

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

TOWN OF HIGHLANDS, NEW YORK
For the Year Ended December 31, 2015

Audited for:

Town Board
TOWN OF HIGHLANDS, NEW YORK

Audited By:

Vanacore, DeBenedictus, DiGovanni &
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TOWN OF HIGHLANDS, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

The Town Board
Town of Highlands
254 Main Street
Highland Falls, New York 10928

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Highlands, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Highlands, New York, as of December 31, 2015, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle

As described in Note XI to the financial statements, in 2015, the Town adopted new accounting guidance, *GASB Statement 68, Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of funding progress and proportionate share of the net pension liability and contributions on pages 3 through 8 and 47 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Highlands' basic financial statements. The accompanying combining statements and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of the Town of Highlands' 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 Highlands' internal control over financial reporting and compliance.

Vanacore, DeBenedictus, DiGiovanni & Weddell, CPAs
Limited Liability Partnership

Newburgh, New York
October 28, 2016

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The accompanying management discussion and analysis of the Town of Highlands' financial performance has been prepared to provide an overview of the Town's financial activities for the fiscal year ended December 31, 2015. This discussion and analysis is only an introduction and should be read in conjunction with the Town's financial statements.

Requests For Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Supervisor's office at the Town of Highlands, 254 Main Street, Highland Falls, NY 10928.

Financial Highlights

- The assets of the Town of Highlands exceeded its liabilities at the close of the fiscal year by \$7,650,749.
- The government's total net position increased by \$569,982 during 2015.
- During the year ended December 31, 2015, GASB standards regarding other post-employment benefits resulted in recording an additional liability and additional expenditures (employee benefits) in the amount of \$280,000, which decreased net assets for the current year by \$280,000.
- As of the close of the current fiscal year, the Town of Highlands' governmental funds reported combined ending fund balances of \$3,967,863, a decrease of \$134,078 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$1,869,943. Of this total, \$298,000 was assigned and \$1,571,943 was unassigned.

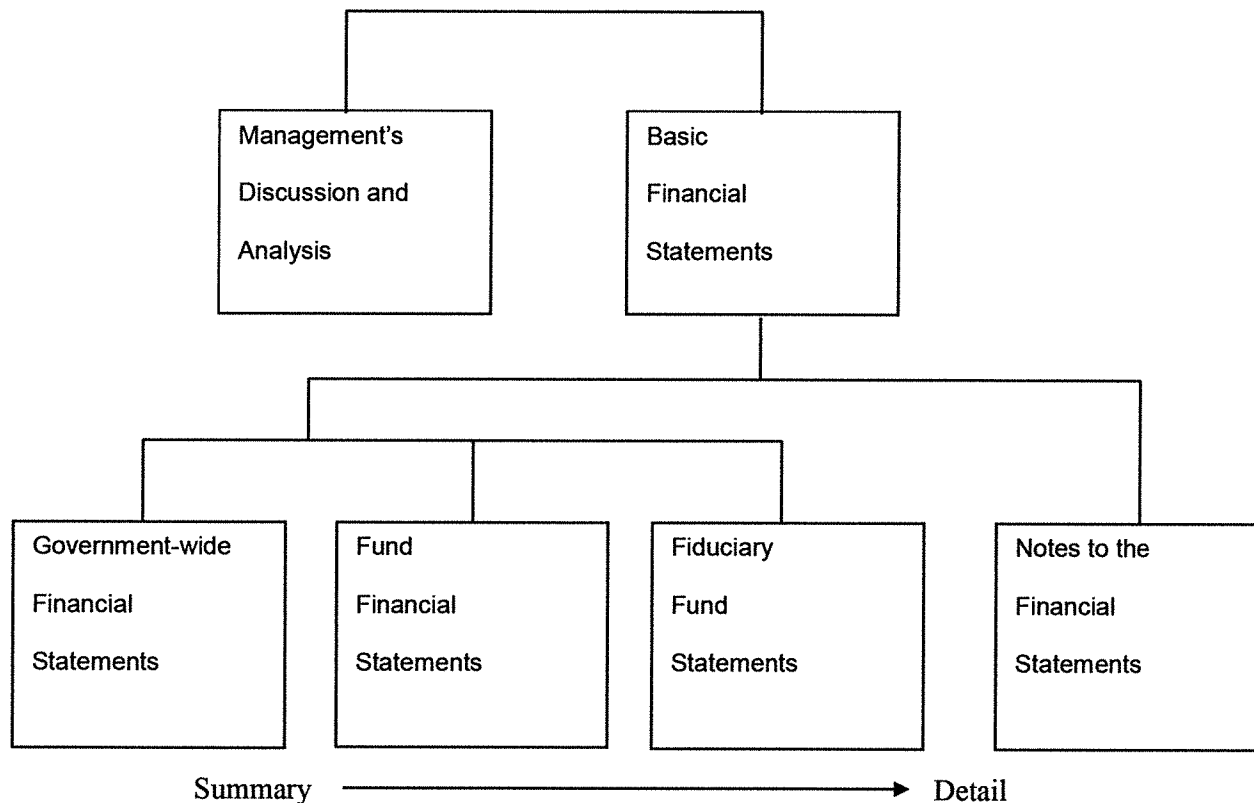
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Highlands' basic financial statements. The Town's basic financial statements consist of four components; 1) government-wide financial statements, 2) fund financial statements, 3) fiduciary fund statements and 4) notes to the financial statements. The basic financial statements present two different views of the Town's financial position through the use of government-wide statements and fund financial statements. Each view will be explained in more detail to follow in this narrative. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Highlands, New York.

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental and fiduciary fund statements and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government activities include most of the Town's basic services such as public safety, water & sewer, road maintenance and administration. Property tax, sales tax, charges for services and State aid finance most of these activities.

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Highlands, like all other governmental entities in New York, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Highlands are classified in two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Fiduciary Funds – The Town acts in an agency capacity for assets that are ultimately transferred to others, such as guarantee and bid deposits. The Town also holds assets in an expendable trust fund to be used for cemetery maintenance and preservation. These funds are excluded from the government-wide financial statements because the Town cannot use these assets to finance operations.

The Town of Highlands adopts an annual budget for certain funds as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town of Highlands, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statements demonstrate how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual revenues, expenditures and ending balances; and 4) the variance between the final budget and actual revenues and expenditures.

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.

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TOWN OF HIGHLANDS' NET POSITION

	(As restated)	
	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 4,185,173	\$ 4,475,301
Capital Assets	<u>6,875,382</u>	<u>6,448,343</u>
Total Assets	<u>11,060,555</u>	<u>10,923,644</u>
Deferred Outflows of Resources	<u>325,128</u>	-
Other Liabilities	172,102	337,605
Long-Term Liabilities	<u>3,501,495</u>	<u>3,196,849</u>
Total Liabilities	<u>3,673,597</u>	<u>3,534,454</u>
Deferred Inflows of Resources	<u>61,337</u>	-
Net Position:		
Net Investment in Capital Assets	5,568,402	4,993,127
Restricted	1,631,675	1,889,339
Unrestricted	450,672	506,724
Total Net Position	<u>\$ 7,650,749</u>	<u>\$ 7,389,190</u>

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TOWN OF HIGHLANDS' CHANGES IN NET POSITION

	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 1,139,151	19.86%	\$ 1,046,837	20.28%
Operating and Capital Grants	694,438	12.11%	393,139	7.62%
General Revenues:				
Real Property Taxes	2,935,081	51.18%	2,849,155	55.17%
Real Property Tax Items	10,799	0.19%	11,478	0.22%
Non Property Taxes	812,211	14.16%	788,095	15.27%
Departmental Income	4,342	0.08%	4,155	0.08%
Use of Money and Property	20,713	0.36%	17,815	0.35%
Licenses and Permits	13,680	0.24%	22,580	0.44%
Gain on Disposal of Assets	26,936	0.47%	14,815	0.29%
Miscellaneous	77,436	1.35%	14,479	0.28%
Total Revenues	<u>5,734,787</u>	<u>100.00%</u>	<u>5,162,548</u>	<u>100.00%</u>
Expenses:				
General Government	929,859	18.00%	841,076	14.84%
Public Safety	744,546	14.42%	890,347	15.71%
Public Health	78,175	1.51%	229,623	4.05%
Transportation	513,963	9.95%	508,131	8.96%
Economic Assistance and Opportunity	16,411	0.32%	17,101	0.30%
Culture and Recreation	467,001	9.04%	452,711	7.99%
Home and Community Services	770,258	14.91%	744,710	13.14%
Water Utilities	255,931	4.96%	229,923	4.06%
Sewer Utilities	126,879	2.46%	158,988	2.80%
Interest on Debt	25,913	0.50%	22,622	0.40%
Employee Benefits	881,800	17.07%	1,235,378	21.79%
Depreciation	354,069	6.86%	337,916	5.96%
Total Expenses	<u>5,164,805</u>	<u>100.00%</u>	<u>5,668,526</u>	<u>100.00%</u>
Increase (Decrease) in Net Assets	<u>\$ 569,982</u>		<u>\$ (505,978)</u>	

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Town of Highlands Funds

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

Governmental Funds: The focus of the Town of Highlands' governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the Town of Highlands' financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Highlands. At the end of the current fiscal year, the unrestricted fund balance of the General Fund was \$1,869,943. As a measure of the General Fund's liquidity, it may be useful to compare the unrestricted fund balance to total fund expenditures. Unrestricted fund balance represents 51 percent of total General Fund expenditures.

At December 31, 2015, the governmental funds of the Town of Highlands reported a combined fund balance of \$3,967,863, a 3.3 percent decrease from last year. Included in this change in fund balance is a decrease in the Highway, Sewer, Capital Projects and Ambulance Funds.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the General Fund budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for its governmental activities as of December 31, 2015 totaled \$6,875,382 (net of accumulated depreciation). These assets include land, buildings and improvements, land improvements, machinery & equipment, roads & infrastructure and vehicles.

Debt: As of December 31, 2015, the Town of Highlands had total debt outstanding of \$1,306,980. The debt is backed by the full faith and credit of the Town. The Town's total debt decreased by \$148,236 during the 2015 fiscal year.

For more detailed information on capital assets and long-term debt, see the notes to the basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,094,751
Accounts Receivable	656,173
Due from Other Governments	278,046
Prepaid Expenses	156,203
	<u>4,185,173</u>
Capital Assets, not being depreciated	712,464
Capital Assets, being depreciated - net	6,162,918
Total Capital Assets, net (Note V)	<u>6,875,382</u>
Total Assets	<u>11,060,555</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions (Note VI)	325,128
Total Deferred Outflows of Resources	<u>325,128</u>
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u>11,385,683</u>
LIABILITIES	
Accounts Payable	110,724
Accrued Expenditures	45,578
Capital Project Advance	15,800
Noncurrent Liabilities:	
Due and Payable Within One Year:	
Installment Purchase (Note VI)	9,912
Bonds Payable (Note VI)	80,016
Due and Payable More Than One Year:	
Installment Purchase (Note VI)	21,552
Bonds Payable (Note VI)	1,195,500
Compensated Absences (Note VI)	208,069
ERS Net Pension Liability-Proportionate Share (Note VI)	194,865
PFRS Net Pension Liability-Proportionate Share (Note VI)	31,581
Other Postemployment Benefits (Note VI)	1,760,000
Total Liabilities	<u>3,673,597</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions (Note VI)	61,337
Total Deferred Inflows of Resources	<u>61,337</u>
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	<u>3,734,934</u>
NET POSITION	
Net Investment in Capital Assets	5,568,402
Restricted	1,631,675
Unrestricted	450,672
Total Net Position	<u>\$ 7,650,749</u>

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
<u>FUNCTIONS/PROGRAMS</u>					
Primary Government:					
Governmental Activities:					
General Government	\$ (1,177,823)	\$ 6,029	\$ 205,413	\$ -	\$ (966,381)
Public Safety	(883,088)	264,790	-	-	(618,298)
Public Health	(198,777)	116,288	-	-	(82,489)
Transportation	(796,815)	2,064	34,631	-	(760,120)
Economic Assistance and Opportunity	(16,411)	-	-	-	(16,411)
Culture and Recreation	(572,039)	26,618	-	-	(545,421)
Home and Community Services	(1,042,849)	66,325	75,401	378,993	(522,130)
Water Utilities	(262,178)	367,004	-	-	104,826
Sewer Utilities	(188,912)	290,033	-	-	101,121
Interest on Debt	(25,913)	-	-	-	(25,913)
Total Primary Government	\$ (5,164,805)	\$ 1,139,151	\$ 315,445	\$ 378,993	(3,331,216)
General Revenues:					
Real Property Taxes					2,935,081
Real Property Tax Items					10,799
Non Property Taxes					812,211
Departmental Income					4,342
Use of Money and Property					20,713
Licenses and Permits					13,680
Gain on Disposal of Assets					26,936
Miscellaneous					77,436
Total General Revenues					3,901,198
Change in Net Position					569,982
Net Position - Beginning, as previously reported					7,389,190
Prior Period Adjustment (Note XI)					(308,423)
Net Position - Beginning, as restated					7,080,767
Net Position - Ending					\$ 7,650,749

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Highway	Water	Sewer	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 2,382,358	\$ 220,776	\$ -	\$ 328,068	\$ 100,047	\$ 63,502	\$ 3,094,751
Accounts Receivable	93,609	1,782	266,135	244,647	-	-	606,173
Due from Other Funds (Note IV)	622,262	-	-	44,371	-	-	666,633
Due from Other Governments	253,415	24,631	-	-	-	-	278,046
Prepaid Expenses	100,483	25,379	681	1,715	-	27,945	156,203
Total Assets	\$ 3,452,127	\$ 272,568	\$ 266,816	\$ 618,801	\$ 100,047	\$ 91,447	\$ 4,801,806
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 80,119	\$ 5,946	\$ -	\$ 2,072	\$ 20,412	\$ 2,175	\$ 110,724
Accrued Expenditures	33,492	4,087	166	874	-	2,167	40,786
Capital Projects Advance	-	-	-	-	15,800	-	15,800
Due to Other Funds (Note IV)	-	12,822	574,440	-	79,371	-	666,633
Total Liabilities	113,611	22,855	574,606	2,946	115,583	4,342	833,943
Fund Balances:							
Nonspendable	100,483	25,379	681	-	-	27,945	156,203
Restricted	1,368,090	170,307	-	8,666	58,889	25,723	1,631,675
Assigned Fund Balances:							
Assigned for Subsequent Year's Budget	298,000	-	-	-	-	10,000	308,000
Assigned for Fund Purposes	-	71,272	-	605,474	-	23,437	700,183
Unassigned	1,571,943	(17,245)	(308,471)	-	(74,425)	-	1,171,802
Total Fund Balances	3,338,516	249,713	(307,790)	615,855	(15,536)	87,105	3,967,863
Total Liabilities and Fund Balances	\$ 3,452,127	\$ 272,568	\$ 266,816	\$ 618,801	\$ 100,047	\$ 91,447	\$ 4,801,806

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
RECONCILIATION OF THE TOTAL GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Total Governmental Funds	Long-Term Assets and Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
ASSETS				
Cash and Cash Equivalents	\$ 3,094,751	\$ -	\$ -	\$ 3,094,751
Accounts Receivable	606,173	50,000	-	656,173
Due from Other Funds	666,633	-	(666,633)	-
Due from Other Governments	278,046	-	-	278,046
Prepaid Expenses	156,203	-	-	156,203
Capital Assets, Net	-	6,875,382	-	6,875,382
Deferred Outflows of Resources - Pension	-	325,128	-	325,128
Total Assets and Deferred Outflows of Resources	\$ 4,801,806	\$ 7,250,510	\$ (666,633)	\$ 11,385,683
LIABILITIES AND FUND BALANCES/NET POSITION				
Accounts Payable	\$ 110,724	\$ -	\$ -	\$ 110,724
Accrued Expenditures	40,786	4,792	-	45,578
Capital Project Advance	15,800	-	-	15,800
Due to Other Funds	666,633	-	(666,633)	-
Installment Purchase Debt	-	31,464	-	31,464
Bonds Payable	-	1,275,516	-	1,275,516
Compensated Absences Payable	-	208,069	-	208,069
ERS Net Pension Liability-Proportionate Share	-	194,865	-	194,865
PFRS Net Pension Liability-Proportionate Share	-	31,581	-	31,581
Other Postemployment Benefits	-	1,760,000	-	1,760,000
Deferred Inflows of Resources - Pension	-	61,337	-	61,337
Total Liabilities and Deferred Inflows of Resources	833,943	3,567,624	(666,633)	3,734,934
Total Fund Balances/Net Position	3,967,863	3,682,886	-	7,650,749
Total Liabilities, Deferred Inflows of Resources and Fund Balances/Net Position	\$ 4,801,806	\$ 7,250,510	\$ (666,633)	\$ 11,385,683

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Highway	Water	Sewer	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:							
Real Property Taxes	\$ 2,297,054	\$ 382,945	\$ -	\$ -	\$ -	\$ 255,082	\$ 2,935,081
Real Property Tax Items	10,799	-	-	-	-	-	10,799
Non Property Tax Items	812,211	-	-	-	-	-	812,211
Departmental Income	102,853	-	367,004	290,033	-	116,288	876,178
Intergovernmental Charges	4,787	-	-	-	-	-	4,787
Use of Money and Property	20,114	287	3	146	-	163	20,713
Licenses and Permits	44,930	-	-	70	-	-	45,000
Fines and Forfeitures	231,208	-	-	-	-	-	231,208
Sale of Property and Compensation for Loss	22,939	3,997	-	-	-	-	26,936
Miscellaneous	32,036	1,634	102	42,704	379,953	-	456,429
State and Federal Aid	251,114	24,631	29,700	-	-	-	305,445
Total Revenues	3,830,045	413,494	396,809	332,953	379,953	371,533	5,724,787
Expenditures:							
General Government	803,037	641	42	203	-	140,685	944,608
Public Safety	749,562	-	-	-	-	-	749,562
Public Health	28,310	-	-	-	-	54,981	83,291
Transportation	151,340	325,952	-	-	-	46,795	524,087
Economic Assistance and Opportunity	16,411	-	-	-	-	-	16,411
Culture and Recreation	473,108	-	-	-	-	-	473,108
Home and Community Services	706,048	-	256,315	128,733	74,424	-	1,165,520
Employee Benefits	688,007	125,187	4,853	8,750	-	120,771	947,568
Capital Outlay	56,042	24,781	-	119,900	439,957	140,428	781,108
Debt Service	11,706	-	104,936	100,130	-	-	216,772
Total Expenditures	3,683,571	476,561	366,146	357,716	514,381	503,660	5,902,035
Excess/(Deficiency) of Revenues Over Expenditures	146,474	(63,067)	30,663	(24,763)	(134,428)	(132,127)	(177,248)
Other Financing Sources/(Uses):							
Proceeds from Obligations	43,170	-	-	-	-	-	43,170
Total Financing Sources/(Uses)	43,170	-	-	-	-	-	43,170
Change in Fund Balances	189,644	(63,067)	30,663	(24,763)	(134,428)	(132,127)	(134,078)
Fund Balances - Beginning, as reported	2,774,137	312,780	36,282	640,618	118,892	219,232	4,101,941
Prior Period Adjustment (Note XI)	374,735	-	(374,735)	-	-	-	-
Fund Balances - Beginning, as restated	3,148,872	312,780	(338,453)	640,618	118,892	219,232	4,101,941
Fund Balances - Ending	\$ 3,338,516	\$ 249,713	\$ (307,790)	\$ 615,855	\$ (15,536)	\$ 87,105	\$ 3,967,863

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Total Governmental Funds	Long-Term		Capital Related Items	Long-Term		Reclassifications and Eliminations	Statement of Activities Totals
		Revenue,	Expenses		Debt Transactions	Eliminations		
Revenues:								
Real Property Taxes	\$ 2,935,081	\$ -	\$ -	-	-	\$ -	-	\$ 2,935,081
Real Property Tax Items	10,799	-	-	-	-	-	-	10,799
Non Property Tax Items	812,211	-	-	-	-	-	-	812,211
Departmental Income	876,178	-	-	-	-	-	-	876,178
Intergovernmental Charges	4,787	-	-	-	-	-	-	4,787
Use of Money and Property	20,713	-	-	-	-	-	-	20,713
Licenses and Permits	45,000	-	-	-	-	-	-	45,000
Fines and Forfeitures	231,208	-	-	-	-	-	-	231,208
Sale of Property and Compensation for Loss	26,936	-	-	-	-	-	-	26,936
Miscellaneous	456,429	-	-	-	-	-	-	456,429
State and Federal Aid	305,445	10,000	-	-	-	-	-	315,445
Total Revenues	5,724,787	10,000	-	-	-	-	-	5,734,787
Expenditures:								
General Government	944,608	(14,749)	8,281	-	-	239,683	-	1,177,823
Public Safety	749,562	(5,016)	45,669	-	-	92,873	-	883,088
Public Health	83,291	(5,116)	37,466	-	-	83,136	-	198,777
Transportation	524,087	(10,124)	118,331	-	-	164,521	-	796,815
Economic Assistance and Opportunity	16,411	-	-	-	-	-	-	16,411
Culture and Recreation	473,108	(6,107)	5,802	-	-	99,236	-	572,039
Home and Community Services	1,165,520	(10,214)	106,619	-	-	(219,076)	-	1,042,849
Employee Benefits	947,568	(65,768)	-	-	-	(881,800)	-	-
Capital Outlay	781,108	-	(781,108)	-	-	-	-	-
Water Utilities	-	(384)	-	-	-	-	-	-
Sewer Utilities	-	(1,854)	31,901	-	-	262,562	-	262,178
Debt Service	-	547	-	-	-	158,865	-	188,912
Total Expenditures	216,772	547	-	-	(191,406)	-	-	25,913
Excess/(Deficiency) of Revenues Over Expenditures	5,902,035	(118,785)	(427,039)	-	(191,406)	-	-	5,164,805
Other Financing Sources/(Uses):								
Proceeds from Obligations	(177,248)	128,785	427,039	191,406	-	-	-	569,982
Total Financing Sources/(Uses)	43,170	-	-	(43,170)	-	-	-	-
Change in Fund Balances/Net Position	43,170	-	-	(43,170)	-	-	-	-
	\$ (134,078)	\$ 128,785	\$ 427,039	\$ 191,406	\$ -	\$ -	\$ -	\$ 569,982

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2015**

	Agency Fund	Expendable Trust Fund
ASSETS		
Cash	\$ 97,738	\$ 57,198
Investments	-	41,382
Prepaid Group Insurance	21,344	-
LOSAP Assets	204,511	-
	<hr/>	<hr/>
Total Assets	323,593	98,580
LIABILITIES		
Guarantee and Bid Deposits	40,209	-
Balances Held in Agency Accounts	204,511	-
Other Liabilities - Parkland	78,873	-
	<hr/>	<hr/>
Total Liabilities	323,593	-
NET POSITION		
Held in Trust for Cemetery Maintenance and Preservation	\$ -	\$ 98,580
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Expendable Trust Fund
<hr/>	
INVESTMENT EARNINGS:	
Interest	\$ 1,402
	<hr/>
Change in Net Position	1,402
Net Position Held in Trust - Beginning	<hr/> 97,178
Net Position Held in Trust - Ending	<hr/> <hr/> \$ 98,580

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Highlands, established in 1900, is governed by the Code of the Town of Highlands and other general laws of the State of New York and various local laws. The Town Board is the legislative body responsible for overall operations; the Town Supervisor serves as chief executive officer and as the fiscal officer.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The notes to the financial statements are an integral part of the statements and are intended to be read with them. As of December 31, 2015, the Town had no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Highway Fund* is used to account for financial resources to be used for upkeep of the roads within the Town's jurisdiction.

The *Water Fund* is used to account for financial resources to be used for operation and upkeep of the water district within the Town.

The *Sewer Fund* is used to account for financial resources to be used for operation and upkeep of the sewer facility within the Town.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The principal source of financing is from the sale of bonds or bond anticipation notes.

Additionally, the Town reports the following fund types:

Non-major funds:

- The *Lighting District Fund* is used to record operation and maintenance transactions related to the Town's lighting district. Revenues are derived from special district assessments.
- The *Ambulance Fund* is used to record operation and maintenance transactions related to the Town's ambulance district. Revenues are derived from ambulance district assessments.

Fiduciary Funds are used to report assets which are held in a trust or agency capacity for others and are, therefore, not available to support Town programs. The financial statements of the fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Pervasiveness of Estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, post-employment benefits, potential contingent liabilities and useful lives of long-lived assets.

E. Property Taxes

Town real property taxes are levied annually on January 1 and become a lien on that date. Taxes are collected during the period January 1 to January 31 at face value and from February 1 to May 31 with interest added. The Town Receiver of Taxes collects all real estate taxes for Town and County purposes. The Town Receiver distributes the collected tax money to the Town Supervisor prior to distributing the remaining balance collected to the County on June 1. The Town thereby is assured of 100% tax collection. Responsibility for the collection of unpaid taxes rests with the County. Uncollected tax liens are sold annually by the County.

F. Budgetary Data

The budget policies are as follows:

1. No later than October 5th, the budget officer submits a tentative budget to the Town Board for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and estimated revenue as the means of financing for all funds.
 - a. After public hearings are conducted to obtain taxpayers' comments, the governing body adopts the budget no later than November 20th.
 - b. All modifications of the budget must be approved by the Town Board; however, the Town Supervisor is authorized to transfer certain budgeted amounts within the departments.
2. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all funds. Encumbrances are reported as 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.

G. Cash and Investments

The Town of Highlands' investment policies are governed by State statutes. In addition, the Town of Highlands has its own written investment policy. The Town's monies must be deposited into interest bearing demand deposits. Permissible investments include obligations of the United States of America, obligations guaranteed by the United States of America, obligations guaranteed by Agencies of the United States of America and investments in the Merrill Lynch management program known as Flexicash.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material. All receivables are expected to be collected within the subsequent fiscal year.

I. Due To/From Other Funds

Amounts due to and due from within the same fund type have been eliminated in the Government-wide statements. See Note IV for a schedule detailing the interfund balances.

J. Inventories and Prepaid Items

Purchases of inventoriabile items are recorded as expenditures in the Government Funds at the time of purchase. Inventory-type items are considered immaterial and, consequently, are not provided in the Government-wide statements.

Prepaid items represent payments made by the Town for which benefits extend beyond year-end.

K. Capital Assets

Capital assets are reported at historical costs. The Town depreciates capital assets using the straight line method over the estimated useful lives of the assets. Capitalization thresholds and estimated lives of assets reported in the Government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings and Improvements	\$ 5,000	15 - 50 years
Machinery and Equipment	5,000	5 - 15 years
Vehicles	5,000	5 - 15 years
Land Improvements	25,000	15 - 25 years

L. Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for 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 government has an item that qualifies for reporting in this category. This item is related to pensions reported in the government-wide Statement of Net Position. This represents the difference during the measurement period between the Town's proportionate share of expected and actual experience, and projected and actual earnings. Lastly, the Town's contributions to the pension systems made subsequent to the measurement date are also included in deferred outflows.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one item that qualifies for reporting in this category related to pensions reported in the government-wide Statement of Net Position. This represents the difference during the measurement period between the Town's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Infrastructure

The Town includes long-lived improvements to roads, water and sewer systems as capital assets in the Government-wide statements. Infrastructure is reported at historical costs and is depreciated using the straight-line method over the estimated useful lives.

Under the implementation standards of GASB 34, the Town is considered a small government and, as such, is required only to recognize infrastructure on a prospective basis. Therefore, the Town has not retroactively reported any major general infrastructure assets prior to January 1, 2004.

Capitalization thresholds and estimated useful lives for infrastructure are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Roads and Infrastructure	\$ 25,000	20 - 40 years

N. Vested Employee Benefits

Employees accrue (earn) vacation leave based on the number of years employed, up to a maximum of 30 days per year. Upon separation from service, employees are paid for unused vacation time.

Employees accrue (earn) sick leave at the rate of 3.7 or 4 hours per pay period and may accumulate such credits up to a total of 180 days or an unlimited amount depending on the employee’s classification. Employees who retire apply any unused sick leave to pay for individual cost employee health insurance benefits and may potentially have accumulated sick time credited to their service time in the New York State Retirement System.

A liability for accrued vacation and sick time is reflected in the Government-wide statements under the heading “Compensated Absences.”

The Town’s employees participate in the New York State Employees’ Retirement System and New York State Police and Fire Retirement System.

In addition to providing pension benefits, the Town of Highlands provides health insurance coverage for retired employees. Substantially all of the Town’s employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year for the Town of Highlands. The Town records its share of insurance premiums as an expenditure in the governmental funds during the year paid.

O. Unemployment Insurance

Town employees are covered by unemployment insurance. The Town has chosen to discharge its liability to the New York State Unemployment Insurance Fund by means of the benefit reimbursement method. This is a dollar-for-dollar reimbursement to the Unemployment Insurance Fund for the benefits paid to former employees and charged to the Town’s account. The Town is exempt from federal unemployment insurance tax.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

P. Deferred Compensation

The Town, through the New York State Retirement Systems, offers their employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all eligible participants, permits participants to defer a portion of their salary (up to the IRS limits) until future years. Amounts deferred under the Plan are not available to the employee until termination, retirement, death or unforeseeable emergency. The Town does not contribute to or administer the Plan.

Q. Risk Retention

The Town assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

R. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Town's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

S. Equity Classification

a. Government-wide Statements

Equity is classified as net position and displayed in three components:

- 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, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- 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.

- Unrestricted Net Position

All remaining net position that does not meet the definition of "restricted" or "net investment in capital assets."

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

S. Equity Classification - continued

b. Fund Financial Statements

The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The purpose of this accounting standard is to provide fund balance categories and classification that will be more easily understood by users of financial statements and consistently applied in fund balance reporting. This standard sets forth hierarchical fund balance classifications that are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The following is a brief description of the five fund balance classifications:

Nonspendable:

Amounts that cannot be spent in the current period either because of their form or because they must be maintained intact. Prepaid expenses are nonspendable because, by definition, the money has already been spent.

Restricted:

Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments or through constitutional provisions or enabling legislation.

Committed:

Amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision making authority (the Town Board) before the end of the fiscal year. The same level of formal action is required to remove the constraint.

Assigned:

Amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision making authority or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. The General Fund assigned fund balance at December 31, 2015 includes \$298,000 appropriated for the 2016 budget, representing \$158,000 from the General Town-Wide Fund and \$140,000 from the General Town-Outside Village Fund. The Ambulance Fund assigned fund balance at December 31, 2015 includes \$10,000 appropriated for the 2016 budget.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

S. Equity Classification - Continued

Unassigned:

Represents the residual amount of fund balance in the General Fund. In funds other than the General Fund, this should only be used to report a deficit balance.

Restricted fund balances:

The Capital Projects fund balance includes \$58,889 which is legally restricted as a result of funds borrowed to construct new water lines.

Various New York State statutes allow local governments to establish reserve funds for various purposes. Since the State regulates the establishment, funding and use of these reserves, the Town has classified the following reserve funds as restricted fund balances:

a. The General Town-Wide Fund includes reserve funds established for future repair, improvement and renovation projects and for vehicles. The balance at the end of 2015 was \$1,204,590.

b. The General Town-Outside Village Fund includes reserve funds established for the acquisition of police vehicles. The balance at the end of 2015 was \$163,500.

c. The Highway Town-Outside Village Fund includes reserve funds established for future road repairs. The balance at the end of 2015 was \$170,307.

d. The Sewer Fund includes reserve funds established for capital improvements. The balance at the end of 2015 was \$8,666.

e. The Ambulance Fund includes reserve funds established for future capital expenditures. The balance at the end of 2015 was \$25,723.

T. Interfund Transfers

The operations of the Town give rise to certain transactions between funds, including transfers to provide services and construct assets. Any amounts reported on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for interfund transfers are eliminated for the Statement of Activities. No fund transfers occurred during the year.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The differences result primarily from the economic focus of the government-wide statements, compared with the current financial resources focus of the governmental funds.

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities:

Total fund balances of the Town's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the Governmental Fund Balance Sheet.

The basic financial statements contain a detailed reconciliation of the items creating the differences between fund balance reported in the Governmental Fund Statements and Net Position reported on the Statement of Net Position.

- (1) The costs of building and acquiring capital assets (land, infrastructure, buildings and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the Town as a whole, with their original costs capitalized and depreciation expensed annually over their useful lives.

Original Cost of Capital Assets	\$ 10,607,323
Accumulated Depreciation	<u>(3,731,941)</u>
Capital Assets, Net	<u>\$ 6,875,382</u>

- (2) Long-term receivables are reported in the Statement of Net Position, but not in the governmental funds, because they are not expected to be received within 60 days of year end. Balances at year-end were:

Dial-A-Bus Receivable	<u>\$ 50,000</u>
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- (3) Interest payable is recognized in the government-wide statements under full accrual accounting. No accrual is recognized in the governmental fund statements for interest that was not paid from current financial resources.

Interest Payable at December 31, 2015	<u>\$ 4,792</u>
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- (4) Long-term liabilities are reported in the Statement of Net Position, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Bonds and Installment Obligations Payable	\$ 1,306,980
Compensated Absences Payable	208,069
ERS & PFRS Pension Liability-Proportionate Share	226,446
Other Postemployment Benefits	<u>1,760,000</u>
	<u>\$ 3,501,495</u>

- (5) Deferred Outflows and Inflows are reported in the Statement of Net Position, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Deferred Outflows of Resources	\$ 325,128
Deferred Inflows of Resources	<u>(61,337)</u>
	<u>\$ 263,791</u>

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2015**

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities:

Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into one of three broad categories.

- Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.
- Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.
- Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements when paid, whereas interest payments are recorded in the Statement of Activities as incurred and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

The basic financial statements contain a detailed reconciliation of the items creating the differences between the change in fund balance reported in the governmental fund statements and the change in net position reported in the Statement of Activities.

Total Revenues and Other Funding Sources

Total revenues reported in governmental funds	\$ 5,724,787
Dial-A-Bus Federal Aid prior year receivable	(40,000)
Dial-A-Bus Federal Aid current year receivable	50,000
Total revenues reported in the Statement of Activities	<u>\$ 5,734,787</u>

Total Expenditures/Expenses

Total expenditures reported in governmental funds	\$ 5,902,035
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In the Statement of Activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid.) This is the amount by which the liability for compensated absences decreased during the year. (53,564)

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the year they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$781,108 exceeded depreciation expense of \$354,069 in the current year. (427,039)

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities – Continued

Total Expenditures/Expenses (Continued)

In the Statement of Activities, the expenses for other postemployment benefits are measured based on the actuarially determined annual required contribution (ARC) of the Town. In the governmental funds, however, these expenditures are measured by the amount of financial resources used (essentially the amounts paid). This is the amount by which the ARC exceeded the amount of financial resources used during the year. 280,000

Interest payable is recognized in the entity wide statements under full accrual accounting whereas it is recognized when paid in the governmental fund statements. This is the amount by which interest payable for the current year exceeded the interest payable for the prior year. 547

In the Statement of Activities and Changes in Net Position, pension expense related to ERS and PFRS defined benefit plans is measured as the change in the Town's proportionate shares of the net pension assets and liabilities as of the measurement dates for each plan. In the governmental funds however, these expenditures are recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. This is the amount by which pension expense was lower than the amount of financial resources expended during the year. (345,768)

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities. (191,406)

Total expenditures reported in the Statement of Activities \$ 5,164,805

III. CASH

The Town of Highland's investment policies are governed by State statutes, as previously described in these Notes. The depository bank places approved pledged securities for safekeeping and trust with the Town's agent bank in an amount sufficient to protect Town funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) Insurance.

At December 31, 2015, the carrying amount of the Town's deposits (cash, certificates of deposit and interest-bearing savings accounts) was \$3,249,687 and the bank balance was \$3,463,306. The Town's deposits at December 31, 2015, were under-collateralized by \$107,848 and, therefore, not entirely covered by FDIC Insurance or by pledged collateral held by the Town's agent bank in the Town's name.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

IV. INTERFUND ACTIVITY

Interfund receivables and payables at December 31, 2015 were as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Town-Wide	\$ 368,817	\$ -
General Town-Outside Village	253,445	-
Highway Town-Wide	-	12,822
Capital	-	79,371
Water	-	574,440
Sewer	44,371	-
	<hr/>	<hr/>
TOTAL	<u>\$ 666,633</u>	<u>\$ 666,633</u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

V. CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2015 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 712,464	\$ -	\$ -	\$ 712,464
Total capital assets, not being depreciated	<u>712,464</u>	<u>-</u>	<u>-</u>	<u>712,464</u>
Capital assets, being depreciated:				
Buildings and Improvements	3,821,635	439,957	-	4,261,592
Land Improvements	871,350	12,872	-	884,222
Machinery and Equipment	840,709	119,900	-	960,609
Roads and Infrastructure	2,076,811	24,781	-	2,101,592
Vehicles	1,639,159	183,598	(135,913)	1,686,844
Total capital assets being depreciated	<u>9,249,664</u>	<u>781,108</u>	<u>(135,913)</u>	<u>9,894,859</u>
Accumulated depreciation for:				
Buildings and Improvements	(916,500)	(80,175)	-	(996,675)
Land Improvements	(206,523)	(19,175)	-	(225,698)
Machinery and Equipment	(499,743)	(47,323)	-	(547,066)
Roads and Infrastructure	(607,878)	(75,013)	-	(682,891)
Vehicles	(1,283,141)	(132,383)	135,913	(1,279,611)
Total accumulated depreciation	<u>(3,513,785)</u>	<u>(354,069)</u>	<u>135,913</u>	<u>(3,731,941)</u>
Total capital assets being depreciated, net	<u>5,735,879</u>	<u>427,039</u>	<u>-</u>	<u>6,162,918</u>
Governmental activities capital assets, net	<u>\$ 6,448,343</u>	<u>\$ 427,039</u>	<u>\$ -</u>	<u>\$ 6,875,382</u>

Depreciation expense was charged to functions/programs of the Town as follows:

Governmental Activities:	
General Government	\$ 8,281
Public Safety	45,669
Public Health	37,466
Transportation	118,331
Culture and Recreation	5,802
Home and Community Services	106,619
Sewer Utilities	<u>31,901</u>
Total Depreciation Expense	<u>\$ 354,069</u>

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VI. LIABILITIES

A. Pension Plans

Plan Description

The Town of Highlands participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy

The Systems are noncontributory except for Tier III, IV, V and VI employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% to 6% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of member payroll and employer contributions, used in computing the contributions required to be made by employers to the pension accumulation fund. An Eligible Tier III or IV member with ten or more years of membership, or ten years credited service, will not be required to contribute to the Retirement System. Tier V and VI members must continue to contribute throughout their employment.

The Town of Highlands is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

Plan Year Ended March 31	ERS	PFRS
2016	\$ 223,493	\$ 47,139
2015	\$ 275,127	\$ 37,028
2014	\$ 240,890	\$ 91,506

Town contributions made to the Systems were equal to 100% of the contributions required for each year. Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the Systems' fiscal year ended March 31, 2005 (which otherwise were to have been paid on February 1, 2005) over a 10 year period, with a 5.00% interest factor added. The Town has not utilized this option.

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

At December 31, 2015, the Town reported liabilities of \$194,865 and \$31,581 for its proportionate share of the net pension liability/(asset) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2015 for ERS and PFRS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The Town's proportion of the net pension asset/(liability) was based on a projection of the Town's long-term share of contributions to the Systems relative to the projected contributions of all participating members, as actuarially determined. This information was provided by the ERS and PFRS Systems in reports provided to the Town.

At March 31, 2015, the Town's proportion of the NYSERS net pension asset/(liability) was 0.00576820%. There was no change from its proportion measured as of March 31, 2014.

At March 31, 2015, the Town's proportion of the NYPFRS net pension asset/(liability) was 0.01147330%. There was no change from its proportion measured as of March 31, 2014.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

VI. LIABILITIES - CONTINUED

A. Pension Plans-continued

For the year ended December 31, 2015, the Town recognized pension expense of \$174,934 for ERS and \$62,101 for PFRS. At December 31, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

	Deferred Outflows of Resources		
	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
Differences between expected and actual experience	\$ 6,238	\$ 3,809	\$ 10,047
Net difference between projected and actual earnings on pension plan investments	33,846	10,603	44,449
Town's contributions subsequent to the measurement date	223,493	47,139	270,632
Total	\$ 263,577	\$ 61,551	\$ 325,128

	Deferred Inflows of Resources		
	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
Changes in proportion and difference between the Town's contributions and proportionate share of contributions	\$ 5,684	\$ 55,653	\$ 61,337
Total	\$ 5,684	\$ 55,653	\$ 61,337

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

Year Ended:	<u>ERS</u>	<u>PFRS</u>
2016	\$ 8,600	\$ (7,718)
2017	8,600	(7,718)
2018	8,600	(7,718)
2019	8,600	(7,718)
2020	-	(10,369)

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VI. LIABILITIES – CONTINUED

A. Pension Plans-continued

Actuarial Assumptions

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

Significant actuarial assumptions used in the valuations were as follows:

Measurement Date	ERS	PFRS
	March 31, 2015	March 31, 2015
Investment Rate of Return	7.50% compounded annually net of investment expense	7.50% compounded annually net of investment expense
Projected Salary Increases	4.90%	6.00%
Decrement Tables	April 1, 2005 - March 31, 2010 System's Experience	April 1, 2005 - March 31, 2010 System's Experience
Inflation Rate	2.70%	2.70%
Mortality Improvement	Society of Actuaries Scale MP - 2014	Society of Actuaries Scale MP - 2014

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

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VI. LIABILITIES – CONTINUED

A. Pension Plans-continued

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

Measurement Date	ERS		PFRS	
	March 31, 2015		March 31, 2015	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Asset Class:				
Domestic Equity	38%	7.30%	38%	7.30%
International Equity	13%	8.55%	13%	8.55%
Private Equity	10%	11.00%	10%	11.00%
Real Estate	8%	8.25%	8%	8.25%
Absolute Return Strategies	3%	6.75%	3%	6.75%
Opportunistic Portfolio	3%	8.60%	3%	8.60%
Real Assets	3%	8.65%	3%	8.65%
Bonds and Mortgages	18%	4.00%	18%	4.00%
Cash	2%	2.25%	2%	2.25%
Inflation-indexed bonds	2%	4.00%	2%	4.00%
Total	100%		100%	

Discount Rate

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

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VI. LIABILITIES – CONTINUED

A. Pension Plans-continued

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

The following presents the District's proportionate share of the ERS and PFRS net pension liability calculated using the discount rates referred to above, as well as what the District's proportionate share of the net pension asset/(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 referred to above:

ERS	1% Decrease 6.50%	Current Assumption 7.50%	1% Increase 8.50%
Employer's Proportionate Share of the Net Pension Asset/(Liability)	\$ (1,298,862)	\$ (194,865)	\$ 737,181

PFRS	1% Decrease 6.50%	Current Assumption 7.50%	1% Increase 8.50%
Employer's Proportionate Share of the Net Pension Asset/(Liability)	\$ (420,489)	\$ (31,581)	\$ 294,346

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2015, were as follows:

Measurement Date	(Dollars in Thousands)	
	ERS March 31, 2015	PFRS March 31, 2015
Employers' total pension liability	\$ (164,591,504)	\$ (28,474,417)
Plan net position	161,213,259	28,199,157
Employers' net pension asset/(liability)	<u>\$ (3,378,245)</u>	<u>\$ (275,260)</u>
Ratio of plan net position to the employers' total pension asset/(liability)	97.95%	99.00%

Payables to the Pension Plan

For ERS, employer and employee contributions for the fiscal year ended March 31, 2016 were paid to the System in December 2015. Prepaid retirement contributions as of December 31, 2015 amounted to \$55,873.

For PFRS, employer and employee contributions for the fiscal year ended March 31, 2016 were paid to the System in December 2015. Prepaid retirement contributions as of December 31, 2015 amounted to \$11,785.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

VI. LIABILITIES - CONTINUED

B. Short-Term Debt

State law requires that Bond Anticipation Notes (BANs) issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. As of December 31, 2015, the Town had no BANs outstanding.

C. Long-Term Debt

Bonds: The Town of Highlands borrows money in order to acquire land or equipment or construct buildings and for capital improvements. This borrowing enables the cost of these capital assets to be borne by the present and future taxpayers.

At December 31, 2015, the total principal indebtedness outstanding of the Town of Highlands aggregated to \$1,306,980.

Interest on long-term debt paid during the year was:

Interest Paid	\$ 25,366
Less: Interest accrued - prior year	(4,245)
Plus: Interest accrued - current year	<u>4,792</u>
	<u><u>\$ 25,913</u></u>

Long-term liability balances and activity for the year are summarized below:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Issued/Earned</u>	<u>Redeemed/Paid</u>	<u>Ending Balance</u>
E.F.C. Bond - Water District #2	\$ 220,500	\$ -	\$ 29,700	\$ 190,800
E.F.C. SRF Bond - Water District #2	1,139,716	-	55,000	1,084,716
Sewer System Refunding Serial Bond	95,000	-	95,000	-
Lease Purchase Agreement	-	43,170	11,706	31,464
	<u>1,455,216</u>	<u>43,170</u>	<u>191,406</u>	<u>1,306,980</u>
Other liabilities:				
Compensated Absences	261,633	-	53,564	208,069
Other Postemployment Benefits	1,480,000	300,000	20,000	1,760,000
	<u>1,741,633</u>	<u>300,000</u>	<u>73,564</u>	<u>1,965,093</u>
Total long-term liabilities	<u><u>\$ 3,196,849</u></u>	<u><u>\$ 343,170</u></u>	<u><u>\$ 264,970</u></u>	<u><u>\$ 3,275,049</u></u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

VI. LIABILITIES - CONTINUED

C. Long-Term Debt - Continued

Activity for compensated absences is shown at net due to the impracticality of determining these amounts separately. Payments of compensated absences are dependent upon future factors and, therefore, the timing of such payments cannot be determined. Compensated absences are reflected as a long-term liability in the Statement of Net Position.

The following is a summary of the maturity of long-term indebtedness:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 89,928	\$ 29,911	\$ 119,839
2017	96,377	29,137	125,514
2018	97,575	28,138	125,713
2019	87,100	26,930	114,030
2020	87,700	26,148	113,848
2021-2025	323,300	114,074	437,374
2026-2030	315,000	73,123	388,123
2031-2033	210,000	16,169	226,169
	<hr/>		
Total	<u>\$ 1,306,980</u>	<u>\$ 343,630</u>	<u>\$ 1,650,610</u>

D. Other Postemployment Benefits

The Town provides post employment health insurance coverage to retired employees through a self-administered single employer plan in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the Town's contractual agreements.

The Town implemented GASB standards regarding Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions in the fiscal year ended December 31, 2009. This implementation required the Town to calculate and record a net other post employment benefit obligation at year end. The net other post employment benefit obligation is the cumulative difference between the actuarially required contributions and the actual contributions made.

The Town recognizes the cost of providing health insurance annually as expenditures in the General Fund in the fund financial statements as payments are made. For the year ended December 31, 2015, the Town recognized \$20,000 for its share of premiums for currently enrolled retirees.

The Town has obtained an actuarial valuation report as of December 31, 2015 which indicates that the total liability for other post employment benefits is \$2,660,000, of which \$1,760,000 is reflected in the Statement of Net Position.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

VI. LIABILITIES – CONTINUED

D. Other Postemployment Benefits - Continued

Annual OPEB Cost and Net OPEB Obligation: The Town's annual other post employment benefit (OPEB) cost is calculated based on the actuarially determined annual required contribution of the employer (ARC). 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 over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the Town's net OPEB obligation:

Annual Required Contribution	\$ 320,000
Interest on Net OPEB Obligation	70,000
Adjustment to Annual Required Contribution	<u>(90,000)</u>
Annual OPEB Cost	300,000
Contributions Made	<u>(20,000)</u>
Increase in Net OPEB Obligation	280,000
Net OPEB Obligation - Beginning of Year	<u>1,480,000</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,760,000</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation End of Year
12/31/2015	\$ 300,000	6.7%	\$ 1,760,000
12/31/2014	\$ 340,000	5.9%	\$ 1,480,000
12/31/2013	\$ 310,000	6.5%	\$ 1,160,000

Funded Status and Funding Progress: As of December 31, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$2,660,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,660,000. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions: 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 benefit costs between the employer and plan members to that point. The actuarial funding method used is unit credit. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions included 4.5% investment rate of return, net of administrative expense, on the employer's own investment, calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate for pre-65 and post-65 claims of 9.5% initially, reduced incrementally to an ultimate rate of 5% after 9 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 23 years.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VII. LENGTH OF SERVICE AWARD PROGRAM

The information contained in this note is based on information for the Town of Highlands Ambulance Service Award Program for the program year ended on December 31, 2015, which is the most recent program year for which complete information is available.

The Town of Highlands Ambulance established a defined benefit Service Award Program (referred to as a "LOSAP" - length of service award program - under Section 457(e)(11) of the Internal Revenue Code) effective January 1, 2002 for the active volunteer ambulance members of the Town of Highlands Ambulance. The program was established pursuant to Article 11-A of the New York State General Municipal Law. The program provides municipally-funded deferred compensation to volunteer ambulance members to facilitate the recruitment and retention of active volunteers. The Town of Highlands Ambulance is the sponsor of the program and the program administrator.

Under the program, participating volunteers begin to be paid a service award upon attainment of the program "entitlement age". The amount of the service award paid to a volunteer is based upon the number of years of service credit the volunteer earned under the program for performing active volunteer ambulance member activities.

Participation, Vesting and Service Credit

Active volunteer ambulance members who have reached the age of 18 and who have completed one (1) year of ambulance member service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with five (5) years of ambulance member service or upon attaining the program's entitlement age while an active volunteer. The program's entitlement age is age 65. An active volunteer ambulance member is credited with a year of ambulance service for each calendar year after the establishment of the program in which he or she has completed a year of credit service. A participant may also receive credit for five (5) years of active volunteer ambulance member service rendered prior to the establishment of the program as an active volunteer ambulance member of the Town of Highlands Ambulance.

Benefits

A participant's service award benefit is paid as a ten year certain and continuous monthly payment life annuity. The amount payable each month equals \$20 multiplied by the total number of years of service credit earned by the volunteer under the point system. The maximum number of years of service credit a participant may earn is 20 years under the program.

Currently, there are no other forms of payment of a volunteer's earned service award under the Program. Except in the case of death or total and permanent disablement, service awards commence to be paid when a participant attains the entitlement age. The program provides death and disability benefits equal to the greater of insurance face amount or present value of accrued benefit. The program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are "self insured" and are paid from the program trust fund.

For a complete explanation of the program, a copy of the Program Document is available from the Plan Sponsor.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VII. LENGTH OF SERVICE AWARD PROGRAM – CONTINUED

Fiduciary Investment and Control

After the end of each calendar year, the Ambulance Corp. prepares and certifies a census listing of names of all persons who were active volunteer members of the Ambulance Corp. during the year and indicates which volunteers earned their year of service credit. The certified list is delivered to the Board Members for review and approval.

The Board Members have retained Hometown Firefighter Services to assist in the administration of the program. The services provided by Hometown Firefighter Services are described in the following paragraphs.

Based on the certified calendar year volunteer ambulance member listings, Hometown Firefighter Services determines and certifies in writing to the Board Members the amount of the service award to be paid to a participant or to a participant's designated beneficiary. The person(s) authorized by the Board Members then authorizes, in writing, the custodian of the Town of Highlands Ambulance Service Award Program trust funds to pay the service award. No service award benefit payment is made without the written certification from Hometown Firefighter Services and the written directive from the authorized representative of the Board Members.

Hometown Firefighter Services bills the Town of Highlands Ambulance Corp. for the services it provides. Hometown Firefighter Services' invoices are authorized for payment by the Board Members in the same manner as any other invoice presented to the Ambulance Corp. for payment. Hometown Firefighter Services invoices are paid from the Ambulance Fund.

Article 11-A requires that program assets be held in trust for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. The Board Members created a Service Award Program Trust Fund through the adoption of a Trust Document, a copy of which is available from Hometown Firefighter Services.

Authority to invest the program assets is vested in the program trustee. Program assets are invested in accordance with a statutory prudent person rule and in accordance with the written investment policy statement adopted by the Board Members.

Program Financial Condition

Assets and Liabilities

Actuarial Present Value of Accrued Service Awards as of December 31, 2015	\$	384,961
Total Net Assets Available for Benefits as of December 31, 2015	\$	204,511

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

VII. LENGTH OF SERVICE AWARD PROGRAM – CONTINUED

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the sponsor's contribution is the "Unit Credit" Cost method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return on program investments 5.50%

Tables used for:

Post Entitlement Age mortality:	1994 Group Annuity - Male
*Pre Entitlement Age mortality:	None
*Pre Entitlement Age disability:	None
*Pre Entitlement Age withdrawal:	None
*Pre Entitlement Age service credit accruals	100%

* For program cost calculation purposes, all pre-entitlement age active volunteer participants are assumed to: survive to the entitlement age; remain active and earn a service credit each year; and begin to be paid service awards upon attainment of the entitlement age.

The following information was compiled for 2015:

Receipts and Disbursements

Plan Net Position, January 1, 2015	\$	167,726
Changes during the year:		
+ Death Claim Insurance Recovery		11,045
+ Plan Contributions		49,600
+ Investment Income Earned		3,246
- Plan Administration Fees		(2,200)
- Plan Benefit Withdrawals		(24,906)
		(24,906)
Plan Net Position, December 31, 2015	\$	204,511

Contributions

Amount of contribution recommended by actuary:	\$	46,354
Amount of actual contribution:	\$	49,600

VIII. UNRESTRICTED BALANCES

As of December 31, 2015, the Town's unrestricted net position totaled \$450,672.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

IX. LEASES

The Town leases two pieces of office equipment under operating leases expiring at various dates through July 2019. The total minimum rental commitment at December 31, 2015, under the leases mentioned above, is due as follows:

2016	\$	3,322
2017		1,684
2018		1,684
2019		842
	\$	<u>7,532</u>

Rental expense included in the Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended December 31, 2015 related to the leases mentioned above was \$4,665.

X. CONTINGENCIES

Grant Funding

The Town has received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. Based on past audits, the Town administration believes disallowances, if any, will be immaterial.

Judgments and Claims

The Town is party to various legal proceedings which normally occur in governmental operations. In the opinion of the Town's management, any potential claims against the Town not covered by various insurance policies will not have a materially adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded as of December 31, 2015.

Certiorari Proceedings

Open tax certiorari cases, which claim excessive assessed values, exist with several taxpayers. Claims allowed, if any, will result in a refund of Town taxes previously collected by the Town. Any such refunds resulting from adverse settlements will be provided for when determinable.

XI. RESTATEMENT

Restatement of Net Position

For the calendar year ended December 31, 2015, the Town implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*. The implementation of Statement No. 68 resulted in the reporting of liabilities related to the Town's participation in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement Systems (PFRS) on December 31, 2014.

The Town's net position has been restated as follows:

Net Position Beginning of Year, as Previously Stated	\$	7,389,190
--	----	-----------

GASB Statement No. 68 Implementation

Beginning System Liability - Employees' Retirement System	(260,659)
Beginning System Liability - Police and Fire Retirement System	<u>(47,764)</u>

Net Position Beginning of Year, as Restated	\$	<u>7,080,767</u>
---	----	------------------

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

XI. RESTATEMENT-CONTINUED

For the calendar year ended December 31, 2015, the General Fund and Water Fund beginning fund balances have been restated by \$374,735 and \$(374,735), respectively, for amounts owed from the Water fund to the General Fund relating to previous years.

XII. NEW ACCOUNTING PRINCIPLES

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Town adopted GASB 68 in fiscal year 2015, as required.

GASB has issued Statement 73, *Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which improves the usefulness of information about pensions included in the general purpose external financial reports of state and local government for making decisions and assessing accountability. This Statement also amends Statement 67, *Financial Reporting for Pension Plans*. The District is currently studying the Statement and Plans on adoption if and when required, which will be for the December 31, 2016 financial statements.

GASB has issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves the information provided by state and local governmental employers about support for OPEB that is provided by other entities. The Town is currently studying the Statement and plans on adopting if and when required, which will be for the December 31, 2018 financial statements

XIII. SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2015, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosure is October 28, 2016, which is the date on which the financial statements were available to be issued.



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

The Town Board
Town of Highlands
254 Main Street
Highland Falls, New York 10928

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Highlands, New York as of and the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town of Highlands' basic financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the Schedule of Findings as 15-1 and 15-2, that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Highlands' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as 15-3 and 15-4.

Purpose of this Report

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

Vanacore, DeBenedictus, DiGiovanni & Weddell, CPAs
Limited Liability Partnership

Newburgh, New York
October 28, 2016

**TOWN OF HIGHLANDS
SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

A. Internal Control Findings

15-1 *Cash*

Condition: The majority of the Town's disbursement and receipt activity is done through the use of a single bank account.

Criteria: The Town has a responsibility to accurately maintain its financial records.

Cause: The Town has not created individual bank accounts for each fund.

Effect: The Town is more prone to errors as this combining of cash complicates the recordkeeping. Additionally, some of the funds have negative cash balances on the trial balance.

Recommendation: VDDW recommends that the Town segregate monies by Fund. By segregating bank accounts, the Town will have a more precise account of each Fund's cash balance. Segregated accounts will also prevent accidental borrowing of money from other Funds and the creation of negative cash balances.

15-2 *Interfund Loan*

Condition: The Town passed a resolution acknowledging an interfund loan made in previous years that was never recorded and for which loan payments were not made.

Criteria: The Town did not follow its own resolution.

Cause: The motion was overlooked.

Effect: The General Fund and Water Fund have reported misleading fund balances.

Recommendation: VDDW recommends that the Town correct the error and make all necessary loan payments.

B. Compliance Findings

15-3 *Collateralization*

Condition: At December 31, 2015, the Town's cash balances maintained in Chase Bank were under collateralized in the amount of \$107,847.

Criteria: General Municipal Law of New York State requires collateralization for all cash balances in excess of FDIC coverage.

Cause: The Town did not review the monthly collateral statements provided by the bank.

Effect: Public money was not secured and the Town was not in compliance with General Municipal Law. The same situation was noted at December 31, 2014.

Recommendation: We recommend that the Town review the monthly collateral statements provided by the bank to ensure that coverage is adequate.

**TOWN OF HIGHLANDS
SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

15-4 *Reserve Fund Expenditures*

Condition: The Town is not following all permissive referendum and public hearing requirements for creation, expenditures and transfers from reserve funds.

Criteria: All reserve funds are subject to specific requirements by law.

Cause: The Town is not aware of these legal requirements.

Effect: The Town is not in compliance with New York State General Municipal Law.

Recommendation: VDDW recommends that the Town follow all laws and regulations concerning reserve funds.

**TOWN OF HIGHLANDS
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

	2015	Fiscal Year 2014	2013
Actuarial Valuation Date	1/1/2016	1/1/2015	1/1/2014
Plan Assets	Unfunded	Unfunded	Unfunded
Actuarial Accrued Liability	\$ 2,660,000	\$ 2,780,000	\$ 2,460,000
Unfunded Actuarial Liability	\$ 2,660,000	\$ 2,780,000	\$ 2,460,000
Funded Ratio	Not Applicable	Not Applicable	Not Applicable
Annual Covered Payroll	\$ 1,090,000	\$ 1,070,000	\$ 930,000
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	244.0%	260.0%	264.5%

**TOWN OF HIGHLANDS
 SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

New York State Employee Retirement System Year Ended	Proportion of the Net Pension Asset (Liability)	Proportionate Share of the Net Pension Asset (Liability)	Actual Covered Member Payroll	Net Pension Asset (Liability) as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
3/31/2015	0.00576820%	\$ (194,865)	\$ 1,523,228	-12.79%	97.95%
3/31/2014	0.00576820%	\$ (260,659)	\$ 1,397,761	-18.65%	97.20%
Police and Firemen's Retirement Systems Year Ended	Proportion of the Net Pension Asset (Liability)	Proportionate Share of the Net Pension Asset (Liability)	Actual Covered Member Payroll	Net Pension Asset (Liability) as a Percentage of Covered Payroll	Fiduciary Net Position as a Percentage of Total Pension Liability
3/31/2015	0.01147330%	\$ (31,581)	\$ 293,916	-10.74%	99.00%
3/31/2014	0.01147330%	\$ (47,764)	\$ 259,923	-18.38%	98.50%

GASB 68 requires that the past 10 years of information be presented. Due to the fact that this was the first year of implementation, prior year information is not available for 10 years. The data will be accumulated over time and presented according to GASB 68.

**TOWN OF HIGHLANDS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

New York State Employee Retirement System Year Ended	Contractually Required Contribution	Actual Employer Contribution	Contribution deficiency (excess)	Covered Employee Payroll	Required Contributions as a Percentage of its Covered Payroll
3/31/2015	\$ 275,127	\$ 275,127	\$ -	1,523,228	18.06%
3/31/2014	\$ 240,890	\$ 240,890	\$ -	1,397,761	17.23%
Police and Firemen's Retirement Systems					
Year Ended	Contractually Required Contribution	Actual Employer Contribution	Contribution deficiency (excess)	Covered Employee Payroll	Required Contributions as a Percentage of its Covered Payroll
3/31/2015	\$ 37,028	\$ 37,028	\$ -	293,916	12.60%
3/31/2014	\$ 91,506	\$ 91,506	\$ -	259,923	35.21%

GASB 68 requires that the past 10 years of information be presented. Due to the fact that this was the first year of implementation, prior year information is not available for 10 years. The data will be accumulated over time and presented according to GASB 68.

**TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND - TOWN WIDE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget Positive/(Negative)
	Original	Final		
Revenues:				
Real Property Taxes	\$ 2,291,362	\$ 2,291,362	\$ 2,291,362	\$ -
Real Property Tax Items	4,300	4,300	10,799	6,499
Non Property Tax Items	31,000	31,000	46,334	15,334
Departmental Income	83,600	86,900	98,511	11,611
Use of Money and Property	17,150	17,150	14,781	(2,369)
Licenses and Permits	28,250	28,250	44,930	16,680
Fines and Forfeitures	230,250	230,250	231,208	958
Miscellaneous	18,740	18,740	22,717	3,977
State and Federal Aid	211,000	211,000	251,114	40,114
Total Revenues	2,915,652	2,918,952	3,011,756	92,804
Expenditures:				
General Government	869,155	869,952	764,940	105,012
Public Safety	171,230	170,430	158,990	11,440
Transportation	162,859	162,859	151,340	11,519
Economic Assistance and Opportunity	17,750	17,750	16,411	1,339
Culture and Recreation	471,280	470,830	473,108	(2,278)
Home and Community Services	729,475	728,183	692,648	35,535
Employee Benefits	645,700	645,700	555,272	90,428
Capital Outlay	17,703	18,748	12,872	5,876
Total Expenditures	3,085,152	3,084,452	2,825,581	258,871
Excess/(Deficiency) of Revenues Over Expenditures	(169,500)	(165,500)	186,175	351,675
Other Financing Sources:				
Operating Transfers In/(Out)	(25,500)	(25,500)	-	25,500
Net Change in Fund Balance	(195,000)	(191,000)	186,175	377,175
Fund Balances - Beginning, as reported	1,811,820	1,811,820	1,811,820	-
Prior Period Adjustment (Note XI)	-	-	374,735	374,735
Fund Balances - Beginning, as restated	1,811,820	1,811,820	2,186,555	374,735
Fund Balances - Ending	\$ 1,616,820	\$ 1,620,820	\$ 2,372,730	\$ 751,910

**TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND - TOWN OUTSIDE VILLAGE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Final	Actual Amounts GAAP Basis	Variance with Final Budget Positive/(Negative)
	Original	Final			
Revenues:					
Real Property Taxes	\$ 5,692	\$ 5,692	\$ 5,692	\$ -	\$ -
Non-Property Tax Items	750,000	750,000	765,877	15,877	(3,158)
Departmental Income	6,700	7,500	4,342	4,787	4,787
Intergovernmental Charges	-	-	4,787	4,787	4,583
Use of Money and Property	750	750	5,333	22,939	175
Sale of Property and Compensation for Loss	-	22,764	22,939	9,319	6,404
Miscellaneous	-	2,915	2,915	818,289	28,668
Total Revenues	763,142	789,621	818,289		
Expenditures:					
General Government	98,910	98,998	38,097	60,901	5,859
Public Safety	560,452	596,431	590,572	28,310	2
Public Health	28,100	28,312	28,310	13,400	9,080
Home and Community Services	22,480	22,480	11,706	132,735	(11,706)
Debt Service	-	-	-	43,170	17,665
Employee Benefits	163,200	150,400	132,735	857,990	(30,170)
Capital Outlay	10,000	13,000	43,170		
Total Expenditures	883,142	909,621	857,990		51,631
Excess/(Deficiency) of Revenues Over Expenditures	(120,000)	(120,000)	(39,701)		80,299
Other Financing Sources/(Uses):					
Operating Transfers In/(Out)	(15,000)	(15,000)	43,170	58,170	58,170
Total Other Financing Sources/(Uses)	(15,000)	(15,000)	43,170		138,469
Net Change in Fund Balance	(135,000)	(135,000)	3,469		-
Fund Balances - Beginning	962,317	962,317	962,317		138,469
Fund Balances - Ending	\$ 827,317	\$ 827,317	\$ 965,786		\$ 138,469

**TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
HIGHWAY FUND - TOWN WIDE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts		Variance with Final
	Original	Final	GAAP Basis	Positive/(Negative)	Budget
Revenues:					
Real Property Taxes	\$ 102,765	\$ 102,765	\$ 102,765	\$	-
Use of Money and Property	85	85	1		(84)
Sale of Property and Compensation for Loss	-	3,997	3,997		-
Total Revenues	102,850	106,847	106,763		(84)
Expenditures:					
General Government	150	175	165		10
Transportation	91,700	94,358	107,670		(13,312)
Employee Benefits	11,000	11,621	11,966		(345)
Capital Outlay	-	4,693	-		4,693
Total Expenditures	102,850	110,847	119,801		(8,954)
Excess/(Deficiency) of Revenues Over Expenditures	-	(4,000)	(13,038)		(9,038)
Net Change in Fund Balance	-	(4,000)	(13,038)		(9,038)
Fund Balances - Beginning	(1,620)	(1,620)	(1,620)		-
Fund Balances - Ending	\$ (1,620)	\$ (5,620)	\$ (14,658)		\$ (9,038)

**TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
HIGHWAY FUND - TOWN OUTSIDE VILLAGE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts		Variance with Final
	Original	Final	GAAP Basis	Positive/(Negative)	Budget
Revenues:					
Real Property Taxes	\$ 280,180	\$ 280,180	\$ 280,180	\$ -	-
Use of Money and Property	500	500	286	(214)	(214)
Miscellaneous	-	-	1,634	1,634	1,634
State and Federal Aid	23,000	24,631	24,631	-	-
Total Revenues	303,680	305,311	306,731	1,420	1,420
Expenditures:					
General Government	480	480	476	4	4
Transportation	263,600	263,600	218,282	45,318	45,318
Employee Benefits	106,600	106,600	113,221	(6,621)	(6,621)
Capital Outlay	23,000	24,631	24,781	(150)	(150)
Total Expenditures	393,680	395,311	356,760	38,551	38,551
Excess/(Deficiency) of Revenues Over Expenditures	(90,000)	(90,000)	(50,029)	39,971	39,971
Other Financing Sources/(Uses):					
Operating Transfers In/(Out)	(10,000)	(10,000)	-	10,000	10,000
Total Other Financing Sources/(Uses)	(10,000)	(10,000)	-	10,000	10,000
Net Change in Fund Balance	(100,000)	(100,000)	(50,029)	49,971	49,971
Fund Balances - Beginning	314,400	314,400	314,400	-	-
Fund Balances - Ending	\$ 214,400	\$ 214,400	\$ 264,371	\$ 49,971	\$ 49,971

**TOWN OF HIGHLANDS
 SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
 WATER FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive/(Negative)
	Original	Final	GAAP Basis		
Revenues:					
Departmental Income	\$ 412,321	\$ 412,321	\$ 367,004	\$ (45,317)	
Use of Money and Property	-	-	3	3	
Miscellaneous	-	-	102	102	
State and Federal Aid	-	-	29,700	29,700	
Total Revenues	412,321	412,321	396,809	(15,512)	
Expenditures:					
General Government	50	50	42	8	
Home and Community Services	274,658	285,406	256,315	29,091	
Employee Benefits	5,600	5,652	4,853	799	
Capital Outlay	8,337	8,337	-	8,337	
Debt Service	123,676	112,876	104,936	7,940	
Total Expenditures	412,321	412,321	366,146	46,175	
Excess/(Deficiency) of Revenues Over Expenditures	-	-	30,663	30,663	
Net Change in Fund Balance	-	-	30,663	30,663	
Fund Balances - Beginning, as reported	36,282	36,282	36,282	-	
Prior Period Adjustment (Note XI)	-	-	(374,735)	(374,735)	
Fund Balances - Beginning, as restated	36,282	36,282	(338,453)	(374,735)	
Fund Balances - Ending	\$ 36,282	\$ 36,282	\$ (307,790)	\$ (344,072)	

**TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
SEWER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		Actual Amounts		Variance with Final Budget Positive/(Negative)
	Original	Final	GAAP Basis	Positive/(Negative)	
Revenues:					
Departmental Income	\$ 272,848	\$ 290,304	\$ 290,033	\$	(271)
Use of Money and Property	-	-	146		146
License and Permits	-	-	70		70
Miscellaneous	-	-	42,704		42,704
Total Revenues	272,848	290,304	332,953		42,649
Expenditures:					
General Government	220	220	203		17
Home and Community Services	127,098	144,369	128,733		15,636
Employee Benefits	10,400	10,400	8,750		1,650
Capital Outlay	25,000	25,185	119,900		(94,715)
Debt Service	100,130	100,130	100,130		-
Total Expenditures	262,848	280,304	357,716		(77,412)
Excess/(Deficiency) of Revenues Over Expenditures	10,000	10,000	(24,763)		(34,763)
Other Financing Sources/(Uses):					
Operating Transfers In/(Out)	(10,000)	(10,000)	-		10,000
Total Other Financing Sources/(Uses)	(10,000)	(10,000)	-		10,000
Net Change in Fund Balance	-	-	(24,763)		(24,763)
Fund Balances - Beginning	640,618	640,618	640,618		-
Fund Balances - Ending	\$ 640,618	\$ 640,618	\$ 615,855		\$ (24,763)

**TOWN OF HIGHLANDS
 COMBINING BALANCE SHEETS
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2015**

	Lighting	Ambulance	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,933	\$ 60,569	\$ 63,502
Prepaid Expenses	-	27,945	27,945
Total Assets	\$ 2,933	\$ 88,514	\$ 91,447
LIABILITIES			
Accounts Payable	\$ -	\$ 2,175	\$ 2,175
Accrued Expenditures	-	2,167	2,167
Total Liabilities	-	4,342	4,342
FUND BALANCES			
Nonspendable	-	27,945	27,945
Restricted	-	25,723	25,723
Assigned	2,933	30,504	33,437
Unassigned	-	-	-
Total Fund Balances	2,933	84,172	87,105
Total Liabilities and Fund Balances	\$ 2,933	\$ 88,514	\$ 91,447

**TOWN OF HIGHLANDS
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	Lighting	Ambulance	Total Non-Major Governmental Funds
Revenues:			
Real Property Taxes	\$ 50,000	\$ 205,082	\$ 255,082
Departmental Income	-	116,288	116,288
Use of Money and Property	9	154	163
Miscellaneous	-	-	-
Total Revenues	<u>50,009</u>	<u>321,524</u>	<u>371,533</u>
Expenditures:			
General Government	-	140,685	140,685
Public Health	-	54,981	54,981
Transportation	46,795	-	46,795
Employee Benefits	-	120,771	120,771
Capital Outlay	-	140,428	140,428
Total Expenditures	<u>46,795</u>	<u>456,865</u>	<u>503,660</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>3,214</u>	<u>(135,341)</u>	<u>(132,127)</u>
Change in Fund Balances	3,214	(135,341)	(132,127)
Fund Balances - Beginning	(281)	219,513	219,232
Fund Balances - Ending	<u>\$ 2,933</u>	<u>\$ 84,172</u>	<u>\$ 87,105</u>

**TOWN OF HIGHLANDS
COMBINING BALANCE SHEETS
GENERAL FUNDS
DECEMBER 31, 2015**

	General Fund (A)	General Fund (B)	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1,890,555	\$ 491,803	\$ 2,382,358
Accounts Receivable	93,319	290	93,609
Due from Other Funds	368,817	253,445	622,262
Due from Other Governments	40,976	212,439	253,415
Prepaid Expenses	80,290	20,193	100,483
Total Assets	<u>\$ 2,473,957</u>	<u>\$ 978,170</u>	<u>\$ 3,452,127</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 75,725	\$ 4,394	\$ 80,119
Accrued Expenditures	25,502	7,990	33,492
Total Liabilities	<u>101,227</u>	<u>12,384</u>	<u>113,611</u>
Fund Balances:			
Nonspendable	80,290	20,193	100,483
Restricted	1,204,590	163,500	1,368,090
Assigned	158,000	140,000	298,000
Unassigned	929,850	642,093	1,571,943
Total Fund Balances	<u>2,372,730</u>	<u>965,786</u>	<u>3,338,516</u>
Total Liabilities and Fund Balances	<u>\$ 2,473,957</u>	<u>\$ 978,170</u>	<u>\$ 3,452,127</u>

TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund (A)	General Fund (B)	Totals
Revenues:			
Real Property Taxes	\$ 2,291,362	\$ 5,692	\$ 2,297,054
Real Property Tax Items	10,799	-	10,799
Non Property Tax Items	46,334	765,877	812,211
Departmental Income	98,511	4,342	102,853
Intergovernmental Charges	-	4,787	4,787
Use of Money and Property	14,781	5,333	20,114
Licenses and Permits	44,930	-	44,930
Fines and Forfeitures	231,208	-	231,208
Sale of Property and Compensation for Loss	-	22,939	22,939
Miscellaneous	22,717	9,319	32,036
State and Federal Aid	251,114	-	251,114
Total Revenues	3,011,756	818,289	3,830,045
Expenditures:			
General Government	764,940	38,097	803,037
Public Safety	158,990	590,572	749,562
Public Health	-	28,310	28,310
Transportation	151,340	-	151,340
Economic Assistance and Opportunity	16,411	-	16,411
Culture and Recreation	473,108	-	473,108
Home and Community Services	692,648	13,400	706,048
Employee Benefits	555,272	132,735	688,007
Debt Service	-	11,706	11,706
Capital Outlay	12,872	43,170	56,042
Total Expenditures	2,825,581	857,990	3,683,571
Excess/(Deficiency) of Revenues Over Expenditures	186,175	(39,701)	146,474
Other Financing Sources:			
Proceeds from Obligations	-	43,170	43,170
Change in Fund Balances	186,175	3,469	189,644
Fund Balances - Beginning, as reported	1,811,820	962,317	2,774,137
Prior Period Adjustment	374,735	-	374,735
Fund Balances - Beginning, as restated	2,186,555	962,317	3,148,872
Fund Balances - Ending	\$ 2,372,730	\$ 965,786	\$ 3,338,516

**TOWN OF HIGHLANDS
 COMBINING BALANCE SHEETS
 HIGHWAY FUNDS
 DECEMBER 31, 2015**

	Highway Fund (A)	Highway Fund (B)	Totals
ASSETS			
Cash and Cash Equivalents	\$ (556)	\$ 221,332	\$ 220,776
Accounts Receivable	-	1,782	1,782
Due from Other Governments	-	24,631	24,631
Prepaid Expenses	2,587	22,792	25,379
Total Assets	\$ 2,031	\$ 270,537	\$ 272,568
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 2,143	\$ 3,803	\$ 5,946
Accrued Expenditures	1,724	2,363	4,087
Due to Other Funds	12,822	-	12,822
Total Liabilities	16,689	6,166	22,855
Fund Balances:			
Nonspendable	2,587	22,792	25,379
Restricted	-	170,307	170,307
Assigned	-	71,272	71,272
Unassigned	(17,245)	-	(17,245)
Total Fund Balances	(14,658)	264,371	249,713
Total Liabilities and Fund Balances	\$ 2,031	\$ 270,537	\$ 272,568

**TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
HIGHWAY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Highway Fund (A)	Highway Fund (B)	Totals
Revenues:			
Real Property Taxes	\$ 102,765	\$ 280,180	\$ 382,945
Use of Money and Property	1	286	287
Sale of Property and Compensation for Loss	3,997	-	3,997
Miscellaneous	-	1,634	1,634
State and Federal Aid	-	24,631	24,631
Total Revenues	106,763	306,731	413,494
Expenditures:			
General Government	165	476	641
Transportation	107,670	218,282	325,952
Employee Benefits	11,966	113,221	125,187
Capital Outlay	-	24,781	24,781
Total Expenditures	119,801	356,760	476,561
Excess/(Deficiency) of Revenues Over Expenditures	(13,038)	(50,029)	(63,067)
Change in Fund Balances	(13,038)	(50,029)	(63,067)
Fund Balances - Beginning	(1,620)	314,400	312,780
Fund Balances - Ending	\$ (14,658)	\$ 264,371	\$ 249,713

**TOWN OF HIGHLANDS
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2015**

	Original Date of Issue	Date of Final Maturity	Interest Rate	Outstanding Beginning of Fiscal Year	Issued During Fiscal Year	Paid During Fiscal Year	Outstanding End of Fiscal Year	Amount of Interest Paid During Fiscal Year	Amount of Interest Accrued at 12/31/2015	Due Within the Next Year
SERIAL BONDS										
E.F.C. SRF Bond - Water District #2	05/01/14	11/01/33	Various	\$ 1,139,716	\$ -	\$ 55,000	\$ 1,084,716	\$ 20,236	\$ 3,522	\$ 49,716
E.F.C. Bond - Water District #2	09/01/00	07/01/21	0.00%	220,500	-	29,700	190,800	-	-	30,300
Sewer System Refunding Serial Bond	03/15/96	11/15/15	5.33%	95,000	-	95,000	-	5,130	-	-
TOTAL SERIAL BONDS				<u>1,455,216</u>	-	<u>179,700</u>	<u>1,275,516</u>	<u>25,366</u>	<u>3,522</u>	<u>80,016</u>
Installment Purchase Lease	02/13/15	02/13/18	5.70%	-	43,170	11,706	31,464	-	1,270	9,912
TOTAL DEBT				<u>\$1,455,216</u>	<u>\$ 43,170</u>	<u>\$ 191,406</u>	<u>\$1,306,980</u>	<u>\$ 25,366</u>	<u>\$ 4,792</u>	<u>\$ 89,928</u>

