
- Actual expenditures increased by \$198,444 compared to prior year, primarily a result of higher program operation costs for the fire protection districts (\$101,368) and the ambulance district (\$97,076), which was offset by the elimination of certain length of service award program contributions made by the Town, a result of implementing GASB Statement No. 73.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Non-major Governmental Funds

The net change in fund balances was an increase of \$403,708.

- The part-town fund's fund balance was \$6,055,309 at December 31, 2017, which is an increase of \$1,052,168 from the prior year. Total revenues in the part-town fund of \$8,561,820 decreased by \$782,999 from the prior year, a result of less real property taxes assessed (\$940,642) and engineering fees (\$116,158), which were offset by increases in fire inspection (\$138,799) and planning board fees (\$154,989). Actual revenues exceeded budgeted expectations by \$1,100,053, primarily relating to planning board fees and fire and safety inspection fees. Overall, total expenditures were \$7,509,652 for 2017, a decrease of \$190,138 from the prior year. The increase is primarily attributable to an overall increase in salaries and contractual services for the planning division (\$176,964). Actual expenditures exceeded the final budget by \$452,034, due to the planning division contractual and salary cost savings (\$131,098) as well as less workers' compensation payments (\$68,150) and retirement system contributions (\$32,339) and overall cost reductions in other departments.
- The total fund balance of the community development agency fund at December 31, 2017 was \$996,065, a decrease of \$245,812 from the prior year. Total revenues and financing sources were \$1,809,310, a decrease of \$2,116,698 from the prior year due to less federal aid recognized and loan proceeds that were received in the prior year. Total expenditures at December 31, 2017 were \$2,055,122, a decrease of \$1,926,718 compared to the prior year. This decrease is a result of less costs related to Geiger improvements (\$787,667) and federal aid expenditures related to the Community Development Block Grant Disaster Recovery (\$469,654) and the HOME program (\$421,417), as well as a reduction in rental costs (\$212,684) and guaranteed loan assistance payments (\$144,000).
- The total fund balance of the housing assistance agency fund at December 31, 2017 was \$1,372,747, a decrease of \$313,347 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, 2017 and 2016, the amount of the change and percentage change in relation to the prior year.

	2017	2016	\$ Change	% Change
Revenues (in Millions)				
Real property taxes	\$103.1	\$101.1	\$2.0	1.98%
Other real property tax items	3.1	2.5	0.6	24.00%
Non-property tax items	4.9	4.7	0.2	4.26%
Department income	34.5	34.0	0.5	1.47%
Use of money and property	3.5	3.2	0.3	9.38%
Licenses and permits	0.4	0.4	0.0	0.00%
Fines and forfeitures	1.4	1.5	-0.1	-6.67%
Interfund revenue	0.1	2.8	-2.7	-96.43%
Miscellaneous local sources	2.3	4.5	-2.2	-48.89%
State aid	8.9	8.5	0.4	4.71%
Federal aid	14.3	15.4	-1.1	-7.14%
Total Governmental Fund Revenues	\$176.5	\$178.6	-\$2.1	-1.18%

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Summary of All Governmental Funds Revenues and Expenditures (continued)

Expenditures (in Millions)	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
General government support	\$15.5	\$14.4	\$1.1	7.64%
Public safety	20.5	20.2	0.3	1.49%
Health	5.7	5.5	0.2	3.64%
Transportation	10.8	9.7	1.1	11.34%
Economic assistance and opportunity	0.2	0.2	0.0	0.00%
Culture and recreation	10.8	11.1	-0.3	-2.70%
Home and community services	61.8	61.9	-0.1	-0.16%
Employee benefits	19.3	18.7	0.6	3.21%
Capital outlay	24.2	17.8	6.4	35.96%
Debt Service:				
Principal	19.4	18.4	1.0	5.43%
Interest	5.6	6.0	-0.4	-6.67%
Bond issuance costs	0.2	0.1	0.1	100.00%
Total Governmental Fund Expenditures	<u>\$194.0</u>	<u>\$184.0</u>	<u>\$10.0</u>	<u>5.43%</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The differences between the 2017 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 total revenue by \$25,761 and other financing sources for refunding bond proceeds and operating transfers in by \$2,226,000 and \$29,161, respectively. The original budget for the Town's expenditures decreased by \$385,576 and other financing uses for payments made to the refunded bond escrow agent and operating transfers out increased by \$2,340,000 and \$51,709, respectively. The main components of the overall increase in the Town's appropriations were increases in public safety, health, and culture and recreation expenditures in the amounts of \$172,170, \$206,868, and \$312,638, respectively, which were offset by decreases in general government support expenditures in the amount of \$504,619 and employee benefits expenditures in the amount of \$607,690. Other financing sources (uses) decreased by \$136,548 due to the overall effect of the refunding bonds. 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.

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, 2017 amounted to \$259,292,538 and \$6,106,614, respectively. The Town's capital assets include land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges and the water system infrastructure.

In 2017, the Town of Babylon's major capital expenditures were as follows:

Various highway road improvements	\$	6,047,232
Various park improvements		4,656,326
Reconstruction of Town buildings		9,903,418
Acquisition of machinery		1,514,174

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

Capital Assets at December 31, 2017 and 2016
 (Net of depreciation)

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Land *	\$ 32,635,424	\$ 32,360,635	\$ 194,964	\$ 194,964
Construction in progress	25,261,198	39,974,870	176,972	88,901
Building and improvements	85,724,747	65,481,673	414,066	438,256
Machinery and equipment	11,990,709	10,353,334	2,601	6,168
Infrastructure **	103,680,460	102,830,034	5,318,011	5,452,389
Totals	\$ 259,292,538	\$ 251,000,546	\$ 6,106,614	\$ 6,180,678

*During 2017, the Town reclassified property held for resale in the amount of \$274,789 to Town owned land.

**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 \$166,385,000 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 \$3,303,000 outstanding in guaranteed assistance contract loans payable.

Outstanding Debt

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
General obligation bonds payable *	\$166,385,000	\$168,210,000		
Bond anticipation notes			\$ 1,200,000	\$ 1,200,000
Guaranteed assistance contract loans payable	3,303,000	3,475,000		
	\$169,688,000	\$171,685,000	\$ 1,200,000	\$ 1,200,000

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

In 2017 the Town's total long-term debt decreased by \$1,997,000 or 1.16% which is a net change in the debt retired and new borrowings.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Long-Term Debt (continued)

During November 2017, 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 Aa1 to Aaa, the highest bond rating available.

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 \$1,419,197,900. The percentage of debt contracting exhausted at December 31, 2017 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.

WYANDANCH RISING COMMUNITY REDEVELOPMENT PROJECT

The Town has embarked on a major downtown revitalization effort for the Hamlet of Wyandanch located in the northern central part of the Town. In connection with such redevelopment, the Town designated the downtown Wyandanch business district an *Urban Renewal Area* in accordance with Article 15 of the General Municipal Law. The redevelopment is focused on the downtown Wyandanch area which surrounds the existing Long Island Railroad station of the same name.

Since 2008, the Town has been purchasing commercial and residential properties in Wyandanch with available funds which have been reimbursed with issuance of general obligation bonds. As property is purchased in the downtown Wyandanch area, the Town plans to complete most pre-development work for the redevelopment project including re-zoning, securing necessary permits and community approvals, demolishing existing structures, remediating and grading the properties. Phase I of the construction for the revitalization of the Urban Renewal Area began in the summer of 2013 and consists of the construction of new residential, retail, commercial and civic space in downtown Wyandanch. To date, three buildings have been completed, including a five-story, 91 residential unit building with approximately 17,500 square feet of ground floor retail space, and a four-story, 86 residential unit building, also with 17,500 square feet of ground floor retail space (collectively the "Residential Facilities"), and a five-story parking garage built by the MTA/LIRR. A fourth building of 124 residential units totaling 124,000 square feet is currently under construction and should be completed by the fourth quarter of 2020.

There are several additional structures in the pre-construction phase of development; a 1,200 square foot building to be used as the new Wyandanch Resource Center and a senior living residential building attached to the parking garage. The senior living building will be operated by the non-profit group Self Help. In addition, an approximately 90,000 square foot health and wellness center has been proposed for Wyandanch Plaza and is currently seeking private and public funding sources.

In connection with Phase I and pursuant to a Master Developer Designation Agreement, dated as of October 11, 2011 among the Town, Wyandanch Rising Inc. and WR Communities-A LLC, the Residential Facilities have been sold to affiliates of the Albanese Organization, Inc. the private developer selected by the Town for development of Phase I in accordance with Article 15 of the General Municipal Law. The term of the Master Developer Designation Agreement has been extended to December 31, 2021. It is currently anticipated that Phase I of the redevelopment project will be completed during the fourth quarter of 2022.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town's elected and appointed officials considered many factors when setting the upcoming 2018 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 2018 budget lines.
- Revenues are subject to regional economic trends. The Town notes an increase in mortgage tax revenue and interest earnings on deposited funds in the General Fund which is expected to offset the planned use of fund balance. As a result, the Town is expecting the general fund's fund balance to remain stable at the close of 2018.
- 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. 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 2018 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, 2017

	Primary Government			Non-major Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 125,684,789	\$ 1,645,893	\$ 127,330,682	\$ 5,097,823
Cash with fiscal agent	3,230,104		3,230,104	
Accounts receivable, net of allowance and noncurrent portion	5,550,179	110,038	5,660,217	535,360
Taxes receivable	61,782,552		61,782,552	
Long Island Green Homes receivable, net of noncurrent portion	1,060,810		1,060,810	
Internal balances	29,211	(29,211)	-0-	
Due from other governments, net of noncurrent portion	11,017,893	37,166	11,055,059	
Inventory	621,582		621,582	
Prepaid items	1,334,312		1,334,312	24,007
Restricted cash	70,167		70,167	
Property held for resale	254,385		254,385	
Total Current Assets	<u>210,635,984</u>	<u>1,763,886</u>	<u>212,399,870</u>	<u>5,657,190</u>
Noncurrent Assets:				
Accounts receivable, noncurrent portion	6,836,847		6,836,847	
Long Island Green Homes receivable, noncurrent portion	4,879,502		4,879,502	
Due from other governments, noncurrent portion	437,640	1,200,000	1,637,640	
Property held for resale	18,092,032		18,092,032	
Non-depreciable capital assets	57,896,622	371,936	58,268,558	48,873
Capital assets, net of accumulated depreciation/ amortization	201,395,916	5,734,678	207,130,594	
Length of service award program plan assets	849,314		849,314	
Total Noncurrent Assets	<u>290,387,873</u>	<u>7,306,614</u>	<u>297,694,487</u>	<u>48,873</u>
Total Assets	<u>501,023,857</u>	<u>9,070,500</u>	<u>510,094,357</u>	<u>5,706,063</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	190,300		190,300	
Pension - employees' retirement system	8,411,954		8,411,954	121,296
Length of service award programs	1,016,377		1,016,377	
Total Deferred Outflows of Resources	<u>9,618,631</u>	<u>-0-</u>	<u>9,618,631</u>	<u>121,296</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	7,630,461	75,625	7,706,086	
Accrued interest payable	1,382,914		1,382,914	
Litigation settlement payable	4,100,000		4,100,000	
Due to other governments	489,043		489,043	2,208,834
Unearned revenues	422,524		422,524	
Long-term obligations due within one year	23,455,655		23,455,655	24,716
Total Current Liabilities	<u>37,480,597</u>	<u>75,625</u>	<u>37,556,222</u>	<u>2,233,550</u>
Noncurrent Liabilities:				
Unearned revenues	800,823		800,823	
Due to other governments	6,836,847		6,836,847	
Long-term obligations due in more than one year	277,368,157	1,467,413	278,835,570	816,616
Total Noncurrent Liabilities	<u>285,005,827</u>	<u>1,467,413</u>	<u>286,473,240</u>	<u>816,616</u>
Total Liabilities	<u>322,486,424</u>	<u>1,543,038</u>	<u>324,029,462</u>	<u>3,050,166</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - property taxes	86,602,768		86,602,768	
Deferred service concession arrangement receipt		2,462,500	2,462,500	
Pension - employees' retirement system	1,276,833		1,276,833	29,120
Length of service award programs	177,827		177,827	
Total Deferred Inflows of Resources	<u>88,057,428</u>	<u>2,462,500</u>	<u>90,519,928</u>	<u>29,120</u>
NET POSITION				
Net investment in capital assets	128,205,420	6,069,472	134,274,892	48,873
Restricted - Public safety	18,869		18,869	
Health	644,605		644,605	
Transportation	220,000		220,000	
Economic assistance and opportunity	205,240		205,240	
Culture and recreation	307,834		307,834	
Home and community services	3,074,558		3,074,558	
Unrestricted	(32,577,890)	(1,004,510)	(33,582,400)	2,699,200
Total Net Position	<u>\$ 100,098,636</u>	<u>\$ 5,064,962</u>	<u>\$ 105,163,598</u>	<u>\$ 2,748,073</u>

See notes to the financial statements.

TOWN OF BABYLON
 GOVERNMENT-WIDE FINANCIAL STATEMENT
 STATEMENT OF ACTIVITIES
 Year Ended December 31, 2017

Function/ Program	Expenses	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues	Governmental Activities	Business-type Activities	Total	Non-major Component Units
PRIMARY GOVERNMENT:									
Governmental Activities:									
General government support	\$ 23,698,771	\$ 3,312,531		\$ 247,663	\$ 3,560,194	\$ (20,138,577)		\$ (20,138,577)	
Public safety	23,884,776	4,062,074			4,062,074	(19,822,702)		(19,822,702)	
Health	6,212,241	745,805	\$ 899,143		1,644,948	(4,567,293)		(4,567,293)	
Transportation	26,108,053	196,519	74,722	2,924,086	3,195,327	(22,912,726)		(22,912,726)	
Economic assistance and opportunity	173,213	250	22,424		22,674	(150,539)		(150,539)	
Culture and recreation	21,792,210	4,060,263	356,937	83,147	4,500,347	(17,291,863)		(17,291,863)	
Home and community services	68,370,628	47,479,181	13,303,593	2,881	60,785,655	(7,584,973)		(7,584,973)	
Interest on debt	5,165,795				-0-	(5,165,795)		(5,165,795)	
Total Governmental Activities	175,405,687	59,856,623	14,656,819	3,257,777	77,771,219	(97,634,468)	\$ -0-	(97,634,468)	
Business-type Activities:									
Home and community services	515,898	75,000		88,071	163,071		(352,827)	(352,827)	
Total Business-type Activities	515,898	75,000	-0-	88,071	163,071	-0-	(352,827)	(352,827)	
Total Primary Government	\$ 175,921,585	\$ 59,931,623	\$ 14,656,819	\$ 3,345,848	\$ 77,934,290	\$ (97,634,468)	\$ (352,827)	\$ (97,987,295)	
NON-MAJOR COMPONENT UNITS:									
Economic assistance and opportunity	\$ 1,496,225	\$ 1,755,103							\$ 258,878
Total Component Units	\$ 1,496,225	\$ 1,755,103							\$ 258,878
GENERAL REVENUES:									
Real property taxes						\$ 80,882,656		\$ 80,882,656	
Other real property tax items						3,062,234		3,062,234	
Non-property tax items						4,930,571		4,930,571	
Interest and investment earnings						744,929	\$ 7,893	752,822	\$ 18,397
Gain on sale of capital assets						205,378		205,378	
Mortgage tax						5,127,340		5,127,340	
State aid						1,115,651		1,115,651	
Other						438,160	404,600	842,760	
Total General Revenues						96,506,919	412,493	96,919,412	18,397
Change in Net Position						(1,127,549)	59,666	(1,067,883)	277,275
Net Position at Beginning of Year, as Reported						110,708,227	5,005,296	115,713,523	2,470,798
Prior Period Adjustment						(8,923,615)	-0-	(8,923,615)	
Cumulative Effect of Change in Accounting Principle						(558,427)	-0-	(558,427)	-0-
Net Position at Beginning of Year, as Restated						101,226,185	5,005,296	106,231,481	2,470,798
Net Position at End of Year						\$ 100,098,636	\$ 5,064,962	\$ 105,163,598	\$ 2,748,073

TOWN OF BABYLON
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

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	\$ 39,934,832	\$ 18,373,859	\$ 24,292,226	\$ 12,262,267	\$ 11,858,865	\$ 6,653,896	\$ 113,375,945	\$ 12,308,844	\$ 125,684,789
Cash with fiscal agent	1,448,059	9,810	8,945	1,749,729			3,216,543	13,561	3,230,104
Accounts receivable	2,179,771	614,345	2,153,383	66,896			5,014,395	7,372,631	12,387,026
Taxes receivable	27,917,695			16,693,525		13,414,691	58,025,911	3,756,641	61,782,552
Long Island Green Homes receivable		5,940,312					5,940,312		5,940,312
Due from other funds	263,652			304,989			568,641	241	568,882
Due from other governments	3,346,790	11,651		478,049	6,012,891		9,849,381	1,606,153	11,455,534
Inventory	269,857			241,725			511,582	110,000	621,582
Prepaid items						383,312	383,312	2,500	385,812
Restricted cash							-0-	70,167	70,167
Property held for resale	18,030,635						18,030,635	315,782	18,346,417
Length of service award program plan assets						849,314	849,314	-0-	849,314
Total Assets	<u>\$ 93,391,291</u>	<u>\$ 24,949,977</u>	<u>\$ 26,454,554</u>	<u>\$ 31,797,180</u>	<u>\$ 17,871,756</u>	<u>\$ 21,301,213</u>	<u>\$ 215,765,971</u>	<u>\$ 25,556,520</u>	<u>\$ 241,322,491</u>
LIABILITIES									
Accounts payable and accrued liabilities	\$ 1,108,967	\$ 1,499,996	\$ 880,968	\$ 297,563	\$ 2,331,552	\$ 115,047	\$ 6,234,093	\$ 955,743	\$ 7,189,836
Litigation settlement payable			4,100,000				4,100,000		4,100,000
Due to other funds					343,585		343,585	196,086	539,671
Due to other governments	46,810				100,000		146,810	7,179,079	7,325,889
Unearned revenue	1,067,764	155,583					1,223,347		1,223,347
Liabilities payable from restricted cash							-0-	70,167	70,167
Total Liabilities	<u>2,223,541</u>	<u>1,655,579</u>	<u>4,980,968</u>	<u>297,563</u>	<u>2,775,137</u>	<u>115,047</u>	<u>12,047,835</u>	<u>8,401,075</u>	<u>20,448,910</u>
DEFERRED INFLOWS OF RESOURCES									
Unearned revenue- property taxes	36,724,800	3,698,467	1,631,410	21,959,776		17,646,579	81,661,032	4,941,736	86,602,768
Unavailable revenue	1,289,684	5,940,312					7,229,996	315,782	7,545,778
Total Deferred Inflows of Resources	<u>38,014,484</u>	<u>9,638,779</u>	<u>1,631,410</u>	<u>21,959,776</u>	<u>-0-</u>	<u>17,646,579</u>	<u>88,891,028</u>	<u>5,257,518</u>	<u>94,148,546</u>
FUND BALANCES									
Nonspendable	3,375,707			241,725		383,312	4,000,744	550,140	4,550,884
Restricted	17,121,344	9,810	8,945	1,749,729	13,930,703	849,314	33,669,845	4,484,667	38,154,512
Assigned	2,199,316	13,645,809	19,833,231	7,548,387	1,165,916	2,306,961	46,699,620	6,863,120	53,562,740
Unassigned	30,456,899						30,456,899		30,456,899
Total Fund Balances	<u>53,153,266</u>	<u>13,655,619</u>	<u>19,842,176</u>	<u>9,539,841</u>	<u>15,096,619</u>	<u>3,539,587</u>	<u>114,827,108</u>	<u>11,897,927</u>	<u>126,725,035</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 93,391,291</u>	<u>\$ 24,949,977</u>	<u>\$ 26,454,554</u>	<u>\$ 31,797,180</u>	<u>\$ 17,871,756</u>	<u>\$ 21,301,213</u>	<u>\$ 215,765,971</u>	<u>\$ 25,556,520</u>	<u>\$ 241,322,491</u>

TOWN OF BABYLON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total Fund Balance - Governmental Funds \$ 126,725,035

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	\$ 57,896,622	
Capital assets - depreciable	606,185,476	
Accumulated depreciation	<u>(404,789,560)</u>	
		259,292,538

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. 948,500

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	5,940,312	
Due from other governments	1,289,684	
Assets held for resale	<u>315,782</u>	
		7,545,778

Deferred outflows of resources are included in the Statement of Net Position. 9,618,631

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	(168,170,828)	
Guaranteed assistance contract loans payable	(3,303,000)	
Due to employees' retirement system	(1,232,323)	
Compensated absences	(5,166,034)	
Claims and judgments payable	(7,657,736)	
Estimated liability for landfill closure and postclosure care costs	(27,098,207)	
Net employees' retirement system pension liability - proportionate share	(7,494,679)	
Net length of service award programs plan liabilities	(9,747,732)	
Other postemployment benefits payable	(69,537,776)	
Length of service award program plan liabilities	<u>(1,415,497)</u>	
		(300,823,812)

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. (1,753,374)

Deferred inflows of resources related to the pension plan and length of service award programs are included in the Statement of Net Position. (1,454,660)

Net Position of Governmental Activities \$ 100,098,636

TOWN OF BABYLON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 Year Ended December 31, 2017

	MAJOR 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	Total Major Governmental Funds		
REVENUES									
Real property taxes	\$ 36,752,602	\$ 15,422,156	\$ 6,787,582	\$ 21,995,556		\$ 17,180,715	\$ 98,138,611	\$ 4,953,783	\$ 103,092,394
Other real property tax items	1,308,919			798,391		770,057	2,877,367	184,867	3,062,234
Non-property tax items	4,930,571						4,930,571		4,930,571
Departmental income	3,789,415	7,306,445	18,218,592				29,314,452	5,154,184	34,468,636
Use of money and property	2,872,709	355,412	73,410	52,619	\$ 34,451	63,668	3,452,269	36,083	3,488,352
Licenses and permits	224,645			196,520			421,165		421,165
Fines and forfeitures	1,442,351						1,442,351		1,442,351
Sale of property and compensation for loss	5,188						5,188		5,188
Interfund revenue	110,479						110,479		110,479
Miscellaneous local sources	884,772	69		41,655	390,669		1,317,165	987,119	2,304,284
State aid	5,275,507	50,431		1,706,764	537,716		7,570,418	1,320,965	8,891,383
Federal aid	617,364						617,364	13,708,076	14,325,440
Total Revenues	58,214,522	23,134,513	25,079,584	24,791,505	962,836	18,014,440	150,197,400	26,345,077	176,542,477
EXPENDITURES									
Current:									
General government support	15,128,688						15,128,688	402,498	15,531,186
Public safety	1,784,254						17,568,233	2,932,672	20,500,905
Health	2,947,953						1,735,145	4,683,098	5,650,759
Transportation				8,483,386			8,483,386	2,270,624	10,754,010
Economic assistance and opportunity	101,620						101,620	65,252	166,872
Culture and recreation	10,599,153						10,599,153	231,902	10,831,055
Home and community services	1,542,309	24,967,208	20,230,607				46,740,124	15,047,243	61,787,367
Employee benefits	11,227,975	481,575	400,713	4,180,717			16,290,980	3,010,804	19,301,784
Capital Outlay					24,236,042		24,236,042		24,236,042
Debt Service:									
Principal	8,075,636	534,430	487,545	9,601,774			18,699,385	692,615	19,392,000
Interest	2,841,081	40,039	38,950	2,367,377			5,287,447	321,350	5,608,797
Bond issuance costs	85,316			99,123			184,439	822	185,261
Total Expenditures	54,333,985	26,023,252	21,157,815	24,732,377	24,236,042	17,519,124	168,002,595	25,943,443	193,946,038
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,880,537	(2,888,739)	3,921,769	59,128	(23,273,206)	495,316	(17,805,195)	401,634	(17,403,561)
OTHER FINANCING SOURCES (USES)									
Principal amount of bond proceeds					17,775,000		17,775,000		17,775,000
Refunding bond proceeds	2,226,000			5,119,800			7,345,800	74,200	7,420,000
Premium on refunding bond	176,205			405,272			581,477	5,874	587,351
Payments to refunding bond escrow agent	(2,340,000)			(5,382,000)			(7,722,000)	(78,000)	(7,800,000)
Sale of capital assets	204,370						204,370		204,370
Insurance recovery	7,173						7,173		7,173
Operating transfers in	35,549			150,790	51,709		238,048		238,048
Operating transfers out	(51,709)				(186,339)		(238,048)		(238,048)
Total Other Financing Sources (Uses)	257,588	-0-	-0-	293,862	17,640,370	-0-	18,191,820	2,074	18,193,894
SPECIAL ITEM									
Property held for resale reclassified as Town owned assets	(274,789)						(274,789)		(274,789)
Net Change in Fund Balances	3,863,336	(2,888,739)	3,921,769	352,990	(5,632,836)	495,316	111,836	403,708	515,544
Fund Balances at Beginning of Year, as reported	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
Cumulative Effect of a Change in Accounting Principle	-0-	-0-	-0-	-0-	-0-	743,733	743,733	-0-	743,733
Fund Balances at Beginning of Year, as restated	49,289,930	16,544,358	15,920,407	9,186,851	20,729,455	3,044,271	114,715,272	11,494,219	126,209,491
Fund Balances at End of Year	\$ 53,153,266	\$ 13,655,619	\$ 19,842,176	\$ 9,539,841	\$ 15,096,619	\$ 3,539,587	\$ 114,827,108	\$ 11,897,927	\$ 126,725,035

See notes to the financial statements.

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, 2017

Net Change in Fund Balance		\$ 515,544
<p>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:</p>		
Capital outlay	\$ 26,375,071	
Depreciation expense	(16,949,769)	
Loss on disposal of capital assets	(599,078)	
Construction in progress not capitalized	(972,347)	
Donated assets	163,326	
Assets transferred from property held for resale to Town owned	<u>274,789</u>	8,291,992
<p>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.</p>		
		(29,841)
<p>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.</p>		
		(1,516,517)
<p>Mortgage tax revenues are reported in the governmental funds when considered "available" and in the Statement of Activities when "earned."</p>		
		64,442
<p>Net change in deferred outflows of resources not reported in the governmental fund statements:</p>		
Bond issuance costs related to refunding bonds	96,522	
Amortization of deferred charges on refundings	(42,597)	
Pension related amounts - employees' retirement system	(7,300,239)	
Length of service award plan program amounts	<u>1,016,377</u>	(6,229,937)
<p>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:</p>		
Refunding bonds issued	(7,420,000)	
Payment to escrow agent for refunding	7,800,000	
Bonds issued	(17,775,000)	
Repayment of bond principal	19,220,000	
Premiums received	(587,351)	
Amortization of bond premiums	279,079	
Repayment of guarantee assistance contract loans	172,000	
Employees' retirement system	390,707	
Compensated absences	121,143	
Claims and judgments	(619,777)	
Estimated liability for landfill closure and postclosure care costs	(1,551,483)	
Net employees' retirement system pension liability - proportionate share	5,991,346	
Net length of service award programs plan liabilities	(824,117)	
Other postemployment benefits payable	(7,417,003)	
Length of service award program liabilities	<u>(113,337)</u>	(2,333,793)
<p>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.</p>		
		116,862
<p>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.</p>		
		(150,184)
<p>The net change in deferred inflows of resources not reported in the governmental fund statements related to the pension plan and length of service award programs</p>		
		<u>143,883</u>
Change in Net Position of Governmental Activities		\$ (1,127,549)

See notes to the financial statements.

TOWN OF BABYLON
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
 December 31, 2017

	East Farmingdale Water District	Oak Beach Water District	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,645,893		\$ 1,645,893
Accounts receivable, net of allowance	110,038		110,038
Due from other governments		\$ 37,166	37,166
Total Current Assets	1,755,931	37,166	1,793,097
Noncurrent Assets:			
Due from other governments		1,200,000	1,200,000
Non-depreciable capital assets	194,964	176,972	371,936
Capital assets, net of accumulated depreciation	5,734,678		5,734,678
Total Noncurrent Assets	5,929,642	1,376,972	7,306,614
Total Assets	7,685,573	1,414,138	9,099,711
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	67,694	7,931	75,625
Due to other fund		29,211	29,211
Total Current Liabilities	67,694	37,142	104,836
Noncurrent Liabilities:			
Bond anticipation note payable		1,200,000	1,200,000
Other postemployment benefits payable	267,413		267,413
Total Noncurrent Liabilities	267,413	1,200,000	1,467,413
Total Liabilities	335,107	1,237,142	1,572,249
DEFERRED INFLOWS OF RESOURCES			
Deferred service concession arrangement receipt	2,462,500		2,462,500
Total Deferred Inflows of Resources	2,462,500	-0-	2,462,500
NET POSITION			
Net investment in capital assets	5,929,642	139,830	6,069,472
Unrestricted	(1,041,676)	37,166	(1,004,510)
Total Net Position	\$ 4,887,966	\$ 176,996	\$ 5,064,962

TOWN OF BABYLON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
ENTERPRISE FUNDS
 Year Ended December 31, 2017

	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 SERVICES			
Retiree benefits	99,262		99,262
Management and administration fees	252,428		252,428
Depreciation	162,135		162,135
Insurance	2,073		2,073
Total Operating Expenses	<u>515,898</u>	<u>-0-</u>	<u>515,898</u>
Loss from Operations	<u>(440,898)</u>	<u>-0-</u>	<u>(440,898)</u>
NON-OPERATING REVENUE			
Rental income from cell tower rentals	404,600		404,600
State aid		88,071	88,071
Interest income	7,869	24	7,893
Total Non-Operating Revenue	<u>412,469</u>	<u>88,095</u>	<u>500,564</u>
Change in Net Position	(28,429)	88,095	59,666
Net Position - Beginning of Year	4,916,395	88,901	5,005,296
Net Position - End of Year	<u>\$ 4,887,966</u>	<u>\$ 176,996</u>	<u>\$ 5,064,962</u>

TOWN OF BABYLON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended December 31, 2017

	<u>East Farmingdale Water District</u>	<u>Oak Beach Water District</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash paid to third party management and others	\$ (281,613)		\$ (281,613)
Cash paid on behalf of retirees	(143,173)		(143,173)
Net Cash Used for Operating Activities	<u>(424,786)</u>	\$ -0-	<u>(424,786)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets		(102,800)	\$ (102,800)
Capital grant		86,515	86,515
Due to other fund		16,261	16,261
Net Cash Used for Capital and Related Financing Activities	<u>-0-</u>	<u>(24)</u>	<u>(24)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Rental income from cell towers	294,562		294,562
Interest income	7,869	24	7,893
Net Cash Provided by Investing Activities	<u>302,431</u>	<u>24</u>	<u>302,455</u>
Net decrease in cash and cash equivalents	(122,355)	-0-	(122,355)
Cash and Cash Equivalents at Beginning of Year	1,768,248	-0-	1,768,248
Cash and Cash Equivalents at End of Year	<u>\$ 1,645,893</u>	<u>\$ -0-</u>	<u>\$ 1,645,893</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES			
Loss from operations	\$ (440,898)	\$ -0-	\$ (440,898)
Adjustments to reconcile loss from operations to net cash used for operating activities:			
Depreciation expense	162,135		162,135
Decrease in:			
Accounts payable	(27,112)		(27,112)
Deferred service concession arrangement receipts	(75,000)		(75,000)
Other postemployment benefits payable	(43,911)		(43,911)
Net Cash Used for Operating Activities	<u>\$ (424,786)</u>	<u>\$ -0-</u>	<u>\$ (424,786)</u>

NONCASH CAPITAL AND FINANCING ACTIVITIES:

The Oak Beach Water District's acquisition and construction of capital assets in the amount of \$102,800 is reported net of the change in accounts payable and accrued liabilities of \$14,729.

The Oak Beach Water District's capital grant in the amount of \$86,515 is reported net of the change in due from other governments related to this grant of \$1,556.

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 NET POSITION
FIDUCIARY FUNDS
December 31, 2017

	Length of Service Award Programs - Pension Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 315,634	\$ 30,557,209
Guaranteed annuity contracts	9,686,479	
Cash value of life insurance contracts	2,347,700	
	<u>12,349,813</u>	<u>30,557,209</u>
Total Assets	<u>12,349,813</u>	<u>\$ 30,557,209</u>
LIABILITIES		
Due to school districts		\$ 26,200,194
Due to fire districts		2,487,587
Due to other Counties for tuition tax		977,295
Agency fund liabilities		892,133
		<u>30,557,209</u>
Total Liabilities	<u>-0-</u>	<u>\$ 30,557,209</u>
FIDUCIARY NET POSITION		
Net position held in trust for length of service award programs	<u>\$ 12,349,813</u>	

TOWN OF BABYLON
STATEMENT OF CHANGES OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year ended December 31, 2017

	Length of Service Award Programs - Pension Trust Funds
ADDITIONS	
Employer contributions *	\$ 779,450
Investment income:	
Investment earnings	324,406
Net increase in cash surrender value of investments	191,284
Total investment income	515,690
Less investment expenses	-0-
Net investment income	515,690
Total Additions	1,295,140
DEDUCTIONS	
Benefits and refunds paid to plan members and beneficiaries	718,182
Total Deductions	718,182
Change in Fiduciary Net Position	576,958
Fiduciary Net Position - Beginning of Year, as reported	-0-
Prior period adjustment	11,772,855
Fiduciary Net Position - Beginning of Year, as restated	11,772,855
Fiduciary Net Position - End of Year	\$ 12,349,813

* From the Town of Babylon Special Districts Fund

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.
- 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.

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

Discretely Presented Component Units (continued):

Both 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

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.

- 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

Blended Component Units: (continued)

- 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.

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.

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)

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 of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are presented by type in the fund financial statements. Certain funds of the Town are utilized to account for resources derived from and/or expenditures applicable to an area less than the entire town. The focus of the governmental funds financial statements is on the major funds. Accordingly, the Town maintains the following fund types:

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

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, including the plan assets and related activity of certain Town sponsored length of service award programs.

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)

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 of resources 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.

Pension Trust Fund – is used to account for the plan assets and related activity of the Town sponsored length of service award programs ("LOSAP") that provide a benefit to volunteer firefighters serving certain independent volunteer fire companies in the Town. The LOSAP plans that are reported in the pension trust fund are treated as trust funds since the plan assets are accumulated and dedicated solely to pay benefits to the members and their beneficiaries, however they are not legally established trusts.

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, other postemployment benefits and length of service award programs 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 fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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, excluding the length of service award program plan investments. 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's investments at December 31, 2017 include the LOSAP plan assets as described in Notes 1.D.6 and 5.

Collateral is required for demand deposits and time deposits accounts at 100% of all deposits not covered by federal deposit insurance, including a deposit placement program. 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 AND INTERFUND TRANSACTIONS

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, an amount due from a third party for cell tower rental, as well as an amount due from a third party for reimbursement of remediation costs incurred. Collection of the reimbursement of remediation costs is not certain as of December 31, 2017 and therefore the balance is reported net of an allowance of \$342,000.

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 April of 2028.

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 AND INTERFUND TRANSACTIONS (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.

Prepayments in the special districts fund for the remittances of 2018 real property taxes collected reflect amounts applicable to future accounting periods and therefore are reported as prepaid items 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	20-30 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. LENGTH OF SERVICE AWARD PROGRAM PLAN ASSETS – INVESTMENTS

The Town's investments include the assets of the LOSAP plans of which the Town is the Plan Sponsor. The investments of the firefighter award programs, considered defined benefit plans, are either held in a grantor/ rabbi trust account in the Town's name or in a trust meeting the requirements of GASB Statements No. 67 and 68. These plan assets consist of investments in cash deposits, guaranteed annuity contracts and cash value of life insurance contracts. The Town's ambulance award program, a defined contribution plan, has assets which are invested in an external investment pool that is administered through the Office of the New York State Comptroller. The underlying assets of the external investment pool, reported at fair value, include money market funds, corporate and foreign bonds, common equity securities, equity mutual funds, and fixed income mutual funds. The allocation of gains, losses and investment income are accounted for by the Office of the New York State Comptroller and the program administrator, Penflex Inc.

The assets of the length of service award programs that are held in a trust arrangement meeting the requirements of GASB Statements No. 67 and 68 are reported in the Pension Trust Fund and the assets of the service award programs that are held in a grantor/rabbi trust are reported in the Town's special districts fund.

The length of service award program assets are restricted for the purpose of providing benefits to the participants of the plans.

7. 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 2018.

8. 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 \$190,000 for a deferred charge on refunding bonds, \$8,412,000 for pension related activities and \$1,016,000 related to the length of service award programs 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 components of the pension plan and length of service award programs' deferred outflows of resources are disclosed in Notes 3.F and 3.H, respectively.

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)

8. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES (continued)

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 2018 real estate taxes of approximately \$86,603,000 and unavailable revenues of approximately \$7,546,000 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 report deferred inflow of resources of approximately \$1,277,000 related to pension related activities and approximately \$178,000 for the length of service award programs. The components of the pension plan and length of service award programs' deferred inflows of resources are disclosed in Notes 3.F and 3.H, respectively.

The East Farmingdale water district has reported deferred inflows of resources of approximately \$2,463,000 resulting from lease income received in advance in a service concession arrangement which is being amortized and recognized in revenue over the lease term.

9. 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 employees' retirement system liability, other postemployment benefits ("OPEB"), the net length of service award programs plan liabilities, and the length of service award program total plan liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund 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.

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)

10. 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 and retainage 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.

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.

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)

10. NET POSITION AND FUND BALANCE CLASSIFICATION (continued)

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 districts, 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.

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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES/EXPENSES (continued)

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 activities. The current portion of this debt is estimated based on historical trends. Compensated absences liabilities and expenditures 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.

4. EMPLOYEE RETIREMENT PENSION PLAN

The Town, as a participant in the New York State and Local Employees' Retirement System, recognizes the proportionate share of the net pension liability, deferred outflows of resources and deferred inflows of resources in the government-wide financial statements, using the accrual basis of accounting, regardless of the amount recognized as pension expenditures in the fund financial statements. The amounts recognized have been determined on the same basis as reported by the System, utilizing the year end of March 31st.

5. LENGTH OF SERVICE AWARD PROGRAMS PLAN LIABILITIES

The Town sponsors various LOSAP plans for volunteer firefighters and ambulance squad members. These programs, organized as defined benefit or contribution plans, provide volunteers with a financial benefit based on the number of years that are served. The Town sponsored LOSAP plans fall under two categories: 1) the plan assets are held in a grantor/ rabbi trust account in the Town's name, which do not meet the requirements of GASB Statement No. 73 paragraph 4, and accordingly the total plan assets and the related current year activity are reported in the governmental fund financial statements and the government-wide financial statements and the total plan liabilities are reported in the government-wide financial statements as of the measurement date or 2) the plan assets are administered through a trust meeting the requirements of GASB Statements No. 67 and 68, and the plan assets and the related current year activity are reported in the Town's Pension Trust Fund and the net pension liability is reported in the government-wide financial statements as of the measurement date.

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, 2017 the Town adopted:

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,*" which clarifies 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 the current year. The remaining requirements were effective in the prior year. The implementation of this Statement requires the Town, as plan sponsor, to recognize the LOSAP plan assets and related investment earnings and plan disbursements on the governmental fund financial statements, and the related length of service LOSAP liabilities, deferred inflows and outflows of resources on the government-wide financial statements. This Statement applies to the Town sponsored LOSAP plans that did not meet the requirements of Statements No. 67, 68 or paragraph 4 of Statement No. 73. See Notes 3.H and 6 for additional information.

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 implementation of this Statement had no impact on the Town's financial statements.

Statement No. 81, "*Irrevocable Split-Interest Agreements,*" provides guidance over financial reporting for irrevocable split-interest agreements where the government is a beneficiary of the agreement. The implementation of this Statement had no impact on the Town's financial statements.

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 this Statement have been implemented in the current year, 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, which is required to be implemented in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The implementation of this Statement had no significant impact on the Town's financial statements.

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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. BUDGETARY INFORMATION (continued)

- 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 2017.

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:								
Long-term receivables							\$ 437,640	\$ 437,640
Property held of resale	\$ 3,105,850							3,105,850
Prepaid items						\$ 383,312	2,500	385,812
Inventory	269,857			\$ 241,725			110,000	621,582
Total Nonspendable	3,375,707	\$ -0-	\$ -0-	241,725	\$ -0-	383,312	550,140	4,550,884
Restricted for:								
Debt service	2,196,559	9,810	8,945	1,749,729			13,561	3,978,604
Property held of resale	14,924,785							14,924,785
Capital projects					9,615,309			9,615,309
Purchases on order or contractual obligations					4,315,394			4,315,394
Grantors and donors restrictions							4,170,401	4,170,401
Length of service award program investments to be used for benefits						849,314		849,314
Guaranteed assistance contract							300,705	300,705
Total Restricted	17,121,344	9,810	8,945	1,749,729	13,930,703	849,314	4,484,667	38,154,512
Assigned to:								
Subsequent year's budget	1,963,534	1,179,717		12,107			26,528	3,181,886
Capital projects					846,144			846,144
Purchases on order or contractual obligations	235,782	4,146		1,707	319,772		12,505	573,912
Special revenue funds		12,461,946	19,833,231	7,534,573		2,306,961	6,824,087	48,960,798
Total Assigned	2,199,316	13,645,809	19,833,231	7,548,387	1,165,916	2,306,961	6,863,120	53,562,740
Unassigned, reported in								
General Fund	30,456,899							30,456,899
Total Unassigned	30,456,899	-0-	-0-	-0-	-0-	-0-	-0-	30,456,899
Total Fund Balances	\$ 53,153,266	\$ 13,655,619	\$ 19,842,176	\$ 9,539,841	\$ 15,096,619	\$ 3,539,587	\$ 11,897,927	\$ 126,725,035

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

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, 2017.

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

At December 31, 2017 the Town's cash book balance was \$160,719,876. This amount is inclusive of Fiduciary fund deposits of \$30,557,209 cash with fiscal agent of \$3,230,104 and restricted cash of \$70,167 but exclusive of petty cash of \$4,014 and blended component unit cash of \$464,272. This also excludes the LOSAP's cash balance. The Town's available bank balance was \$152,769,030 excluding the blended component units. Of the Town's available bank balance, \$2,292,382 was covered by Federal deposit insurance, and \$150,476,648 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 \$475,942, of which \$393,055 was covered by Federal deposit insurance. The remaining balance of \$82,887 was under collateralized.

At December 31, 2017 the Town's discretely presented component units' bank balances were \$5,162,514. Of this balance, \$519,360 was covered by Federal deposit insurance and \$4,643,154 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, 2017, 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

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, 2017, 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	\$ 263,652	
Commercial Garbage District Fund		
Highway Fund	304,989	
Capital Projects Fund		\$ 343,585
Non-major Funds	241	196,086
Enterprise Fund:		
Oak Beach Water District		29,211
Total	\$ 568,882	\$ 568,882

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:		
	Governmental Major Funds:		
	General Fund	Capital Projects Fund	Total
<u>Transfers in:</u>			
Governmental Funds:			
Major Funds:			
General Fund		\$ 35,549	\$ 35,549
Highway Fund		150,790	150,790
Capital Projects Fund	\$ 51,709		51,709
Total	\$ 51,709	\$ 186,339	\$ 238,048

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS

Capital assets activity for the governmental activities for the year ended December 31, 2017 is as follows:

	<u>Balance</u> <u>1/1/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/17</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 32,360,635	\$ 274,789 *		\$ 32,635,424
Construction in progress	39,974,870	15,322,310	\$ (30,035,982)	25,261,198
Total capital assets not being depreciated	<u>72,335,505</u>	<u>15,597,099</u>	<u>(30,035,982)</u>	<u>57,896,622</u>
Depreciable capital assets:				
Building and improvements	109,531,659	25,208,477	(1,398,669)	133,341,467
Machinery and equipment	36,170,179	3,854,036	(1,141,061)	38,883,154
Infrastructure	422,743,646	11,217,209		433,960,855
Total depreciable capital assets	<u>568,445,484</u>	<u>40,279,722</u>	<u>(2,539,730)</u>	<u>606,185,476</u>
Less: accumulated depreciation				
Buildings and improvements	44,049,986	4,366,325	(799,591)	47,616,720
Machinery and equipment	25,816,845	2,216,661	(1,141,061)	26,892,445
Infrastructure	319,913,612	10,366,783		330,280,395
Total accumulated depreciation	<u>\$ 389,780,443</u>	<u>\$ 16,949,769</u>	<u>\$ (1,940,652)</u>	<u>404,789,560</u>
Total net depreciable capital assets				<u>201,395,916</u>
Total net capital assets				<u>\$ 259,292,538</u>

* During 2017, the Town reclassified a portion of property held for resale to Town owned property.

Depreciation was charged to functions and programs as follows:

General government support	\$ 411,400
Public safety	95,481
Health	126,373
Transportation	11,081,218
Culture and recreation	4,007,916
Home and community services	1,227,381
Total depreciation expense - governmental activities	<u>\$ 16,949,769</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

Capital assets activity for the business-type activities for the year ended December 31, 2017 is as follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 194,964			\$ 194,964
Construction in progress	88,901	\$ 88,071		176,972
Total capital assets not being depreciated	<u>283,865</u>	<u>88,071</u>	<u>\$ -0-</u>	<u>371,936</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	868,071	24,190		892,261
Machinery and equipment	345,502	3,567		349,069
Infrastructure	1,407,604	134,378		1,541,982
Total accumulated depreciation	<u>\$ 2,621,177</u>	<u>\$ 162,135</u>	<u>\$ -0-</u>	<u>2,783,312</u>
Total net depreciable capital assets				<u>5,734,678</u>
Total net capital assets				<u>\$ 6,106,614</u>

Depreciation expense in the amount of \$162,135 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, 2017 is as follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
<u>Discretely Presented Non-major Component Unit- Babylon IDA:</u>				
Capital assets:				
Leasehold improvements	\$ -0-	\$ 50,037	\$ -0-	50,037
Total capital assets	<u>-0-</u>	<u>50,037</u>	<u>-0-</u>	<u>50,037</u>
Less: accumulated amortization				
Leasehold improvements	-0-	1,164		1,164
Total accumulated amortization	<u>\$ -0-</u>	<u>\$ 1,164</u>	<u>\$ -0-</u>	<u>\$ 1,164</u>
Total net capital assets				<u>\$ 48,873</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, 2017, 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 (residential unit buildings with ground floor retail space) were transferred to a third party. The third building is a five-story parking garage built by the MTA/LIRR. In connection with the completion of Phase I, which is expected to occur by the end of 2022, the remaining land purchased for the revitalization program will be sold to a private developer.

As of December 31, 2017, the Town issued \$28,722,921 of general obligation bonds for the cost of the revitalization program, 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 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.

As of December 31, 2017, 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 expects to sell two of the properties with a value of \$254,385 in 2018 and therefore has classified these properties held for resale as a current asset in the Statement of Net Position. The Town does not anticipate selling the third property until 2019 and accordingly has reported this as a noncurrent asset in the Statement of Net Position.

E. LONG-TERM DEBT

Guaranteed Assistance Contract Loan

The Town's guaranteed assistance contract loan payable at December 31, 2017 consists of a loan due to the U.S. Department of Housing and Urban Development issued under Section 108 of the Housing and Community Development Act of 1974. This loan dated December 2012, stipulates a maximum commitment amount of \$4,100,000 for a specific capital project. As of December 31, 2017, the Town received the full amount of the commitment, plus interest earnings in the aggregate amount of \$4,103,700, and spent \$3,802,995 of the loan proceeds. The remaining amount of \$300,705, 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, 2017 was 1.69%, which is the rate used to determine the future interest payments below.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

Guaranteed Assistance Contract Loan (continued)

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	\$ 180,000	\$ 62,000	\$ 242,000
2018	187,000	58,486	245,486
2019	195,000	54,829	249,829
2021	202,000	51,027	253,027
2022	211,000	47,074	258,074
2023-2027	1,178,000	170,259	1,348,259
2028-2032	1,150,000	57,013	1,207,013
Total	<u>\$ 3,303,000</u>	<u>\$ 500,688</u>	<u>\$ 3,803,688</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 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 on 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 2019 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 .03% to 5.38% and mature at varying dates through May 2043.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

General Obligation Bonds Payable continued)

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
2018	\$ 16,325,000	\$ 5,219,181	\$ 21,544,181
2019	13,900,000	4,700,399	18,600,399
2020	13,725,000	4,306,152	18,031,152
2021	13,380,000	3,847,654	17,227,654
2022	9,135,000	3,413,536	12,548,536
2023-2027	48,295,000	12,712,545	61,007,545
2028-2032	31,660,000	5,523,792	37,183,792
2033-2037	15,040,000	1,882,007	16,922,007
2038-2042	4,405,000	392,193	4,797,193
2043	520,000	6,183	526,183
Total	<u>\$ 166,385,000</u>	<u>\$ 42,003,642</u>	<u>\$ 208,388,642</u>

There were no outstanding bonds payable for the business-type activities or the discretely presented non-major component units as of December 31, 2017.

Current and Advance Refunding of Bonds

On December 19, 2017, the Town issued \$7,420,000 in public improvement refunding bonds (issued as 2017 Series A) with an interest rate of 5.00%. The proceeds were used to advance refund \$2,090,000 of 2005 various purpose serial bonds (remarketed in 2008) which had an interest rate of 5.00% through the year 2020 and to current refund \$5,710,000 of 2007 public improvement bonds with an average rate of 4.00% through the year 2021.

The net proceeds of \$7,896,522 (the par amount of the bonds plus the reoffering premium of \$587,351 less underwriting fees, and other issuance costs of \$110,829) were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, the 2005 and 2007 bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities in the Statement of Net Assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$96,522. This amount is included in the governmental activities deferred outflows of resources in the Statement of Net Position.

The Town current and advance refunded the 2005 and 2007 serial bonds to reduce its total debt service payments over the four years by \$332,717 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$317,566.

Current Year Defeasance of Debt

In the current year, 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 (see above). Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At December 31, 2017, \$7,800,000 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, 2017 is as follows:

	Balance, as Restated 1/1/17	Issued/ Additions	Maturities/ Reductions	Other Net Increase or (Decrease)	Balance 12/31/17
Governmental activities:					
General obligation bonds	\$ 168,210,000	\$ 25,195,000	\$ 27,020,000		\$ 166,385,000
Plus: premiums on issuance	1,477,556	587,351	279,079		1,785,828
General obligation bonds, net	169,687,556	25,782,351	27,299,079		168,170,828
Guaranteed assistance contract loans payable	3,475,000		172,000		3,303,000
Due to employees' retirement system	1,623,030		274,241	\$ (116,466)	1,232,323
Compensated absences	5,287,177	3,342,543	3,463,686		5,166,034
Claims and judgments payable	7,037,959	344,250	934,479	1,210,006	7,657,736
Estimated liability for landfill closure and postclosure care costs	25,546,724		465,300	2,016,783	27,098,207
Net employees' retirement system pension liability - proportionate share	13,486,025	4,694,553	3,795,174	(6,890,725)	7,494,679
Other postemployment benefits payable	62,120,773	11,985,735	4,568,732		69,537,776
Net length of service award programs plan liabilities *	8,923,615	1,389,755	1,106,118	540,480	9,747,732
Length of service award programs total plan liabilities **	1,302,160	161,752	66,130	17,715	1,415,497
Business-type activities:					
Bond anticipation notes payable	1,200,000				1,200,000
Other postemployment benefits payable	311,324	88,013	131,924		267,413
Total Primary Government	<u>\$ 300,001,343</u>	<u>\$ 47,788,952</u>	<u>\$ 42,276,863</u>	<u>\$ (3,222,207)</u>	<u>\$ 302,291,225</u>
Discretely presented non-major component unit - Babylon IDA:					
Compensated absences	\$ 73,736	\$ 21,227			\$ 94,963
Other postemployment benefits payable	571,450	51,606	\$ 5,057		617,999
Net employees' retirement system pension liability - proportionate share	195,413	72,114	139,157		128,370
Total Discretely Presented Component Unit	<u>\$ 840,599</u>	<u>\$ 144,947</u>	<u>\$ 144,214</u>	<u>\$ -0-</u>	<u>\$ 841,332</u>

*Length of service award programs that meet the requirements of GASB Statements No. 67, 68 and paragraph 4 of Statement No 73.

**Length of service award programs that are reported under GASB Statement No. 73, however do not meet the requirements of paragraph 4.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

Changes in Long-term Liabilities (continued)

A summary of current and long-term debt amounts as of December 31, 2017 is as follows:

	Noncurrent Liabilities due Within One Year	Noncurrent Liabilities	Balance at 12/31/17
Governmental activities:			
General obligation bonds	\$ 16,325,000	\$ 150,060,000	\$ 166,385,000
Plus: premiums on issuance	340,430	1,445,398	1,785,828
General obligation bonds, net	16,665,430	151,505,398	168,170,828
Guaranteed assistance contract loans payable	180,000	3,123,000	3,303,000
Due to employees' retirement system	247,005	985,318	1,232,323
Compensated absences	3,240,000	1,926,034	5,166,034
Claims and judgments payable	421,812	7,235,924	7,657,736
Estimated liability for landfill closure and postclosure care costs	2,701,408	24,396,799	27,098,207
Net employees' retirement system pension liability - proportionate share		7,494,679	7,494,679
Other postemployment benefits payable		69,537,776	69,537,776
Net length of service award programs plan liabilities		9,747,732	9,747,732
Length of service award programs total plan liabilities		1,415,497	1,415,497
Business-type activities:			
Bond anticipation notes payable		1,200,000	1,200,000
Other postemployment benefits payable		267,413	267,413
Total Primary Government	\$ 23,455,655	\$ 278,835,570	\$ 302,291,225
Discretely presented non-major component unit - Babylon IDA:			
Compensated absences	\$ 24,716	\$ 70,247	\$ 94,963
Other postemployment benefits payable		617,999	617,999
Net employees' retirement system pension liability - proportionate share		128,370	128,370
Total Discretely Presented Non-major Component Unit	\$ 24,716	\$ 816,616	\$ 841,332

Other Long-Term Debt

The liabilities for compensated absences, amounts due to employees' retirement system, the Town's proportionate share of the net employees' retirement system 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. Contributions to fund the length of service award programs liabilities will be liquidated by the special districts fund.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG-TERM DEBT (continued)

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, 2017, the outstanding Series 2009 A and B bond balances were \$17,310,000.

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 (NYERS) (the "System"), a cost-sharing multiple public employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York 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.

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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Benefits Provided (continued)

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.

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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Benefits Provided (continued)

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.

Disability Retirement Benefits

Disability retirement benefits are available to members unable to perform their job duties because of permanent physical or mental incapacity. There are three general types of disability benefits: ordinary, performance of duty and accidental disability benefits. Eligibility is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

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.

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>
2017	\$ 3,825,022	\$ 1,197	\$ 324,355	\$ -0-	\$ (33,583)	\$ 4,116,991
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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Contributions (continued)

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 ranging from 3.0% to 5.0%, set by the New York State Comptroller annually. At December 31, 2017 the amount due to the System related to this deferral is \$1,232,323.

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.

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, 2018	\$ 247,005	\$ 39,295	\$ 286,300
2019	254,965	31,336	286,301
2020	263,184	23,116	286,300
2021	271,671	14,629	286,300
2022	195,498	5,865	201,363
	\$ 1,232,323	\$ 114,241	\$ 1,346,564

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Employees' Retirement System Pension Liabilities, Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Employees' Retirement System Pension

At December 31, 2017, the Town and Agency reported a liability of \$7,494,679 and \$128,370, respectively for its proportionate share of the net pension liability for the System. The net pension liability was measured as of March 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016. 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, 2017:

	Net System 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	\$ 7,494,679	0.0797627%	-0.0042609%
Agency	128,370	0.0013662%	0.0001487%

There was no significant change in the Town and Agency's proportion from March 31, 2016 to March 31, 2017.

For the year ended December 31, 2017, the Town and Agency recognized pension expense of \$4,694,553 and \$72,114, respectively. At December 31, 2017 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	\$ 187,810	\$ 3,217
Changes of assumptions	2,560,457	43,856
Net difference between projected and actual earnings on pension plan investments	1,496,991	25,641
Changes in proportion and differences between the employer contributions and proportionate share of contributions	1,321,196	5,769
Employer's contribution subsequent to the measurement date	2,845,500	42,813
Total Deferred Outflow - System Pension	\$ 8,411,954	\$ 121,296

At December 31, 2017 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	\$ 1,138,110	\$ 19,494
Changes in proportion and differences between the employer contributions and proportionate share of contributions	138,723	9,626
Total Deferred Inflow - System Pension	\$ 1,276,833	\$ 29,120

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Employees' Retirement System Pension Liabilities, Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Employees' Retirement System Pension (continued)

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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, 2018	\$ 1,818,310	\$ 22,878	
2019	1,818,310	22,878	
2020	1,565,043	20,469	
2021	(912,042)	(16,862)	
	\$ 4,289,621	\$ 49,363	

Actuarial Assumptions

The total pension liability as of the measurement date of March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, 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, 2017
Actuarial valuation date	April 1, 2016
Interest rate	7.0%
Salary increases	3.8%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%
Cost of living adjustment	1.3%

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, 2016 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Actuarial Assumptions (continued)

Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	36.0%	4.55%
International equity	14.0%	6.35%
Private equity	10.0%	7.75%
Real estate	10.0%	5.80%
Absolute return strategies	2.0%	4.00%
Opportunistic portfolio	3.0%	5.89%
Real assets	3.0%	5.54%
Bonds and mortgages	17.0%	1.31%
Cash	1.0%	-0.25%
Inflation indexed bonds	4.0%	1.50%
	100.0%	

Discount Rate

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

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

The following presents the Town's/Agency's proportionate share of the net System 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:

	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Town's proportionate share of the net System pension liability (asset)	\$ 23,936,519	\$ 7,494,679	\$ (6,406,866)
Agency's proportionate share of the net System pension liability (asset)	\$ 409,990	\$ 128,370	\$ (109,738)

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Employees' Retirement System Pension Plan Fiduciary Net Position

The components of the current year net employees' retirement system pension liability of the employers as of the respective valuation date of April 1, 2016 were as follows (in thousands):

Valuation date	April 1, 2016
Employers' total pension liability	\$ 177,400,586
Plan Fiduciary Net Position	(168,004,363)
Employers' net pension liability	<u>\$ 9,396,223</u>

Ratio of plan fiduciary net position to the Employers' total pension liability	94.70%
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Detailed information about the System 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.

For Civil Service Employees Association members, eligibility requirements for coverage upon retirement are: ten 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 100% of the premium for eligible administrative personnel.

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 hired prior to November 14, 2011 and 75%-85% of the premium, depending on the retiree's last salary, for those eligible employees hired after November 14, 2011.

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

The number of participants as of July 1, 2017 is as follows:

	Total	Town	Agency
Active employees	348	343	5
Retirees	314	313	1
Surviving spouses *	27	27	0
	<u>689</u>	<u>683</u>	<u>6</u>

*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.

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, 2017, the Town's (excluding the non-major discretely presented component units) annual other postemployment benefits cost (expense) was \$12,073,748. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$4,700,656 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$7,373,092 for the year ended December 31, 2017. The Town's discretely presented component unit's annual other postemployment benefits cost (expense) was \$51,606. The payment of current health insurance premiums totaled \$5,057 for retirees and the component unit's beneficiaries, resulting in an increase in the other postemployment benefits liability of \$46,549 for the year ended December 31, 2017.

Benefit Obligations and Normal Cost

	Total	Town	Agency
Actuarial Accrued Liability (AAL)			
Retired employees	\$ 77,370,549	\$ 77,285,508	\$ 85,041
Active employees	73,317,716	73,006,299	311,417
Total Actuarial Accrued Liability (AAL)	<u>150,688,265</u>	<u>150,291,807</u>	<u>396,458</u>
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 150,688,265</u>	<u>\$ 150,291,807</u>	<u>\$ 396,458</u>
Funded ratio	0%	0%	0%
Normal cost at the beginning of the year	\$ 3,427,710	\$ 3,404,319	\$ 23,391
Amortization cost at the beginning of the year	\$ 7,148,823	\$ 7,117,907	\$ 30,916
Annual covered payroll	\$ 26,838,573	\$ 26,333,495	\$ 505,078
UAAL as a percentage of covered payroll	561.46%	570.72%	78.49%

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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefit Obligations and Normal Cost (continued)

The unfunded actuarial accrued liability for the Town for the year ended December 31, 2017 amounted to \$150,291,807. The unfunded actuarial accrued liability for the component unit for the year ended December 31, 2017 amounted to \$396,458.

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

	<u>Total</u>	<u>Town</u>	<u>Agency</u>
Normal cost	\$ 4,552,649	\$ 4,517,803	\$ 34,846
Amortization of unfunded actuarial liability (UAAL) over 30 years	8,203,729	8,179,643	24,086
Interest	416,056	413,885	2,171
Annual required contribution (ARC)	13,172,434	13,111,331	61,103
Interest on net OPEB obligation	2,520,142	2,497,284	22,858
Adjustment to ARC	<u>(3,567,222)</u>	<u>(3,534,867)</u>	<u>(32,355)</u>
Annual OPEB cost	12,125,354	12,073,748	51,606
Less: Contribution for year ended December 31, 2017	<u>(4,705,713)</u>	<u>(4,700,656)</u>	<u>(5,057)</u>
Increase in other postemployment benefits liability	7,419,641	7,373,092	46,549
Other postemployment benefits liability at December 31, 2016	<u>63,003,547</u>	<u>62,432,097</u>	<u>571,450</u>
Other postemployment benefits liability at December 31, 2017	<u>\$ 70,423,188</u>	<u>\$ 69,805,189</u>	<u>\$ 617,999</u>
Percent of annual OPEB cost contributed	38.81%	38.93%	9.80%

Funded Status and Funding Progress

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

	<u>Annual OPEB Cost</u>	<u>Annual Contribution Made</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 12,073,748	\$ 4,700,656	38.93%	\$ 69,805,189
2016	9,903,115	4,441,130	44.85%	62,432,097
2015	9,554,567	4,076,796	42.67%	56,970,112

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress (continued)

The projected funded status of the plan as of December 31, 2017, based on the January 1, 2017 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	\$ 150,291,807	\$ -0-	\$ 150,291,807	0.00%	\$ 26,333,495	570.72%
Agency	396,458	-0-	396,458	0.00%	505,078	78.49%

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, 2017 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 5.0% (post 65) healthcare cost trend for 2017, with an ultimate medical trend rate of 5% to be reached in 2021 for pre and reached in 2016 for post 65. The remaining amortization period at December 31, 2017 was twenty-one years.

H. LENGTH OF SERVICE AWARD PROGRAMS

Plan Descriptions

Firefighter Plans:

The Town sponsors five Volunteer Firefighters Workers Length of Service Award Programs (the "Firefighter Plans"): North Amityville, East Farmingdale, Wyandanch, North Babylon, and North Lindenhurst. All plans are single-employer defined benefit pension plans covering the Town's volunteer firefighters. The Firefighter Plans were established pursuant to Article 11-A of General Municipal Law. All Firefighter Plans, except for Wyandanch, are effective January 1, 1990 and are administered through a trust equivalent arrangement in which contributions from the Town and earnings on the contributions are irrevocable, plan assets are dedicated to providing pension benefits to plan members and the plan assets are legally protected from the creditors of the employer, nonemployer contributing entity, the plan administrator and the creditors of the plan members. These Firefighter Plans are reported in accordance with the requirements of GASB Statements No. 67, 68, and 73, as applicable.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAMS (continued)

Plan Descriptions (continued)

Firefighter Plans: (continued)

The Wyandanch Firefighter Plan is effective February 1, 2005 and is administered through a grantor/rabbi trust, which is similar to the trust equivalent arrangement described above, however these plan assets are not legally protected from the creditors of the Town. Accordingly, this plan is reported in accordance with the requirements of GASB Statement No. 73, however this plan's assets are not accumulated in a trust that meets the criteria of GASB Statement No. 73 paragraph 4.

Ambulance Plan:

The Town also sponsors the Wyandanch Wheatley Heights Ambulance District Volunteer Ambulance Worker Service Award Program (the "Ambulance Plan"), a defined contribution plan covering the ambulance squad. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. The Ambulance Plan, effective January 1, 1994 was established pursuant to Article 11-AA of General Municipal Law under a contract with the New York State Comptroller. This Plan is administered through a grantor/rabbi trust account in which the plan assets are not legally protected from the Town's creditors. Therefore, this plan is reported in accordance with the requirements on GASB Statement No. 73, however this plan's assets are not accumulated in a trust that meets the criteria of GASB Statement No. 73 paragraph 4.

The Firefighter and Ambulance Plans provide municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters and ambulance squad members.

Participation, Vesting, Forfeitures, and Service Credit

Firefighter Plans:

Active volunteer firefighters who have reached the age of 18 on the last day of the year and who have completed one year of service are eligible to participate in the Firefighter Plans. Participants acquire a nonforfeitable right to a service award after being credited with five years of firefighting service or upon attaining the Firefighter Plan's entitlement age while active or becoming totally and permanently disabled or upon death while an active member. The Firefighter Plan's entitlement age is the later of age 62 (or age 65 for members that terminated prior to 2015) or the age after the 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 Firefighter Plans 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 Firefighter Plans.

Ambulance Plan:

Active volunteer ambulance members who have reached the age of 18 on the last day of the year and who have completed one year of service are eligible to participate in the Ambulance Plan. Participants acquire a nonforfeitable right to a service award (100% vested) after being credited with five years of ambulance service or upon becoming totally and permanently disabled while an active member. The Ambulance Plan's entitlement age is 65. In general, an active volunteer ambulance member is credited with a year of service for each calendar year after the establishment of the Ambulance Plan in which he or she becomes eligible to participate. A Participant may also receive credit for five years of prior service rendered prior to the establishment of the Plan.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAMS (continued)

Participation, Vesting, Forfeitures, and Service Credit (continued)

Ambulance Plan: (continued)

A participant who has not acquired a nonforfeitable right shall forfeit their service award upon ceasing to be a volunteer ambulance member or upon not having qualified for a year of service credit for five consecutive calendar years. Any forfeited participant balances are used to reduce the contribution amount to be paid by the Town.

Benefits

Firefighter Plans:

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 and the individual Firefighter Companies on the basis of a statutory list of activities and point values.

Ambulance Plan:

A participant's benefit under the Ambulance Plan is the amount resulting from the contributions made by the Town on behalf of the participant, plus interest and/or other earnings resulting from the investment of the contributions, less necessary administrative costs, forfeitures and losses resulting from the investment of contributions. Contributions in the amount of \$480 are made on behalf of each participant who is credited with a year of firefighting service. The maximum number of years of ambulance service for which a participant may receive a contribution is forty years. Except in the case of disability or death, benefits are payable when a participant has acquired a nonforfeitable right to the service award and reaches entitlement age. The program provides statutorily mandatory disability and death benefits. As defined by the Ambulance Plan, an active ambulance member 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

Firefighter Plans:

Service credit is determined based on information certified by each Fire Company. Each Fire Company must maintain all required records related to the participants as required by the service award agreement entered into by the Town and the individual Firefighter Companies.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAMS (continued)

Fiduciary Investment Control (continued)

Firefighter Plans: (continued)

The Town Board has retained and designated Hometown Insurance to assist in the administration of the Firefighter Plans, except for Wyandanch for which the Town retained Glatfelter Specialty Benefits, Volunteer Fireman's Insurance Services. The designated Firefighter Plans administrators' functions include determination of the eligibility of each participant based on the records maintained by the individual Firefighter Companies, calculating the amount to be contributed at the end of each year based upon the criteria set forth in the Firefighter Plan documents, and calculation of participant benefits annually and at entitlement. Disbursements of Firefighter Plan assets for the payment of benefits or administrative expenses must be approved by the Trustees of the individual Firefighter Plans.

Firefighter 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.

Each Firefighter Plan has designated Trustees from the individual Fire Companies. Authority to invest Plan assets is vested in the Town Board, who designated the authority to Hometown Insurance Agency. Subject to restrictions in the Firefighter 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 related pension liabilities, and deferred inflows/outflows of resources. The actuary retained by the Town for this purpose is BPAS Actuarial and Pension Services, LLC except for Wyandanch for which the Town retained JF Actuarial Services, Inc.

The Town has the right to amend the LOSAP plans subject to certain limitations and General Municipal Law.

Ambulance Plan:

Service credit is determined by the governing Board of the Town, based on information certified to the Town Board by the Ambulance Company. Each Ambulance Company must maintain all required records on forms prescribed by the Town Board.

The New York State Comptroller has retained and designated Penflex, Inc. to assist in the administration of the Ambulance Plans.

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.

The Trustee of the Ambulance Plan, as designated by the New York State Comptroller, is Glen Falls National Bank and Trust Company. Authority to invest Ambulance Plan assets is vested in the Trustee. Subject to restrictions in the Ambulance Plan document and Article 11-AA of General Municipal Law, Ambulance Plan assets are invested in accordance with a statutory "prudent person" rule. As of the valuation date of December 31st, the Trustee must determine the fair market value of the Trust and allocate the net earnings or losses of the Trust for the year ended to the Town, based on account balances adjusted for all payments and distributions that occurred during the period.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

Firefighter Plans: (continued)

The Town may amend the provisions of the adoption agreement, to be effective the following year, or terminate the participation in the program, provided the amendment and termination are in accordance with Article 11-AA of General Municipal Law. The administrator may amend the program agreement with the approval of the New York State Comptroller.

Contributions and Administration Fees

Firefighter Plans:

The Town must provide an annual contribution to fund the Firefighter Plans, which is based on an actuarial valuation as of the beginning of the Firefighter Plan year, that satisfies the funding policy and method of the plan. The volunteers of Firefighter Plans do not contribute to the plans.

For year ended December 31, 2017, the Town contributed the following amounts to the individual Firefighter Plans:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Plan year ending	12/31/2017	12/31/2017	12/31/2017	12/31/2017	1/31/2017
Amount of contribution recommended by actuary*:					
Minimum	\$ 275,945	\$ 70,398	\$ 397,918	\$ 223,886	\$ 138,940
Maximum	\$ 359,856	\$ 85,415	\$ 563,697	\$ 309,300	\$ 138,940
Actual contribution	\$ 106,000	\$ 112,450	\$ 358,000	\$ 203,000	\$ 138,940

*Recommended contribution includes the normal costs and amortization of unfunded liability for prior services.

Prior service costs for the Firefighter Plans are being amortized over a range of 10-25 years at a discount rate of 4.75% - 5.25%.

The Town paid the following administration fees during the year ended December 31, 2017:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Administration Fees:					
Paid to Plan Administrator by:					
Sponsor	\$ 2,779	\$ 2,545	\$ 7,619	\$ 4,757	\$ -0-
Plan	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 3,595
Paid to Trustee	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Ambulance Plan:

The Town contributes an annual amount of \$480 on behalf of each participant who is credited with a year of service and an additional \$480 for those eligible for a prior service contribution. The Town has elected to pay prior service contributions in five annual installments, beginning in the year the participant is determined to be eligible. For the plan year ended December 31, 2017, the Town contributed \$15,360, of which \$4,021 was participant account forfeitures into the Ambulance Plan.

**TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS**

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAM (continued)

Participants

As of the measurement date, the following participants were covered by the benefit terms for the Firefighter Plans:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Measurement date	12/31/2017	12/31/2017	12/31/2017	12/31/2017	1/31/2017
Inactive participants (or beneficiaries) currently receiving benefit payments	43	24	63	41	13
Inactive participants entitled to but not yet receiving benefits	65	30	117	68	13
Active participants	129	31	150	87	50
Total	237	85	330	196	76

Actuarial Assumptions

Firefighter Plans:

The total pension liability was based on an actuarial valuation using the following assumptions:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Measurement date	12/31/2017	12/31/2017	12/31/2017	12/31/2017	1/31/2017 *
Actuarial valuation date	12/31/2017	12/31/2017	12/31/2017	12/31/2017	2/1/2016 *
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost			
Inflation rate	2.20%	2.20%	2.20%	2.20%	0.00%
Mortality tables	RP 2000 Combined - Projected to 2018	RP 2000 MF with improvement			
Salary increase	N/A	N/A	N/A	N/A	N/A
Discount rate	5.25%	5.25%	4.94% **	5.13%	3.83%
Long-term expected return on investments	5.25%	5.25%	5.25%	5.25%	3.83%

*Update procedures were used to roll forward the total pension liability to the measurement date.

** Discount rate for North Babylon as of January 1, 2017 was 5.01%

Ambulance Plan:

There are no actuarial assumptions for the Ambulance Plan as this is a defined contribution plan.

Discount Rate

Firefighter Plans:

In accordance with GASB Statement No. 68, the Town used a discount rate of ranging from 4.94% to 5.25% for the East Farmingdale, North Amityville, North Babylon and North Lindenhurst Firefighter Plans based on the following methodologies:

East Farmingdale and North Amityville Firefighter Plans: The projection of cash flows used to determine the discount rate assumes that contributions from the Town will be made based on the recommended contribution amounts determined by the actuarial valuation for funding purposes. Based upon the assumptions, the plan assets were projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the discount rate was based on the long-term expected rate of return on plan investments.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAM (continued)

Discount Rate (continued)

North Babylon and North Lindenhurst Firefighter Plans: The projection of cash flows used to determine the discount rate assumes that contributions from the Town will be made based on the recommended contribution amounts determined by the actuarial valuation for funding purposes. Based upon the assumptions, the plan assets were not projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the discount rate was based on a blend of the long-term expected rate of return on plan investments and the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The Fidelity 20-year GO AA Bond Index rate of 3.31% was used.

The annual money-weighted rate of return on the LOSAP investments, net of pension plan investment expense ranged from 3.64% - 5.78%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

In accordance with GASB Statement No. 73, the discount rate used to measure the total pension liability for the Wyandanch Firefighter Plan was 3.83%, which was based on the 20-year AA general obligation bond rate as of January 31, 2017, the measurement date.

Ambulance Plan:

There is no discount rate required for the Ambulance Plan as this is a defined contribution plan.

Sensitivity of the Total / Net LOSAP Plan Liability to the Discount Rate Assumption

The following presents the Town's total / net pension LOSAP plan liability calculated using the discount rate as of the measurement date, as well as what the Town's proportionate share of the total/ net pension LOSAP plan liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Assumption</u>	<u>1%</u> <u>Increase</u>
Firefighter Plans:			
East Farmingdale			
Discount Rate	4.25%	5.25%	6.25%
Net Pension Liability	\$ 3,677,000	\$ 2,598,226	\$ 1,715,000
North Amityville			
Discount Rate	4.25%	5.25%	6.25%
Net Pension Liability	\$ 897,000	\$ 540,322	\$ 260,000
North Babylon			
Discount Rate	3.94%	4.94%	5.94%
Net Pension Liability	\$ 5,876,000	\$ 4,455,496	\$ 3,309,000
North Lindenhurst			
Discount Rate	4.13%	5.13%	6.13%
Net Pension Liability	\$ 2,926,000	\$ 2,153,688	\$ 1,529,000
Wyandanch			
Discount Rate	2.83%	3.83%	4.83%
Total Pension Liability	\$ 1,214,077	\$ 1,134,533	\$ 1,053,226

The ambulance plan is not included in the above as the plan liability equals the plan assets.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAM (continued)

Investments - Plan Assets

Firefighter Plans:

The Firefighter Plan assets at December 31, 2017 were as follows:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Cash and cash equivalents	33,713	27,213	211,357	43,351	
Guaranteed annuity contracts	3,279,037	1,494,162	2,944,433	1,968,847	568,350
Cash value of life insurance contracts	707,478	281,559	716,238	642,425	
Total Firefighter Plan assets	<u>\$ 4,020,228</u>	<u>\$ 1,802,934</u>	<u>\$ 3,872,028</u>	<u>\$ 2,654,623</u>	<u>\$ 568,350</u>

East Farmingdale, North Amityville, North Babylon and North Lindenhurst LOSAP plan assets are reported in the Fiduciary Funds Statement of Fiduciary Net Position. The Wyandanch LOSAP plan assets are reported in the special districts fund's Balance Sheet and the governmental activities in the Statement of Net Position. The cash and cash equivalents balances are covered by depository insurance; however, the guaranteed annuity and cash value of life insurance contracts are not, therefore subject to custodial risk in the event of the failure of the custodian holding the investments.

The Town's investments in certain annuities and life insurance contracts exceeds 5% of the LOSAP Plan's fiduciary net position.

The Town does not currently have a written investment policy for the LOSAP Firefighter Plan assets.

Ambulance Plan:

The Ambulance Plan is part of an external investment pool, of which the Town's portion of the investments at December 31, 2017 is \$280,964. The pool is not registered with the SEC or rated, and is overseen by the New York State Comptroller. The external investment pool consists of money market funds, corporate and foreign bonds, common equity securities, equity mutual funds and fixed income mutual funds, which are reported at fair value. The fair value of the position in the pool is the same value as the value of pool shares. The assets are the subject to custodial risk in the event of the failure of the custodian holding the investments.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAM (continued)

Changes in Total / Net LOSAP Plan Liability

The change in the Firefighter Plan assets, the total LOSAP plan liability and the net LOSAP plan liability for the year ended December 31, 2017 is as follows:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Total LOSAP Plan Liabilities					
Service cost	\$ 109,504	\$ 32,673	\$ 119,912	\$ 83,593	\$ 71,488
Interest	316,990	112,893	378,287	235,903	39,459
Change in benefit terms					
Differences between expected and actual experience	59,751	39,883	94,643	(168,767)	
Benefit payments, including refunds of member contributions	(157,769)	(128,573)	(265,615)	(166,225)	(40,493)
Changes of assumptions or other inputs	173,186	71,757	316,856	142,193	17,715
Net change in total LOSAP plan liability	501,662	128,633	644,083	126,697	88,169
Total LOSAP plan liability - beginning of year (a)	<u>6,116,792</u>	<u>2,214,623</u>	<u>7,683,441</u>	<u>4,681,614</u>	<u>1,046,364</u>
Total LOSAP plan liability - end of year (c)	<u>6,618,454</u>	<u>2,343,256</u>	<u>8,327,524</u>	<u>4,808,311</u>	<u>\$ 1,134,533</u>
LOSAP - Pension Trust Fund Net Position / Plan Assets					
Contributions - employer	\$ 106,000	\$ 112,450	\$ 358,000	\$ 203,000	138,940
Investment income	106,073	55,559	96,060	68,976	14,708
Change in insurance contracts value	41,796	49,028	38,281	59,917	
Benefit payments, including refunds of member contributions	(157,769)	(128,573)	(265,615)	(166,225)	(64,828)
Administrative fees and other charges					(8,407)
Net change in LOSAP fiduciary net position / plan assets	96,100	88,464	226,726	165,668	80,413
Plan fiduciary net position - beginning of year, restated (b)	<u>3,924,128</u>	<u>1,714,470</u>	<u>3,645,302</u>	<u>2,488,955</u>	N/A
Plan fiduciary net position - end of year (d)	<u>4,020,228</u>	<u>1,802,934</u>	<u>3,872,028</u>	<u>2,654,623</u>	N/A
LOSAP plan assets - beginning of year	N/A	N/A	N/A	N/A	487,937
LOSAP plan assets - end of year	N/A	N/A	N/A	N/A	\$ 568,350
Net LOSAP plan liability - beginning of year (a) - (b)	<u>2,192,664</u>	<u>500,153</u>	<u>4,038,139</u>	<u>2,192,659</u>	N/A
Net LOSAP plan liability - end of year (c) - (d)	<u>\$ 2,598,226</u>	<u>\$ 540,322</u>	<u>\$ 4,455,496</u>	<u>\$ 2,153,688</u>	N/A

LOSAP Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to LOSAP Plans

For the year ended December 31, 2017, the Town recognized LOSAP pension expense of \$1,500,702, related to Town sponsored Firefighter Plans and \$50,805 related to the Ambulance Plan. At December 31, 2017, deferred outflows of resources related to LOSAP Firefighter Plans were reported from the following sources:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Deferred Outflows of Resources:					
Differences between expected and actual experience	\$ 59,751	\$ 39,883	\$ 94,643		
Differences due to return on assets	40,155		59,464	\$ 2,742	
Changes of assumptions or other inputs	173,186	71,757	316,856	142,193	\$ 15,747
Total Deferred Outflows of Resources - LOSAP	<u>\$ 273,092</u>	<u>\$ 111,640</u>	<u>\$ 470,963</u>	<u>\$ 144,935</u>	<u>\$ 15,747</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS (continued)

H. LENGTH OF SERVICE AWARD PROGRAM (continued)

LOSAP Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to LOSAP Plans (continued)

At December 31, 2017, deferred inflows of resources related to LOSAP Firefighter Plans were reported from the following sources:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Deferred Inflows of Resources:					
Differences between expected and actual experience				\$ 168,767	
Differences due to return on assets		\$ 9,060			
Total Deferred Inflows of Resources - LOSAP	\$ -0-	\$ 9,060	\$ -0-	\$ 168,767	\$ -0-

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to LOSAP Plans will be recognized as follows:

	Firefighter Plans				
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Plan Years Ending:	December 31	December 31	December 31	December 31	January 31
2018	\$ 28,731	\$ 13,873	\$ 54,210	\$ (1,905)	\$ 1,968
2019	28,731	13,873	54,210	(1,905)	1,968
2020	28,731	13,873	54,210	(1,905)	1,968
2021	28,731	13,873	54,210	(1,905)	1,968
2022	28,731	13,873	54,210	(1,905)	1,968
Thereafter	129,437	33,215	199,913	(14,307)	5,907
	<u>\$ 273,092</u>	<u>\$ 102,580</u>	<u>\$ 470,963</u>	<u>\$ (23,832)</u>	<u>\$ 15,747</u>

The Ambulance Plan does not report any deferred outflows of resources or deferred inflows of resources since it is a defined contribution plan.

The Town, as Plan Sponsor of Firefighter and Ambulance Plans, does not issue separate financial statements.

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, 2017, the value of the accumulated vacation time and sick leave of the primary government was \$5,166,034.

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, 2017, the Town's property tax revenues were reduced by \$3,784,900 and payments in lieu of taxes, including recapture payments, were collected in the amount of \$2,677,742 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, 2016, 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, 2017, the Town's property tax revenues were reduced by \$153,651 and payments in lieu of taxes were billed in the amount of \$102,375 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, 2016, 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 \$6,633,672. 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 for workers' compensation 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.

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	
	2017	2016	2017	2016
Beginning balances of claims liabilities at January 1	\$ 6,181,300	\$ 7,776,850	\$ 856,659	\$ 1,013,665
Claims incurred	344,250	506,500	-0-	-0-
Claims payments	(648,855)	(128,754)	(285,624)	(367,528)
Change to prior year estimates	756,977	(1,973,296)	453,029	210,522
Ending balance of claims liabilities at December 31	<u>\$ 6,633,672</u>	<u>\$ 6,181,300</u>	<u>\$ 1,024,064</u>	<u>\$ 856,659</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 is not expected to 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 \$27,098,207 at December 31, 2017, 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 64.01% of the estimated capacity of the southern ash landfill. The Town will recognize the remaining estimated cost of closure and postclosure care of \$5,338,829 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 2017 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 2019 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, 2017, these commitments, reported in the capital projects fund amounted to \$4,635,166.

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 sell to eligible buyers (see Note 3.D). Upon entering into a contract to purchase these properties, an engineer hired by the Town performs a Phase 1 environmental site assessment of the property. If this site assessment reveals anything of concern, the engineer will then conduct a Phase II site assessment where samples are taken from the property and analyzed. In the event the Phase II reveals contamination at the property, the Town attempts to negotiate remediation costs with the seller. Prior to January 1, 2017, if a potential liability exists, the seller of the property placed the estimated costs for the cleanup in a third-party escrow account to fund these future costs. There were no additional properties purchased after that date. Therefore, while certain Town owned properties have been identified as having contaminated land as of December 31, 2017, 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 3.E 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 forty-seven years. The leases generally require the lessees to pay repairs and maintenance and utilities. Future minimum rentals under existing operating leases at December 31, 2017 are as follows:

Years Ending December 31, 2018	\$	654,628
2019		591,651
2020		504,625
2021		439,651
2022		418,792
Thereafter		3,838,739
		<u>\$ 6,448,086</u>

Subsequent to year end, the Town entered into three new operating lease agreements with five year terms and an aggregate amount of future minimum rental income of approximately \$100,000 per year.

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, 2017 approximated \$260,000. The maximum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2018	\$	270,823
2019		230,690
2020		186,342
2021		110,785
2022		23,290
		<u>\$ 821,930</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 \$5,732,890, 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, 2017, the Town reported a deferred inflow of resources in the amount of \$2,462,500 in the enterprise 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 \$252,428 of management fees to SCWA during the year ended December 31, 2017. 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. FAIR VALUE MEASUREMENTS – LOSAP INVESTMENTS

The Town categorizes the fair value measurements into the fair value hierarchy established by GASB Statement No. 72. The three levels of inputs used to measure fair value are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Town has the ability to access.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect the Town's own assumptions about the assumptions that market participants would use in pricing an asset.

The fair value measurement level within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following methods and assumptions were used in estimating the fair value assets for the LOSAP plan assets:

Cash and Cash Equivalents, Held for Investment

The carrying amount of cash and cash equivalents approximate their fair values based on the short-term nature of the assets.

Guaranteed Annuity Contracts

The carrying amounts of guaranteed annuity contracts are reported as amortized cost which approximates fair value. These are considered unallocated insurance contracts.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENTS – LOSAP INVESTMENTS (continued)

Cash Value of Life Insurance Contracts

The carrying amount represents the cash surrender value of each individual life insurance policy in the group.

External Investment Pool

The carrying amount of the external investment pools, consisting primarily of equity securities and corporate debt securities are based on quoted market prices.

The following summarizes the Town's LOSAP investments and categorization as of December 31, 2017:

	<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Investments by fair value level:</i>				
Cash and cash equivalents	\$ 315,634	\$ 315,634	\$ -0-	-0-
External investment pool	280,964	280,964	-0-	-0-
Total investments by fair value	<u>\$ 596,598</u>	<u>\$ 596,598</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Investments measured at amortized cost / cash surrender value

Guaranteed annuity contracts	\$ 10,254,829
Cash value of life insurance	<u>2,347,700</u>
Total investments by amortized cost/ cash surrender value	<u>\$ 12,602,529</u>
 Total LOSAP investments	 <u><u>\$ 13,199,127</u></u>

6. RESTATEMENT OF NET POSITION / FUND BALANCE

During year ended December 31, 2017, the Town implemented GASB Statement No. 73, which resulted in the retroactive reporting of certain Town sponsored LOSAP plan assets in the special districts fund level financial statements and the LOSAP plan assets, liabilities and deferred outflow of resources in the government-wide financial statements.

As a result of implementing the above mentioned GASB, the Town discovered there were four Town sponsored single-employer defined benefit LOSAP plans that should have been reported in the fiduciary and government-wide financial statements in a prior year as these plans met the requirements of GASB Statements No. 67 and 68, as well as paragraph 4 of GASB Statement No. 73.

The effects on the above resulted in the following restatements of beginning net position / fund balance as of January 1, 2017:

Government-wide Financial Statements - Governmental Activities:	
Beginning net position, as originally reported	\$ 110,708,227
GASB Statement No. 73 implementation:	
LOSAP Plan Assets	743,733
LOSAP Plan Liability	(1,302,160)
Prior period adjustment:	
LOSAP net unfunded liability	(8,923,615)
Beginning net position, as restated	<u><u>\$ 101,226,185</u></u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

6. RESTATEMENT OF NET POSITION / FUND BALANCE (continued)

Fund Financial Statements - Special District's Fund:	
Beginning fund balance, as originally reported	\$ 2,300,538
GASB Statement No. 73 implementation:	
LOSAP Plan Assets / Fund Balance	743,733
Beginning fund balance, as restated	<u>\$ 3,044,271</u>
Fiduciary Financial Statements - Pension Trust Fund:	
Beginning fiduciary net position, as originally reported	\$ -0-
GASB Statement No. 73 implementation:	
LOSAP Plan Assets / Fiduciary Net Position	11,772,855
Beginning fiduciary net position, as restated	<u>\$ 11,772,855</u>

The information to determine the effect on prior year's financial statements, including the changes in net position, was not readily determinable as of the date of this report.

7. 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. 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. 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 were 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. 83, "*Certain Assets Retirement Obligations*," establishes criteria for determining the timing and pattern of recognizing a liability and corresponding deferred outflow of resources for asset retirement obligations. It also addresses that the measurement of both the asset retirement obligation and deferred outflows of resources should be based on the estimate of the current value of expected outlays. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018.

Statement No. 84, "*Fiduciary Activities*," establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS

8. NEW PRONOUNCEMENTS (continued)

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.

Statement No. 87, "*Leases*," requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and the recognition of inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019.

Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*," the objective of which is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement 1) defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established, 2) requires that additional information related to debt be disclosed, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses, and 3) requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018.

Statement No. 89, "*Accounting for Interest Cost Incurred Before the End of a Construction Period*," the objectives of which are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019.

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, 2017

REVENUES	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 36,752,602	\$ 36,752,602	\$ 36,752,602	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	800,000	800,000	1,036,573	236,573
Interest and penalties on real property taxes	250,000	250,000	272,346	22,346
Total Other Real Property Tax Items	1,050,000	1,050,000	1,308,919	258,919
NON-PROPERTY TAX ITEMS				
Franchise fees	3,100,000	3,540,000	3,542,535	2,535
Other non-property tax items	900,000	1,380,000	1,388,036	8,036
Total Non-Property Tax Items	4,000,000	4,920,000	4,930,571	10,571
DEPARTMENTAL INCOME				
Assessor's fees	15,000	15,000	30,000	15,000
Town Clerk's fees	225,000	623,000	623,402	402
Public health fees	170,000	640,000	646,867	6,867
Public pound fees and dog control service	50,000	50,000	52,581	2,581
Wyandanch program fees	80,000	80,000	82,114	2,114
Other health department fees	470,000			-0-
Park and recreation charges and fees	2,300,000	2,300,000	2,354,451	54,451
Total Departmental Income	3,310,000	3,708,000	3,789,415	81,415
USE OF MONEY AND PROPERTY				
Interest and earnings	50,000	50,000	168,752	118,752
Rental of real property	2,100,000	2,703,900	2,703,957	57
Total Use of Money and Property	2,150,000	2,753,900	2,872,709	118,809
LICENSES AND PERMITS				
Bingo licenses	10,000	10,000	12,497	2,497
Dog licenses	12,000	12,000	11,220	(780)
Licenses - other	250	250		(250)
Plumbing permits	45,000	45,000	44,128	(872)
Impact fees	100,000	100,000	100,000	-0-
Permits - other	55,000	55,000	56,800	1,800
Total Licenses and Permits	222,250	222,250	224,645	2,395
FINES AND FORFEITURES				
Fines and forfeited bail	1,300,000	1,300,000	1,333,914	33,914
Forfeitures of deposits	85,000	85,000	108,437	23,437
Total Fines and Forfeitures	1,385,000	1,385,000	1,442,351	57,351
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Sale of scrap and excess materials	6,000	6,000	5,188	(812)
INTERFUND REVENUE				
Interfund revenue	3,000,000	110,479	110,479	-0-
MISCELLANEOUS LOCAL SOURCES				
Gifts and donations	120,000	145,000	185,772	40,772
Refunds of prior years' expenditures	20,000	20,000	40,536	20,536
Grants from local governments	10,000	10,761	17,615	6,854
Miscellaneous local sources	60,000	60,000	75,850	15,850
Narcotics guidance counsel - local aid	75,000	75,000	90,308	15,308
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	2,411	11
Wyandanch nutrition program - local aid	20,000	20,000	36,865	16,865
Other miscellaneous revenue	50,000	50,000	133,382	83,382
Total Miscellaneous Local Sources	685,400	711,161	884,772	173,611

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
STATE AID				
Mortgage tax	3,500,000	4,467,621	5,062,898	595,277
Youth programs	140,000	140,000	134,921	(5,079)
Youth project S.A.F.E.	25,000	25,000	18,279	(6,721)
Therapeutic recreation and senior day training program	80,000	80,000	52,114	(27,886)
State grants - other	50,000	50,000	7,295	(42,705)
Total State Aid	<u>3,795,000</u>	<u>4,762,621</u>	<u>5,275,507</u>	<u>512,886</u>
FEDERAL AID				
Narcotics guidance counsel	300,000	300,000	384,997	84,997
Residential repair	20,000	20,000	21,700	1,700
Wyandanch nutrition program	220,000	220,000	210,667	(9,333)
Total Federal Aid	<u>540,000</u>	<u>540,000</u>	<u>617,364</u>	<u>77,364</u>
Total Revenues	<u>56,896,252</u>	<u>56,922,013</u>	<u>58,214,522</u>	<u>1,292,509</u>
EXPENDITURES				
GENERAL GOVERNMENT SUPPORT				
Town Board	497,141	496,691	491,612	5,079
Municipal court	137,442	128,839	123,027	5,812
Traffic violations bureau	157,075	158,257	142,480	15,777
Town Supervisor	1,036,501	1,090,893	1,000,513	90,380
Comptroller	852,765	886,726	851,365	35,361
Auditor	210,000	210,000	203,000	7,000
Receiver of taxes	716,164	716,164	658,417	57,747
Purchasing	343,420	359,019	358,872	147
Assessor	1,698,688	1,628,931	1,419,335	209,596
Town Clerk	541,301	559,856	554,598	5,258
Town Attorney	1,304,466	1,367,419	1,364,451	2,968
Personnel	187,556	200,031	196,523	3,508
Engineering	402,500	396,766	269,734	127,032
Board of ethics	1,500	1,500	625	875
Records management	85,146	87,704	83,073	4,631
Public works administration	198,570	204,859	204,834	25
Buildings and grounds	3,448,723	3,483,572	3,413,133	70,439
Central garage and central fuel facility	1,715,493	1,550,156	1,269,973	280,183
Central printing and mailing	668,365	635,162	554,456	80,706
Central data processing	1,163,062	1,170,651	1,066,235	104,416
Unallocated insurance	1,100,000	855,000	854,619	381
Municipal association dues	2,000	2,000	1,950	50
Taxes and assessments on municipal property	5,000	5,000	3,955	1,045
Contingencies - contractual and other	250,000	1,155		1,155
Other general government support	20,000	41,908	41,908	-0-
Total General Government Support	<u>16,742,878</u>	<u>16,238,259</u>	<u>15,128,688</u>	<u>1,109,571</u>
PUBLIC SAFETY				
Traffic control	690,042	719,635	719,600	35
Control of animals	892,505	1,035,082	1,024,771	10,311
Examining boards	32,500	32,500	30,883	1,617
Civil defense	9,000	9,000	9,000	-0-
Total Public Safety	<u>1,624,047</u>	<u>1,796,217</u>	<u>1,784,254</u>	<u>11,963</u>
HEALTH				
Narcotics addiction control	1,082,256	1,082,256	980,061	102,195
Therapeutic recreation program	218,161	218,161	210,335	7,826
Nutrition program	656,798	663,181	627,378	35,803
Youth Institute CCS	650,000	827,794	768,454	59,340
Other public health	364,385	387,076	361,725	25,351
Total Health	<u>2,971,600</u>	<u>3,178,468</u>	<u>2,947,953</u>	<u>230,515</u>
ECONOMIC ASSISTANCE AND OPPORTUNITY				
Promotion of industry	53,428	53,428	50,952	2,476
Veterans' services	5,000	5,450	5,400	50
Programs for the aging	42,658	46,758	45,268	1,490
Total Economic Assistance and Opportunity	<u>101,086</u>	<u>105,636</u>	<u>101,620</u>	<u>4,016</u>

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2017

	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	998,210	1,066,330	1,066,323	7
Parks	4,872,228	5,038,193	4,826,048	212,145
Playground and recreation centers	516,500	545,856	545,856	-0-
Special recreation facilities	2,247,000	2,344,153	2,342,146	2,007
Youth programs	902,969	746,350	705,681	40,669
Town historian	99,188	107,643	92,721	14,922
Adult recreation	928,174	1,028,382	1,010,378	18,004
Total Culture and Recreation	<u>10,574,269</u>	<u>10,886,907</u>	<u>10,599,153</u>	<u>287,754</u>
HOME AND COMMUNITY SERVICES				
Environmental control	1,251,630	1,260,096	1,236,512	23,584
Other home and community services	250,000	305,797	305,797	-0-
Total Home and Community Services	<u>1,501,630</u>	<u>1,565,893</u>	<u>1,542,309</u>	<u>23,584</u>
EMPLOYEE BENEFITS				
Retirement system	3,359,694	2,986,145	2,492,862	493,283
Social security	1,523,298	1,575,936	1,563,394	12,542
Workers' compensation	1,175,917	825,406	583,547	241,859
Life insurance	20,837	20,837	19,839	998
Unemployment benefits	54,924	54,924	42,169	12,755
Disability benefits	25,000	25,000	18,864	6,136
Hospital, medical, vision and dental	6,158,813	6,151,159	6,069,326	81,833
Other employee benefits	431,525	439,911	437,974	1,937
Total Employee Benefits	<u>12,750,008</u>	<u>12,079,318</u>	<u>11,227,975</u>	<u>851,343</u>
DEBT SERVICE				
Principal	8,075,636	8,075,636	8,075,636	-0-
Interest	2,811,837	2,841,081	2,841,081	-0-
Bond issuance costs	184,659	184,659	85,316	99,343
Total Debt Service	<u>11,072,132</u>	<u>11,101,376</u>	<u>11,002,033</u>	<u>99,343</u>
Total Expenditures	<u>57,337,650</u>	<u>56,952,074</u>	<u>54,333,985</u>	<u>2,618,089</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(441,398)</u>	<u>(30,061)</u>	<u>3,880,537</u>	<u>3,910,598</u>
OTHER FINANCING SOURCES (USES)				
Refunding bond proceeds		2,226,000	2,226,000	-0-
Premium on obligations	200,000	200,000	176,205	(23,795)
Payments to refunded bond escrow agent		(2,340,000)	(2,340,000)	-0-
Sale of capital assets	150,000	150,000	204,370	54,370
Insurance recovery	30,000	30,000	7,173	(22,827)
Operating transfers in		29,161	35,549	6,388
Operating transfers out		(51,709)	(51,709)	-0-
Total Other Financing Sources (Uses)	<u>380,000</u>	<u>243,452</u>	<u>257,588</u>	<u>14,136</u>
SPECIAL ITEM				
Property held for resale reclassified as Town owned assets		(274,789)	(274,789)	-0-
Net Change in Fund Balance	<u>\$ (61,398)</u>	<u>\$ (61,398)</u>	<u>3,863,336</u>	<u>\$ 3,924,734</u>
Fund Balance at Beginning of Year			<u>49,289,930</u>	
Fund Balance at End of Year			<u>\$ 53,153,266</u>	

TOWN OF BABYLON
RESIDENTIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 15,422,156	\$ 15,422,156	\$ 15,422,156	\$ -0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	5,923,555	5,923,555	5,686,856	(236,699)
Long Island Green Homes	2,000,000	2,000,000	1,619,589	(380,411)
Total Departmental Income	7,923,555	7,923,555	7,306,445	(617,110)
USE OF MONEY AND PROPERTY				
Interest earnings	370,000	370,000	355,412	(14,588)
Total Use of Money and Property	370,000	370,000	355,412	(14,588)
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			69	69
STATE AID				
Home and community services aid			50,431	50,431
Total Revenues	23,715,711	23,715,711	23,134,513	(581,198)
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Refuse and garbage	23,793,929	24,642,585	24,546,185	96,400
Landfill closure/postclosure costs	70,000	80,210	80,210	-0-
Long Island Green Homes program	1,500,000	595,966	272,837	323,129
Unallocated insurance	65,000	67,976	67,976	-0-
Total Home and Community Services	25,428,929	25,386,737	24,967,208	419,529
EMPLOYEE BENEFITS				
Retirement system	159,909	159,909	116,459	43,450
Social security	59,350	66,363	66,363	-0-
Workers' compensation	48,688	83,852	83,852	-0-
Life insurance	900	900	830	70
Unemployment benefits	5,000	5,000		5,000
Disability benefits	1,200	1,200	959	241
Hospital, medical, vision and dental	213,515	213,530	192,348	21,182
Union welfare benefits	25,625	25,625	20,764	4,861
Total Employee Benefits	514,187	556,379	481,575	74,804
DEBT SERVICE				
Principal	534,430	534,430	534,430	-0-
Interest	40,039	40,039	40,039	-0-
Bond issuance costs	5,000	5,000		5,000
Total Debt Service	579,469	579,469	574,469	5,000
Total Expenditures	26,522,585	26,522,585	26,023,252	499,333
Deficiency of Revenues Under Expenditures	(2,806,874)	(2,806,874)	(2,888,739)	(81,865)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(500,000)	(500,000)		500,000
Total Other Financing Sources (Uses)	(500,000)	(500,000)	-0-	500,000
Net Change in Fund Balance	\$ (3,306,874)	\$ (3,306,874)	(2,888,739)	\$ 418,135
Fund Balance at Beginning of Year			16,544,358	
Fund at Balance End of Year			\$ 13,655,619	

TOWN OF BABYLON
COMMERCIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 6,787,582	\$ 6,787,582	\$ 6,787,582	\$ -0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	18,082,883	18,082,883	18,218,592	135,709
USE OF MONEY AND PROPERTY				
Interest earnings	15,000	15,000	73,410	58,410
Total Revenues	<u>24,885,465</u>	<u>24,885,465</u>	<u>25,079,584</u>	<u>194,119</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Refuse and garbage	23,233,839	19,133,839	16,001,448	3,132,391
Landfill closure/postclosure costs	150,000	150,000	59,870	90,130
Unallocated insurance	60,000	69,289	69,289	-0-
Litigation settlement		4,100,000	4,100,000	-0-
Total Home and Community Services	<u>23,443,839</u>	<u>23,453,128</u>	<u>20,230,607</u>	<u>3,222,521</u>
EMPLOYEE BENEFITS				
Retirement system	146,056	135,788	114,687	21,101
Social security	71,303	71,303	66,298	5,005
Workers' compensation	47,775	55,728	55,728	-0-
Life insurance	289	289	237	52
Unemployment benefits	50	50		50
Disability benefits	1,500	1,500	1,226	274
Hospital, medical, vision and dental	183,998	177,024	154,324	22,700
Union welfare benefits	13,325	13,325	8,213	5,112
Total Employee Benefits	<u>464,296</u>	<u>455,007</u>	<u>400,713</u>	<u>54,294</u>
DEBT SERVICE				
Principal	487,545	487,545	487,545	-0-
Interest	38,950	38,950	38,950	-0-
Bond issuance costs	5,000	5,000		5,000
Total Debt Service	<u>531,495</u>	<u>531,495</u>	<u>526,495</u>	<u>5,000</u>
Total Expenditures	<u>24,439,630</u>	<u>24,439,630</u>	<u>21,157,815</u>	<u>3,281,815</u>
Excess of Revenues Over Expenditures	<u>445,835</u>	<u>445,835</u>	<u>3,921,769</u>	<u>3,475,934</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(500,000)	(500,000)		500,000
Total Other Financing Sources (Uses)	<u>(500,000)</u>	<u>(500,000)</u>	<u>-0-</u>	<u>500,000</u>
Net Change in Fund Balance	<u>\$ (54,165)</u>	<u>\$ (54,165)</u>	<u>3,921,769</u>	<u>\$ 3,975,934</u>
Fund Balance at Beginning of Year			<u>15,920,407</u>	
Fund at Balance End of Year			<u>\$ 19,842,176</u>	

TOWN OF BABYLON
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 21,995,556	\$ 21,995,556	\$ 21,995,556	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	575,000	575,000	798,391	223,391
USE OF MONEY AND PROPERTY				
Interest earnings	20,000	20,000	52,619	32,619
LICENSES AND PERMITS				
Street inspection fees	125,000	125,000	181,375	56,375
Other permits	25,000	25,000	15,145	(9,855)
Total Licenses and Permits	150,000	150,000	196,520	46,520
MISCELLANEOUS LOCAL SOURCES				
Refund of prior years' expenditures			40,745	40,745
Other miscellaneous revenue	5,000	5,000	910	(4,090)
Total Miscellaneous Local Sources	5,000	5,000	41,655	36,655
STATE AID				
Consolidated local street and highway improvement program	1,200,000	1,230,756	1,204,747	(26,009)
PAVE-NY program		502,017	502,017	-0-
Total State Aid	1,200,000	1,732,773	1,706,764	(26,009)
Total Revenues	23,945,556	24,478,329	24,791,505	313,176
EXPENDITURES				
TRANSPORTATION				
Street administration	550,597	519,520	518,795	725
Maintenance of streets	4,105,206	3,817,338	3,816,903	435
Permanent improvements	1,265,000	1,810,464	1,809,189	1,275
Machinery	1,204,067	1,097,363	1,096,536	827
Snow removal	1,200,000	1,176,168	1,176,168	-0-
Unallocated insurance	60,000	65,795	65,795	-0-
Total Transportation	8,384,870	8,486,648	8,483,386	3,262
EMPLOYEE BENEFITS				
Retirement system	734,102	678,274	678,180	94
Social security	436,315	406,240	406,240	-0-
Workers' compensation	343,479	923,881	923,881	-0-
Life insurance	697	698	677	21
Unemployment benefits	24,000	14,616	14,616	-0-
Disability benefits	971	971	800	171
Hospital, medical, vision and dental	1,970,633	2,044,094	2,043,806	288
Union welfare benefits	113,879	112,517	112,517	-0-
Total Employee Benefits	3,624,076	4,181,291	4,180,717	574
DEBT SERVICE				
Principal	9,601,774	9,601,774	9,601,774	-0-
Interest	2,297,443	2,367,377	2,367,377	-0-
Bond issuance costs	73,103	99,123	99,123	-0-
Total Debt Service	11,972,320	12,068,274	12,068,274	
Total Expenditures	23,981,266	24,736,213	24,732,377	3,836
Excess (Deficiency) of Revenues Over (Under) Expenditures	(35,710)	(257,884)	59,128	317,012
OTHER FINANCING SOURCES (USES)				
Refunding bond proceeds		5,119,800	5,119,800	-0-
Premium on obligations	35,000	363,801	405,272	41,471
Payments to refunded bond escrow agent		(5,382,000)	(5,382,000)	-0-
Operating transfers in			150,790	150,790
Total Other Financing Sources (Uses)	35,000	101,601	293,862	192,261
Net Change in Fund Balance	\$ (710)	\$ (156,283)	352,990	\$ 509,273
Fund Balance at Beginning of Year			9,186,851	
Fund Balance at End of Year			\$ 9,539,841	

TOWN OF BABYLON
SPECIAL DISTRICTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 17,180,715	\$ 17,180,715	\$ 17,180,715	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	516,375	516,375	770,057	253,682
USE OF MONEY AND PROPERTY				
Interest earnings	1,700	1,700	9,494	7,794
Investment income - Length of service award programs			54,174	54,174
Total Use of Money and Property	1,700	1,700	63,668	61,968
Total Revenues	17,698,790	17,698,790	18,014,440	315,650
EXPENDITURES				
PUBLIC SAFETY				
Fire protection districts	15,970,797	15,963,845	15,783,979	179,866
HEALTH				
Ambulance districts	1,728,193	1,735,145	1,735,145	-0-
Total Expenditures	17,698,990	17,698,990	17,519,124	179,866
Net Change in Fund Balance	\$ (200)	\$ (200)	495,316	\$ 495,516
Fund Balance at Beginning of Year, as reported			2,300,538	
Cumulative Effect of a Change in Accounting Principle			743,733	
Fund Balances at Beginning of Year, as restated			3,044,271	
Fund Balance at End of Year			\$ 3,539,587	

TOWN OF BABYLON
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
 December 31, 2017

Actuarial Valuation Date January 1,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
2017	\$ -0-	\$ 150,291,807	\$ 150,291,807	0.00%	\$ 26,333,495	570.72%
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%

Notes:

Changes in assumptions from the January 1, 2013 to January 1, 2015 actuarial valuation:

- a) Healthcare cost trend for non-medicare plans (post 65) was reset to 6.0%, 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.

January 1, 2017 actuarial valuation:

- a) The Town's OPEB plan had an accumulated experience loss over the past two year primarily due to unfavorable demographic experience and health care costs increasing more than assumed.
- b) Healthcare cost trend rate was reset to 9.0% in 2017, grading down 1.0% per annum to an ultimate rate of 5.0% in years 2021 and later.

TOWN OF BABYLON
SCHEDULE OF PROPORTIONATE SHARE OF THE NET EMPLOYEES' RETIREMENT SYSTEM PENSION LIABILITY
December 31, 2017

	2017	2016	2015	2014
Town's proportion of the collective net pension liability	0.0797627%	0.0840236%	0.0809617%	0.0809617%
Town's proportionate share of the net collective pension liability	\$ 7,494,679	\$ 13,486,025	\$ 2,735,085	\$ 3,658,547
Town's covered-employee payroll	\$ 25,944,546	\$ 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	28.89%	53.06%	10.90%	14.96%
Plan fiduciary net position as a percentage of the total pension liability coming from plan	94.70%	90.68%	97.90%	97.20%

Notes:

Information prior to 2014 was not available. Additional years will be included as information becomes available.

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 from the March 31, 2015 to March 31, 2016 System plan year 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 EMPLOYEES' RETIREMENT SYSTEM PENSION CONTRIBUTIONS
 December 31, 2017

	NYSERS									
	Years Ended December 31,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 3,793,997	\$ 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
Contributions in relation to the contractually required contribution	\$ 3,793,997	\$ 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
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 1,717,661	\$ 697,575	\$ 329,715	\$ -0-	\$ -0-
Town's covered-employee payroll	\$26,719,014	\$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
Contributions as a percentage of covered-employee payroll	14.20%	14.70%	17.61%	18.96%	20.69%	10.25%	9.83%	8.68%	N/A	N/A

N/A Covered-employee payroll for years ended December 2008 and 2009 were 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.

TOWN OF BABYLON
SCHEDULE OF CHANGES IN THE LENGTH OF SERVICE AWARD PROGRAMS' NET PENSION LIABILITY
 Year Ended December 31, 2017

	Firefighter Plans			
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst
Total LOSAP Plan Liabilities				
Service cost	\$ 109,504	\$ 32,673	\$ 119,912	\$ 83,593
Interest	316,990	112,893	378,287	235,903
Differences between expected and actual experience	59,751	39,883	94,643	(168,767)
Benefit payments, including refunds of member contributions	(157,769)	(128,573)	(265,615)	(166,225)
Changes of assumptions or other inputs	173,186	71,757	316,856	142,193
Net change in total LOSAP plan liability	501,662	128,633	644,083	126,697
Total LOSAP plan liability - beginning of year (a)	6,116,792	2,214,623	7,683,441	4,681,614
Total LOSAP plan liability - end of year (c)	6,618,454	2,343,256	8,327,524	4,808,311
LOSAP - Pension Trust Fund Net Position				
Contributions - Employer	\$ 106,000	\$ 112,450	\$ 358,000	\$ 203,000
Investment income	106,073	55,559	96,060	68,976
Change in insurance contracts value	41,796	49,028	38,281	59,917
Benefit payments, including refunds of member contributions	(157,769)	(128,573)	(265,615)	(166,225)
Net Change in LOSAP fiduciary net position	96,100	88,464	226,726	165,668
Plan fiduciary net position - beginning of year, restated (b)	3,924,128	1,714,470	3,645,302	2,488,955
Plan fiduciary net position - end of year (d)	4,020,228	1,802,934	3,872,028	2,654,623
Net LOSAP plan liability - beginning of year (a) - (b)	2,192,664	500,153	4,038,139	2,192,659
Net LOSAP plan liability - end of year (c) - (d)	\$ 2,598,226	\$ 540,322	\$ 4,455,496	\$ 2,153,688
LOSAP Plan Fiduciary net position as a percentage of the total pension liability	60.74%	76.94%	46.50%	55.21%
Covered-employee payroll	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A
Expected average remaining service years of all participants	11	7	10	11

Notes:

The above information is based on a December 31, 2017 measurement date. Information for the previous nine years was not available. Additional years will be included as information becomes available.

This schedule is presented for the defined benefit LOSAP Firefighter Plans that meet the requirements of a trust or trust equivalent as prescribed by GASB Statement No. 67, 68 and 73 paragraph 4.

Covered-employee payroll is not applicable to the above LOSAP plans since the participants are volunteer firefighters. The net pension liability as a percentage of covered payroll is also not applicable.

Changes of assumptions were as follows:

- a) The January 1, 2016 LOSAP plan liabilities were based on the RP 2000 Combined- Projected to 2015 mortality table and a 2.00% inflation rate and then changed to the RP-2000 Combined - Projected to 2018 mortality table and 2.20% inflation rate for the December 31, 2017 valuation.
- b) The discount rate for the North Babylon plan as of January 1, 2016 was 5.01% and was lowered to 4.94% for the December 31, 2017 valuation.

TOWN OF BABYLON

SCHEDULE OF LENGTH OF SERVICE AWARD PROGRAMS PENSION CONTRIBUTIONS AND INVESTMENT RETURNS
December 31, 2017

	Firefighter Plans			
	East Farmingdale	North Amityville	North Babylon	North Lindenhurst
Actuarially determined contribution	\$ 275,945	\$ 70,398	\$ 397,918	\$ 223,886
Contributions in relation to the actuarially determined contribution	\$ 106,000	\$ 112,450	\$ 358,000	\$ 203,000
Contribution deficiency (excess)	\$ 169,945	\$ (42,052)	\$ 39,918	\$ 20,886
Covered-employee payroll	N/A	N/A	N/A	N/A
Annual money-weighted rate of return, net of investment expense	4.22%	5.78%	3.64%	5.14%

Notes:

The above information is based on a valuation date of January 1, 2017. Information for the previous nine years was not available. Additional years will be included as information becomes available.

The Plan Administrator provides a range for the actuarially determined contribution. The schedule above presents the minimum amount of the actuarially determined contribution for the LOSAP plan year ended December 31, 2017.

This schedule is presented for LOSAP Firefighter Plans that meet the requirements of a trust or trust equivalent as prescribed by GASB Statement No. 67, 68 and 73 paragraph 4.

Covered-employee payroll is not applicable to the above LOSAP plans since the participants are volunteer firefighters. The contribution as a percentage of covered payroll is also not applicable.

TOWN OF BABYLON
SCHEDULE OF CHANGE IN THE LENGTH OF SERVICE AWARD PROGRAM TOTAL PENSION LIABILITY
Year Ended December 31, 2017

	<u>Firefighter Plan</u> <u>Wyandanch</u>
Total LOSAP Pension Liability	
Service cost	\$ 71,488
Interest	39,459
Differences between expected and actual experience	
Benefit payments, including refunds of member contributions	(40,493)
Changes of assumptions or other inputs	<u>17,715</u>
Net Change in total LOSAP Pension Liability	88,169
Total LOSAP Pension Liability - beginning of year	<u>1,046,364</u>
Total LOSAP Pension Liability - end of year	<u>\$ 1,134,533</u>
Covered-employee payroll	N/A
LOSAP Pension Liability as a percentage of the covered-employee payroll	N/A
Expected average remaining service years of all participants	9

Notes:

The above information is based on a December 31, 2017 measurement date. Information for the previous nine years was not available. Additional years will be included as information becomes available.

This schedule is presented for the defined benefit LOSAP Firefighter Plan that does not meet the requirements of a trust or trust equivalent as prescribed by GASB Statement No. 67, 68 and 73 paragraph 4.

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73 to pay related benefits.

Covered-employee payroll is not applicable to the above LOSAP plans since the participants are volunteer firefighters. The pension liability as a percentage of covered-employee payroll is also not applicable.

There was a change of assumption as follows: The January 1, 2016 LOSAP plan liability was based on the GAR94 mortality table and then changed to the RP-2000 MF with improvement mortality table for the January 1, 2017 valuation.