

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 19, 2019

NEW ISSUE – SERIAL BONDS

RATING - MOODY'S INVESTORS SERVICE: " "

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Town, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Bond Counsel to the Town, under existing statutes, interest on the Bonds is exempt from personal income taxes of New York State and its political subdivision, including The City of New York. See "TAX MATTERS" herein.

The Town will designate the Bonds as "qualified tax-exempt obligations" pursuant to the provision of Section 265 of the Code.

\$9,192,260*

**TOWN OF SMITHTOWN
SUFFOLK COUNTY, NEW YORK
(the "Town")**

PUBLIC IMPROVEMENT SERIAL BONDS – 2019

Dated: March 13, 2019

**Principal Due: February 15, 2020-2039, inclusive
Interest Due: February 15, 2020, August 15, 2020 and
semiannually thereafter in each year
to maturity**

SEE BOND MATURITY SCHEDULE HEREIN

The Bonds are general obligations of the Town of Smithtown, Suffolk County, New York (the "Town"), and will contain a pledge of the faith and credit of the Town for the payment of the principal thereof and interest thereon and, unless paid from other sources, the Bonds are payable from ad valorem taxes which may be levied upon all the taxable real property within the Town, subject to certain statutory limitations imposed by Chapter 97 of the New York Laws of 2011, as amended (the "Tax Levy Limit Law"). (See "Tax Levy Limit Law" herein).

The Bonds maturing on February 15, 2027 and thereafter are subject to redemption prior to maturity, at the option of the Town, as a whole or in part, on any date on or after February 15, 2026. (See "Optional Redemption" under "THE BONDS," herein.)

At the option of the purchaser, the Bonds may be either (i) registered to the purchaser or (ii) registered in the name of Cede & Co., as the partnership nominee for The Depository Trust Company, New York, New York ("DTC") as book-entry bonds.

For bonds registered in the name of the purchaser, a single bond certificate shall be issued for each maturity and principal of and interest on such Bonds will be payable in Federal Funds by the Town, at such bank or trust company located and authorized to do business in the State of New York as selected by the successful bidders.

The Bonds issued in book-entry form will be registered in the name of Cede & Co., as the partnership nominee for DTC, which will act as securities depository for the Bonds. Beneficial owners will not receive certificates representing their interest in the Bonds. Individual purchases may be made in denominations of \$5,000 or integral multiples thereof, except for one necessary odd denomination. A single bond certificate will be issued for each maturity of the Bonds. Principal of and interest on said Bonds will be paid in Federal Funds by the Town to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to its Participants (as herein after defined) for subsequent distribution to the beneficial owners of the Bonds as described herein. Transfer of principal and interest payments to Beneficial Owners (as hereinafter defined) by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by Direct Participants (as hereinafter defined) to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. (See "Description of Book-Entry System" under "THE BONDS," herein).

Sealed bids for the Bonds will be received at 11:00 A.M. (Prevailing Time) on February 28, 2019, in accordance with the Notice of Sale dated February 19, 2019.

The Bonds are offered subject to the final approving opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Town, and certain other conditions. It is expected that delivery of the Bonds in book-entry form will be made through the facilities of DTC in Jersey City, New Jersey, or as otherwise agreed to by the Town and the Purchaser, on or about March 13, 2019 in New York, New York.

THIS OFFICIAL STATEMENT IS IN A FORM "DEEMED FINAL" BY THE TOWN FOR THE PURPOSE OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). FOR A DESCRIPTION OF THE TOWN'S AGREEMENT TO PROVIDE CONTINUING DISCLOSURE FOR THE BONDS, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstance shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**TOWN OF SMITHTOWN
SUFFOLK COUNTY, NEW YORK**

\$9,192,260* PUBLIC IMPROVEMENT SERIAL BONDS - 2019

BOND MATURITY SCHEDULE

Dated: March 13, 2019

**Principal Due: February 15, 2020-2039, inclusive
Interest Due: February 15, 2020, August 15, 2020 and
semiannually thereafter in each year
to maturity**

<u>Year</u>	<u>Amount**</u>	<u>Rate</u>	<u>Yield or Price</u>	<u>CUSIP #</u>
2020	\$382,260			
2021	675,000			
2022	650,000			
2023	700,000			
2024	725,000			
2025	600,000			
2026	625,000			
2027	625,000***			
2028	625,000***			
2029	625,000***			
2030	500,000***			
2031	500,000***			
2032	500,000***			
2033	525,000***			
2034	525,000***			
2035	80,000***			
2036	80,000***			
2037	80,000***			
2038	85,000***			
2039	85,000***			

*Preliminary, subject to change.

** Amounts are subject to adjustment by the Town following the sale, pursuant to the terms of the Notice of Sale relating to the Bonds, to achieve substantial level or declining annual debt service as provided in Section 58.00 (c)(2) of the Local Finance Law.

***Subject to prior redemption

**TOWN OF SMITHTOWN
SUFFOLK COUNTY, NEW YORK**

Town Hall Annex
40 Maple Avenue
Smithtown, NY 11787
Telephone: 631/360-7530
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TOWN BOARD

Edward R. Wehrheim, Town Supervisor

Lisa M. Inzerillo
Thomas W. Lohmann

Thomas J. McCarthy
Lynne C. Nowick

Vincent Puleo, Town Clerk
Deanna Varricchio, Receiver of Taxes
Matthew V. Jakubowski, Esq., Town Attorney
Donald P. Musgnug, CPA, Town Comptroller

* * *

BOND COUNSEL

Hawkins Delafield & Wood LLP
New York, New York

* * *

MUNICIPAL ADVISOR



Municipal Finance Advisory Service

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Port Jefferson Station, N.Y. 11776
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No dealer, broker, salesman or other person has been authorized by the Town to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representations must not be relied upon as having been authorized by the Town. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the Town from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town since the date hereof.

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OFFICIAL STATEMENT

\$9,192,260

TOWN OF SMITHTOWN SUFFOLK COUNTY, NEW YORK

PUBLIC IMPROVEMENT SERIAL BONDS – 2019

This Official Statement and the appendices hereto present certain information relating to the Town of Smithtown, in the County of Suffolk, in the State of New York (the “Town,” “County” and “State,” respectively) in connection with the sale of \$9,192,260 Public Improvement Serial Bonds – 2019 (the “Bonds”) of the Town.

All quotations from and summaries and explanations of provisions of the Constitution and Laws of the State and acts and proceedings of the Town contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Bonds and the proceedings of the Town relating thereto are qualified in their entirety by reference to the definitive form of the Bonds and such proceedings.

THE BONDS

Description of the Bonds

The Bonds will be dated March 13, 2019, and will mature on February 15, in each of the years 2020 to 2039, inclusive, in the principal amounts as set forth on the inside cover page hereof.

At the option of the purchaser, the Bonds may be either (i) registered to the purchaser or (ii) registered in the name of Cede & Co., as the partnership nominee for The Depository Trust Company, New York, New York (“DTC”) as book-entry bonds.

For bonds registered in the name of the purchaser, a single bond certificate shall be issued for each maturity and principal of and interest on such Bonds will be payable in Federal Funds by the Town, at such bank or trust company located and authorized to do business in the State of New York as selected by the successful bidders.

The Bonds issued in book-entry form will be registered in the name of Cede & Co., as the partnership nominee for DTC, which will act as securities depository for the Bonds. Beneficial owners will not receive certificates representing their interest in the Bonds. Individual purchases may be made in denominations of \$5,000 or integral multiples thereof, except for one necessary odd denomination. A single bond certificate will be issued for each maturity of the Bonds. Principal of and interest on said Bonds will be paid in Federal Funds by the Town to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to its Participants (as herein after defined) for subsequent distribution to the beneficial owners of the Bonds as described herein. Transfer of principal and interest payments to Beneficial Owners (as hereinafter defined) by Participants of DTC will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for payments by DTC to its Participants or by Direct Participants (as hereinafter defined) to Beneficial Owners or for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. (See Description of “Book-Entry System” under “THE BONDS,” herein).

The Record Date of the Bonds will be the last business day of the month preceding each interest payment date.

The Town Comptroller will act as Fiscal Agent for the Bonds. Paying agent fees, if any, will be paid by the purchaser. The Town’s contact information is as follows: Donald P. Musgnug, CPA, Town Comptroller, Town of Smithtown, Town Hall Annex 40 Maple Avenue, Smithtown, NY 11787, telephone number (631) 360-7530 and email: dmusgnug@tosgov.com.

Optional Redemption

The Bonds maturing on or before February 15, 2026 will not be subject to redemption prior to maturity. The Bonds maturing on February 15, 2027 and thereafter will be subject to redemption prior to maturity, at the option of the Town, in whole or in part, and if in part, in any order of their maturity and in any amount within a maturity (selected by lot within a maturity), on any date on or after February 15, 2026, at par plus accrued interest to the date of redemption.

If less than all of the Bonds of any maturity are to be redeemed prior to maturity, the particular Bonds of such maturity to be redeemed shall be selected by the Town by lot in any customary manner of selection as determined by the Town. Notice of such call for redemption shall be given by mailing such notice to the registered owner at least thirty (30) days prior to the date set for such redemption. Notice of redemption having been given as aforesaid, the bonds so called for redemption shall, on the date for redemption set forth in such call for redemption, become due and payable together with interest to such redemption date. Interest shall cease to be paid thereon after such redemption date.

Description of Book-Entry System

DTC will act as Securities Depository for any Bonds issued as book-entry bonds. Such Bonds will be issued as fully registered securities, in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Bonds and deposited with DTC.

DTC is limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants") and together with Direct Participant, the ("Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town on the payable date, in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Source: The Depository Trust Company, New York, New York.

The information contained in the above section concerning DTC and DTC's book-entry system has been obtained from sample offering document language supplied by DTC, but the Town takes no responsibility for the accuracy thereof.

THE TOWN WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANTS, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS; (IV) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

THE TOWN CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO DIRECT PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF THE PRINCIPAL OF OR INTEREST ON THE BONDS; (II) CONFIRMATION OF THEIR OWNERSHIP INTEREST IN THE BONDS; OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO. AS NOMINEE, AS REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SO SERVE AND ACT IN THE MANNER DESCRIBED IN THE OFFICIAL STATEMENT.

Certificated Bonds

Principal of and interest on Bonds that are registered in the name of the purchaser will be payable in lawful money of the United States of America (Federal Funds) at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder.

If the Bonds are issued as book-entry bonds registered in the name of Cede & Co., DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the Town and discharging its responsibilities with respect thereto under applicable law, or the Town may terminate its participation in the system of book-entry transfers through DTC at any time. In the event that such book-entry system is discontinued, the following provisions will apply: The Bonds will be in registered form in denominations of \$5,000, or integral multiples thereof, except for one necessary odd denomination. Principal of and interest on the Bonds when due will be payable at the principal corporate trust office of a bank or trust company to be named by the Town as the fiscal agent. Certificated Bonds may be transferred or exchanged at no cost to the owner of such Bonds at any time prior to maturity at the corporate trust office of the fiscal agent for Bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the certificate of the Supervisor authorizing the sale of the Bonds and fixing the details thereof and in accordance with the Local Finance Law.

Authorization and Purpose

The Bonds are being issued pursuant to the Constitution and statutes of the State of New York, including among others, the Local Finance Law, and various bond resolutions duly adopted by the Town Board, authorizing the issuance of serial bonds for the following purposes:

<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u> <u>Authorized</u>	<u>Amount</u> <u>Issued</u> <u>to Date</u>	<u>Authorized but</u> <u>Unissued</u>	<u>Total</u> <u>Amount to</u> <u>be Issued</u>
11/29/2018	Acquisition of Computer Hardware and Software	\$ 98,455	-	\$ 98,455	\$ 98,455
11/29/2018	Acquisition of Parks and Maintenance Equipment	116,725	-	116,725	116,725
11/29/2018	Preparation of Mean High Water Study	177,625	-	177,625	177,625
11/29/2018	Acquisition of Video Security Cameras and Monitoring Systems	101,500	-	101,500	101,500
11/29/2018	Acquisition of Replacement Mini Bus for Seniors	32,480	-	32,480	32,480
11/29/2018	Replacement of Guide Rails	50,750	-	50,750	50,750
11/29/2018	Plans for Roadway Improvements on Landing Avenue	65,975	-	65,975	65,975
11/29/2018	Stormwater Drainage Improvements at Gedney Avenue	162,400	-	162,400	162,400
11/29/2018	Construction of Improvements to Various Town Buildings	1,522,500	-	1,522,500	1,522,500
11/29/2018	Acquisition of Heavy Equipment	1,240,330	-	1,240,330	1,240,330
11/29/2018	Construction Improvements to Sidewalks and Curbs	1,015,000	-	1,015,000	1,015,000
11/29/2018	Construction of Landfill Improvements	507,500	-	507,500	507,500
11/29/2018	Construction of Park and Recreational Improvements	2,530,395	-	2,530,395	2,530,395
11/29/2018	Acquisition of a Generator for the Marina	81,200	-	81,200	81,200
11/29/2018	Installation of Traffic Signals and Signs	253,750	-	253,750	253,750
11/29/2018	Construction Improvements to the MSF Scale	55,825	-	55,825	55,825
11/29/2018	Acquisition of Payloader	583,625	-	583,625	583,625
11/29/2018	Acquisition of Workboat	88,725	-	88,725	88,725
02/22/2018	Lake Avenue Water Main Replacement	2,317,000	-	2,317,000	<u>507,500</u>
				Total:	<u><u>\$9,192,260</u></u>

For further information regarding bond authorizations of the Town for capital purposes and other matters relating thereto see “Indebtedness of the Town”.

Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the Town and the holder thereof.

The Bonds will be general obligations of the Town and will contain a pledge of the faith and credit of the Town for the payment of the principal thereof and the interest thereon. For the payment of such principal and interest, the Town has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the Town, subject to certain statutory limitations imposed by Chapter 97 of the New York Laws of 2011, as amended. (See “*Tax Levy Limit Law*”, herein).

Under the Constitution of the State, the Town is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds, and the State is specifically precluded from restricting the power of the Town to levy taxes on real estate therefor. However, Chapter 97 of the New York Laws of 2011, as amended (the “*Tax Levy Limit Law*”), imposes a limitation upon the Town’s power to increase its annual tax levy. As a result, the power of the Town to levy real estate taxes on all the taxable real property within the Town is subject to statutory limitations set forth in *Tax Levy Limit Law*, unless the Town complies with certain procedural requirements to permit the Town to levy certain year-to-year increases in real property taxes. (See “*Tax Levy Limit Law*,” herein).

MARKET MATTERS AFFECTING FINANCINGS OF THE MUNICIPALITIES OF THE STATE

The Town's credit rating could be affected by circumstances beyond the Town's control. Economic conditions such as the rate of unemployment and inflation, termination of commercial operations by corporate taxpayers and employers, as well as natural catastrophes, could adversely affect the assessed valuation of Town property and its ability to maintain fund balances and other statistical indices commensurate with its current credit rating. As a consequence, a decline in the Town's credit rating could adversely affect the market value of the Bonds.

If and when an owner of any of the Bonds should elect to sell a Bond prior to its maturity, there can be no assurance that a market will have been established, maintained and continue in existence for the purchase and sale of any of those Bonds. The market value of the Bonds is dependent upon the ability of the holder to potentially incur a capital loss if such Bond is sold prior to its maturity.

There can be no assurance that adverse events including, for example, the seeking by another municipality in the State or elsewhere of remedies pursuant to the Federal Bankruptcy Act or otherwise, will not occur which might affect the market price of and the market for the Bonds. In particular, if a significant default or other financial crisis should occur in the affairs of the State or any of its municipalities, public authorities or other political subdivisions thereby possibly further impairing the acceptability of obligations issued by those entities, both the ability of the Town to arrange for additional borrowing(s) as well as the market for and market value of outstanding debt obligations, including the Bonds, could be adversely affected.

The Town is dependent in part upon financial assistance from the State in the form of State aid as well as grants and loans to be received ("State Aid"). The Town's receipt of State aid may be delayed as a result of the State's failure to adopt its budget timely and/or to appropriate State Aid to municipalities and school districts. Should the Town fail to receive all or a portion of the amounts of State Aid expected to be received from the State in the amounts and at the times anticipated, occasioned by a delay in the payment of such moneys or by a reduction in State Aid or its elimination, the Town is authorized pursuant to the Local Finance Law ("LFL") to provide operating funds by borrowing in anticipation of the receipt of such uncollected State Aid, however, there can be no assurance that, in such event, the Town will have market access for any such borrowing on a cost effective basis. The elimination of or any substantial reduction in State Aid would likely have a materially adverse effect upon the Town requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures. (See also "*State Aid*" herein.)

Future amendments to applicable statutes whether enacted by the State or the United States of America affecting the treatment of interest paid on municipal obligations, including the Bonds, for income taxation purposes could have an adverse effect on the market value of the Bonds (see "*Tax Matters*" herein).

The enactment of the Tax Levy Limit Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the Town, without providing an exclusion for debt service on obligations issued by municipalities and fire districts, including the Town, may affect the market price and/or marketability for the Bonds. (See "*Tax Levy Limit Law*" herein.)

Federal or State legislation imposing new or increased mandatory expenditures by municipalities, school districts and fire districts in the State, including the Town could impair the financial condition of such entities, including the Town and the ability of such entities, including the Town, to pay debt service on the Bonds.

REMEDIES UPON DEFAULT

Neither the Bonds, nor the proceedings with respect thereto, specifically provide any remedies which would be available to owners of the Bonds should the Town default in the payment of principal of or interest on the Bonds, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the owners of the Bonds upon the occurrence of any such default. Each Bond is a general obligation contract between the Town and the owners for which the faith and credit of the Town are pledged and while remedies for enforcement of payment are not expressly included in the Town's contract with such owners, any permanent repeal by statute or constitutional amendment of a bond or note holder's remedial right to judicial enforcement of the contract should, in the opinion of Bond Counsel, be held unconstitutional.

Upon default in the payment of principal of or interest on the Bonds, at the suit of the owner, a Court has the power, in proper and appropriate proceedings, to render judgment against the Town. The present statute limits interest on the amount adjudged due to contract creditors to nine per centum per annum from the date due to the date of payment. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment. A Court also has the power, in proper and appropriate proceedings, to order payment of a judgment on such Bonds from funds lawfully available therefor or, in the absence thereof, to order the Town to take all lawful action to obtain the same, including the raising of the required amount in the next annual tax levy. In exercising its discretion as to whether to issue such an order, the Court may take into account all relevant factors, including the current operating needs of the Town and the availability and adequacy of

other remedies. Upon any default in the payment of the principal of or interest on a Bond, the owner of such Bond could, among other remedies, seek to obtain a writ of mandamus from a Court ordering the governing body of the Town to assess, levy and collect an *ad valorem* tax, upon all taxable property of the Town subject to taxation by the Town, sufficient to pay the principal of and interest on the Bonds as the same shall come due and payable (and interest from the due date to date of payment) and otherwise to observe the covenants contained in the Bonds and the proceedings with respect thereto all of which are included in the contract with the owners of the Bonds. The mandamus remedy, however, may be impracticable and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

In 1976, the New York Court of Appeals, the State's highest court, held in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 (1976), that the New York State legislation purporting to postpone the payment of debt service on New York City obligations was an unconstitutional moratorium in violation of the New York State constitutional faith and credit mandate included in all municipal debt obligations. While that case can be viewed as a precedent for protecting the remedies of holders of bonds or notes of the Town, there can be no assurance as to what a Court may determine with respect to future events, including financial crises as they may occur in the State and in municipalities of the State, that require the exercise by the State of its emergency and police powers to assure the continuation of essential public services. (See also, *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 1088 (1977), where the Court of Appeals described the pledge as a direct Constitutional mandate.)

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the Town.

Pursuant to Article VIII, Section 2 of the State Constitution, the Town is required to provide an annual appropriation of monies for the payment of due and payable principal of and interest on indebtedness. Specifically, this constitutional provision states: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness." This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. In *Quirk v. Municipal Assistance Corp.*, 41 N.Y.2d 644 (1977), the Court of Appeals described this as a "first lien" on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in the State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy, to pay debt service on such obligations, but that such pledge may or may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues. The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

While the courts in the State have historically been protective of the rights of holders of general obligation debt of political subdivisions, it is not possible to predict what a future court might hold.

In prior years, certain events and legislation affecting a holder's remedies upon default have resulted in litigation. While courts of final jurisdiction have generally upheld and sustained the rights of holders of bonds or notes, such courts might hold that future events, including a financial crisis as such may occur in the State or in political subdivisions of the State, may require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service.

MUNICIPAL BANKRUPTCY

The undertakings of the Town should be considered with reference, specifically, to Chapter IX of the Bankruptcy Act, 11 U.S.C. §401, et seq., as amended (“Chapter IX”) and, in general, to other bankruptcy laws affecting creditors’ rights and municipalities. Chapter IX permits any political subdivision, public agency or instrumentality that is insolvent or unable to meet its debts (i) to file a petition in a Court of Bankruptcy for the purpose of effecting a plan to adjust its debts provided such entity is authorized to do so by applicable state law; (ii) directs such a petitioner to file with the court a list of a petitioner’s creditors; (iii) provides that a petition filed under such chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; (iv) grants priority to debt owed for services or material actually provided within three (3) months of the filing of the petition; (v) directs a petitioner to file a plan for the adjustment of its debts; and (vi) provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds (2/3) in amount or more than one-half (1/2) in number of the listed creditors.

Bankruptcy proceedings by the Town could have adverse effects on holders of bonds or notes including (a) delay in the enforcement of their remedies, (b) subordination of their claims to those supplying goods and services to the Town after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (c) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the holders of general obligation bonds, such creditors will have the benefit of their original claim or the “indubitable equivalent”. The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

Accordingly, enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the Town, may become subject to Chapter IX and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against public agencies in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Bonds to judicial discretion, interpretation and of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

The State has consented (see Title 6-A of the Local Finance Law) that any municipality in the State may file a petition with any United States district court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect for the composition or adjustment of municipal indebtedness. However, it is noted that there is no record of any recent filings by a New York municipality. Since the New York City fiscal crisis in 1975, the State has legislated a financial control or review board and assistance corporations to monitor and restructure finance matters in addition to New York City, for the Cities of Yonkers, Troy and Buffalo and for the Counties of Nassau and Erie. Similar active intervention pursuant to State legislation to relieve fiscal stress for the Town in the future cannot be assured.

No current state law purports to create any priority for holders of the Bonds should the Town be under the jurisdiction of any court, pursuant to the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness.

The above references to the Bankruptcy Act are not to be construed as an indication that the Town is currently considering or expects to resort to the provisions of the Bankruptcy Act.

Financial Control Boards

Pursuant to Article IX Section 2(b)(2) of the State Constitution, any municipality in the State may request the intervention of the State in its “property, affairs and government” by a two-thirds vote of the total membership of its legislative body or on request of its chief executive officer concurred in by a majority of such membership. This has resulted in the adoption of special acts for the establishment of public benefit corporations with varying degrees of authority to control the finances (including debt issuance) of the Cities of Buffalo, Troy and Yonkers and the County of Nassau. The specific authority, powers and composition of the financial control boards established by these acts varies based upon circumstances and needs. Generally, the State legislature has granted such boards the power to approve or disapprove budget and financial plans and to issue debt on behalf of the municipality, as well as to impose wage and/or hiring freezes and in certain cases approve or disapprove collective bargaining agreements. Implementation is generally left to the discretion of the board of the public benefit corporation. Such a State financial control board was first established for New York City in 1975. In addition, upon the issuance of a certificate of necessity by the Governor reciting facts which in the judgment of the Governor constitute an emergency requiring enactment of such laws, with the concurrences of two-thirds of

the members elected in each house of the State legislature, the State is authorized to intervene in the “property, affairs and governments” of local government units. This occurred in the case of the County of Erie in 2005. The authority of the State to intervene in the financial affairs of a local government is further supported by Article VIII, Section 12 of the Constitution which declares it to be the duty of the State legislature to restrict, subject to other provisions of the Constitution, the power of taxation, assessment, borrowing money and contracting indebtedness and loaning the credit of counties, cities, towns and villages so as to prevent abuses in taxation and assessment and in contracting indebtedness by them.

In 2013, the State established a new state advisory board to assist counties, cities, towns and villages in financial distress. The Financial Restructuring Board for Local Governments (the “FRB”), is authorized to conduct a comprehensive review of the finances and operations of any such municipality deemed by the FRB to be fiscally eligible for its services upon request by resolution of the municipal legislative body and concurrence of its chief executive. The FRB is authorized to make recommendations for, but cannot compel improvement of fiscal stability, management and delivery of municipal services, including shared services opportunities, and is authorized to offer grants and/or loans of up to \$5,000,000 through a Local Government Performance and Efficiency Program to undertake certain recommendations. If a municipality agrees to undertake the FRB recommendations, it will be automatically bound to fulfill the terms in order to receive the aid.

The FRB is also authorized to serve as an alternative arbitration panel for binding arbitration.

Although from time to time there have been proposals for the creation of a statewide financial control board with broad authority over local governments in the State, the FRB does not have emergency financial control board powers to intervene in the finances and operations of entities such as the public benefit corporations established by special acts as described above.

Several municipalities in the State are presently working with the FRB. The Town has not applied to the FRB and does not reasonably anticipate submission of a request to the FRB for a comprehensive review of its finances and operations. School districts and fire districts are not eligible for FRB assistance.

No Past Due Debt

No principal or interest payment on Town indebtedness is past due. The Town has never defaulted in the payment of the principal of and/or interest on any indebtedness.

THE TOWN

Description

The Town, which has an estimated population of 117,863 (2017 U.S. Census Bureau), is located in the north central section of Long Island, about 45 miles from New York City, and has a land area of approximately 54 square miles. The Town of Huntington borders on the west, the Town of Brookhaven borders on the east, and the Town of Islip borders on the south. Three incorporated villages are situated within the Town (The Branch, Head of the Harbor and Nissequogue), as well as a number of larger unincorporated communities, including Smithtown, Kings Park, St. James and Nesconset, and sections of both Commack and Hauppauge.

There are several large shopping centers in the Town, including one of Long Island’s largest retail centers, the Smithhaven Mall, which is situated on the Smithtown-Brookhaven border. The Mall is owned by Simon, a global leader in the ownership of premier shopping, dining, and entertainment. The Smithhaven Mall occupies 102 acres (part in each town) and has over 130 stores including Macy’s, Dick’s Sporting Goods, Apple, H&M, and L.L. Bean. There are a number of dining options to choose from, including PF Changs, The Cheesecake Factory and California Pizza Kitchen. The Mall has areas partially enclosed for year-round shopping comfort. The Smithhaven Mall completed a \$72 million expansion and renovation which includes the addition of several new major retail outlets. Another large shopping complex located in Commack is anchored by a Target Department Store, Home Depot, Wal-Mart and Costco.

There is one hospital within the Town, St. Catherine of Siena, located on Route 25A. The hospital, with a bed capacity of over 500, has modern medical facilities containing diagnostic and therapeutic equipment for complete medical, surgical, obstetrical and pediatric care.

The Town operates a number of beaches, parks and playgrounds. In addition, there are five private country clubs, as well as four private yacht clubs and marinas. The Town owns the Paul J. Fitzpatrick Smithtown Landing Country Club (the “Club”) which is one of the few remaining large tracts of lands on the north shore of Long Island. The Club provides three swimming pools, and open space as well as two golf courses, pro shop, restaurant, snack bars and numerous meeting rooms and dining rooms. Senior citizens use the facilities extensively at special rates, and meet there regularly.

The Hauppauge Industrial Park located within the Town is eleven square miles with 1350 businesses, generating \$13.4 billion in annual revenues. The Industrial Park employs 55,000 people and accounts for one in every 20 jobs on Long Island. It is the largest industrial park in the Northeast by number of companies and employees. A new substation was constructed post Superstorm Sandy by PSEG-LI to serve the park and take precautionary measures. There is also a sewer expansion project in the park underway. The sewer upgrade will connect all properties to a new 1.6 million gallon per day treatment plant, which is already built and operational. In 2015, the Town Planning Director worked out a draft amendment to the ordinance to facilitate growth by permitting higher building, parking garages as accessory to certain uses, and outdoor storage.

The Library District has its own elected Board of Trustees and voter-approved budget and tax levy. The boundaries of the Library District are coterminous with the boundaries of the Town with the exception of the portions of the Town located within the Sachem Central School District and the Three Village Central School District. The Library District owns, operates and maintains its facilities.

Six independently governed school districts are located wholly or partially within the Town which rely on their own taxing powers granted by the State to raise revenues. The school districts use the Town's assessment roll as their basis for taxation of property located within the Town.

The Town maintains its own interior road network. New York State Highways No. 25 (Jericho Turnpike), 25A (North Country Road), Nesconset Highway and Veterans Memorial Highway are major commercial east-west travel routes. In addition, the Long Island Expressway and Northern State Parkway cross the Town in its southwestern sector. Air travel is provided for the residents of the Town at the Long Island MacArthur Airport, located nearby in Islip, which is served by several scheduled airlines with flights throughout the northeast and Florida. The Long Island Rail Road stops at three stations within the Town: Kings Park, Smithtown, and St. James.

Utilities and Other Services

Electricity and natural gas are supplied to the Town by PSEG Long Island and National Grid, respectively. The Suffolk County Water Authority and the Town are suppliers of water to its residents; the Town supplies water through a number of special assessment water districts and is responsible for the financing and construction of water transmission lines as well as maintenance of the necessary facilities in such districts. Sanitary sewer services are provided to some Town residents by the construction of the facilities in the various County Sewer Districts. Police protection is provided by the County and State Police and fire protection is provided by independent volunteer fire districts.

Governmental Organization

Subject to the provisions of the State Constitution, the Town operates pursuant to Town Law, General Municipal Law, Local Finance Law, other laws generally applicable to the Town, and any special laws applicable to the Town. Under such laws, there is no authority for the Town to have a charter, but pursuant to the Town Law and other laws generally applicable to home rule, the Town may from time to time adopt local laws.

The legislative power of the Town is vested in the Town Board, which consists of five members, including the Supervisor, who is the chief executive officer and chief fiscal officer of the Town, elected for a term of four years. The four other members of the Town Board are elected to four-year terms, which terms are staggered such that two board members are elected every two years. All the Town Board members are elected at large and there is no limitation to the number of terms each may serve.

The Town Clerk, Receiver of Taxes and Highway Superintendent are also elected to four-year terms. The Town Board appoints the Assessor, the Town Attorney, the Town Comptroller and the Town Engineer.

Employees

The Town provides services through approximately 1,248 full-time, part-time and seasonal employees. Some of such employees are represented by organized labor as follows:

<u>Name of Union</u>	<u>Expiration Date of Contract^a</u>	<u>Approx. No. of Members</u>
Civil Service Employees Association	12/31/2018	389
Smithtown Administrative Guild	12/31/2018	26
Civil Service Employees Association (Part-Time Employees)	12/31/2018	61

^a. Contracts that have expired as of the date of this Official Statement are currently in negotiation.

DEMOGRAPHIC AND STATISTICAL INFORMATION

The following tables present certain comparative demographic and statistical information regarding the Town, the County, the State and the United States.

Population Statistics

Since 1980, the Town has had a population trend, as compared to the County and the State, as indicated below:

<u>Year</u>	<u>Town of Smithtown</u>	<u>County of Suffolk</u>	<u>State of New York</u>
1980	116,663	1,284,231	17,557,288
1990	113,406	1,321,864	17,990,455
2000	115,715	1,419,369	18,976,457
2010	117,801	1,493,350	19,378,102
2017	117,863	1,497,595	19,798,228

Source: U.S. Bureau of the Census.

Income Data

	<u>Per Capita Money Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2017^a</u>
Town of Smithtown	\$21,465	\$31,401	\$43,022	\$50,255
County of Suffolk	18,481	26,577	35,755	40,277
State of New York	16,501	23,389	30,948	35,752

	<u>Median Household Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2017^a</u>
Town of Smithtown	\$60,068	\$80,421	\$104,665	\$118,836
County of Suffolk	53,244	72,112	84,506	92,838
State of New York	39,741	51,691	55,603	62,765

Source: United States Bureau of the Census.

*Note: Based on American Community Survey 5-Year Estimates (2013-2017).

Building Permits

Statistics below on building permits and industrial/commercial site plans reviewed indicate the trend of the level of activity.

<u>Building Permits Issued - All Types</u>	
<u>Year</u>	<u>Number of Permits</u>
2014	2457
2015	2259
2016	1872
2017	1780
2018	1945

Selected Listing of Sizeable Employers

<u>Name</u>	<u>Type of Business</u>	<u>Estimated Number of Employees</u>
St. Catherine of Siena Hospital	Hospital	2,152
Developmental Disabilities Institute	Health Care Services	1,850
Smithtown Central School District	Public Schools	1,736
Town of Smithtown	Local Government	1,234
Scope Educational Services	Education	1,200
Sunrise Senior Living of Smithtown	Health Care Services	700
Kings Park School District	Public Schools	600
Hawkeye	Energy	585
ADP	Payroll	500
MITEQ, Inc.	Electronics	500

Source: Suffolk County Planning Dept.; Long Island Business News.

Unemployment Rate Statistics

Unemployment statistics are available for the Town as set forth below. The information set forth below with respect to the County and the State is included for information purposes only. It should not be implied from the inclusion of such data in this Statement that the Town is necessarily representative of the County or the State or vice versa.

<u>Annual Averages:</u>	<u>Town of Smithtown (%)</u>	<u>Suffolk County (%)</u>	<u>New York State (%)</u>
2013	5.6	6.5	7.7
2014	4.5	5.3	6.4
2015	4.0	4.8	5.3
2016	3.7	4.3	4.8
2017	3.9	4.5	4.7
2018	3.5	4.0	4.2

Source: Department of Labor, State of New York

INDEBTEDNESS OF THE TOWN

Constitutional Requirements

The State Constitution limits the power of the Town (as well as other municipalities and school districts of the State) to issue obligations and contract indebtedness. Such constitutional limitations include the following, in summary form, and are generally applicable to the Town and the Bonds:

Purpose and Pledge. The Town shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The Town may contract indebtedness only for a Town purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes, or to be paid in one of the two fiscal years immediately succeeding the fiscal year in which such indebtedness was contracted, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the periods of probable usefulness of the objects or purposes as determined by statute or in the alternative, the weighted average period of probable usefulness of the several objects or purposes for which such indebtedness is to be contracted; no installment may be more than fifty per centum in excess of the smallest prior installment, unless the Town has authorized the issuance of indebtedness having substantially level or declining annual debt service. The Town is required to provide an annual appropriation for the payment of interest due during the fiscal year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds, bond anticipation notes and capital notes.

General. The Town is further subject to constitutional limitation by the general constitutionally imposed duty on the State Legislature to restrict the power of taxation, assessment, borrowing money, contracting indebtedness and loaning the credit of the Town so as to prevent abuses in the exercise of such powers; however, as has been noted under "*Nature of Obligation*", the State Legislature is prohibited by a specific constitutional provision from restricting the power of the Town to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limit Law imposes a statutory limitation on the Town's power to increase its annual tax levy. The amount of such increase is limited by the formulas set forth in the Tax Levy Limit Law. (See "*Tax Levy Limit Law*" herein).

Statutory Procedure

In general, the State Legislature has authorized the power and procedure for the Town to borrow and incur indebtedness subject, of course, to the constitutional provisions set forth above. The power to spend money, however, generally derives from other law, including the Town Law and the General Municipal Law.

Pursuant to the Local Finance Law, the Town authorizes the incurrence of indebtedness by the adoption of a bond resolution approved by at least two-thirds of the members of the Town Board, except in the event that the Town determines to subject the bond resolution to voter approval by mandatory referendum, in which case only a three-fifths vote is required.

The Local Finance Law also provides a twenty-day statute of limitations after publication of a bond resolution which, in effect, estops thereafter legal challenges to the validity of obligations authorized by such bond resolution except for alleged constitutional violations. The Town has complied with such requirement with respect to the bond resolutions authorizing the issuance of the Bonds.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

Each bond resolution also authorizes the issuance of bond anticipation notes prior to the issuance of serial bonds. Statutory law in New York permits notes to be renewed each year provided that principal is amortized and provided that such renewals do not (with certain exceptions) extend more than five years beyond the original date of borrowing. However, bonds issued in anticipation of the sale of serial bonds for assessable improvements are not subject to such five-year limit and may be renewed subject to annual reductions of principal for the entire period of probable usefulness of the purpose for which such bonds were originally issued. (See "*Payment and Maturity*" under "*Constitutional Requirements*" herein).

In addition, under each bond resolution, the Town Board may delegate, and has delegated, power to issue and sell bonds and notes, to the Town Supervisor, the chief fiscal officer of the Town.

In general, the Local Finance Law contains similar provisions providing the Town with power to issue general obligation revenue anticipation notes, tax anticipation notes, deficiency notes and budget notes.

Debt Limit. The Town has the power to contract indebtedness for any Town purpose so long as the principal amount thereof shall not exceed seven per centum of the average full valuation of taxable real estate of the Town and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional and statutory method for determining the full valuation is by dividing the assessed valuation of taxable real estate by the respective equalization rates assigned to each assessment roll. Such equalization rates are the ratios which each of such assessed valuations bear to the respective full valuation of such year, as assigned by the Office of Real Property Tax Services. The State Legislature is required to prescribe the manner by which such ratios shall be determined. Average full valuation is determined by adding the full valuations for the most recently completed assessment roll and the four immediately preceding assessments rolls and dividing the resulting sum of such addition by five.

There is no constitutional limitation on the amount that may be raised by the Town by tax on real estate in any fiscal year to pay principal and interest on all indebtedness. However, the Tax Levy Limit Law imposes a statutory limitation on the power of the Town to increase its annual tax levy. The amount of such increases is limited by the formulas set forth in the Tax Levy Limit Law. (See “*Tax Levy Limit Law*,” herein).

Trend of Town Indebtedness

The following table represents the outstanding indebtedness of the Town at the end of the last five preceding fiscal years.

	Fiscal Year Ending December 31:				
	2014	2015	2016	2017	2018
Debt Outstanding End of Year:					
Subject to Debt Limit:					
Bonds	\$13,915,000	\$16,798,523	\$19,096,335	\$20,704,827	\$21,805,630
Not Subject to Debt Limit:					
Bonds	205,000	177,187	789,375	721,563	648,750
Total Debt Outstanding	\$14,120,000	\$16,975,710	\$19,885,710	\$21,426,390	\$22,454,380

Source: Town Comptroller’s Office.

Covanta Energy Corporation

Since 1989, the Towns of Smithtown and Huntington have jointly owned and operated a resource recovery facility to address the concerns of solid waste disposal in both towns. The resource recovery facility (the “Facility”) was originally financed by \$176 million of bonds issued by the Environmental Facilities Corporation of the State; such bonds were subsequently refunded by the Suffolk County Industrial Development Agency (the “Suffolk IDA”) in the amount of \$136 million and matured in October of 2012. There is no longer any debt to be paid on the resource recovery facility. Total resource recovery facility charges were \$6,627,695 for 2018, which includes operating expenses net of electricity revenues generated by the facility and marketed excess capacity fees.

Debt Service Requirements – Outstanding Bonds^a

Fiscal Year Ending <u>December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$2,369,380	\$606,984	\$2,976,364
2020	2,360,000	502,731	2,862,731
2021	2,370,000	445,143	2,815,143
2022	1,900,000	386,131	2,286,131
2023	1,830,000	338,781	2,168,781
2024	1,620,000	296,006	1,916,006
2025	1,650,000	256,406	1,906,406
2026	1,680,000	214,681	1,894,681
2027	1,655,000	172,018	1,827,018
2028	1,640,000	129,062	1,769,062
2029	1,235,000	84,975	1,319,975
2030	1,010,000	52,688	1,062,688
2031	635,000	27,438	662,438
2032	375,000	11,563	386,563
2033	125,000	1,875	126,875
Totals	<u><u>\$22,454,380</u></u>	<u><u>\$3,526,477</u></u>	<u><u>\$25,980,857</u></u>

a. Does not reflect payments made to date.

Debt Service Requirements – Outstanding Leases^a

In addition, the Town has entered into a Lease Agreement for the financing of various equipment on January 8, 2015.

Fiscal Year Ending <u>December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$243,422	\$17,677	\$ 261,099
2020	247,726	13,373	261,099
2021	252,105	8,994	261,099
2022	256,563	4,536	261,099
Totals	<u><u>\$999,816</u></u>	<u><u>\$44,580</u></u>	<u><u>\$1,044,396</u></u>

a. Does not reflect payments made to date.

In January 2016, the Town entered into a fleet management master equity lease agreement with Enterprise. Currently, the Town has a fleet of vehicles which were purchased by the Town that have been in service between three and twenty years. The Town's plan is to phase in the leasing of all passenger vehicles and light-duty trucks over the next 5 years and trade-in their current vehicles with an estimated value of approximately \$925,000 while also reducing the fleet to approximately 170 vehicles. This will allow the Town to lease newer vehicles while reducing repair costs. As of December 31, 2017, the Town has 59 vehicles under this lease agreement with monthly lease payment of approximately \$39,000 for a 5-year period with various commencement dates in 2016 and 2017. At December 31, 2017, the principal amount outstanding was \$1,567,068. The interest rates for these vehicles varies based on the interest rate in effect of the time of acquisition.

Computation of Debt Limit and Calculation of Net Debt Contracting Margin
(As of February 19, 2019)

<u>Fiscal Year Ending December 31:</u>	<u>Assessed Valuation</u>	<u>State Equalization Rate (%)</u>	<u>Full Valuation</u>	
2015	\$243,904,297	1.37	\$17,803,233,358	
2016	243,486,484	1.30	18,729,729,538	
2017	243,650,851	1.32	18,458,397,803	
2018	243,909,652	1.31	18,619,057,405	
2019	245,271,571	1.23	<u>19,940,778,130</u>	
Total Five Year Full Valuation			<u>93,551,196,234</u>	
Average Five Year Full Valuation			<u>18,710,239,247</u>	
Debt Limit - 7% of Average Full Valuation				<u>\$1,309,716,747</u>
Inclusions:				
Outstanding Bonds:				
General Purposes			21,805,630	
Water Districts			<u>648,750</u>	
Sub-Total			22,454,380	
Bond Anticipation Notes			<u>0</u>	
Total Inclusions			<u>22,454,380</u>	
Exclusions:				
Water Debt (Outstanding Bonds)			648,750	
Appropriations			<u>2,316,568</u>	
Total Exclusions			<u>2,965,318</u>	
Total Net Indebtedness Before the Issuance of the Bonds				<u>\$19,489,062</u>
The Bonds			9,192,260	
Total BANs to be Redeemed with the Issuance of the Bonds			<u>0</u>	
Net Effect of the Bonds			<u>9,192,260</u>	
Total Net Indebtedness After the Issuance of the Bonds				<u>\$28,681,322</u>
Net Debt Contracting Margin				<u>\$1,281,035,425</u>
Percent of Debt Limit Exhausted				2.19%

Calculation of Estimated Overlapping and Underlying Indebtedness

<u>Overlapping Units</u>	<u>Date of Report</u>	<u>Percentage Applicable (%)</u>	<u>Applicable Total Indebtedness</u>	<u>Applicable Net Indebtedness</u>
County of Suffolk	12/05/2018	6.99	\$128,838,227	\$97,651,627
Villages:				
Head of the Harbor	02/28/2017	100.00	48,000	48,000
Nissequogue	05/31/2017	100.00	222,000	222,000
The Branch	05/31/2017	100.00	200,000	200,000
School Districts:				
Commack	11/30/2018	57.83	22,316,597	8,100,925
Hauppauge	08/30/2018	56.66	9,841,842	9,841,842
Kings Park	08/29/2018	100.00	33,530,000	33,530,000
Sachem	08/29/2019	3.91	5,110,957	5,110,957
Smithtown	09/25/2018	100.00	42,710,000	42,710,000
Three Village	11/30/2018	1.16	1,200,542	328,619
Fire Districts:				
Commack	12/31/2017	100.00	0	0
Hauppauge	12/31/2017	100.00	0	0
Kings Park	12/31/2017	100.00	0	0
Nesconset	12/31/2017	100.00	297,730	297,730
St. James	12/31/2017	100.00	0	0
Smithtown	12/31/2017	100.00	8,832	8,832
Smithtown Library	12/31/2017	100.00	13,065,000	13,065,000
Totals			<u>\$257,389,726</u>	<u>\$211,115,531</u>

Source: Annual Reports of the respective units for the most recently completed fiscal year on file with the Office of the State Comptroller or more recently published Statements.

Debt Ratios (As of February 19, 2019)

	<u>Amount</u>	<u>Per Capita^a</u>	<u>Percentage Of Full Value (%)^b</u>
Total Direct Debt	\$ 22,454,380	\$ 191	0.11
Net Direct Debt	19,489,062	165	0.10
Total Direct & Applicable Total Overlapping Debt	279,844,106	2,374	1.40
Net Direct & Applicable Net Overlapping Debt	230,604,593	1,957	1.16

a. The current estimated population of the Town is 117,863 (2017 U.S. Census).

b. The full valuation of taxable real property in the District for 2018-19 is \$19,939,807,073.

Capital Project Plans

The Town is generally responsible for providing services as required to the citizens on a Town-wide basis. The Town maintains a road system necessitating road resurfacing and improvements and the acquisition of machinery and equipment. Such road system requires annual expenditures for snow removal as well as regular general operating maintenance expenses. In addition, the Town owns, operates, maintains and improves recreation facilities. The Town generally has provided the financing for water supply and distribution facilities and maintains primary responsibility for these functions, through special assessment districts. Other future expenditures may be authorized to be funded from time to time as the Town Board deems necessary.

Authorized but Unissued Debt

As of the date of this Official Statement, the Town has authorized but unissued debt in the amount of \$18,034,365 for various improvements. A portion of such amount, in the amount of \$9,192,260, will be financed by the issuance of the Bonds. See “*Authorization and Purpose*” herein.

<u>Authorized</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Amount Issued to Date</u>	<u>Authorized but Unissued</u>
06/04/2013	Road Improvements	\$4,270,000	\$1,490,000	\$ 2,780,000
06/23/2016	Animal Shelter	862,750	101,500	761,250
06/23/2016	Hardware & Software for Comptroller	152,250	52,250	100,000
06/23/2016	Traffic Signals	208,075	205,000	3,075
07/12/2016	Acquisition of Generator (Water District)	76,125	45,000	31,125
07/12/2016	Moriches Road (St. James Water District)	433,405	375,000	58,405
02/22/2018	St. James Business District Drainage	76,125	-	76,125
02/22/2018	St. James Business District Lighting	25,375	-	25,375
02/22/2018	St. James Business District Roads	304,500	-	304,500
02/22/2018	St. James Business District Sidewalks	1,522,500	-	1,522,500
02/22/2018	St. James Business District Various Improvements	304,500	-	304,500
02/22/2018	Lake Avenue Water Main Replacement	2,317,000	-	2,317,000
02/22/2018	Revision of Town Code	304,500	-	304,500
02/22/2018	Master Plan Update	507,500	-	507,500
02/22/2018	Lake Avenue Revitalization	152,250	-	152,250
11/29/2018	Acquisition of Computer Hardware and Software	98,455	-	98,455
11/29/2018	Acquisition of Parks and Maintenance Equipment	116,725	-	116,725
11/29/2018	Preparation of Mean High Water Study	177,625	-	177,625
11/29/2018	Acquisition of Video Security Cameras and Monitoring Systems	101,500	-	101,500
11/29/2018	Acquisition of Replacement Mini Bus for Seniors	32,480	-	32,480
11/29/2018	Replacement of Guide Rails	50,750	-	50,750
11/29/2018	Plans for Roadway Improvements on Landing Avenue	65,975	-	65,975
11/29/2018	Stormwater Drainage Improvements at Gedney Avenue	162,400	-	162,400
11/29/2018	Construction of Improvements to Various Town Buildings	1,522,500	-	1,522,500
11/29/2018	Acquisition of Heavy Equipment	1,240,330	-	1,240,330
11/29/2018	Construction Improvements to Sidewalks and Curbs	1,015,000	-	1,015,000
11/29/2018	Construction of Landfill Improvements	507,500	-	507,500
11/29/2018	Construction of Park and Recreational Improvements	2,530,395	-	2,530,395
11/29/2018	Acquisition of a Generator for the Marina	81,200	-	81,200
11/29/2018	Preparation of Updates to Town Code	101,500	-	101,500
11/29/2018	Installation of Traffic Signals and Signs	253,750	-	253,750
11/29/2018	Construction Improvements to the MSF Scale	55,825	-	55,825
11/29/2018	Acquisition of Payloader	583,625	-	583,625
11/29/2018	Acquisition of Workboat	88,725	-	88,725
			Total:	<u><u>\$18,034,365</u></u>

FINANCIAL MATTERS

Financial Statements and Accounting Procedures

The Town maintains its financial records in accordance with the Uniform System of Accounts for Towns prescribed by the State Comptroller. The financial records of the Town are audited by independent accountants. The last such audit made available for public inspection covers the fiscal year ended December 31, 2017, which is attached as Appendix B. The Town also prepares an Annual Financial Report Update Document (AUD) each year. In addition, the financial affairs of the Town are subject to periodic compliance review by the Office of the State Comptroller to ascertain whether the Town has complied with the requirements of various State and Federal statutes.

The Statements of Revenues, Expenditures and Changes in Fund Equity presented in Appendix A of this Statement are based on the Audited Financial Statements of the Town for the 2013-2017 fiscal years of the Town.

Fund Structure and Accounts

The Town utilizes fund accounting to record and report its various service activities. A fund represents both a legal and an accounting entity which segregates the transactions of specific programs in accordance with regulations, restrictions or limitations.

There are three basic fund types: (1) governmental funds that are used to account for basic services and capital projects; (2) proprietary funds that account for operations of a commercial nature; and (3) fiduciary funds that account for assets held in a trustee capacity. Account groups, which do not represent funds, are used to record fixed assets and long-term obligations that are not accounted for in a specific fund.

The Town maintains the following major funds: General Fund, Highway, Refuse and Garbage, and Capital Projects Funds. The Town-Wide General Fund is the operating fund of the Town and accounts for general tax revenues, miscellaneous receipts not allocated by law or contractual agreement to other funds, general operating expenses, and fixed charges. The Community Development Fund is used to account for projects financed by grants from the Department of Housing and Urban Development. The Town does not utilize any funds of a proprietary nature. Fiduciary funds consist of the Trust and Agency Fund.

Basis of Accounting

The Town maintains its records and reports on the modified accrual basis of accounting for recording transactions in its Governmental Funds. Under this method, (1) revenues are recorded when received in cash except for revenues which are material and susceptible to accrual (measurable and available to finance the year's operations) which are recorded when earned, and (2) expenditures, other than retirement plan contributions, vacation and sick pay and accrued interest on bond anticipation notes and general long-term debt, are recorded at the time liabilities are incurred.

Investment Policy

Pursuant to the statutes of the State, the Town is permitted to temporarily invest moneys which are not required for immediate expenditures, with the exception of moneys the investment of which is otherwise provided for by law, in the following investments: (1) special time deposit accounts in, or certificates of deposit issued by a bank or trust company located and authorized to do business in the State, provided, however, that such time deposit account or certificate of deposit is payable within such time as the proceeds shall be needed to meet the expenditures for which such moneys were obtained and provided further, that such time deposit account or certificate of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by deposits in one or more banking institutions (as defined in Section 9-r of New York State Banking Law), a pledge of eligible securities or an eligible, irrevocable letter of credit, as those terms are defined in the law; (2) obligations of the United States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (4) obligations of the State; (5) with the approval of the State Comptroller, in tax anticipation notes or revenue anticipation notes issued by any municipality, school district, or district corporation in the State of New York, other than those notes issued by the Town; or (6) in the case of moneys held in certain reserve funds established by the Town pursuant to law, in obligations of the Town.

Any investments made by the Town pursuant to law are required to be payable or redeemable at the option of the Town within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. These statutes also require that the Town's investments, unless registered or inscribed in the name of the Town, must be purchased through, delivered to and held in custody of a bank or trust company in the State. All such investments held in the custody of a bank or trust company must be held pursuant to a written custodial agreement as that term is defined in the law. Historically, the Town has not chosen to invest in repurchase agreements.

Collateral is required for demand deposit, money market accounts and certificates of deposit not covered by Federal deposit insurance. Eligible Securities that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State and its municipalities and school districts and obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, African Development Bank and an eligible irrevocable letter of credit.

Revenues

The Town receives most of its revenues from real property taxes and assessments. A summary of such revenues for the five most recently completed fiscal years and estimated revenues for the current fiscal year may be found in Appendix A.

Real Property Taxes

See "Real Property Taxes", herein.

Tax and Revenue Anticipation Notes

The Town's cash flow has been sufficient to meet its operating needs; accordingly, the Town has not required the issuance of revenue or tax anticipation notes.

State Aid

Based on the audited financial reports of the Town, the Town received approximately 12.63% of its total General Fund operating revenue from State aid in 2017 and budgeted approximately 12.83% for 2018. There is no assurance, however, that State appropriations for aid to municipalities will continue, either pursuant to existing formulas or in any form whatsoever. The State is not constitutionally obligated to maintain or continue such aid and has the ability to reduce funding to municipalities and school districts in order to balance its own budget.

No assurance can be given that present State aid levels will be maintained in the current or future fiscal year or that the State's financial position will not change materially and adversely from current projections. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon the Town, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures. The Town has not received any reductions in State aid during the current fiscal year nor does it anticipate a significant reduction in State aid during the remainder of the current fiscal year.

If the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the Town, may be affected by a delay in the payment of State aid. Additionally, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the Town, in this year or future years, the Town may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State to make State aid payments.

The State receives a substantial amount of federal aid for health care, education, transportation and other governmental purposes, as well as federal funding to respond to, and recover from, severe weather events and other disasters. Many of the policies that drive this federal aid may be subject to change under the federal administration and the current Congress. Current federal aid projections, and the assumptions on which they rely, are subject to revision in the future as a result of changes in federal policy.

The federal government may enact budgetary changes or take other actions that adversely affect State finances. State legislation adopted with the State's 2018-2019 Budget continues authorization for a process by which the State would manage significant reductions in federal aid during fiscal year 2018-2019 and fiscal year 2019-2020 should they arise. Specifically, the legislation allows the State Budget Director to prepare a plan for consideration by the State Legislature in the event that the federal government (i) reduces federal financial participation in Medicaid funding to the State or its subdivisions by \$850 million or more; or (ii) reduces federal financial participation of other federal aid funding to the State that affects the State Operating Funds financial plan by \$850 million or more, exclusive of any cuts to Medicaid. Each limit is triggered separately. The plan prepared by the State Budget Director must equally and proportionately reduce appropriations and cash disbursements in the State's General Fund and State Special Revenue Funds. Upon receipt of the plan, the State

Legislature has 90 days to prepare its own corrective action plan, which may be adopted by concurrent resolution passed by both houses, or the plan submitted by the State Budget Director takes effect automatically.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 (H.R. 1, P.L. 115-97), making major changes to the Federal Internal Revenue Code, most of which are effective in the 2018 tax year. The new federal tax law makes extensive changes to federal personal income taxes, corporate income taxes, and estate taxes, and the deductibility of various taxes and interest costs. The State’s income tax system interacts with the federal system in numerous ways. The federal changes are expected to have significant flow-through effects on State tax burdens and revenues. The State’s 2018-2019 Enacted Budget includes legislation decoupling certain linkages between federal and local income tax and corporate taxes, increasing the opportunities for charitable contributions, and providing an option to employers to shift to an employer compensation tax and reduce State personal income taxes. In addition, the State’s 2018-2019 Enacted Budget includes legislation that grants localities the option to establish local charitable funds that would provide taxpayers with a credit against their property taxes. In response to various state initiatives following changes to federal taxes and deductibility, the Department of Treasury (Treasury Department) and the Internal Revenue Service (IRS) have recently provided guidance regarding state initiatives that would seek to circumvent the new statutory limitation on state and local tax deductions and characterization of payments for federal income tax purposes. At this time, the Town does not have plans to establish a local charitable fund.

Should the Town fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies or by a mid-year reduction in State aid, the Town is authorized by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of uncollected State aid.

The following table sets forth the percentage of the Town’s General Fund revenue (excluding other financing sources) comprised of State aid for each of the fiscal years 2013 through 2018 and the budgeted amount for fiscal years 2018 and 2019. The budget amount for General Fund Revenue includes appropriated fund balance.

<u>Fiscal Year Ended December 31:</u>	<u>Total General Fund Town Revenue</u>	<u>State Aid</u>	<u>State Aid to Revenues (%)</u>
2013	\$40,723,801	\$5,743,258	14.10
2014	39,453,407	4,638,892	11.76
2015	43,270,619	5,050,259	11.67
2016	45,102,720	5,539,298	12.28
2017	46,444,730	5,866,464	12.63
2018 (Budgeted)	45,720,983	5,867,832	12.83
2019 (Budgeted)	47,905,875	6,062,275	12.65

Source: Audited financial statements (2013-2017), and the adopted budgets for 2018 and 2019. The budgeted revenues include appropriation of fund balance.

Expenditures

The major categories of expenditure for the Town are General Government Support, Public Safety, Transportation, Culture and Recreation, Employee Benefits and Debt Service. A summary of the expenditures for the five most recently completed fiscal years may be found in Appendix A – Financial Information.

Budgetary Procedures

The Town Supervisor, with the assistance of the Budget Officer prepares a tentative budget each year and submits the tentative budget to the Town Board via the Town Clerk for possible amendments. The Town Board then holds a public hearing thereon. Subsequent to the public hearing, revisions (if any) are made and the budget is then adopted by the Town Board as its final budget for the coming fiscal year. The budget is not subject to referendum.

The State Comptroller's Fiscal Stress Monitoring System

The New York State Comptroller has reported that New York State's municipalities and school districts are facing significant fiscal challenges. As a result, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school district and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

The fiscal stress scores are based on financial information submitted as part of each school district's ST-3 report filed with the State Education Department annually, and each municipality's annual report filed with the State Comptroller. Using financial indicators that include year-end fund balance, cash position and patterns of operating deficits, the system creates an overall fiscal stress score which classifies whether a school district or municipality is in "significant fiscal stress", in "moderate fiscal stress," as "susceptible to fiscal stress" or "no designation". Entities that do not accumulate the number of points that would place them in a stress category will receive a financial score but will be classified in a category of "no designation." This classification should not be interpreted to imply that the entity is completely free of fiscal stress conditions. Rather, the entity's financial information, when objectively scored according to the FSMS criteria, did not generate sufficient points to place them in one of the three established stress categories.

The most current applicable report of the State Comptroller designates the Town as "No Designation". (Fiscal Score: 0.0%).

See the State Comptroller's official website for more information on FSMS. Reference to this website implies no warranty of accuracy of information therein.

In addition, the Office of the State Comptroller helps local government officials manage government resources efficiently and effectively. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through its audits, which identify opportunities for improving operations and governance. Reference to this website implies no warranty of accuracy of information therein. The most recent audit was released on June 16, 2017. The purpose of the audit was to examine Highway Department and Parks Department Operations for the period January 1, 2015 – August 31, 2016. The complete report may be found on the State Comptroller's official website.

Employee Pension System

Substantially all employees of the Town are members of the New York State and Local Employees' Retirement System ("ERS"). The Retirement System is a cost-sharing multiple public employer retirement system. The obligation of employers and employees to contribute and the benefits to employees are governed by the New York State Retirement System and Social Security Law (the "Retirement System Law"). The Retirement System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after five years of credited service, except for "Tier 6" employees, as discussed below, whose benefits vest after ten years or credited service. The Retirement System Law generally provides that all participating employers in the Retirement System are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement System. The Retirement System is non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976 and before January 1, 2010 must contribute three percent of their gross annual salary towards the costs of retirement programs until they attain ten years in the Retirement System, at such time contributions become voluntary. On December 10, 2009, then Governor Paterson signed into law the creation of a new Tier 5, which is effective for new ERS employees hired on or after January 1, 2010. New ERS employees in Tier 5 contribute 3% of their salaries. There is no provision for these contributions to cease for Tier 5 employees after a certain period of service.

Pension reform legislation changed the billing cycle for employer contributions to the ERS retirement system to match budget cycles of the Town. Under the previous method, the Town was not provided with required payment until after the budget was implemented. Under the reforms implemented, the employer contribution for a given fiscal year is based on the value of the pension fund on the prior April 1, instead of the following April 1. As a result, the Town is notified of and can include the actual cost of the employer contribution in its budget. Legislation also required a minimum payment of 4.5% of payroll each year, including years in which investment performance of the fund would make a lower employer contribution possible.

In addition, the pension payment date for all local governments was changed from December 15 to February 1 and permits the legislative body of a municipality to establish a retirement contribution reserve fund for the purpose of financing retirement contributions in the future. The New York State Retirement System has advised the Town that municipalities can elect to make employer contribution payments in the December or the following February, as required. If such payments are made in the December prior to the scheduled payment date in February, such payments may be made at a discount amount.

On March 16, 2012, Governor Cuomo signed into law the new Tier 6 pension program, effective for new ERS employees hired after April 1, 2012. The Tier 6 legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 years to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from 3 years to 5 years. Tier 6 employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

Due to significant capital market declines in the past, the State’s Retirement System portfolio has experienced negative investment performance and severe downward trends in market earnings. Although investment returns have improved recently, the employer contribution rate for the State’s Retirement System may continue to be higher than the minimum contribution rate established in the past. The State calculates contribution amounts based upon a five-year rolling average. To mitigate increases in the employer contribution rate, various forms of legislation has been enacted that would permit local governments to borrow a portion of their required payments from the State pension plan.

Although the pension contribution rates under such legislative programs would reduce near-term payments, it will require higher than normal contributions in later years. This Town has not participated in any of the amortization programs and does not intend to do so in the foreseeable future.

Contributions to the Retirement Systems

<u>Fiscal Year Ending</u> <u>December 31:</u>	<u>Amount</u>
2014	\$6,021,675
2015	5,353,705
2016	4,789,037
2017	4,844,570
2018	4,774,422
2019 (Budgeted)	4,730,303

Other Post Employment Benefits

The Town provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. Accounting rules now require governmental entities, such as the Town, to account for post-retirement health care benefits as its accounts for vested pension benefits. GASB Statement No. 45 (“GASB 45”) described below requires such accounting.

GASB 45 and OPEB. OPEB refers to "other post-employment benefits," meaning benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB 45, OPEB costs were generally accounted for and managed as current expenses in the year paid and were not reported as a liability on governmental financial statements.

GASB 45 requires municipalities and school districts to account for OPEB liabilities in the same manner as they already account for pension liabilities. It requires them to adopt the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB Statement No. 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

GASB 45 does not require that the unfunded liabilities actually be funded, only that the Town account for its unfunded accrued liability and compliance in meeting its Annual Required Contribution (“ARC”). Actuarial valuation will be required every two years for the Town.

The following table shows the components of the Town’s other postemployment benefits liability for fiscal year ending 2017:

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Fiscal Year Ended December 31, 2017:</u>
Annual required contribution (ARC)	\$16,090,698
Interest on net OPEB obligation	3,171,142
Less: Adjustments to ARC	<u>(4,495,655)</u>
Annual OPEB cost (expense)	14,766,185
Less: Contributions made	<u>4,718,540</u>
Increase in net OPEB obligation	10,047,645
Net OPEB obligation-beginning of year	<u>79,278,557</u>
Net OPEB obligation-end of year	<u><u>\$89,326,202</u></u>
Percentage of annual OPEB Cost Contributed	31.96%

Should the Town be required to fund its unfunded actuarial accrued OPEB liability, it could have a material adverse impact upon the Town’s finances and could force the Town to reduce services, raise taxes or both. At the present time, however, there is no current or planned requirement for the Town to partially fund its actuarial accrued OPEB liability. Although legislation was proposed in February, 2015 by the New York State Office of the State Comptroller, the State has not developed guidelines for the creation and use of irrevocable trusts for the funding of OPEB. As a result, the Town has decided to continue funding the expenditure on a pay-as-you-go basis.

REAL PROPERTY TAX INFORMATION

Real Property Taxes

The Town derives a significant portion of its annual revenue from a tax on real property (see “Statement of Revenues, Expenditures and Changes in Fund Balance” in Appendix B, herein.) Property taxes accounted for approximately 52.95% of total budgeted General Fund revenues, for the fiscal year ended 2017. On June 24, 2011, the Tax Levy Limitation Law was enacted, which imposes a tax levy limitation upon the municipalities, school districts and fire districts in the State, including the Town, without providing an exclusion for debt service on obligations issued by municipalities and fire districts, including the Town. (See “*Tax Levy Limit Law*” herein).

The following table sets forth the percentage of the Town’s General Fund revenue (excluding other financing sources) comprised of real property taxes for each of the fiscal years 2013 through 2017, and, as budgeted, for the years ending December 31, 2018 and December 31, 2019.

<u>Fiscal Year Ended December 31:</u>	<u>Total Revenue</u>	<u>Real Property Taxes</u>	<u>Real Property Taxes to Revenues (%)</u>
2013	\$40,723,801	\$20,995,645	51.56
2014	39,453,407	20,188,619	51.17
2015	43,270,619	23,447,215	54.19
2016	45,102,720	24,800,902	54.99
2017	46,444,730	24,600,992	52.97
2018 (Budgeted)	45,720,983	24,366,593	53.29
2019 (Budgeted)	47,905,875	25,280,351	52.77

Source: Audited financial statements (2013-2017), and the adopted budgets for 2018 and 2019. The budgeted revenues include appropriation of fund balance.

The following table presents the total tax levy, by purpose, with adjustments and collection performance for each of the last five fiscal years.

Tax Levy and Collection Record^a

	Fiscal Year Ending December 31:				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Town and Highway	\$52,287,569	\$52,846,593	\$52,846,593	\$52,692,084	\$54,399,756
Special Districts:					
Library	13,277,435	13,439,672	14,010,858	14,291,075	14,633,688
Lighting	1,416,770	1,597,641	1,597,641	1,752,150	1,607,150
Refuse Disposal Direct					
Benefit Assessments	12,375,229	12,750,727	13,357,509	13,361,581	15,694,618
Fire	16,511,948	16,953,436	17,189,252	17,854,919	18,557,949
Water ^b	401,527	425,222	435,899	455,777	405,265
Ambulance	1,301,605	1,011,223	1,011,223	1,011,223	1,011,223
County	72,551,166	74,364,366	74,066,180	73,522,097	75,475,056
School Districts	338,586,491	345,419,422	349,862,470	355,601,080	370,584,092
Special & Omitted Assessments	232,485	75,482	48,437	105,746	189,997
Out of Town Tuition	2,255,334	1,073,373	1,002,900	938,882	1,454,678
Total Tax Levy	<u>\$511,197,559</u>	<u>\$519,957,157</u>	<u>\$525,428,962</u>	<u>\$531,586,614</u>	<u>\$554,013,472</u>
Amount Collected	\$496,950,421	\$506,331,618	\$512,103,137	\$517,909,142	\$277,103,486 ^c
Uncollected Amount	14,247,138	13,625,539	13,325,825	13,677,472	276,909,987
Percentage	2.79%	2.62%	2.54%	2.57%	49.98%

a. See "Tax Collection Procedure" herein.

b. Includes Water Arrears.

c. As of February 7, 2019.

Source: Receiver of Taxes of the Town.

Tax Collection Procedure

The Town collects taxes in two installments. The first half is due December 1st of the preceding fiscal year and payable until January 10th without penalty. The second half tax payment can also be made at this time, or anytime prior to May 31. Second half taxes are due May 10th each year and are payable to May 31st, without penalty. After January 10th, 1% per month is added to first half taxes. After May 31st, when the rolls are turned over to the County, all taxes are payable to the County Treasurer with an additional penalty to the date of payment. Tax sales are held annually by the County.

Under the Suffolk County Tax Act, there are no uncollected items at the close of the fiscal year to the Town. The Receiver of Taxes of the Town (the "Town Receiver") collects the County tax as well as the General Town, Town Highway, School and Special District levies. Before the tax rolls are returned to the County at the end of the tax period, (May 31st), the Town Receiver pays in full to the Town, the General Town, Town Highway, School and Special District levies. Any uncollected items are deducted from the amount returned to the County and the County assumes the responsibility for obtaining payment.

Tax Levy Limit Law

Prior to the enactment of Chapter 97 of the Laws of 2011 (the "Tax Levy Limit Law") on June 24, 2011, all the taxable real property within the Town had been subject to the levy of ad valorem taxes to pay the bonds and notes of the Town and interest thereon without limitation as to rate or amount. However, the Tax Levy Limit Law imposes a tax levy limitation upon the Town for any fiscal year commencing after May 31, 2012, continuing through May 31, 2020 as extended, without providing an exclusion for debt service on obligations issued by the Town. As a result, the power of the Town to levy real estate taxes on all the taxable real property within the Town is subject to statutory limitations, according to the formulas set forth in Tax Levy Limit Law.

The following is a brief summary of certain relevant provisions of the Tax Levy Limit Law. The summary is not complete and the full text of the Tax Levy Limit Law should be read in order to understand the details and implications thereof.

The Tax Levy Limit Law imposes a limitation on increases in the real property tax levy of the Town, subject to certain exceptions. The Tax Levy Limit Law permits the Town to increase its overall real property tax levy over the tax levy of the prior year by no more than the "Allowable Levy Growth Factor", which is the lesser of one and two one-hundredths or the sum of one plus the Inflation Factor; provided, however that in no case shall the levy growth factor be less than one. The "Inflation Factor" is the quotient of: (i) the average of the 20 National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the coming fiscal year minus the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, divided by: (ii) the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, with the result expressed as a decimal to four places. The Tax Levy Limit Law also provides for adjustments to be made to the Town's tax levy based upon changes in the assessed value of the taxable real property in the Town. Additionally, the Town will be permitted to carry forward a certain portion of its unused tax levy capacity from the prior year. The Town is required to calculate its tax levy limit for the upcoming year in accordance with the provision described above and provide all relevant information to the New York State Comptroller prior to adopting its budget. The Tax Levy Limit Law sets forth certain exclusions to the real property tax levy limitation of the Town, including exclusions for tort judgments payable by the Town. The governing board of the Town may adopt a budget that exceeds the tax levy limit for the coming fiscal year, only if the governing board of the Town first enacts, by a vote of at least sixty percent of the total voting power of the Town Board, a local law to override such limit for such coming fiscal year.

The Tax Levy Limit Law does not contain an exception from the levy limitation for the payment of debt service on either outstanding general obligation bonds or notes of the Town or such indebtedness incurred after the effective date of the Tax Levy Limit Law. As such, there can be no assurances that the Tax Levy Limit Law will not come under legal challenge for violating (i) Article VIII, Section 12 of the State Constitution for not providing an exception for debt service on obligations issued prior to the enactment of the Tax Levy Limit Law, (ii) Article VIII, Section 10 of the State Constitution by effectively eliminating the exception for debt service to general real estate tax limitations, and (iii) Article VIII, Section 2 of the State Constitution by limiting the pledge of its faith and credit by a municipality or school district for the payment of debt service on obligations issued by such municipality or school district.

The 2014 through 2019 Budgets did not exceed the tax levy limitation.

Tax Rates
Tax Rates per \$1,000 of Assessed Valuation

	Fiscal Year Ending December 31:				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Tax Levy:					
General Town	\$95.81	\$101.34	\$100.46	\$99.33	\$102.44
Highway	22.81	22.34	23.95	23.58	22.45
Town Outside Villages:					
General	25.20	23.52	23.11	23.07	22.74
Highway	77.44	76.11	75.71	76.27	80.49
County-General and District Court	18.97	18.81	18.38	17.95	18.14
County-Police	250.78	264.59	266.59	275.21	287.20
Library Special District	52.70	53.49	55.82	56.96	58.07

Selected Listing of Large Taxable Properties
2018 Assessment Roll^a

<u>Name</u>	<u>Type</u>	<u>Assessed Valuation</u>
NYS-OPRHP	Parkland	\$3,412,301
State of New York ^b	Parkland	854,677
State of New York ^b	Parkland	737,463
LIPA	Utility	734,544
Smithtown Galleria Association	Apartments	730,000
LIPA	Utility	638,725
State of New York ^b	Parkland	577,973
LIPA	Utility	549,311
Commack Marketing	Retail Service	517,280
Arlona LTD Partnership	Shopping Center	516,620
Commack Shopping Center	Shopping Center	474,783
Mall at Smith Haven, LLC.	Shopping Center	472,303
Keyspan	Utility	414,589
Suffolk County Industrial Development Agency	Office Building	378,380
BM-12 Holding Company LLC	Office Building	376,980
LIPA	Utility	353,880
PJ Venture F. G. LLC.	Large Retail Outlets	339,099
Groton Owners, LLC	Apartments	310,600
Keyspan	Utility	310,041
Congregation Etz Chaim	School	302,370
	Total ^c	<u>\$13,001,919</u>

a. Assessment Roll established in 2018 for levy and collection of taxes during 2019 Fiscal Year.

b. New York State Parkland is taxable for school purposes only.

c. Represents approximately 5.30% of the total taxable assessed valuation of the Town for 2019.

Tax Certiorari Claims

In common with other municipalities, there are a number of tax certiorari proceedings pending involving properties that are subject to the levy of Town taxes. The plaintiffs in these matters have asserted that their properties are over-assessed and are seeking assessment reductions. A refund of excess taxes is also generally requested. Historically, certiorari claims have been settled through negotiations, resulting in amounts, at times, substantially less than originally claimed. Many settlements provide for future adjustments with no direct outlay of money. (See “*Tax Collection Procedure*” and “*LITIGATION*” herein.)

LITIGATION

In common with other towns, the Town from time to time receives notices of claim and is party to litigation. In the opinion of the Town Attorney for the Town, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the Town has not asserted a substantial and adequate defense, nor which, if determined against the Town, would have an adverse material effect on the financial condition of the Town, in view of the Town’s ability to fund the same through use of appropriate funding mechanisms provided by the Local Finance Law.

CYBERSECURITY

The Town, like many other public and private entities, relies on technology to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the Town faces multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. To mitigate the risk of business operations impact and/or damage from cyber incidents or cyber-attacks, the Town invests in various forms of cybersecurity and operational controls; however, no assurances can be given that such security and operational control measures will be completely successful to guard against cyber threats and attacks. The results of any such attack could impact business operations and/or damage Town digital networks and systems and the costs of remedying any such damage could be substantial.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Town, under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. The Tax Certificate of the Town (the “Tax Certificate”), which will be delivered concurrently with the delivery of the Bonds will contain provisions and procedures relating to compliance with applicable requirements of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Town in connection with the Bonds and Bond Counsel has assumed compliance by the Town with certain ongoing provisions and procedures set forth in the Tax Certificate relating to compliance with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Town, under existing statutes, interest on the Bonds is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

Certain Ongoing Federal Tax Requirements and Certifications

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Town, in executing the Tax Certificate, will certify to the effect that the Town will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bond under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable

to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bond should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds will be subject to the final approving opinion of Hawkins Delafield & Wood LLP, Bond Counsel, substantially as set forth in Appendix C.

DISCLOSURE UNDERTAKING

At the time of the delivery of the Bonds, the Town will provide an executed copy of its Undertaking to Provide Continuing Disclosure substantially as set forth in Appendix D.

BOND RATING

The Town has applied to Moody's for a rating on the Bonds and such rating is pending at this time. This rating reflects only the view of such rating agency and an explanation of the significance of such rating should be obtained from Moody's, 7 WTC at Greenwich Street, New York, NY, Phone: (212) 553-4055 and Fax: (212) 298-6761. There can be no assurance that such rating will not be revised or withdrawn, if in the judgement of Moody's circumstances so warrant. Any change or withdrawal of such rating may have an adverse effect on the market price of the Town's bonds or the availability of a secondary market for such bonds.

MUNICIPAL ADVISOR

Munistat Services, Inc. (the “Municipal Advisor”), is a Municipal Advisor, registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The Municipal Advisor serves as independent financial advisor to the Town on matters relating to debt management. The Municipal Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiated instruments. The Municipal Advisor has provided advice as to the plan of financing and the structuring of the Bonds and has reviewed and commented on certain legal documents, including this Official Statement. The advice on the plan of financing and the structuring of the Bonds was based on materials provided by the Town and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated, or otherwise verified the information provided by the Town or the information set forth in this Official Statement or any other information available to the Town with respect to the appropriateness, accuracy, or completeness of disclosure of such information and no guarantee, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement.

ADDITIONAL INFORMATION

Additional information may be obtained upon request from the office of Donald P. Musgnug, CPA, Town Comptroller, Town of Smithtown, Town Hall Annex 40 Maple Avenue, Smithtown, NY 11787, telephone number (631) 360-7530 and email: dmusgnug@tosgov.com or from the office of Munistat Services Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number (631) 331-8888.

Munistat Services, Inc. may place a copy of this Official Statement on its website at www.munistat.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Munistat Services, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the Town nor Munistat Services, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Munistat Services, Inc. and the Town disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Munistat Services, Inc. and the Town also assumes no liability or responsibility for any errors or omissions, unauthorized editing, or for any updates to dated website information.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be, in fact, realized. This Official Statement is not to be construed as a contract or agreement between the Town and the original purchasers or owners of any of the Bonds.

The preparation and distribution of this Official Statement has been authorized by the applicable bond resolutions of the Town which delegate to the Supervisor the power to sell and issue the Bonds.

TOWN OF SMITHTOWN, NEW YORK

By: s/s EDWARD R. WEHRHEIM
Town Supervisor and Chief Fiscal Officer
Town of Smithtown
Smithtown, New York

February , 2019

APPENDIX A

FINANCIAL INFORMATION

Balance Sheets
Governmental Funds
Fiscal Year Ending December 31, 2017

	General Townwide	Major Highway	Refuse and Garbage	Capital Projects	Nonmajor Governmental Funds(1)
ASSETS					
Cash and Cash Equivalents	\$ 12,483,268	\$ 4,278,795	\$ 6,303,880	\$ 12,118,224	\$ 6,990,547
Restricted Cash	4,595,465				308,548
Prepays	1,188,868	670,451	130,150		334,778
Accounts Receivable	1,675,439	10,618	9,018	10,556	1,147,304
Inventory		662,181			
Due from Other Governments	2,538,353	27,194	87,571	829,722	221,317
Due from Other Funds	<u>374,112</u>	<u>442,041</u>	<u>1,781</u>	<u> </u>	<u>25,603</u>
 Total Assets	 <u>\$ 22,855,505</u>	 <u>\$ 6,091,280</u>	 <u>\$ 6,532,400</u>	 <u>\$ 12,958,502</u>	 <u>\$ 9,028,097</u>
LIABILITIES					
Accounts Payable and Accrued Liabilities	\$ 2,170,888	\$ 749,396	\$ 1,516,592	\$ 969,665	\$ 910,586
Security Deposit	1,430				
Due to Other Funds	23,764	127,691		628,750	63,332
Other Liabilities	<u>24,689</u>	<u> </u>	<u> </u>	<u>25,959</u>	<u>8,300</u>
 Total Liabilities	 <u>\$ 2,220,771</u>	 <u>\$ 877,087</u>	 <u>\$ 1,516,592</u>	 <u>\$ 1,624,374</u>	 <u>\$ 982,218</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Revenue	<u>\$ 128,074</u>	<u>\$ 218,050</u>	<u> </u>	<u> </u>	<u> </u>
 Total Deferred Inflows of Resources	 <u>128,074</u>	 <u>218,050</u>	 <u> </u>	 <u>0</u>	 <u>0</u>
FUND BALANCES					
Nonspendable	\$ 1,188,868	\$ 1,332,632	\$ 130,150	\$	\$ 636,364
Restricted	4,938,463	286,081	15,632	5,478,375	36,458
Assigned	300,866	3,377,430	4,870,026	5,855,754	7,373,057
Unassigned	<u>14,078,463</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Total Fund Balances (Deficits)	 <u>\$ 20,506,660</u>	 <u>\$ 4,996,143</u>	 <u>\$ 5,015,808</u>	 <u>\$ 11,334,129</u>	 <u>\$ 8,045,879</u>
 Total Liabilities, Deferred Inflows and Fund Balances (Deficits)	 <u>\$ 22,855,505</u>	 <u>\$ 6,091,280</u>	 <u>\$ 6,532,400</u>	 <u>\$ 12,958,503</u>	 <u>\$ 9,028,097</u>

(1) Includes General Town Outside Village, Special Grant, Lighting, Self Insurance, and Miscellaneous Funds

Sources: Audited Financial Statements of the Town (2017)

NOTE: This schedule NOT audited

**Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund-Townwide**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$ 20,995,645	\$ 20,188,619	\$ 23,447,215	\$ 24,800,902	\$ 24,600,992
Real Property Tax Items	459,144	499,462	472,556	495,601	577,617
Non Property Tax Items	2,289,837	2,469,484	2,590,482	2,778,370	2,851,546
Intergovernmental Charges	408,859	459,647	528,972	568,260	615,942
Use of Money & Property	413,381	316,908	219,914	372,118	324,956
Departmental Income	9,451,008	9,736,189	9,939,096	9,730,224	10,347,064
Licenses and Permits	162,402	165,802	109,890	137,198	128,118
Fines and Forfeitures	149,936	205,502	191,892	201,448	285,042
Sale of Property & Compensation for Loss	8,010	308,154	323,527	4,867	221,036
Miscellaneous Local Sources	48,480	114,484	54,494	68,046	172,374
Interfund Revenues	53,763	1,000			
State Aid	5,743,258	4,638,892	5,050,259	5,539,298	5,866,464
Federal Aid	540,078	349,264	342,322	406,388	453,579
Total Revenues	<u>40,723,801</u>	<u>39,453,407</u>	<u>43,270,619</u>	<u>45,102,720</u>	<u>46,444,730</u>
Expenditures:					
General Government Support	10,593,719	11,239,762	11,594,062	12,163,490	12,674,802
Public Safety	3,010,383	2,813,234	3,053,934	3,301,100	3,604,520
Health	904,035	906,062	908,314	894,913	869,792
Transportation	955,354	943,581	881,957	863,191	965,030
Econ. Assistance & Opportunity	645	665	640	640	640
Culture & Recreation	6,021,410	6,206,104	6,439,618	6,700,575	6,762,535
Home & Community Service	5,198,450	5,454,108	5,352,475	5,251,165	5,102,645
Employee Benefits	11,096,668	10,339,169	10,463,672	11,027,812	11,387,999
Debt Service	2,319,854	2,471,840	2,350,389	1,849,055	1,962,171
Total Expenditures	<u>40,100,518</u>	<u>40,374,525</u>	<u>41,045,061</u>	<u>42,051,941</u>	<u>43,330,134</u>
Excess (Deficiency) of Revenues over Expenditures	<u>623,283</u>	<u>(921,118)</u>	<u>2,225,558</u>	<u>3,050,779</u>	<u>3,114,596</u>
Other Sources (Uses)					
Operating Transfers In	71,273	124,401	246,965	135,484	308,357
Operating Transfers Out	(255,600)	(70,000)	(994,000)	(913,000)	(2,368,297)
Premium on Debt Issuance	45,586		27,571	40,034	13,312
Total Other Sources (Uses)	<u>(138,741)</u>	<u>54,401</u>	<u>(719,464)</u>	<u>(737,482)</u>	<u>(2,046,628)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	484,542	(866,717)	1,506,094	2,313,297	1,067,968
Fund Balance Beginning of Year	16,001,476	16,486,018	15,619,301	17,125,395	19,438,692
Adjustments					
Fund Balance End of Year	<u>\$ 16,486,018</u>	<u>\$ 15,619,301</u>	<u>\$ 17,125,395</u>	<u>\$ 19,438,692</u>	<u>\$ 20,506,660</u>

Sources: Audited Financial Statements of the Town (2013-2017)

NOTE: This schedule NOT audited

Town of Smithtown

Statement of Revenues, Expenditures and Changes in Fund Balances
Refuse & Garbage Fund

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$	\$	\$	\$	\$
Intergovernmental Charges	450,483	450,483	449,653	460,488	480,008
Sale of Properties and Comp. for Loss	1,268,905	876,268	233,412	187,835	224,917
Interfund Revenues	58,430		8,572	694	621
Miscellaneous		14		4,278	
Use of Money & Property	36,347	28,640	23,547	20,541	32,392
Departmental Income	11,064,561	11,075,389	11,810,419	12,188,221	12,775,542
State Aid	11,900	11,900	15,984	15,694	102,850
Federal Aid	2,693				
Total Revenues	<u>12,893,319</u>	<u>12,442,694</u>	<u>12,541,587</u>	<u>12,877,751</u>	<u>13,616,330</u>
Expenditures:					
Home & Community Service	12,338,707	11,578,295	12,013,723	11,988,819	11,923,704
Employee Benefits	1,235,190	1,122,088	1,160,934	1,277,182	1,320,949
Debt Service		24,059	73,936	176,203	176,711
Total Expenditures	<u>13,573,897</u>	<u>12,724,442</u>	<u>13,248,593</u>	<u>13,442,204</u>	<u>13,421,364</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(680,578)</u>	<u>(281,748)</u>	<u>(707,006)</u>	<u>(564,453)</u>	<u>194,966</u>
Other Financing Uses:					
Operating Transfers (Out) In	(40,000)	(272,680)	128,820	22,839	15,632
Premium on Debt Issuance	32,679		330	749	6,388
Total Other Financing Sources (Uses)	<u>(7,321)</u>	<u>(272,680)</u>	<u>129,150</u>	<u>23,588</u>	<u>22,020</u>
Excess (Deficiency) of Revenues over Expenditures Other Sources Over (Under) Expenditures and Other Uses	(687,899)	(554,428)	(577,856)	(540,865)	216,986
Fund Balance Beginning of Year	7,159,870	6,471,971	5,917,543	5,339,687	4,798,822
Prior Period Restatement					
Fund Balance End of Year	<u>\$ 6,471,971</u>	<u>\$ 5,917,543</u>	<u>\$ 5,339,687</u>	<u>\$ 4,798,822</u>	<u>\$ 5,015,808</u>

Sources: Audited Financial Statements of the Town (2013-2017)

NOTE: This schedule NOT audited

**Statement of Revenues, Expenditures and Changes in Fund Balances
Highway Funds***

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$ 26,410,640	\$ 26,160,759	\$ 23,139,456	\$ 22,717,211	\$ 23,010,345
Real Property Tax Items	235,455	273,001	285,088	286,977	346,294
Intergovernmental Charges	58,182	80,421	25,432	9,916	13,951
Use of Money & Property	38,254	19,561	13,540	23,894	48,205
Sale of Property & Compensation for Loss	1,058	193,199	6,384	47,943	10,027
Licenses and Permits	39,150	66,825	60,975	54,400	83,825
Miscellaneous Local Sources	89	1,439	440	8,872	
Interfund Revenue		272	1,296,679	1,220,861	1,202,235
Federal Aid	505,047	343,620	2,672		
State Aid	1,010,891	1,166,200	2,013,469	1,342,085	1,417,603
Total Revenues	<u>28,298,766</u>	<u>28,305,297</u>	<u>26,844,135</u>	<u>25,712,159</u>	<u>26,132,485</u>
Expenditures:					
Transportation	22,372,006	16,493,648	14,564,158	13,552,403	14,717,346
Employee Benefits	6,701,091	7,381,186	6,789,001	6,936,792	6,899,455
Debt Service	165,030	660,154	773,143	918,143	940,247
Total Expenditures	<u>29,238,127</u>	<u>24,534,988</u>	<u>22,126,302</u>	<u>21,407,338</u>	<u>22,557,048</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(939,361)</u>	<u>3,770,309</u>	<u>4,717,833</u>	<u>4,304,821</u>	<u>3,575,437</u>
Other Sources (Uses)					
Operating Transfers In	350,000	1,497,267		16,800	1,083,451
Operating Transfers Out		(6,650,000)	(5,150,000)	(4,395,000)	(6,395,000)
Premium on Debt Issuance	145,270		7,382	25,794	9,109
Assigned: Total Other Sources (Uses)	<u>495,270</u>	<u>(5,152,733)</u>	<u>(5,142,618)</u>	<u>(4,352,406)</u>	<u>(5,302,440)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(444,091)</u>	<u>(1,382,424)</u>	<u>(424,785)</u>	<u>(47,585)</u>	<u>(1,727,003)</u>
Fund Balance Beginning of Year	9,022,031	8,577,940	7,195,516	6,770,731	6,723,146
Prior Period Adjustments					
Fund Balance End of Year	<u>\$ 8,577,940</u>	<u>\$ 7,195,516</u>	<u>\$ 6,770,731</u>	<u>\$ 6,723,146</u>	<u>\$ 4,996,143</u>

Sources: Audited Financial Statements of the Town (2013-2017)

NOTE: This schedule NOT audited

**Statement of Revenues, Expenditures and Changes in Fund Balances
Capital Project Fund**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Use of Money & Property	\$ 56	\$ 46	\$ 16	\$	
Intergovernmental Charges					
Sale of Property & Compensation for Loss					
Miscellaneous Local Sources		33,436	423,314	49,963	109,056
Interfund Revenues					
State Aid	113,529		456,346		558,235
Federal Aid	<u>1,239,832</u>	<u>626,038</u>	<u>91,641</u>	<u>81,905</u>	<u>288,257</u>
Total Revenues	<u>1,353,417</u>	<u>659,520</u>	<u>971,317</u>	<u>131,868</u>	<u>955,548</u>
Expenditures:					
Capital Outlay	4,030,727	10,357,977	9,136,987	10,078,971	11,999,435
Debt Service					
Total Expenditures	<u>4,030,727</u>	<u>10,357,977</u>	<u>9,136,987</u>	<u>10,078,971</u>	<u>11,999,435</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,677,310)</u>	<u>(9,698,457)</u>	<u>(8,165,670)</u>	<u>(9,947,103)</u>	<u>(11,043,887)</u>
Other Sources (Uses)					
Operating Transfers In	295,600	7,033,000	6,215,140	5,295,000	8,033,704
Operating Transfers Out	(421,273)	(1,738,837)	(405,945)	(431,700)	(635,773)
Debt Proceeds	6,742,200		5,770,710	5,365,000	4,086,390
Capital Lease Proceeds	<u>402,000</u>		<u>1,705,000</u>		<u>1,911,747</u>
Assigned:					
Total Other Sources (Uses)	<u>7,018,527</u>	<u>5,294,163</u>	<u>13,284,905</u>	<u>10,228,300</u>	<u>13,396,068</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	4,341,217	(4,404,294)	5,119,235	281,197	2,352,181
Fund Balance Beginning of Year	3,644,593	7,985,810	3,581,516	8,700,751	8,981,948
Prior Period Restatement					
Fund Balance End of Year	<u>\$ 7,985,810</u>	<u>\$ 3,581,516</u>	<u>\$ 8,700,751</u>	<u>\$ 8,981,948</u>	<u>\$ 11,334,129</u>

Sources: Audited Financial Statements of the Town (2013-2017)

NOTE: This schedule NOT audited

**Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Funds**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$ 6,960,349	\$ 7,216,536	\$ 8,461,623	\$ 7,979,886	\$ 7,886,662
Real Property Tax Items	92,924	107,153	144,118	146,269	170,276
Departmental Income	4,532,491	4,750,437	5,179,292	5,418,354	6,482,934
Intergovernmental Charges	25,520	36,075	31,930	29,505	64,210
Use of Money & Property	47,540	31,541	24,515	28,243	39,360
Licenses and Permits	1,820,875	1,620,426	1,731,698	1,779,697	1,675,056
Sale of Property & Compensation for Loss	193,751	240,583	659,434	203,694	238,414
Miscellaneous Local Sources	625,164	663,308	650,539	807,206	757,477
Interfund Revenues	146,978	74,835	18,650	73,341	6,783
State Aid	285,000	285,000	319,128	328,780	297,422
Federal Aid	2,025,176	1,446,511	1,370,704	1,683,314	952,243
Total Revenues	<u>16,755,768</u>	<u>16,472,405</u>	<u>18,591,631</u>	<u>18,478,289</u>	<u>18,570,837</u>
Expenditures:					
General Government Support	790,345	627,757	594,429	139,740	304,554
Public Safety	3,088,987	3,206,560	3,276,641	3,141,423	3,152,081
Transportation	1,572,494	1,361,949	1,361,674	1,104,928	1,999,559
Health	1,327,916	1,428,761	1,380,183	1,123,300	1,051,540
Culture and Recreation	457,297	429,298	396,083	381,650	413,448
Home & Community Service	6,689,257	6,468,837	6,787,622	7,087,936	6,163,083
Employee Benefits	4,425,385	4,548,063	4,777,372	4,465,740	5,145,746
Debt Service	189,954	227,230	300,014	350,462	624,216
Total Expenditures	<u>18,541,635</u>	<u>18,298,455</u>	<u>18,874,018</u>	<u>17,795,179</u>	<u>18,854,227</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,785,867)</u>	<u>(1,826,050)</u>	<u>(282,387)</u>	<u>683,110</u>	<u>(283,390)</u>
Other Sources (Uses)					
Operating Transfers In		94,849	41,160	269,577	57,926
Operating Transfers Out		(18,000)	(82,140)		(100,000)
Premium on Debt Issuance	51,078		51,665	12,624	1,626
Total Other Sources (Uses)	<u>51,078</u>	<u>76,849</u>	<u>10,685</u>	<u>282,201</u>	<u>(40,448)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,734,789)</u>	<u>(1,749,201)</u>	<u>(271,702)</u>	<u>965,311</u>	<u>(323,838)</u>
Fund Balance Beginning of Year	11,160,098	9,425,309	7,676,108	7,404,406	8,369,717
Prior Period Adjustments					
Fund Balance End of Year	<u>\$ 9,425,309</u>	<u>\$ 7,676,108</u>	<u>\$ 7,404,406</u>	<u>\$ 8,369,717</u>	<u>\$ 8,045,879</u>

Includes General Town Outside Village, Community Development, Risk Retention, Lighting and Ambulance
Beginning in Fiscal Year Ending December 31, 2012, the Nonmajor Governmental Funds also
include the Water Districts, the Paul J. Fitzpatrick Country Club, and the Permanent Fund.

Sources: Audited Financial Statements of the Town (2013-2017)

NOTE: This schedule NOT audited

2018 ADOPTED BUDGET - FUND SUMMARIES

		Less:		Less:	Less:	Amount
	<u>Appropriation</u>	<u>Estimated</u>	Less:	<u>Appropriated</u>	<u>Application</u>	of
		<u>Revenue</u>	<u>State Aid</u>	<u>Fund Balance</u>	<u>of Reserves</u>	<u>Tax Levy</u>
General Fund - Town Wide	\$ 45,720,983	\$ 15,167,436	\$ 5,867,832		\$ 319,122	\$ 24,366,593
General Fund - Part Town	8,227,982	2,619,226	373,500			5,235,256
Highway Fund I - Repairs & Impvts	20,768,965	1,705,872	1,157,000	600,000		17,306,093
Highway Fund III - Machinery	4,673,474	335,121			2,211	4,336,142
Highway Fund IV - Snow & Misc	1,450,000	2,000				1,448,000
Commack Ambulance District	1,575,114	886,952				688,162
Hauppauge Ambulance District	382,645	52,170		7,414		323,061
Street Lighting District	1,117,619	11,499				1,106,120
Arterial Highway District	660,538	14,508				646,030
Sol Waste/Res Coll/ Disp Impvt	15,089,178	13,455,000	45,000	1,589,178		
Paul J. Fitzpatrick Country Club	524,850	524,850				
Smithtown Water District	3,031,225	3,004,683				26,542
St. James Water District	1,961,136	1,961,136				
1987 Water Supply District	10,500	0				10,500
1989 Water Supply District	5,500	0				5,500
Community Development Fund	172,480	172,480				
Section Eight Vouchers		0				
	<u>\$ 105,372,189</u>	<u>\$ 39,912,933</u>	<u>\$ 7,443,332</u>	<u>\$ 2,196,592</u>	<u>\$ 321,333</u>	<u>\$ 55,497,999</u>

Source: 2018 Adopted Budget of the Town

2019 ADOPTED BUDGET - FUND SUMMARIES

	<u>Appropriation</u>	Less: <u>Estimated Revenue</u>	Less: <u>State Aid</u>	Less: <u>Appropriated Fund Balance</u>	Less: <u>Application of Reserves</u>	Amount of <u>Tax Levy</u>
General Fund - Town Wide	\$ 47,905,875	\$ 15,780,933	\$ 6,062,275	\$ 738,542	\$ 43,774	\$ 25,280,351
General Fund - Part Town	8,121,587	2,637,905	285,000		2,852	5,195,830
Highway Fund I - Repairs & Impvts	21,909,547	2,193,871	1,335,328			18,380,348
Highway Fund III - Machinery	4,584,616	364,538			124,851	4,095,227
Highway Fund IV - Snow & Misc	1,448,000	0				1,448,000
Commack Ambulance District	1,685,481	997,319				688,162
Hauppauge Ambulance District	390,032	66,971				323,061
Street Lighting District	1,144,874	16,990		106,764		1,021,120
Arterial Highway District	685,554	11,194		88,330		586,030
Sol Waste/Res Coll/ Disp Impvt	16,917,614	15,776,648	45,000	982,666	113,300	
Paul J. Fitzpatrick Country Club	535,738	533,000			2,738	
Smithtown Water District	3,068,335	3,048,335			20,000	
St. James Water District	1,937,700	1,937,700				
1987 Water Supply District	10,500	0				10,500
1989 Water Supply District	5,500	0				5,500
Community Development Fund	242,375	242,375				
	<u>\$ 110,593,328</u>	<u>\$ 43,607,779</u>	<u>\$ 7,727,603</u>	<u>\$ 1,916,302</u>	<u>\$ 307,515</u>	<u>\$ 57,034,129</u>

Source: 2019 Adopted Budget of the Town

TOWN OF SMITHTOWN

APPENDIX B

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

NOTE: SUCH FINANCIAL REPORT AND OPINIONS WERE PREPARED AS OF THE DATE THEREOF AND HAVE NOT BEEN REVIEWED AND/OR UPDATED IN CONNECTION WITH THE PREPARATION AND DISSEMINATION OF THIS OFFICIAL STATEMENT.

**TOWN OF SMITHTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
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FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
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INTRODUCTORY SECTION

TOWN OF SMITHTOWN
PRINCIPAL OFFICIALS
December 31, 2017

ELECTED OFFICIALS

TOWN BOARD:

Supervisor	Patrick R. Vecchio**
Councilman / Deputy Supervisor	Thomas J. McCarthy
Councilman	Edward R. Wehrheim**
Councilwoman	Lisa M. Inzerillo
Councilwoman	Lynne C. Nowick

TOWN CLERK

Vincent Puleo

RECEIVER OF TAXES

Deanna Varricchio

SUPERINTENDENT OF HIGHWAYS

Robert Murphy

APPOINTED OFFICIALS

Town Assessor	Peter D. Johnson
Town Attorney	Matthew Jakubowski
Town Comptroller	Donald P. Musgnug
Town Engineer	Mark Riley

** Position changed effective January 1, 2018

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Smithtown, New York (the "Town"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

BEYOND THE NUMBERS...

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Smithtown, New York as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Albert, Viggiano, Zoh & Gony P.C.

Hauppauge, New York
August 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

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

As management of the Town of Smithtown (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2017. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements:

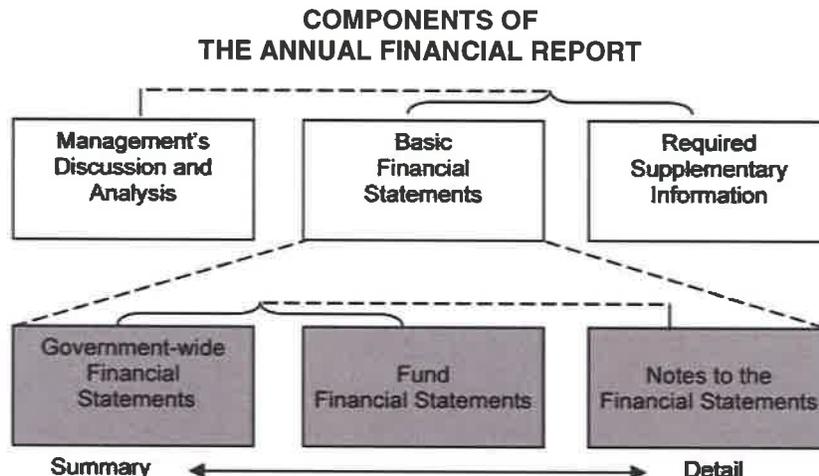
- The assets and deferred outflows of resources of the Town exceed its liabilities and deferred inflows of resources at the close of 2017 by \$30,820,885 (net position).
- The Town's total net position decreased by \$9,732,825 from operations or 24.0%, primarily due to the ongoing recognition of the Town's postemployment benefits healthcare (OPEB) costs approximating \$10.0 million as well as recognition of nearly \$1.4 million for the Town's share of the New York State Pension Plan expense as required by Governmental Accounting Standards Board (GASB) Statement No. 68.

Fund Financial Statements:

- As of the close of 2017, the Town's governmental funds reported combined ending fund balances of \$49,898,619, an increase of 3.3% or \$1,586,294. Of the fund balance amount, \$3,288,014 is in non-spendable form or is required to remain intact. The remaining \$46,610,605 or approximately 93.4% of total fund balances is in spendable form with various levels of spending constraint: restricted, assigned, or unassigned making them available for spending at the Town Board's discretion.
- As of the close of 2017, the Town's total fund balance for the general fund was \$20,506,660, an increase of 5.5% from the prior year. The assigned and unassigned fund balance for the general fund was \$14,379,329, or 31.5% of total general fund expenditures and other uses.
- The Town's total bonded debt outstanding, exclusive of premiums, was \$21,426,390, an increase of \$1,540,680.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements

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

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

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

The Town's government-wide financial statements include all of the governmental activities of the Town itself (known as the primary government).

Governmental Activities

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

Fund Financial Statements

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

Governmental Funds

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Governmental Funds (continued)

The Town maintains twelve (12) governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the four (4) major funds. The general fund, highway fund, refuse and garbage funds and capital projects fund are reported as major funds. Data from the eight (8) other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Other Supplementary Information" section of this report.

The Town adopts an annual budget for its general fund and special revenue funds. The budget for the capital projects fund is done on a project-by-project basis. Budgetary comparison schedules have been provided for the general fund, highway fund and refuse and garbage funds to demonstrate compliance with their adopted budgets. Budgetary comparison schedule for these major funds can be found in the section labeled "Required Supplementary Information Other Than Management's Discussion and Analysis".

The governmental funds financial statements can be found in the "Basic Financial Statements" section of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statement can be found in the "Basic Financial Statements" section of this report.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements, this report contains supplementary information immediately following the notes to the financial statements.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$30,820,885 at the close of the most recent year.

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

	2017	2016*
Current and other assets		
Current assets	\$ 57,438,248	\$ 55,963,009
Capital assets	124,184,578	120,194,043
Other non-current assets	768,000	400,000
Total assets	<u>182,390,826</u>	<u>176,557,052</u>
Deferred outflows of resources		
	<u>10,126,136</u>	<u>20,292,648</u>
Current and other liabilities		
Current liabilities	12,619,053	11,012,463
Non-current liabilities	145,840,632	141,714,009
Total liabilities	<u>158,459,685</u>	<u>152,726,472</u>
Deferred inflows of resources		
	<u>3,236,392</u>	<u>3,569,518</u>
Net position		
Net investment in capital assets	105,055,497	104,766,499
Restricted	5,578,220	1,092,710
Unrestricted (deficit)	(79,812,832)	(65,305,499)
Total net position	<u>\$ 30,820,885</u>	<u>\$ 40,553,710</u>

* Certain reclassifications were made to conform with the current year presentation.

By far the largest portion of the Town's net position, \$105,055,497, reflects the net investment in capital assets (e.g., land and construction in progress, buildings and improvements, vehicles (including capital leases), machinery, furniture and office equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

The deficit balance in unrestricted net position does not necessarily indicate fiscal stress. The deficit balance of unrestricted net position arose primarily due to long-term liabilities, which include general obligation bonds, compensated absences, claims and judgments, landfill closure and postclosure care costs, pollution remediation obligations, net pension liability-proportionate share and postemployment benefits healthcare costs (OPEB) that will be funded through future budgetary appropriations when they become payable in future periods. At the end of the current year, the Town was able to report positive balances in the categories of net investment in capital assets and restricted. The same held true for the prior year.

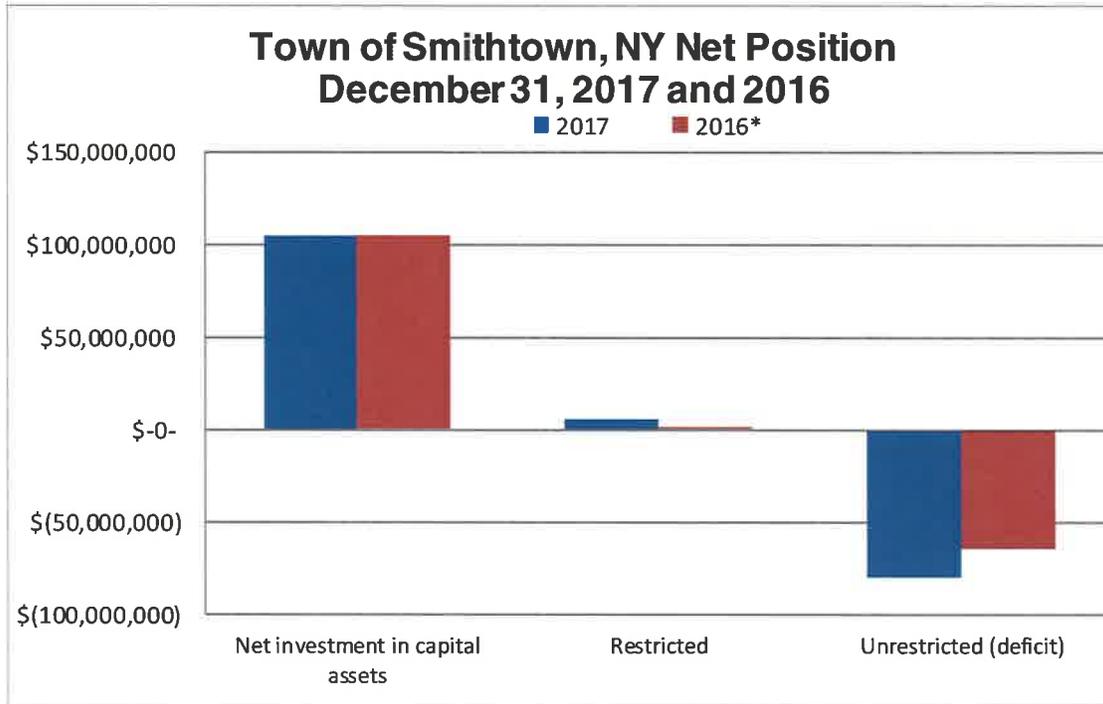
Assets increased by \$5,833,774, mainly due to an increase in capital assets of \$3,990,535 and an increase in due from other governments of \$1,004,222.

Deferred outflows of resources decreased by \$10,166,512 due to an increase in net pension liability. See Note 3.E. for breakdown of deferred outflows of resources related to pensions.

Restricted net position also increased by \$4,485,510 mostly due to an increase in restricted capital projects related to land and sewer projects of \$4,022,578.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)
GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)



* Certain reclassifications were made to conform with the current year presentation.

The total net position of the Town as of December 31, 2017 was \$30,820,885, a decrease of \$9,732,825 from the prior year. Of this amount, \$105,055,497 was the net investment in capital assets, while \$5,578,220 was restricted by statute or other specific purpose and \$79,812,832 was the unrestricted deficit.

Total net position was again decreased in the current year and will likely continue to decrease in subsequent years due to the ongoing recognition of the Town's postemployment benefits healthcare (OPEB) costs. The unfunded liability for postemployment benefits healthcare costs increased in the current year by \$10,047,645 bringing the OPEB liability at year end to \$89,326,202. Additional information on postemployment benefits healthcare costs can be found in Note 3.F to the financial statements. In addition, the ongoing recognition of the Town's share of the New York State Pension Plan net pension liability resulted in an additional decrease in net position of \$1,410,366. Additional information on the Town's pension plan can be found in Note 3.E to the financial statements.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Condensed Statement of Activities and Changes in Net Position

Governmental Activities

For the years ended December 31,

	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 33,572,704	\$ 31,210,971
Operating grants and contributions	2,407,216	2,977,295
Capital grants and contributions	2,274,496	1,627,288
	<u>38,254,416</u>	<u>35,815,554</u>
General revenues:		
Real property taxes	55,497,999	55,497,999
Real property tax items	1,094,187	928,847
Non-property tax items - franchise tax	2,851,546	2,778,370
Mortgage tax	4,660,798	4,230,744
Investment earnings	236,825	134,484
Sale of property and compensation for loss	525,503	256,503
State aid - unrestricted	671,178	671,178
Other	764,219	740,312
	<u>66,302,255</u>	<u>65,238,437</u>
Total revenues	<u>104,556,671</u>	<u>101,053,991</u>
Expenses		
General government support	22,563,357	21,900,192
Public safety	12,438,314	12,134,776
Health	3,618,923	2,789,577
Transportation	32,868,744	31,822,850
Economic assistance and opportunity	640	640
Culture and recreation	13,466,496	13,055,829
Home and community services	28,723,711	29,895,401
Interest on debt	609,311	476,737
	<u>114,289,496</u>	<u>112,076,002</u>
Total expenses	<u>114,289,496</u>	<u>112,076,002</u>
Change in net position	(9,732,825)	(11,022,011)
Net position - beginning	40,553,710	51,575,721
Net position - ending	<u>\$ 30,820,885</u>	<u>\$ 40,553,710</u>

The change in net position from all combined activities was a decrease of \$9,732,825.

The key elements of the changes in net position was the recognition of OPEB costs of \$10,047,645 across the various functions as well as pension expense related to the net pension liability of \$1,410,366.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

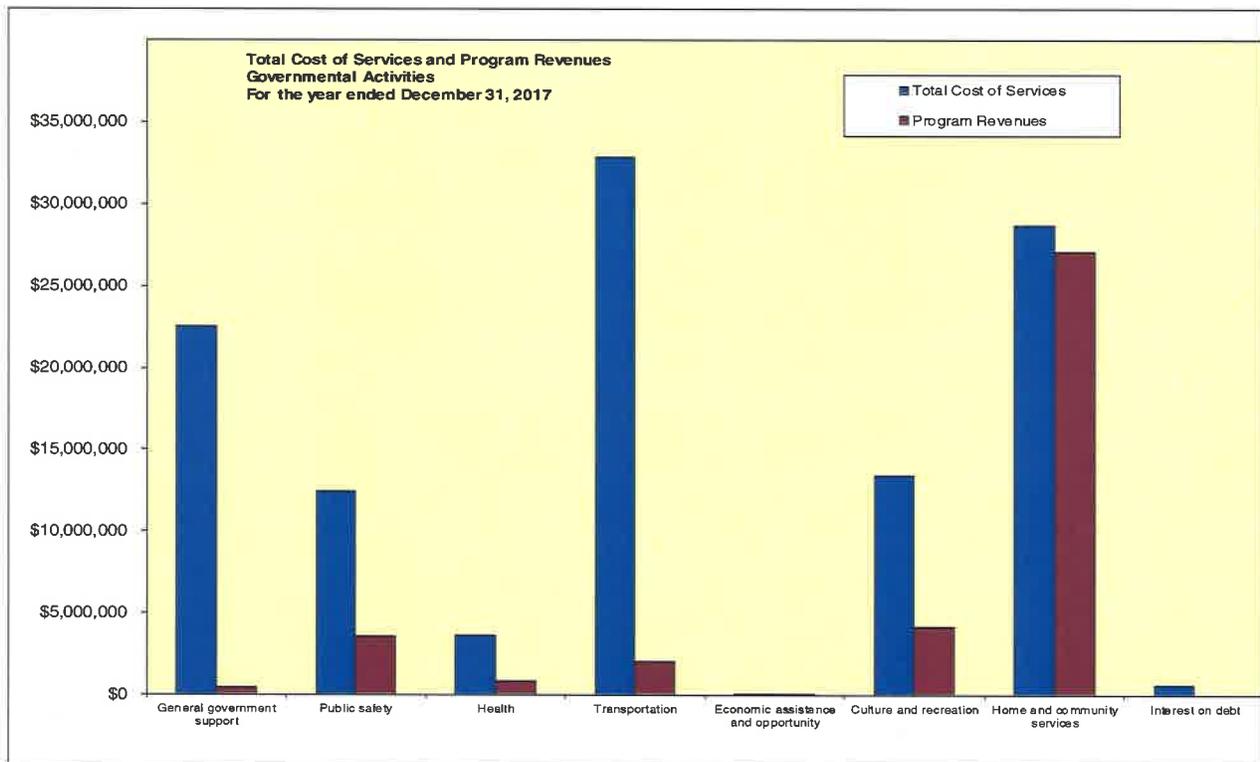
The following chart illustrates the total expenses by program function for the Town's governmental funds.

Total Cost of Services, Program Revenues and Net Cost of Services

Governmental Activities

For the years ended December 31,

	2017		2016		2017		2016	
	Total Cost of Services		Program Revenue		Net Cost of Services			
General government support	\$ 22,563,357	\$ 21,900,192	\$ 446,621	\$ 448,511	\$ (22,116,736)	\$ (21,451,681)		
Public safety	12,438,314	12,134,776	3,569,830	2,662,311	(8,868,484)	(9,472,465)		
Health	3,618,923	2,789,577	825,523	757,773	(2,793,400)	(2,031,804)		
Transportation	32,868,744	31,822,850	2,063,083	1,490,153	(30,805,661)	(30,332,697)		
Economic assistance and opportunity	640	640	59,840		59,200	(640)		
Culture and recreation	13,466,496	13,055,829	4,213,755	4,033,829	(9,252,741)	(9,022,000)		
Home and community services	28,723,711	29,895,401	27,075,764	26,422,977	(1,647,947)	(3,472,424)		
Interest on debt	609,311	476,737			(609,311)	(476,737)		
	<u>\$ 114,289,496</u>	<u>\$ 112,076,002</u>	<u>\$ 38,254,416</u>	<u>\$ 35,815,554</u>	<u>\$ (76,035,080)</u>	<u>\$ (76,260,448)</u>		



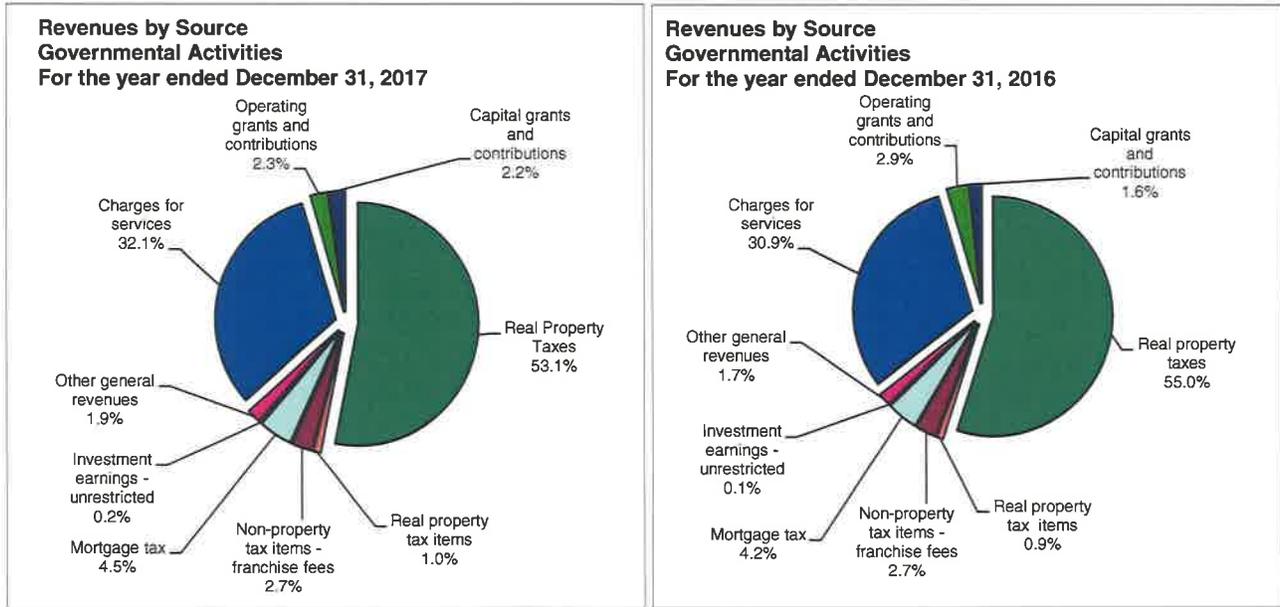
The total cost of all governmental activities this year was \$114,289,496. The net cost of these services after being partially subsidized by program revenues of \$38,254,416 was \$76,035,080.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

The following graph and chart illustrate the revenues by source for the Town's governmental funds.



Revenue by Source - Governmental Activities
Years ended December 31,

	2017	2016
Real property taxes	\$ 55,497,999	\$ 55,497,999
Real property tax items	1,094,187	928,847
Non-property tax items - franchise fees	2,851,546	2,778,370
Mortgage tax	4,660,798	4,230,744
Investment earnings - unrestricted	236,825	134,484
Other general revenues	1,960,900	1,667,993
Charges for services	33,572,704	31,210,971
Operating grants and contributions	2,407,216	2,977,295
Capital grants and contributions	2,274,496	1,627,288
	<u>\$104,556,671</u>	<u>\$ 101,053,991</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

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

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, spendable fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

At December 31, 2017, the Town's governmental funds reported total ending fund balances of \$49,898,619, an increase of \$1,586,294. The category breakdown is as follows:

- **Nonspendable fund balance** - \$3,288,014 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$10,755,009 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$21,777,133 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$14,078,463 (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted and assigned fund balance.

The Town began the year with an anticipated \$2,777,414 net decrease resulting from the appropriation of fund balance for the 2017 budget in the governmental funds and concluded the year with a net increase in fund balance of \$1,586,294.

These items are discussed in greater detail in the individual fund analyses that follow.

General Fund

The general fund is the chief operating fund of the Town. At the end of the current year, the total fund balance of the general fund was \$20,506,660, increasing \$1,067,968, or 5.5%, from the prior year. Of this amount, \$1,188,868 is not in spendable form (prepaids) and \$4,938,463 is restricted for capital reserves for land and sewer, park and land deposits and debt service. The remaining \$14,379,329 of the fund balance is in spendable form as follows: \$154,800 has been assigned for purchase orders by the Town Comptroller, \$146,066 of other assignments is related to the Harned Sawmill, and the remaining \$14,078,463 represents spendable, unassigned fund balance.

The major components of the fund balance increase of \$1,067,968 were:

- The general fund had revenues (\$46,444,730) in excess of expenditures (\$43,330,134) of \$3,114,596. There were net financing uses amounting to \$2,046,628 resulting in an increase to fund balance of \$1,067,968. The general fund began the year with an authorized use of prior fund balance of \$151,986 for debt reserve and \$87,952 for encumbrances. Additional appropriated fund balance during the year was \$2,659,140, the majority being \$1,350,104 and \$814,593 transfers out to the capital projects fund and to other funds, respectively.
- Revenue and other financing sources were greater than the final budget by \$1,512,094. Contributing factors were as follows:
 - State aid mortgage tax exceeded budget by \$860,798 because more homes were sold or refinanced than were anticipated based on 2016 results.
 - Cablevision franchise fees were greater than budget by \$174,802.
 - Operating transfers in from capital projects funds were greater than budget by \$235,304.
 - Commercial waste generation fees were greater than budget by \$158,138 because improving market conditions caused the waste generated to exceed expectations.
 - Park fees relating to park land were greater than budget by \$193,253.

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

General Fund (continued)

- Actual expenditures and other financing uses, were favorable to final budget before year end encumbrances by \$2,454,952. Contributing factors were as follows:
 - Reduction in salaries and employee benefits of \$657,661 across all departments which were due to retirements and unfilled positions.
 - Land development rights budgeted but not purchased were \$243,150.
 - Home and community services were under budget for contractual expenses for resource recovery plant of \$376,260, and various maintenance and special program costs for the Department of Environment and Waterways of \$136,036.
 - Serial bond interest had a favorable variance of \$39,625 due achieving a lower interest rate than what was contemplated in the budget.
 - Utilities were less than budget across the fund for fuel, electric, water and heat and telephone by \$108,166.
 - Other public safety costs for remediation of property were under budget by \$94,378.
 - Maintenance costs for buildings and equipment were less than budget by \$210,202.

Highway Fund

At the end of the current year, the total fund balance of the highway fund was \$4,996,143. The 2017 budget appropriated \$600,000 of fund balance along with \$17,407 for encumbrances and during the year an additional \$2,318,728 of additional fund balance was used mostly for capital expenditures, however only \$1,727,003 of fund balance was needed resulting in a favorable budget variance of \$689,165. Fund balance is comprised of \$1,332,632 in non-spendable form (inventory and prepaids) and \$286,081 is restricted for debt service. The remaining \$3,377,430 of the fund balance is in spendable form as follows: \$600,000 has been assigned by the Town Board for the subsequent year's budget, \$519,967 has been assigned for purchase orders by the Town Comptroller and the remaining \$2,257,463 is assigned for highway purposes.

The decrease in fund balance of \$1,727,003 was comprised of appropriated surplus uses of \$2,600,000 for capital projects and \$211,558 for snow removal costs and \$124,577 for other increased medical and increased liability insurance offset by positive budget variances in other accounts.

The significant variances accounting for the \$1,209,132 positive operating variance before year end encumbrances were:

- Equipment and equipment repair were less than budget for highway machinery by \$577,129.
- Unused contingency budget of \$333,681.
- Equipment and maintenance costs were less than budget for highway road by \$62,045.
- Interfund revenues were less than budget by \$93,392 related to leaf collection.
- Other financing sources were \$285,025 for transfers in related to debt service.

Refuse and Garbage Fund

At the end of the current year, the total fund balance of the refuse and garbage fund was \$5,015,808. The 2017 budget appropriated \$1,100,000 of surplus along with \$68,903 of debt reserve and purchase orders of \$50. During the year \$20,051 of additional fund balance was used for increased medical and increased liability insurance, however the fund had a \$216,986 increase in fund balance resulting in a favorable variance to budget of \$1,404,765. The increase to fund balance of \$216,986 was 4.5% higher than the prior year. Fund balance is comprised of \$130,150 in non-spendable form (prepaids) and \$15,632 is restricted for debt service. The remaining \$4,870,026 of the fund balance is in spendable form as follows: \$1,589,178 has been assigned by the Town Board for the subsequent year's budget, \$1,225 has been assigned for purchase orders by the Town Comptroller and the remaining \$3,279,623 is assigned for residential refuse and garbage purposes.

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Refuse and Garbage Fund (continued)

The main reasons for the \$1,405,990 favorable variance before year end encumbrances were:

- Solid waste costs were less than budget for resource recovery of \$300,354 and Special Leaf Program of \$369,555 as well as other disposal costs of \$252,189 for solid waste, electronic waste, construction and demolition and printing.
- Sale of refuse for recycling was greater than budget by \$44,917 as well as increased grant funding for Household Hazardous Waste was greater than budget by \$87,150.
- Salaries and employee benefits across the fund were less than budget by \$160,554, Fuel was less than budget by \$72,587, motor vehicle maintenance and plant maintenance were less by \$31,771 and equipment costs were less than budget by \$20,815. Other utilities for electric, heat and telephone were less budget by \$11,823.

Capital Projects Fund

At the end of the current year, the capital projects fund had a total fund balance of \$11,334,129 increasing \$2,352,181, or 26.2%, from the prior year. Of this amount, \$5,478,375 was restricted as follows: \$3,452,081 for capital projects and \$2,026,294 for purchase orders. The remaining \$5,855,754 has been assigned as follows: \$4,724,274 for capital purposes and \$1,131,480 for purchase orders.

The main reasons for the fund balance increase of \$2,352,181 were:

- The Town expended \$4,687,274 funded by serial bonds.
- The Town reported \$1,911,747 for capital outlay for leases under a fleet management agreement.
- The Town expended \$5,400,414 on town funded and grant funded projects.
- Serial bond proceeds were \$4,086,390, capital lease proceeds were \$1,911,747, transfers in for Town funded projects were \$8,033,704 and transfers out for debt service payments for completed projects were \$635,773.
- Federal and State aid and miscellaneous revenues amounted to \$955,548.

Nonmajor Governmental Funds

The 2017 budget appropriated \$1,077,414 of fund balance along with \$254,000 of debt reserve and \$78,152 for encumbrances and during the year additional appropriations of fund balance of \$306,619 and when combined with a positive budget variance of \$1,392,347 resulted in a decrease of \$323,838 in fund balance over the eight nonmajor funds.

The main reasons for the decrease in fund balance of \$323,838 including the total fund balance appropriations of \$1,716,185 and the positive budget variance of \$1,392,347 were:

- The town outside village fund had an increase of \$534,106. Total appropriated fund balance was \$105,593. The positive variance of \$639,699 was mostly due to filing fees revenues greater than anticipated by \$331,632 and state aid for planning grants \$64,078 less than budget. Expenditures that were less than budget included salaries for \$64,405, maintenance of motor vehicles and traffic signals for \$64,445, traffic department equipment for \$45,259 and equipment rental for \$4,855, community forestry expense \$45,182 and professional fees \$179,912.
- The special revenues fund had a decrease of \$963,977. The 2017 budget appropriated \$1,070,000 of fund balance and an additional appropriation of \$75,000 was used during the year for increased liability settlement costs. The positive budget variance of \$181,023 resulted mostly from greater reimbursements from workers compensation and employee medical insurance of \$60,848 and other insurance expense less than budget by \$124,998.

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Nonmajor Governmental Funds (continued)

- The street lighting districts fund had a decrease of \$164,017 in fund balance mostly due to a budgeted use of debt service reserve of \$254,000 and additional appropriated fund balance of \$20,986. The positive budget variance of \$110,969 was caused mostly from electric costs being less than budget by \$25,145 and an unused contingency budget of \$67,993.
- The Paul J. Fitzpatrick Country Club had a decrease of \$16,115 in fund balance mostly due an appropriation of fund balance for capital expenditures of \$100,000 and positive variances of \$83,885 that consisted mostly from expenses less than budget in payroll and employee benefits of \$48,042, electric and heat of \$6,076, unused contingency of \$9,678.
- The ambulance districts fund had an increase of \$154,827. Total appropriated fund balance was \$82,990 and the positive budget variance was \$237,817 mostly due to increased ambulance revenues.
- Special grants has a decrease of \$120,861 in fund balance. This is due to the transfer of the Department of Housing and Urban Development (HUD) Section 8 Program to another agency effective 7/1/2017.
- The Permanent Fund had an increase of \$1,200 in fund balance.
- The water districts fund had an increase of \$250,999. Total appropriated fund balance during the year was \$7,616 and the positive budget variance of \$258,615 was mostly due to expenses less than budget for maintenance of \$166,283 and equipment rental costs of \$16,549 and water flow improvements and equipment were under budget by \$44,230 and unused contingency of \$21,223.

General Fund Budgetary Highlights

During the year, there was of \$3,804,707 or 8.6% increase in overall spending between the original and final amended budget, inclusive of transfers. There are no variances that are expected to have a significant effect on future services or liquidity. Please see the "General Fund" section for more details on the comparison of final budget and actual amounts. Over the course of the year, the Town Board revises the budget as needed so that expenditures do not exceed appropriations.

The following are the main components of the increase in appropriations:

- \$75,920 for equipment rental funded from sale of surplus equipment.
- \$35,000 for salaries for park employees funded by Zoos, Botanical Gardens and Aquariums Program (ZBGA) NYS grant.
- \$100,491 for Seniors Nutrition Grant related expenses for salaries \$37,500, contractual and other of \$62,991.
- \$175,000 for LISC Grant expense related to zombie homes funded by grant revenue.
- \$10,000 for special programs funded from Hoyt Farm Nature program fees.
- \$223,044 for remediation of unsafe structures to be reimbursed to the Town through special assessments.
- \$122,413 for public safety part time salaries funded from various revenues related to public safety such as radio dispatch services for \$59,265 and fines and fee revenues for \$63,148.
- \$146,420 was funded by appropriated surplus for medical insurance and related expenses and \$43,266 funded by appropriated surplus for liability insurance and related costs.
- \$13,252 for professional and veterinary expenses funded from animal shelter spay and microchip fee income and \$7,700 for animal shelter field equipment funded by gifts and donations.
- \$324,150 for land development rights funded from appropriated surplus.
- \$73,053 for maintenance and repairs, parks equipment and parks building improvements funded from a transfer in from capital projects.
- \$798,426 for transfer to the highway machinery for heavy equipment purchases funded from appropriated surplus and \$1,350,104 for transfers to capital projects funded from appropriated surplus.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

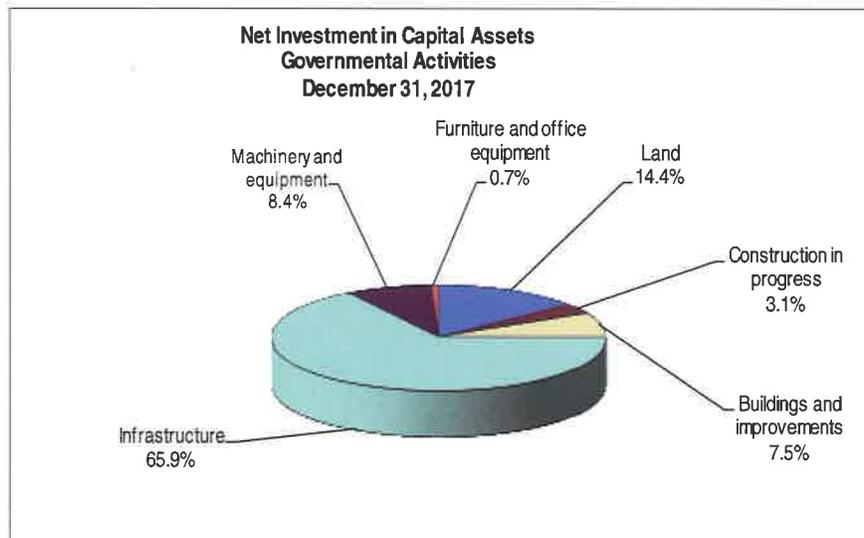
The Town's capital assets, net of accumulated depreciation, for its governmental activities as of December 31, 2017 amounts to \$124,184,578. This investment in capital assets includes land, buildings and improvements, infrastructure, vehicles, machinery and equipment, furniture and office equipment and construction in progress.

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

- Highway road, drainage, and sidewalk improvements throughout the Town were completed for \$9,462,906.
- Other infrastructure improvements were \$1,390,959, which mainly consisted of landfill and water improvements.
- Construction in progress additions totaled \$1,137,506.
- The Town reported \$1,911,747 in capital lease obligations for new five-year leased vehicles obtained through a fleet management agreement with Enterprise.
- The Town purchased machinery and equipment totaling \$3,503,582.

Capital Assets - Net of Accumulated Depreciation

Governmental Activities:	2017	2016
Land	\$ 17,818,588	\$ 17,759,123
Construction in progress	3,899,482	6,613,162
Buildings and improvements	9,298,175	9,086,441
Infrastructure	81,831,266	78,003,998
Machinery and equipment	10,439,024	7,848,386
Furniture and office equipment	898,043	882,933
Total capital assets	\$ 124,184,578	\$ 120,194,043



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

The Town has a five-year capital plan. The five-year plan allows for continued improvements to infrastructure, buildings and equipment while issuing and managing the Town's debt. The capital plan is revised, updated and re-adopted annually.

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Debt Administration

Long-Term Debt

At the end of 2017, the Town had total general obligation bonded debt outstanding of \$21,426,390 in comparison to \$19,885,710 at the end of the prior year. For the year ended December 31, 2017, the Town's debt increased by \$1,540,680. The entire debt is backed by the full faith and credit of the Town.

In November 2016, Moody's Investors Service, Inc. upgraded the Town's credit rating to an "Aaa" and was reaffirmed by Moody's in May 2018.

New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year average full valuation. The current debt limitation for the Town is \$1,280,423,587 which is significantly in excess of the Town's outstanding general obligation debt. The percentage of debt limit exhausted at December 31, 2017 was 1.67%.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town has adopted a budget for 2018 that increased revenues and expenditures by \$1,450,749 over the 2017 original budget in the general fund. The general fund budget includes a real property tax decrease of approximately 0.95% over 2017 in an effort to manage costs while decreasing real property taxes.

State Aid and Local Assistance

The Town receives financial assistance from New York State and Suffolk County. The 2018 budget includes mortgage tax of \$4,600,000; state aid per capita of \$671,178 and state government assistance of \$2,122,154. If the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the Town, may be affected by a delay in the payment of state aid. The State is not constitutionally obligated to maintain or continue state aid to the Town.

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012, and lasting through at least 2020, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. There are permitted exceptions and adjustments. The adopted budget for 2017 did not exceed the tax levy limit.

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances. If you have any questions about this report or need any additional information, contact the Town Comptroller at 40 Maple Ave Smithtown, New York 11787 or by telephone 631-360-7530.

BASIC FINANCIAL STATEMENTS

TOWN OF SMITHTOWN
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 42,174,715
Cash - restricted	4,904,013
Accounts receivable	3,668,935
Due from other governments	3,704,157
Prepays	2,324,247
Inventory of materials and supplies	662,181
Total current assets	57,438,248
Non-current assets:	
Receivables, service concession arrangements, net of current	768,000
Non-depreciable capital assets	21,718,070
Capital assets, net of accumulated depreciation	102,466,508
Total non-current assets	124,952,578
Total assets	182,390,826
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	10,126,136
Total deferred outflows of resources	10,126,136
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	6,317,127
Accrued interest payable	158,763
Unearned revenues	58,948
Other liabilities	1,430
Non-current liabilities due within one year:	
General obligation bonds payable, inclusive of premiums	2,547,803
Compensated absences payable	910,263
Capital leases payable	621,542
Claims and judgments payable	504,282
Estimated liability for landfill closure and postclosure care costs	536,895
Pollution remediation obligations	962,000
Total current liabilities	12,619,053
Non-current liabilities due in more than one year:	
General obligation bonds payable, inclusive of premiums	19,253,577
Compensated absences payable	7,000,260
Capital leases payable	2,184,534
Claims and judgments payable	3,846,277
Net pension liability, proportionate share	10,744,827
Estimated liability for landfill closure and postclosure care costs	13,484,955
Postemployment benefits healthcare costs	89,326,202
Total non-current liabilities	145,840,632
Total liabilities	158,459,685
DEFERRED INFLOWS OF RESOURCES	
Deferred service concession arrangement receipts	1,105,000
Pensions	1,785,268
Unearned revenue - property taxes	218,050
Unearned revenue - other miscellaneous items	128,074
Total deferred inflows of resources	3,236,392
NET POSITION	
Net investment in capital assets	105,055,497
Restricted for:	
Culture and recreation	572,887
Debt service	674,207
Capital projects	4,022,578
Home and community services	6,962
Permanent fund:	
Nonexpendable	301,586
Unrestricted (deficit)	(79,812,832)
Total net position	\$ 30,820,885

TOWN OF SMITHTOWN
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

Function/ Program	Expenses	Program Revenues			Net Expense and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT:					
Governmental Activities:					
General government support	\$ 22,563,357	\$ 357,747	\$ 88,874		\$ (22,116,736)
Public safety	12,438,314	3,522,814	47,016		(8,868,484)
Health	3,618,923	541,826	283,697		(2,793,400)
Transportation	32,868,744	176,734	82,815	\$ 1,803,534	(30,805,661)
Economic assistance and opportunity	640	59,840			59,200
Culture and recreation	13,466,496	3,369,261	844,494		(9,252,741)
Home and community services	28,723,711	25,544,482	1,060,320	470,962	(1,647,947)
Interest on debt	609,311				(609,311)
Total governmental activities	\$ 114,289,496	\$ 33,572,704	\$ 2,407,216	\$ 2,274,496	\$ (76,035,080)
General revenues:					
					55,497,999
					1,094,187
					2,851,546
					4,660,798
					236,825
					525,503
					671,178
					764,219
				Total general revenues	66,302,255
				Change in net position	(9,732,825)
				Net position - beginning	40,553,710
				Net position - ending	\$ 30,820,885

**TOWN OF SMITHTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017**

	MAJOR FUNDS			
	General	Highway	Refuse and Garbage Funds	Capital Projects
ASSETS				
Cash and cash equivalents	\$ 12,483,268	\$ 4,278,795	\$ 6,303,880	\$ 12,118,225
Cash - restricted	4,595,465			
Accounts receivable	1,675,439	10,618	9,018	10,556
Due from other funds	374,112	442,041	1,781	
Due from other governments	2,538,353	27,194	87,571	829,722
Prepays	1,188,868	670,451	130,150	
Inventory		662,181		
Total assets	<u>\$ 22,855,505</u>	<u>\$ 6,091,280</u>	<u>\$ 6,532,400</u>	<u>\$ 12,958,503</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,170,888	\$ 749,396	\$ 1,516,592	\$ 969,665
Due to other funds	23,764	127,691		628,750
Unearned revenue	24,689			25,959
Other liabilities	1,430			
Total liabilities	<u>2,220,771</u>	<u>877,087</u>	<u>1,516,592</u>	<u>1,624,374</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue - property taxes		218,050		
Unearned revenue - other miscellaneous items	128,074			
Total deferred inflows of resources	<u>128,074</u>	<u>218,050</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCES				
Nonspendable	1,188,868	1,332,632	130,150	
Restricted	4,938,463	286,081	15,632	5,478,375
Assigned	300,866	3,377,430	4,870,026	5,855,754
Unassigned	14,078,463			
Total fund balances	<u>20,506,660</u>	<u>4,996,143</u>	<u>5,015,808</u>	<u>11,334,129</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 22,855,505</u>	<u>\$ 6,091,280</u>	<u>\$ 6,532,400</u>	<u>\$ 12,958,503</u>

Non-Major Governmental Funds	Total Governmental Funds
\$ 6,990,547	\$ 42,174,715
308,548	4,904,013
1,147,304	2,852,935
25,603	843,537
221,317	3,704,157
334,778	2,324,247
	662,181
<u>\$ 9,028,097</u>	<u>\$ 57,465,785</u>
\$ 910,586	\$ 6,317,127
63,332	843,537
8,300	58,948
	1,430
<u>982,218</u>	<u>7,221,042</u>
	218,050
	128,074
<u>-0-</u>	<u>346,124</u>
636,364	3,288,014
36,458	10,755,009
7,373,057	21,777,133
	14,078,463
<u>8,045,879</u>	<u>49,898,619</u>
<u>\$ 9,028,097</u>	<u>\$ 57,465,785</u>

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

Total fund balances - governmental funds \$ 49,898,619

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

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

Capital assets - non-depreciable	\$ 21,718,070	
Capital assets - depreciable	304,908,976	
Accumulated depreciation	<u>(202,442,468)</u>	124,184,578

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

General obligation bonds	(21,426,390)	
Compensated absences	(7,910,523)	
Capital leases	(2,806,076)	
Claims and judgments	(4,350,559)	
Net pension liability, proportionate share	(10,744,827)	
Estimated liability for landfill closure and postclosure care costs	(14,021,850)	
Postemployment benefits healthcare costs	(89,326,202)	
Pollution remediation obligations	<u>(962,000)</u>	(151,548,427)

Deferred outflows of resources related to pensions included in the Statement of Net Position 10,126,136

Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Premiums on debt issuance included in the Statement of Net Position (374,990)

Unbilled water applicable to the Town's governmental activities not due and receivable in the current period, and accordingly, are not reported in the funds. However, these assets are included in the Statement of Net Position. 479,000

Deferred inflows of resources related to pensions included in the Statement of Net Position (1,785,268)

Receivables, service concession arrangements are not available to pay for current period expenditures and therefore are not reported in the funds.	1,105,000	
Deferred inflows, service concession arrangements not reported in the funds.	<u>(1,105,000)</u>	-0-

Interest payable applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Position. (158,763)

Net position of governmental activities **\$ 30,820,885**

TOWN OF SMITHTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended December 31, 2017

	MAJOR FUNDS			
	General	Highway	Refuse and Garbage Funds	Capital Projects
REVENUES				
Real property taxes	\$ 24,600,992	\$ 23,010,345		
Real property tax items	577,617	346,294		
Non-property tax items	2,851,546			
Departmental income	10,347,064		\$ 12,775,542	
Intergovernmental charges	615,942	13,951	480,008	
Use of money and property	324,956	48,205	32,392	
Licenses and permits	128,118	83,825		
Fines and forfeitures	285,042			
Sale of property and compensation for loss	221,036	10,027	224,917	
Miscellaneous local sources	172,374			\$ 109,056
Interfund revenues		1,202,235	621	
State aid	5,866,464	1,417,603	102,850	558,235
Federal aid	453,579			288,257
Total revenues	<u>46,444,730</u>	<u>26,132,485</u>	<u>13,616,330</u>	<u>955,548</u>
EXPENDITURES				
Current:				
General government support	12,674,802			
Public safety	3,604,520			
Health	869,792			
Transportation	965,030	14,717,346		
Economic assistance and opportunity	640			
Culture and recreation	6,762,535			
Home and community services	5,102,645		11,923,704	
Employee benefits	11,387,999	6,899,455	1,320,949	
Capital Outlay				11,999,435
Debt Service:				
Principal	1,692,749	803,286	143,814	
Interest	269,422	136,961	32,897	
Total expenditures	<u>43,330,134</u>	<u>22,557,048</u>	<u>13,421,364</u>	<u>11,999,435</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,114,596</u>	<u>3,575,437</u>	<u>194,966</u>	<u>(11,043,887)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	308,357	1,083,451	15,632	8,033,704
Transfers out	(2,368,297)	(6,395,000)		(635,773)
Debt issuance proceeds				4,086,390
Capital lease proceeds				1,911,747
Premiums on debt issuance	13,312	9,109	6,388	
Total other financing sources (uses)	<u>(2,046,628)</u>	<u>(5,302,440)</u>	<u>22,020</u>	<u>13,396,068</u>
Net change in fund balances	1,067,968	(1,727,003)	216,986	2,352,181
Fund balances at beginning of year	<u>19,438,692</u>	<u>6,723,146</u>	<u>4,798,822</u>	<u>8,981,948</u>
Fund balances at end of year	<u>\$ 20,506,660</u>	<u>\$ 4,996,143</u>	<u>\$ 5,015,808</u>	<u>\$ 11,334,129</u>

See notes to the financial statements .

Non-Major Governmental Funds	Total Governmental Funds
\$ 7,886,662	\$ 55,497,999
170,276	1,094,187
	2,851,546
6,482,934	29,605,540
64,210	1,174,111
39,360	444,913
1,675,056	1,886,999
	285,042
238,414	694,394
757,477	1,038,907
6,783	1,209,639
297,422	8,242,574
952,243	1,694,079
<u>18,570,837</u>	<u>105,719,930</u>
304,554	12,979,356
3,152,081	6,756,601
1,999,559	2,869,351
1,051,540	16,733,916
	640
413,448	7,175,983
6,163,083	23,189,432
5,145,746	24,754,149
	11,999,435
485,578	3,125,427
138,638	577,918
<u>18,854,227</u>	<u>110,162,208</u>
<u>(283,390)</u>	<u>(4,442,278)</u>
57,926	9,499,070
(100,000)	(9,499,070)
	4,086,390
	1,911,747
1,626	30,435
<u>(40,448)</u>	<u>6,028,572</u>
(323,838)	1,586,294
<u>8,369,717</u>	<u>48,312,325</u>
<u>\$ 8,045,879</u>	<u>\$ 49,898,619</u>

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TOWN OF SMITHTOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

Net change in fund balances - total governmental funds		\$ 1,586,294
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation expense in the current period is:		
Capital outlay	\$ 14,414,329	
Depreciation expense	(10,223,658)	
Loss on disposition	(200,136)	
		3,990,535
Net change in deferred outflows of resources related to pensions		(10,166,512)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		17,000
The issuance of long-term debt and increases in obligations provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.		
Debt issued	(4,086,390)	
Repayment of debt principal	2,545,710	
Compensated absences	64,083	
Capital lease proceeds	(1,911,747)	
Repayment of capital lease	579,717	
Claims and judgments	(241,020)	
Net pension liability - proportionate share	8,259,937	
Estimated liability for landfill closure and postclosure care costs	175,450	
Pollution remediation obligations	(962,000)	
Postemployment benefits healthcare costs	(10,047,645)	
Accrued interest payable	(31,395)	
		(5,655,300)
Net change in deferred inflows of resources related to pensions		496,209
Premiums of bond issuances recognized in governmental funds statements when issued and capitalized and amortized in the Statement of Activities.		(1,051)
Change in net position of governmental activities		\$ (9,732,825)

TOWN OF SMITHTOWN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2017

		Agency Fund
ASSETS		
Cash and cash equivalents	\$	67,083,122
Total assets	\$	67,083,122
LIABILITIES		
Due to other governments	\$	49,869,352
Other agency liabilities		17,213,770
Total liabilities	\$	67,083,122

See notes to the financial statements.

TOWN OF SMITHTOWN
INDEX FOR NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

A. REPORTING ENTITY

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

The decision to include a potential component unit in the Town's reporting entity is based on several criteria, including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the Town has no component units either blended or discretely presented.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Town as a whole, with a separate column for the Town's governmental activities. All fiduciary activities are reported in the fund financial statements.

The effect of interfund activity has been eliminated from the government-wide financial statements, except for interfund services provided and used.

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

Separate financial statements are provided for governmental funds and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are presented by type in the fund financial statements. Certain funds of the Town are utilized to account for resources derived from and/or expenditures applicable to an area less than the entire town. Accordingly, the Town maintains the following fund types:

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

The Town reports the following major governmental funds:

General Fund – is the principal operating fund of the Town. This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund – is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This includes financial resources to be used for the acquisition, construction, renovation, expansion and major improvement of various Town facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects. It is also used to account for some grants received from Federal, State and/or County sources.

Special Revenue Funds – are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Special Revenue Funds include the following:

Highway Fund – is used to account for revenues and expenditures for highway purposes. This includes all operations relating to the repair and maintenance of roads, bridges, machinery, snow removal and miscellaneous. Expenditures for repairs and improvements are financed by the areas outside the villages in accordance with Highway Law §277. The Town maintains a town-wide and part-town highway fund that are combined for reporting purposes into the highway fund and shown as a major fund.

Refuse and Garbage Funds – is used to account for garbage collection and solid waste disposal in the Town. This includes contracted residential garbage pickup. Commercial carters are contracted with the Town to provide residential collection of solid waste and are responsible for the ultimate disposal of this solid waste. Only residential properties contribute to the operations of the district via user fees on a benefit derived basis.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

Additionally, the Town reports the following nonmajor funds:

Special Revenue Funds include the following:

Town Outside Village – is used to account for revenues and expenditures for certain services provided to the areas of the Town located outside of incorporated Villages.

Special Grants Fund – is used to account for the operations of the Community Development Block Grant Program and Section 8 Voucher Program.

Special Revenues Fund – is used to account for risk retention activities including health insurance, unemployment insurance, workers' compensation insurance and liability insurance.

Street Lighting Districts Fund – includes operations relating to the repair and maintenance of street lights located within the boundaries of the Town.

Ambulance Districts Fund – includes amounts provided by the Town for a portion of their operations.

Paul J. Fitzpatrick County Club Fund - is used to account for the golf course and catering facility used by the lessee as well as the public swimming pool operated by the Town's recreation department.

Special District Funds – are used to account for revenues and expenditures for certain services provided to the area of the Town located outside of incorporated villages and includes the following water funds:

Smithtown Water District – includes all operations relating to water within the Town of Smithtown. The district is governed by a Board of Water Commissioners. This district does not encompass the entire Town; it serves portions of Smithtown, Kings Park, Commack and Hauppauge.

St. James Water District – includes all operations relating to water within the Town of Smithtown. The district is governed by a Board of Water Commissioners. This district does not encompass the entire Town; it serves portions of Smithtown and St. James.

Birch Croft Colony Water Supply District – is an agreement between the Suffolk County Water Authority and the Town. All costs of the extensions were financed and levied as an assessment against the real property and improvements within the Birch Croft Colony Water Supply District. The extension is served by the Suffolk County Water Authority.

1987 and 1989 Water Supply Districts – are agreements between the Suffolk County Water Authority and the Town. All costs of the extensions were financed and levied as an assessment against the real property and improvements within the Districts. The extensions are served by the Suffolk County Water Authority.

Permanent Fund include the following:

Nissequogue River Improvement Permanent Fund – is used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Nissequogue River improvements.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Town's fiduciary fund (agency fund) is presented in the fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

Town Agency Fund – accounts for various agency liabilities.

Town Clerk Agency Fund – accounts for permit and license fees collected on behalf of other governments.

Town Receiver of Taxes Agency Fund – accounts for amounts due to other governments for general and school taxes collected.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus refers to what is being measured whereas the basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

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

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

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

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

1. CASH AND INVESTMENTS

The Town's investments are governed by a formal written investment policy. The Town's investment policy designates the commercial banks in which the Town's monies may be deposited, all of which are Federal Deposit Insurance Company (FDIC) insured commercial banks located within the state.

Cash and cash equivalents consists of funds deposited in demand accounts, both interest bearing and non-interest bearing, petty cash, and when utilized, certificates of deposit with maturities of three months or less. Permissible investments also include special time deposits, certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

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

2. RESTRICTED CASH

Certain assets of the general fund for park and land deposits, special grants fund, and permanent fund are classified as restricted cash because their use is restricted by law and/or contractual agreement.

3. RECEIVABLES

Receivables primarily include amounts due from federal, state, and other local governments (principally mortgage tax due from Suffolk County), individuals and entities for services provided by the Town, as well as amounts due related to various grant and franchise agreements. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred and eligibility requirements are met.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. DUE FROM/TO OTHER FUNDS

During the course of operations, the Town has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due to/due from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

5. INVENTORY AND PREPAID ITEMS

Inventory in the highway fund consists of tires and fuel for use in Town vehicles, sand and salt, and other various equipment and supplies on hand and is valued at cost, utilizing the first-in, first-out method (FIFO).

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and fund financial statements. Prepaid items in the governmental funds are accounted for under the consumption method. Prepaids generally represent insurance premiums paid for coverage and pension benefits that will benefit the subsequent period.

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

6. CAPITAL ASSETS

Capital assets are reported in the governmental activities columns in the government-wide financial statements. Capital assets purchased or acquired with an original cost of \$5,000 or more and a five-year useful life are capitalized and are reported at cost or estimated historical cost. Donated assets are valued at their acquisition value on the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Improvements other than buildings	25 years
Infrastructure/Improvements:	20 years
Machinery and equipment:	5 years

Infrastructure assets, consisting of certain improvements other than buildings, including but not limited to roads, curbs and gutters, streets and sidewalks, drainage systems, street lighting, and water mains are capitalized along with other capital assets.

In the fund financial statements, capital assets are recorded as capital outlay expenditures in the governmental fund upon acquisition. No depreciation has been recorded on governmental capital assets in the fund financial statements, nor has interest on governmental capital assets and construction in progress been capitalized.

7. UNEARNED REVENUES

Unearned revenues represent grant proceeds that do not meet eligibility requirements as well as an overpayment of refuse bills which will be applied to future services provided.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

In addition to assets, the balance sheet or the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until that time. The Town reports deferred outflows of resources for pension related amounts. The amounts related to pensions consists of differences between the pension plans expected and actual experience, changes in assumptions, net difference between the projected and actual investment earnings on pension plan investments, changes in proportion and difference between the Town's contributions and proportionate share of contributions, and contributions made subsequent to the measurement date.

In addition to liabilities, the balance sheet or the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports deferred inflows from pension related amounts, service concession arrangements, and unearned revenues. In the governmental funds balance sheet, unearned revenue represents amounts which relate to subsequent year's property tax levy and other miscellaneous items that will be recognized as revenues in the period that the amounts become available. In the statement of net position, the Town reports deferred inflows of resources associated with its pension and the amounts are derived from the changes in proportion and differences between expected and actual experience and differences between the Town's contributions and proportionate share of contributions. Additionally, it reports amounts related to service concession arrangements that will be recognized as revenues in future years as it is earned.

9. LONG-TERM OBLIGATIONS

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

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

10. NET POSITION AND FUND EQUITY CLASSIFICATIONS

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. NET POSITION AND FUND EQUITY CLASSIFICATIONS (continued)

- 1) Net investment in capital assets—consists of capital assets including restricted capital assets, net of accumulated depreciation/amortization and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted—consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Permanent fund principal amounts are displayed as expendable and/or nonexpendable. Nonexpendable net assets are required to be retained in perpetuity.
- 3) Unrestricted—all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

In the fund financials statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are 1) nonspendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (i.e. prepaid items or inventories), or (b) will not convert to cash within the current period (i.e. long-term receivables and financial assets held for resale), or (c) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- 2) Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Town’s highest decision-making authority is the Town Board, who by adoption of a Town ordinance prior to year-end, can commit fund balance. Those committed amounts cannot be used for any other purpose unless the Town Board removes or changes the specified use by taking the same type of action imposing the commitment.
- 4) Assigned fund balance reflects the amounts constrained by the Town’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Town Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.
- 5) Unassigned fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other governmental funds.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

11. NET POSITION AND FUND BALANCE FLOW ASSUMPTIONS

When outlays for a particular purpose can be funded from both restricted and unrestricted resources it is the Town's default policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

12. FUND BALANCE POLICY

The Town has, by resolution, adopted a fund balance policy that states that the Town must maintain a minimum unrestricted (the total of committed, assigned and unassigned) fund balance ranging from 5% to 10% of the subsequent year's budgeted expenditures and outgoing transfers. Unrestricted fund balance below the minimum should be replenished within five years. Authority to assign fund balance for specific purposes is given to the Town Supervisor. The Town Board has the authority to remove or change the assignment of the funds with a simple majority vote.

E. REVENUES AND EXPENDITURES

1. INTERFUND TRANSACTIONS

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

a) Interfund Revenues

Interfund revenues and interfund services provided and used represent amounts charged for services or facilities provided by the Town's funds. The amounts paid by the fund receiving the benefits of the service or facilities are reported as an expenditure in that fund.

b) Transfers

Operating transfers are nonexchange transactions whereby the government or fund gives or receives value without directly receiving or giving equal value in return. Transfers represent payments to the capital projects fund for capital projects cost and transfers out for completed projects. Other transfers are made between funds for operating costs.

2. PROGRAM REVENUES

Amounts reported as program revenues includes 1) charges to customers or applicants who purchase, use, directly benefits from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

3. REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES

All real property assessments are made by the Town. In Suffolk County, the assessment and lien of real property for taxation is done by the County Department of Assessment. The County assessment rolls are used for the levy of real property taxes by the Town and the School Districts, as well as by the County and by Special Districts of the County and Town.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES (continued)

3. REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES (continued)

The Town of Smithtown Receiver of Taxes ("Receiver") collects all real property taxes for the Town, Suffolk County, Town Special Districts and School Districts located within the Town of Smithtown. Taxes are collected by the Town during the period December 1st to May 31st. Taxes for county and school purposes are levied together with taxes for Town and special district purposes as a single bill. The first half is due without penalty by January 10th and the second half is due by May 31st. The Suffolk County Tax Act guarantees that the Town, Special Districts and School Districts will receive the full amount of their levies at the end of the collection period. After May 31st, the County of Suffolk assumes enforcement responsibility for all uncollected taxes.

The Receiver collects all taxes based on this single bill and distributes the proceeds to the Town Supervisor prior to distributing the remaining balance collected to the County. Responsibility for the collection of unpaid taxes remains with the County and, accordingly, the Town is assured of 100% collection of real property taxes. The responsibility of transmitting school taxes to the school districts rests with the Town Supervisor. Property tax bills that are collected prior to January 1st and that relate to the subsequent year are recorded as deferred inflows of resources.

4. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for eligible retired employees and their eligible dependents. Substantially all of the Town's full-time employees may become eligible for these benefits once they reach retirement age provided they have met the Town's service requirement for continuing health benefits into retirement.

Health care benefits in accordance with New York State Health Insurance Rules and Regulations (administered by the New York State Department of Civil Service), are provided through the New York State Health Insurance Program (NYSHIP) (Empire Plan) whose premiums are based on the benefits paid throughout the State during the year.

Postemployment healthcare benefits are also provided by Health Plan of New York (HIP) for eligible retirees and their dependents, who elected coverage in HIP as an alternative to the Empire Plan, provided they meet the same criteria for continued coverage as described above.

The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The Town's collective bargaining agreements require that it provide its eligible enrollees with the Empire Plan benefit coverage, or if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Town has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss. The liability for these postemployment benefits payable is recorded as a non-current liability in the government-wide statements. The current year increase in the liability is based on the most recent actuarial valuation.

5. COMPENSATED ABSENCES

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and non-current obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. Compensated absence liability and expenditures are reported in the governmental funds only if they have matured, for example, as a result of employee resignation, terminations and retirements. The amount that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability in the governmental fund financial statements in the respective fund that will pay it.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES (continued)

6. NET PENSION LIABILITY – PROPORTIONATE SHARE

For purposes of measuring the net pension liability – proportionate share, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Retirement System ('the System') have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms and reports investments at fair value.

F. ENCUMBRANCES

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

G. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources and liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. NEW ACCOUNTING PRONOUNCEMENTS

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended December 31, 2017, the Town adopted:

Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB 68- an amendment to Certain Provisions of GASB 67 and 68*" the objective is to clarify the existing guidance as well as new requirements for pensions not covered by Statement No. 67 and No. 68. The requirements of this Statement are to be implemented over two years. The provisions of this Statement required to be implemented during 2017 had no impact on the Town's financial statements.

Statement No. 82 "*Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73*", the objective of which is to address issues regarding (a) the presentation of payroll-related measures in required supplementary information, (b) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (c) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for the year ended December 31, 2017, except for the requirements for selection of assumption in certain circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 will be adopted for the year ending December 31, 2018.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

- a) On or before September 20th, each department, officer or district submits to the Budget Officer and/or Comptroller, a detailed estimate of the budget known as “departmental estimates” for the amount of revenue to be received and expenditures to be made for the ensuing year.
- b) On or before September 30th, the Budget Officer files with the Town Clerk and presents to the Town Board a tentative budget for the ensuing year.
- c) On or before October 5th, the Town Board reviews the tentative budget and files with the Town Clerk a preliminary budget.
- d) The Town Board conducts public hearings on the preliminary budget and on or before November 20th the Town Board meets to adopt the budget known as the “annual budget”.
- e) Formal budget integration is employed during the year as a management control device for the general fund and certain special revenue funds. The Town board adopts the budget and establishes legal level of control of the budget at the object level of expenditures. The object level identifies expenditures by the article purchased or service obtained in order to carry out a function. Appropriations are adopted at the object level. All budgetary amendments and transfers of appropriation require Town Board approval. Appropriations for all governmental funds except the capital projects fund lapse at year-end.
- f) Budgets for the general fund and certain special revenue funds are legally adopted each year. The budgets are adopted on a basis of accounting consistent with GAAP, except that appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior years. In the event that actual expenditures exceed budgeted amounts, budgetary appropriations are made.
- g) Annual budgets are not prepared for the capital projects fund and permanent fund. Programs in the special grant fund are governed by various grant agreements, which cover periods other than the Town’s calendar year adopted budget for their programs. Budgetary controls are established for the capital projects fund through resolutions authorizing individual projects, which remain in effect for the life of the project.

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012, and lasting through at least June 15, 2020, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. There are permitted exceptions and adjustments. The Town did not exceed the tax levy limit in 2017.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. FUND EQUITY

Fund Balance

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

	General Fund	Highway Fund	Refuse and Garbage Funds	Capital Projects Funds	Other Governmental Funds	Total
Fund Balances:						
Nonspendable:						
Permanent fund					\$ 301,586	\$ 301,586
Inventory		\$ 662,181				662,181
Prepays	\$ 1,188,868	670,451	\$ 130,150		334,778	2,324,247
Total Nonspendable	<u>1,188,868</u>	<u>1,332,632</u>	<u>130,150</u>	<u>\$ -0-</u>	<u>636,364</u>	<u>3,288,014</u>
Restricted for:						
Debt service	342,998	286,081	15,632		29,496	674,207
Capital projects				3,452,081		3,452,081
Purchases on order and/or contractual obligations				2,026,294	3,160	2,029,454
Park and land deposits	271,658					271,658
Capital Reserves	4,022,578					4,022,578
Other reserves	301,229				3,802	305,031
Total Restricted	<u>4,938,463</u>	<u>286,081</u>	<u>15,632</u>	<u>5,478,375</u>	<u>36,458</u>	<u>10,755,009</u>
Assigned to:						
Subsequent year's budget		600,000	1,589,178		582,414	2,771,592
Capital projects				4,724,274		4,724,274
Purchases on order and/or contractual obligations	154,800	519,967	1,225	1,131,480	90,206	1,897,678
Special revenue funds		2,257,463	3,279,623		6,700,437	12,237,523
Other assignments	146,066					146,066
Total Assigned	<u>300,866</u>	<u>3,377,430</u>	<u>4,870,026</u>	<u>5,855,754</u>	<u>7,373,057</u>	<u>21,777,133</u>
Unassigned, reported in						
General fund	14,078,463					14,078,463
Total Unassigned	<u>14,078,463</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>14,078,463</u>
Total Fund Balances	<u>\$ 20,506,660</u>	<u>\$ 4,996,143</u>	<u>\$ 5,015,808</u>	<u>\$ 11,334,129</u>	<u>\$ 8,045,879</u>	<u>\$ 49,898,619</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS

A. CASH AND CASH EQUIVALENTS

Annually, the Town Board designates the bank depositories and approves an investment policy. The following risk assessments apply to cash and investments of the Town.

Custodial Credit Risk – Deposits / Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party. The Town had no investments as of December 31, 2017.

The Town's investment policy defines permissible investments, limits the amount of deposits at any time in any one bank or trust company, requires that bank balances in excess of the Federal Deposit Insurance Corporation insurance limits are protected with a custodial agreement which requires that balances are fully collateralized in accordance with New York State General Municipal Law (GML) and limits the form of acceptable collateralization.

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

At December 31, 2017, the Town's deposits were \$114,156,050. This amount is inclusive of fiduciary fund deposits of \$67,083,122 and restricted cash of \$4,904,013, but exclusive of petty cash of \$5,800. The bank balance was \$115,228,969. Of the total bank balance, \$6,335,304 was covered by the Federal Depository Insurance Corporation (FDIC), \$59,250,585 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name, \$42,625,442 was covered by collateral held by the bank, in the Town's name, and \$7,017,638 was covered by an irrevocable letter of credit from a federal home loan bank.

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

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

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

As of December 31, 2017, the Town did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

B. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At December 31, 2017, individual fund interfund receivable and payable balances are generally expected to be paid currently. These balances represent various temporary loans, recharges, and/or reimbursements between funds and are stated as follows:

	Interfund Receivable	Interfund Payable
Governmental Activities:		
<u>Major Funds:</u>		
General Fund	\$ 374,112	\$ 23,764
Highway Fund	442,041	127,691
Refuse and Garbage Fund	1,781	
Capital Projects Fund		628,750
<u>Nonmajor Funds:</u>		
Town Outside Village	7,845	
Special Grants	16,167	63,332
Street Lighting Districts	204	
Paul J. Fitzpatrick Country Club	253	
Water Districts	1,134	
Total Governmental Funds	\$ 843,537	\$ 843,537

At December 31, 2017, individual fund interfund transfers balances representing legally authorized transfers, were as follows:

	Transfer In	Transfer Out
Governmental Activities:		
<u>Major Funds:</u>		
General Fund	\$ 308,357	\$ 2,368,297
Highway Fund	1,083,451	6,395,000
Refuse and Garbage Fund	15,632	
Capital Projects Fund	8,033,704	635,773
<u>Nonmajor Funds:</u>		
Town Outside Village	384	
Special Grants	31,167	
Paul J. Fitzpatrick Country Club		100,000
Water Districts	26,375	
Total Governmental Funds	\$ 9,499,070	\$ 9,499,070

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 was as follows:

	Balance 1/1/2017	Additions	Deletions/ Transfers	Balance 12/31/2017
<u>Governmental Activities:</u>				
Capital assets not being depreciated/amortized:				
Land	\$ 17,759,123	\$ 59,465		\$ 17,818,588
Construction work in progress	6,613,162	1,137,506	\$ 3,851,186	3,899,482
Total capital assets not being depreciated	<u>24,372,285</u>	<u>1,196,971</u>	<u>3,851,186</u>	<u>21,718,070</u>
Depreciable/amortizable capital assets:				
Buildings and improvements	21,035,017	566,887	22,259	21,579,645
Infrastructure	234,570,159	10,853,865	4,261,380	241,162,644
Machinery and equipment	36,370,510	5,415,329	2,479,434	39,306,405
Furniture and office equipment	2,690,425	232,463	62,606	2,860,282
Total depreciable capital assets	<u>294,666,111</u>	<u>17,068,544</u>	<u>6,825,679</u>	<u>304,908,976</u>
Less accumulated depreciation/amortization:				
Buildings and improvements	11,948,576	359,973	27,079	12,281,470
Infrastructure	156,566,161	7,026,597	4,261,380	159,331,378
Machinery and equipment	28,522,124	2,675,118	2,329,861	28,867,381
Furniture and office equipment	1,807,492	161,970	7,223	1,962,239
Total accumulated depreciation	<u>\$ 198,844,353</u>	<u>\$ 10,223,658</u>	<u>\$ 6,625,543</u>	<u>202,442,468</u>
Total net depreciable capital assets				<u>102,466,508</u>
Total net capital assets				<u>\$ 124,184,578</u>

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

<u>Governmental Activities:</u>	
General government support	\$ 731,737
Public safety	390,251
Health	4,280
Transportation	7,195,844
Culture and recreation	947,650
Home and community services	953,896
Total governmental activities depreciation expense	<u>\$ 10,223,658</u>

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Town's policy is to record an impairment loss in the period when the Town determines that the carrying amount of the asset will not be recoverable. At December 31, 2017, the Town has not recorded any such impairment losses.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS

SHORT-TERM DEBT

Bond Anticipation Notes (BANs) – Bond anticipation notes (BANs) are generally used as a temporary means of financing capital expenditures. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12-month period thereafter. BANs issued for assessable improvement projects, as found in the water districts, may be renewed for periods equivalent to maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. Liabilities for BANs are generally accounted for in the capital projects fund. BANs are expected to be paid from the proceeds of future bond issues after renewal of these notes or by the stipulated annual reductions of principal. At December 31, 2017, there were no outstanding BANs.

LONG-TERM DEBT

General Obligation Bonds - General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the Town. General obligation bonds require the Town to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets.

The long-term liabilities, which are backed by the full faith and credit of the Town, bear interest at various rates from 2.00% to 7.75% and have maturity dates from 2018 through 2032.

A summary of these bonds is as follows:

	Balance 1/1/2017	Issued	Redeemed	Balance 12/31/2017
Governmental activities:				
<u>Capital Projects Fund:</u>				
Major Funds:				
General	\$ 9,268,456	\$ 1,787,415	\$ 1,485,825	\$ 9,570,046
Highway	4,382,083	1,223,075	591,616	5,013,542
Refuse and Garbage	778,894	857,675	51,759	1,584,810
Nonmajor Funds:				
Town Outside Village	805,650	131,950	79,650	857,950
Paul J. Fitzpatrick Country Club	91,550	86,275	14,550	163,275
Street Lighting Districts	3,769,702		254,498	3,515,204
Water Districts	789,375		67,812	721,563
Total governmental activities	<u>\$ 19,885,710</u>	<u>\$ 4,086,390</u>	<u>\$ 2,545,710</u>	<u>\$ 21,426,390</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

At December 31, 2017, bonds payable consisted of the following individual issues:

Governmental activities:

Issue	Purpose	Remaining Interest Range	Original Amount	Outstanding Amount
General Obligation Serial Bonds-1988	Water	7.750%	\$ 485,000	\$ 20,000
General Obligation Serial Bonds-2003A	Public Improvement	3.125%-3.250%	3,500,000	200,000
General Obligation Serial Bonds-2010	Public Improvement	2.000%-3.250%	3,456,000	2,365,000
General Obligation Serial Bonds-2011	Public Improvement	3.000%-3.250%	2,275,000	710,000
General Obligation Serial Bonds-2013	Public Improvement	3.000%-3.250%	6,742,200	4,180,000
General Obligation Serial Bonds-2015	Public Improvement	2.000%-2.500%	5,770,710	4,875,000
General Obligation Serial Bonds-2016	Public Improvement	2.000%-2.500%	5,365,000	4,990,000
General Obligation Serial Bonds-2017	Public Improvement	2.000%-2.375%	4,086,390	4,086,390
			<u>\$ 31,680,300</u>	<u>\$ 21,426,390</u>

Future principal and interest payments to maturity for the Town's governmental activities are as follows:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2018	\$ 2,516,390	\$ 520,685	\$ 3,037,075
2019	1,975,000	459,606	2,434,606
2020	1,960,000	414,231	2,374,231
2021	1,970,000	368,644	2,338,644
2022	1,500,000	321,631	1,821,631
2023-2027	7,295,000	1,083,794	8,378,794
2028-2032	4,210,000	239,200	4,449,200
Totals	<u>\$ 21,426,390</u>	<u>\$ 3,407,791</u>	<u>\$ 24,834,181</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

Capital Leases

In 2015, the Town entered into a master lease-purchase agreement to finance the acquisition of various equipment. The amount financed was \$1,705,000 and is to be repaid over seven years through January 2022 with annual payments totaling \$261,099, including annual interest rate of 1.768%. At December 31, 2017, the principal amount outstanding was \$1,239,008.

In January 2016, the Town entered into a fleet management master equity lease agreement with Enterprise. Currently, the Town has a fleet of vehicles which were purchased by the Town that have been in service between three and twenty years. The Town's plan is to phase in the leasing of all passenger vehicles and light-duty trucks over the next 5 years and trade-in their current vehicles with an estimated value of approximately \$925,000 while also reducing the fleet to approximately 170 vehicles. This will allow the Town to lease newer vehicles while reducing repair costs. As of December 31, 2017, the Town has 59 vehicles under this lease agreement with monthly lease payments of approximately \$39,000 for a 5-year period with various commencement dates in 2016 and 2017. At December 31, 2017, the principal amount outstanding was \$1,567,068. The interest rates for these vehicles varies based on the interest rate in effect of the time of acquisition.

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

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2018	\$ 621,542	\$ 105,517	\$ 727,059
2019	625,771	101,288	727,059
2020	630,076	96,984	727,060
2021	576,004	80,529	656,533
2022	352,683	26,575	379,258
Totals	<u>\$ 2,806,076</u>	<u>\$ 410,893</u>	<u>\$ 3,216,969</u>

Equipment under these capital leases have been reported in the capital assets at December 31, 2017 as follows:

	Asset	Accumulated depreciation	Net Book Value
Machinery and equipment	\$ 3,570,935	\$ 1,014,339	\$ 2,556,596
Furniture and office equipment	6,504	1,951	4,553
	<u>\$ 3,577,439</u>	<u>\$ 1,016,290</u>	<u>\$ 2,561,149</u>

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

D. INDEBTEDNESS (continued)

LONG-TERM DEBT (continued)

Changes in Long-term Debt

Long-term liability activities for the year ended December 31, 2017 are as follows:

Governmental activities:

	Balance 1/1/2017	Increases	Reductions	Balance 12/31/2017	Non-current liabilities due within one year	Non-current liabilities
General obligation bonds	\$ 19,885,710	\$ 4,086,390	\$ 2,545,710	\$ 21,426,390	\$ 2,516,390	\$ 18,910,000
Plus deferred amounts:						
Premiums on issuance	373,939	30,435	29,384	374,990	31,413	343,577
Total bonds payable	20,259,649	4,116,825	2,575,094	21,801,380	2,547,803	19,253,577
Compensated absences	7,974,606	1,008,116	1,072,199	7,910,523	910,263	7,000,260
Capital leases	1,474,046	1,911,747	579,717	2,806,076	621,542	2,184,534
Claims and judgments	4,109,539	925,000	683,980	4,350,559	504,282	3,846,277
Net pension liability, proportionate share	19,004,764	6,737,261	14,997,198	10,744,827		10,744,827
Estimated liability for landfill closure						
and postclosure care costs	14,197,300	309,990	485,440	14,021,850	536,895	13,484,955
Pollution remediation		962,000		962,000	962,000	
Postemployment benefits						
healthcare costs	79,278,557	14,766,185	4,718,540	89,326,202		89,326,202
	<u>\$ 146,298,461</u>	<u>\$ 30,737,124</u>	<u>\$ 25,112,168</u>	<u>\$ 151,923,417</u>	<u>\$ 6,082,785</u>	<u>\$ 145,840,632</u>

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

E. RETIREMENT SYSTEM

Plan Description

The Town participates in the New York State and Local Employees' Retirement System ("ERS" or the "System"). This is a cost-sharing multiple-employer defined benefit retirement system. The net position of the System is held in the New York Common Retirement Fund ("Fund"), which was established to hold all net assets and record changes in the fiduciary net position allocated to the System. The Comptroller of the State of New York (the "Comptroller") serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("RSSL"). Once a public employer elects to participate in the System, the election is irrevocable.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

Plan Description (continued)

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

Benefits Provided

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

Tiers 1 and 2

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

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

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

Tiers 3, 4, and 5

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

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

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

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

Benefits Provided (continued)

Tier 6

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

Benefit Calculation: Generally, the benefit is 1.67% of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75% of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2% of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

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

Disability Retirement Benefits

Disability retirement benefits are available to members unable to perform their job duties because of permanent physical or mental incapacity. There are three types of disability benefits: ordinary, performance of duty, and accidental disability benefits. Eligibility, benefit amounts, and other rules such as any offsets of other benefits depend on a member's tier, years of service, and plan.

Ordinary Death Benefits

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

Post-Retirement Benefit Increases

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

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

Contributions

Generally, Tier 3, 4 and 5 members must contribute 3% of their salary to the System. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with the System, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the RSSL, the Comptroller shall certify annually the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

The Town is required to contribute at an actuarially determined rate. The actual contributions were equal to 100% of the actuarially required amounts. There are no contributions related to an early retirement incentive for Town employees. The credits and miscellaneous adjustments represent modification made by the NYSERS to the prior year's contributions due to differences between estimated and actual salaries for the plan year.

The required contributions as billed by the Plan, for the Town, for the current year and two preceding years were:

Annual Required Contribution (Plan Year)					
	Annual Required Contribution	Credits & Reconciliation/ Adjustments	Prepayment Discount	Total Payment	
2017	\$ 4,854,874	\$ 30,841	\$ (41,145)	\$ 4,844,570	
2016	4,788,453	41,257	(40,673)	4,789,037	
2015	5,620,875	(218,553)	(48,617)	5,353,705	

The Town's contractually required contribution for the calendar year ended December 31, 2017 was \$4,830,687.

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

At December 31, 2017, the Town reported the following liability for its proportionate share of the net pension liability for the System. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. Below is the Town's proportionate share of the net pension liability of the System and the related employer allocation percentage.

Measurement Date		March 31, 2017
Net Pension Liability	\$	10,744,827
Town's Portion of the System's Total Net Pension Liability		0.1143526%

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

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

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

For the year ended December 31, 2017, the Town recognized pension expense of \$6,241,053. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 269,255	\$ 1,631,663
Changes of assumptions	3,670,826	-0-
Net difference between projected and actual investment earnings on pension plan investments	2,146,177	-0-
Changes in proportion and differences between the Town's contributions and proportionate share of contributions	406,450	153,605
Town's contribution subsequent to the measurement date	3,633,428	-0-
Total	\$ 10,126,136	\$ 1,785,268

The reported deferred outflows of resources resulting from the Town's contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts will be recognized in pension expense as follows:

Years ending December 31, 2018	\$ 2,119,949
2019	2,119,949
2020	1,888,778
2021	(1,421,236)
	\$ 4,707,440

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:

Measurement Date	March 31, 2017
Actuarial Valuation Date	April 1, 2016
Inflation	2.5%
Salary increases	3.8%
Investment rate of return, including inflation	7.0%
Cost of living adjustments	1.3%

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

Actuarial Assumptions (continued)

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

The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

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

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

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

Discount Rate

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

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

E. RETIREMENT SYSTEM (continued)

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

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Town's proportionate share of the net pension liability (asset)	\$ 34,316,849	\$ 10,744,827	\$ (9,185,273)

The components of the net pension liability of the employers participating in the System as of March 31, 2017, were as follows (dollars in thousands):

Employers' total pension liability	\$ 177,400,586
Plan Net Position	168,004,363
Employers' net pension liability	\$ (9,396,223)
Ratio of plan net position to the employers' total pension liability	94.7%

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

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS

Plan Description

The Town, as a single-employer defined benefit, other postemployment benefits (OPEB) plan, per its contract with employees, provides medical and Medicare Part B benefits to its eligible retirees and their spouses. The benefits are provided through fully insured plans that are sponsored by NYSHIP. The Town will pay 90% to 100% of the full premium costs of the cost for individual coverage and 90% to 100% of the cost of their spouse or dependent coverage during the retiree's lifetime. The Town reimburses 100% of the Medicare Part B premium for the retiree and spouse.

Employees hired prior to August 28, 2003 require a retirement age of 55, with 10 years of service to receive 100% individual and dependent coverage. Employees hired after August 28, 2003 and before February 27, 2007 require a retirement age of 55, with 15 years of service to receive 100% individual and dependent coverage. Employees hired on or after February 27, 2007 require a retirement age of 55, with 15 years of service to receive 90% individual and dependent coverage. These groups must have 5 years of consecutive service immediately prior to retirement.

Surviving beneficiaries are permitted to stay in the plan provided that they make a contribution of 25% towards the cost of their medical coverage. NYSHIP regulations require the Town to continue payment of the Medicare Part B reimbursement for survivors that remain in the plan.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Plan Description (continued)

The Empire Plan has separate pre-Medicare and Medicare rates. Since the plans are community rated, the retiree claim costs are based on the actual rates without adjustment for age.

Benefits are provided as explained in the section entitled "Postemployment Benefits Healthcare Costs" located in the "Summary of Significant Accounting Policies". The retiree and their spouse are also eligible for Medicare Part B reimbursement in the amount of \$1,608 per year for 2017.

These contracts may be renegotiated at various times in the future.

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

The number of participants as of January 1, 2016, the effective date of the OPEB valuation, follows. For active members it is assumed that 75% of male and 50% of female retirees will have covered spouses at retirement. There have been no significant changes in the number or the type of coverage since that date.

Active employees		426
Retired employees and spouses		329
Total		755

Funding Policy

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

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2017, the Town's annual other postemployment benefits cost (expenses) was \$14,766,185. Considering the annual expense as well as the payment of current health insurance premiums and Medicare reimbursements, which totaled \$4,718,540 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$10,047,645 for the year ended December 31, 2017.

Benefit Obligations and Normal Cost

		Medical and Medicare B
Actuarial Accrued Liability (AAL)		
Active employees	\$	108,319,758
Retired employees		85,383,114
Total Actuarial Accrued Liability (AAL)		193,702,872
Actuarial value of plan assets		-0-
Unfunded Actuarial Accrued Liability (UAAL)	\$	193,702,872
Funded ratio		0%
Annual covered payroll	\$	36,836,874
UAAL as a percentage of covered payroll		525.8%

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

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

The unfunded actuarial accrued liability for the Town for the year ended December 31, 2017 amounted to \$193,702,872.

Level Dollar of Payroll Amortization Calculation of ARC under the Projected Unit Credit Cost Method

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

Normal cost	\$	5,007,212
Amortization of unfunded actuarial liability (UAAL) over 30 years		11,083,486
Annual required contribution (ARC)		16,090,698
Interest on net OPEB obligation		3,171,142
Adjustment to ARC		(4,495,655)
Annual OPEB Cost		14,766,185
Less: Contribution for year ended December 31, 2017		4,718,540
Increase in other postemployment benefits liability		10,047,645
Other postemployment benefits liability at December 31, 2016		79,278,557
Other postemployment benefits liability at December 31, 2017	\$	89,326,202
Percentage of annual OPEB cost contributed		32.00%

Funded Status and Funding Progress

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current year and the preceding two years were:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2017	\$ 14,766,185	\$ 4,718,540	32.0%	\$ 89,326,202
2016	14,193,729	4,421,526	31.2%	79,278,557
2015	12,125,205	3,812,889	31.4%	69,506,354

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Funded Status and Funding Progress (continued)

The primary government's funded status of the plan as of December 31, 2017 (based on the date of the most recent valuation) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2017	\$ -0-	\$ 193,702,872	\$ 193,702,872	0%	\$ 36,836,874	525.8%

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

Actuarial Methods and Assumptions

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

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

In the January 1, 2017 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% discount rate and for medical inflation a healthcare cost trend rate of 9.5% (pre-65) and (post 65) for 2017, and then reduced by .50% decrements to an ultimate rate of 5.00% by 2026. The UAAL is being amortized over 30 years, on a closed basis, using an interest rate of 4.00%.

A copy of the Town of Smithtown's Postemployment Benefits, January 1, 2017 Valuation is available by contacting the Town of Smithtown, Office of the Town Comptroller, 40 Maple Avenue, Smithtown, New York 11787.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. DETAILED NOTES ON ALL FUNDS (continued)

G. COMPENSATED ABSENCES

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

Estimated vacation, personal leave and sick leave accumulated by governmental fund type employees have been recorded in the statement of net position. Payment of vacation, personal leave and sick leave are dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for payments of vacation, personal leave and sick leave when such payments become due. As of December 31, 2017, the value of the accumulated vacation, personal leave and sick leave for governmental activities was \$7,910,523.

H. TAX ABATEMENT PROGRAMS

The Town is subject to real property tax abatements granted by the Suffolk County Industrial Development Agency ("SCIDA"), an entity created as a New York State public benefit corporation. The SCIDA was established by Code Section 922, which became Chapter 674 of the Laws of 1975. The SCIDA offers several abatement programs on certain qualified projects to promote, retain, attract and encourage sound commerce and industry base to prevent unemployment and promote economic development. At December 31, 2017, only the real property tax abatement program offered by SCIDA impacts the Town's revenues. Generally, a qualified project is an applicant submitted project which meets certain economic development criteria (such as job creation/retention) and which either 1) has been or will be financed by the issuance of SCIDA issued bonds, notes or other evidences of indebtedness with respect thereto or 2) is a straight lease transaction which the SCIDA has determined to undertake pursuant to a lease policy. The SCIDA, based on the agreement and as a condition of providing assistance, may require that the benefiting company remit a payment in lieu of taxes (PILOT) payment to offset the amount of taxes abated. The SCIDA is authorized to enter into PILOT agreements per Real Property Tax Law, Section 412-a and General Municipal Law, Section 874. During the year ended December 31, 2017, the agreements the SCIDA ratified resulted in an abatement of \$1,100,204 of the Town's real property taxes and the receipt of \$864,381 in PILOT payments.

4. COMMITMENTS AND CONTINGENCIES

A. RISK RETENTION

In common with other municipalities, the Town receives numerous notices of claims. Although the eventual outcome of these claims cannot be determined, the Town has estimated unsettled claims and litigation to be \$4,350,559. The Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position. The Town carries liability insurance coverage as follows:

Property

The Town carries insurance for property protection in excess of a \$100,000 deductible. The policy covers forty-eight (48) locations for blanket building and contents of \$35,063,815 excluding windstorm and hail damage. The policy also excludes new "frame" buildings in the course of construction. Physical damage coverage covers up to \$15,172,919.

General and Auto Liability

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

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

A. RISK RETENTION (continued)

General and Auto Liability (continued)

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

The Town carries a crime policy for various incidences of theft, forgery and counterfeiting with deductibles up to \$10,000 and coverage up to \$2,000,000 per occurrence.

Other

The Town carries boiler and machinery coverage with a \$100,000 deductible and a damage limit of \$25,000,000.

The Town has equipment and electronic data processing coverage (EDP). Equipment has a \$5,000 deductible. There is a defined equipment schedule of \$1,762,608; unscheduled equipment has a limit of \$1,328,861 with a maximum of \$100,000 for any one item and a \$25,000 deductible. EDP hardware and software have coverage of \$750,000 and \$100,000, respectively, with a \$5,000 deductible. In addition, the Town carries coverage for contractor's equipment up to a limit of \$3,000,000, subject to a \$25,000 deductible.

The Town has pollution and storage tank insurance, that covers the Long Beach Marina in Smithtown, with a \$10,000 deductible and \$1,000,000 for each pollution incident and in the aggregate.

Workers' Compensation, General Liability and Unemployment Self- Insurance

The Town estimates its workers' compensation and general liability reserves by consulting with legal counsel, contracted third party administrators and assessing past experience with similar claims. The Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position.

The Town is self-insured for workers' compensation claims insurance prior to June 1, 2006. Subsequent to that date, the Town became a member of the New York State Municipal Workers' Compensation Alliance Plan, which insures for workers compensation and employee liability payments. Estimated benefits to be paid are appropriated in the various operating funds of the Town that have payroll. The Town is also self-insured for unemployment benefits paid from the funds that have payroll.

There have been no significant reductions in insurance coverage as compared to the prior year, and there were no settlements in excess of insurance coverage over the last three years. The Town does have the ability to bond any tort claims which may be resolved against the Town and which are not covered by the catastrophic loss coverage.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

A. RISK RETENTION (continued)

Workers' Compensation, General Liability and Unemployment Self- Insurance (continued)

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

	General Liability		Workers' Compensation	
	2017	2016	2017	2016
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 3,742,667	\$ 3,575,667	\$ 366,872	\$ 484,227
Included claims and claim adjustment expenditures:				
Provision for the insured events of the current year and increases in provision for insured events of prior years	925,000	1,347,000	-0-	-0-
Payments:				
Claim and claim adjustment expenditures attributable to insured events of the current and prior years	615,000	1,180,000	68,980	117,355
Total unpaid claims and claim adjustment expenditures at the end of the year	<u>\$ 4,052,667</u>	<u>\$ 3,742,667</u>	<u>\$ 297,892</u>	<u>\$ 366,872</u>

B. TAX CERTIORARIS

At December 31, 2017, there were numerous taxpayers' claims pending for the redetermination of assessed valuations (certiorari proceedings) for assessment through 2017. These claims are the result of petitioners' complaints that their assessed property valuations are improper in that they represent overvaluations and unequal treatment. Under the Suffolk County Tax Act, any court ordered reductions to petitioners' assessments which result in a refund of prior years' taxes are paid by Suffolk County in subsequent years, through an adjustment of Suffolk County's tax rate for Town residents in these subsequent years. Reductions in petitioners' assessments will reduce the available property base upon which future tax levies are made.

In the opinion of the Town Attorney, amounts payable, if any, resulting from the settlement of the contingencies described above, will not materially affect the Town's financial position.

C. LITIGATION

Consistent with other municipalities, the Town has been named a defendant in various legal actions in the course of ordinary operations. The Town has accrued for all estimated and probable contingent losses. The Town primarily funds settlements of legal actions through current operating funds; however, the Town has the ability to fund settlements through bonding if deemed necessary. An estimate cannot be made on certain legal actions that may have possible unfavorable outcome against the Town. In the opinion of the Town Attorney, the potential loss on all claims will not materially affect the Town's financial position.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

D. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal Laws and Regulations require the Town to place a final cover on its landfill sites when they stop accepting waste, and to perform certain maintenance and monitoring functions at those sites for thirty years after closure. Cells 1-5 landfill sites stopped accepting waste as of November 10, 1990, and Cell 6 stopped accepting waste as of December 31, 1997. In September 2010 the capping of Cell 6 was completed and accepted by the New York State Department of Environmental Conservation certification.

As the liability is based on 100% capacity, there are no estimated costs for closure and postclosure remaining to be recognized. The Town reports a portion of these closure and postclosure care costs as a liability in each period based on landfill capacity used as of each balance sheet date. Postclosure care costs and monitoring activities for Cells 1-5 and Cell 6 were estimated to be approximately \$560,000 per year for 2017. Actual costs for Cells 1-5 and Cell 6 were \$128,175 and \$357,265, respectively, for the year ended December 31, 2017. The remaining postclosure costs for Cells 1-5 and Cell 6 approximates \$2,085,000 and \$11,936,850, respectively.

Accordingly, as of December 31, 2017, the Town has recorded an estimated liability of \$14,021,850, in the government-wide financial statements, which represents the provision to be made in future budgets for unfunded postclosure care costs and monitoring activities. Actual costs for postclosure monitoring and maintenance are recorded in the general fund and may be higher or lower due to inflation, changes in technology, or changes in regulations, applicable laws or conditions on the ground.

E. POLLUTION REMEDIATION OBLIGATIONS

The Town received a notice from the NYS DEC that a penalty amounting to approximately \$450,000 would be assessed to the Town unless the Town undertook remediation of the Montclair Avenue Yard. An engineer was engaged by the Town to estimate the amount of material that needed to be removed and transported to an appropriate landfill. It was estimated that there was 37,000 tons of material to be excavated. Under an inter-municipal agreement with the Town of Brookhaven, the material consisting primarily of construction debris would be transported to the Brookhaven landfill and charged \$26.00 per ton for disposal. Accordingly, as of December 31, 2017, the Town has recorded an estimated liability of \$962,000, in the government-wide financial statements.

F. CONSTRUCTION AND OTHER CAPITAL ACQUISITION COMMITMENTS

Construction in progress, commitments for equipment purchases, and other capital acquisition commitments amount to \$3,157,774 at December 31, 2017.

G. MUNICIPAL COOPERATION AGREEMENTS

In December 1989, The Town entered into a Municipal Cooperation Agreement with the Town of Huntington in order to address the solid waste disposal concerns of both Towns. The agreement provided for the use of the Town of Smithtown landfill by the Town of Huntington during the construction of a Waste to Energy (Resource Recovery) Facility in the Town of Huntington which would be shared by both Towns. The agreement calls for the Town of Huntington to pay certain continuing costs for the Town of Smithtown landfill based upon the relative percentages of waste contributed by each Town when filling the landfill. The Town of Huntington pays 52.44% of these continuing landfill costs while the Town of Smithtown is responsible for 47.56%. The agreement further provides that the two towns pay for the ongoing costs of the successor Waste to Energy (Resource Recovery) Facility based upon the relative populations of the two towns that send waste to the facility. This population percentage is calculated on a five-year rolling average based upon US Bureau of Census data. The Town of Smithtown pays 37.2% of the Waste to Energy (Resource Recovery) Facility expense while the Town of Huntington is responsible for 62.8%.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

G. MUNICIPAL COOPERATION AGREEMENTS (continued)

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

- Village of the Branch for repair and maintenance of Village streets and the installation of traffic signs and the application of pavement markings on Village streets.
- Village of Head of the Harbor for the repair and maintenance of Village streets and the installation of traffic signs and the application of pavement markings on Village streets. Also, an agreement for repair and maintenance of Village streets in connection with repaving of Highland Avenue, St. James which was completed in 2017.
- Incorporated Village of Nissequogue for snow and ice removal and for the repair and maintenance of Village streets, the installation of traffic signs and the application of pavement markings on Village streets, the use of the Town Fire Marshals and/or other qualified personnel to make inspections and enforce violations, the use of the Town's emergency vehicle traffic single preemption equipment, and the use of the Edward Mankuski Fire Training Center.
- Town of Brookhaven with the Town of Huntington for disposal of all the Huntington Resource Recovery Facility acceptable ash residue at the Brookhaven landfill. This agreement expires December 31, 2019.
- Town of Brookhaven to accept construction and demolition debris at the Brookhaven Landfill.
- Town of Brookhaven to accept delivery and dispose of street sweepings at the Brookhaven Landfill, this agreement has been extended to December 31, 2018 with 1-one-year renewal.
- Kings Park Central School District to utilize the Town's non-residential Solid Waste Disposal Capacity Generation Fee System and for the Town Highway Department to perform maintenance work, snow removal and supply materials to School facilities.
- Town of Brookhaven to accept recyclable materials at the Brookhaven Landfill under the Single Stream Recycling Program.
- Incorporated Village of Lloyd Harbor to deliver recyclable materials to the Town and for the Town to deliver such recyclables to the Brookhaven Landfill under the Single Stream Recycling Program.
- Commack Fire District, Hauppauge Fire District, Kings Park Fire District, Nesconset Fire District, Nissequogue Fire District, St. James Fire District, and Smithtown Fire District for the use of the Edward Mankuski Fire Training Center.
- County of Suffolk to make certain capital improvements to Harned Road to strengthen and improve County roads, including drainage improvements, curb and sidewalk installation and resurfacing and for the Town to be responsible for the related repairs and maintenance of certain portions of Harned Road. This agreement expires in 2026.
- Smithtown Central School District to have the Town Highway Department perform maintenance work, snow removal and supply materials at School facilities.
- Kings Park Fire District, Nesconset Fire District, Smithtown Fire District, St. James Fire District, Central Islip/Hauppauge Ambulance, Inc. and Commack Volunteer Ambulance Corps for the use of the Town's emergency vehicle traffic signal preemption equipment.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

G. MUNICIPAL COOPERATION AGREEMENTS (continued)

- Annual agreements with Nesconset and St. James Fire Districts providing dispatch services by the Town.
- Five-year agreements beginning at various times in 2017 with the following entities to utilize fuel pumps at Town-Owned filling stations for their authorized vehicles and equipment as follows: Villages: Head of the Harbor, Nissequogue, the Branch, Central School Districts: Kings Park and Smithtown, Fire Departments: Nesconset and St. James and the Smithtown Library.
- The Town of Huntington jointly established a length of service award program defined benefit (LOSAP) plan for the active ambulance workers of the Commack Volunteer Ambulance Corps. The program took effect on January 1, 2002. The Town of Huntington is a one hundred percent sponsor of the plan. The Town remits an annual payment, to the Town of Huntington, for the reimbursement of 64.3% of the actuarially determined LOSAP program and administrative costs.

H. RESOURCE RECOVERY FACILITY

In 1989, the Town entered into an agreement with the Town of Huntington to construct a resource recovery facility. The facility was financed with \$176,550,000 of bonds issued by the Environmental Facilities Corporation. These bonds were refunded on July 29, 1999 by the issuance of \$136,045,000 of Suffolk County Industrial Development Agency bonds. There is no longer any debt to be paid on the resource recovery facility. Total resource recovery facility charges were \$6,023,386 for 2017, which includes operating expenditures net of electricity revenues generated by the facility and marketed excess capacity fees. The expenditures of \$3,023,740 and \$2,999,646 were reported in the general and the refuse and garbage funds, respectively.

I. GRANTS

The Town has received grants and contributions in excess of \$4,680,000 during the year ended December 31, 2017, which are subject to audit by agencies of the State and Federal Governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State Government. Based on past experience, the Town administration believes disallowances, if any, will be immaterial.

J. LEASE COMMITMENTS AND LEASED ASSETS

The Town leases various buildings and land to various parties under operating lease agreements with terms ranging from one year to fifteen years. The leases generally require the lessees to pay repairs and maintenance and utilities. Future minimum rental income under existing operating leases at December 31, 2017 are as follows:

Years Ending December 31, 2018	\$	548,667
2019		550,324
2020		294,535
2021		283,094
2022		208,146
2023-2027		130,610
2028		3,900
Totals	\$	2,019,276

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

J. LEASE COMMITMENTS AND LEASED ASSETS (continued)

The Town leases office equipment under non-cancelable leases that commenced between December 2012 and December 2017 and expire between March 2017 and December 2020. Total rental expenditures on such leases for the year ended December 31, 2017 totaled \$48,935. The minimum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2018	\$	54,101
2019		46,351
2020		33,806
2021		5,359
2022		<u>1,344</u>
Totals	\$	<u><u>140,961</u></u>

K. PERMANENT FUND

The Town established the Nissequogue River Improvement Trust Fund (NRITF) upon acceptance of a donation from PMV Smithtown Associates in the amount of \$125,000 and the adoption of a Town Board Resolution (TBR) on August 26, 1997. This was a private donation for the express purpose of assisting in the protection and improvement of the Nissequogue River. The guidelines provided that the original amount is invested in secured or guaranteed instruments as per the Town's investment policy and all interest and income derived to be either reinvested as additional unexpendable principal or used for defined purposes. There was a second donation of \$66,000 from P. J. Venture accepted by TBR on July 10, 2001. There have also been a number of small donations and income from the sale of recyclable inkjet cartridges deposited in the NRITF. The funds are invested as unexpendable principal and income from those investments can either be invested as additional principal or used for defined purposes. The purpose, as defined in the NRITF administrative guidelines, for which the income can be used include but are not limited to fish stock enhancement, wildlife habitat improvement, public assess improvements, drainage and erosion control projects designed to improve river water quality, and the acquisition of interest up to and including fee simple interest in lands necessary for the maintenance or improvement of environmental quality of the Nissequogue River. Expenditure of funds can only occur upon the joint approval of the Environmental Protection Director and the Conservation board of the Town. It is understood and acceptable for the income from the NRITF to be accumulated over a number of years to allow for the funding of projects larger than would otherwise be possible. Upon the absence of direction to the contrary, the Comptroller is required to automatically reinvest income as unexpendable principal. There have been no authorized expenditures from the NRITF. The amount of total fund balance recorded as nonspendable and total net position restricted as nonexpendable at December 31, 2017 amounted to \$301,586 including \$1,200 in 2017 interest earnings.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. COMMITMENTS AND CONTINGENCIES (continued)

L. SERVICE CONCESSION ARRANGEMENTS

In 2002, the Town entered into an agreement with Lessing's Inc. for the exclusive right to operate, manage and assume responsibility for all restaurants, banquet catering, snack bars, cafeterias, liquor bars, refreshment stand, candy stand, vending machines and other such food facilities at the Smithtown Landing Country Club for the next ten years and with provision for a five-year extension. In 2017, the Town extended the agreement for a second term of five years, ending on December 31, 2022. Lessing's Inc. will pay the Town an annual license fee with an annual increase of \$2,000 each year. The value of these payments is estimated to be \$705,000 for the remaining period ending December 31, 2022, without further extension. The Town reports the Smithtown Landing Country Club as a capital asset and adds improvements over the course of the licensing agreement as they are made. At December 31, 2017, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$705,000, of which \$137,000 will be received in 2018.

In 1994, the Town entered into an agreement with Michael Hebron for the professional management and operation of the Town of Smithtown Golf Course. This contract was extended in 2000 for a fifteen (15) year period ending December 31, 2014 and further extended in 2008 to cover years 2015 through 2019. There was an additional amendment on December 13, 2011 regarding capital improvement funding and fee payments. There was also an additional amendment in March 2015 which decreased the annual payments to \$200,000 for the years 2013 through 2019 and removed the capital improvement funding. In addition to the management and operation of the golf course, the agreement covers operation and maintenance of the Pro Shop, providing professional golf lessons and maintaining gas powered and hand carts. Michael Hebron will pay the Town an annual fee of \$200,000 through 2019. The value of these payments is estimated to be \$400,000 for the remaining period ending December 31, 2019, without further extension. The Town reports the Smithtown Golf Course Club as a capital asset and adds improvements over the course of the licensing agreement as they are made. At December 31, 2017, the Town reports a receivable and a deferred inflow of resources in the government-wide statements in the amount of \$400,000, of which \$200,000 will be received in 2018.

At December 31, 2017, the value of the two Service Concession Arrangements combined is \$1,105,000 of which \$337,000 is current.

5. SUBSEQUENT EVENTS

Debt Issuance

In June 2018, the Town issued \$3,544,380 of 2018 public improvement serial bonds for various capital projects. The bonds mature in May 2033 and bear an interest rate of 3.00%.

Capital Leases

In 2018, through the date of this report, the Town entered into 12 additional vehicle lease agreements. The additional monthly lease payment for these vehicles is approximately \$7,000 with a total five-year commitment maturing in 2023 of \$425,646. The interest rates based on the interest rate in effect of the time of acquisition.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

6. NEW PRONOUNCEMENTS

The following statements have been issued by the Governmental Accounting Standards Board (GASB) and are to be implemented in future years:

Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*," the primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The requirements of the new Statement become effective for the Town for the year ended December 31, 2018.

Statement No. 82, "*Pension Issues – an Amendment of Statements No. 67, 68, and 73*," the requirements of the Statement are effective for the year ending December 31, 2017, except for the requirements for selection of assumptions in a certain circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 will be adopted for the year ending December 31, 2018.

Statement No. 83, "*Certain Asset Retirement Obligations*," the objective of which is to establish criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of the new Statement become effective for the Town for the year ended December 31, 2019.

Statement No. 84, "*Fiduciary Activities*," the objective of which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The requirements of the new Statement become effective for the Town for the year ended December 31, 2019.

Statement No. 85, "*Omnibus 2017*," the objective of which is to address practice issues that have been identified during implementation of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of the new Statement become effective for the Town for the year ended December 31, 2018.

Statement No. 86, "*Certain Debt Extinguishment Issues*," the objective of which is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also addresses reporting for prepaid insurance on debt that is extinguished. The requirements of the new Statement become effective for the Town for the year ended December 31, 2018.

Statement No. 87, "*Leases*," the objective of which is to improve accounting and financial reporting for leases by governments. This Statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for financial statements for the year ending December 31, 2020.

Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*," the objective of which is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for financial statements for the year ending December 31, 2019.

TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

6. NEW PRONOUNCEMENTS (continued)

Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*," the objective of which is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for financial statements for the year ending December 31, 2020.

The Town is currently evaluating the impact, if any, of the above pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Schedules of Revenues, Expenditures, and
Change in Fund Balance – Budget and Actual
Major Governmental Funds and Schedules
Postemployment Benefits Healthcare Costs – Schedule of Funding Progress
Pension Plan – Schedule of Pension Contributions
Pension Plan – Schedule of Proportionate Share of the Net Pension Liability

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations can be made. The capital projects fund is budgeted on a project or grant basis.

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

TOWN OF SMITHTOWN
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2017

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Real property taxes	\$ 24,600,992	\$ 24,600,992	\$ 24,600,992		\$ -0-
Real property tax items	437,157	660,201	577,617		(82,584)
Non-property tax items	2,703,888	2,703,888	2,851,546		147,658
Departmental income	9,646,300	10,010,813	10,347,064		336,251
Intergovernmental charges	556,200	615,465	615,942		477
Use of money and property	269,922	269,922	324,956		55,034
Licenses and permits	138,260	138,260	128,118		(10,142)
Fines and forfeitures	185,100	248,248	285,042		36,794
Sale of property and compensation for loss	55,100	218,931	221,036		2,105
Miscellaneous local sources	14,500	68,212	172,374		104,162
State aid	5,059,132	5,094,132	5,866,464		772,332
Federal aid	451,697	552,188	453,579		(98,609)
Total revenues	<u>44,118,248</u>	<u>45,181,252</u>	<u>46,444,730</u>		<u>1,263,478</u>
EXPENDITURES					
Current:					
General government support	13,488,828	13,587,825	12,674,802	\$ 62,152	850,871
Public safety	3,164,953	3,763,857	3,604,520	83,428	75,909
Health	924,889	957,893	869,792		88,101
Transportation	1,003,614	991,843	965,030		26,813
Economic assistance and opportunity	2,500	2,500	640		1,860
Culture and recreation	6,936,479	7,242,536	6,762,535	8,778	471,223
Home and community services	5,826,533	5,885,252	5,102,645	442	782,165
Employee benefits	11,244,789	11,391,209	11,387,999		3,210
Debt service:					
Principal	1,468,381	1,692,749	1,692,749		-0-
Interest	282,220	269,422	269,422		-0-
Total expenditures	<u>44,343,186</u>	<u>45,785,086</u>	<u>43,330,134</u>	<u>154,800</u>	<u>2,300,152</u>
Excess (deficiency) of revenues over (under) expenditures					
	<u>(224,938)</u>	<u>(603,834)</u>	<u>3,114,596</u>	<u>(154,800)</u>	<u>3,563,630</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		73,053	308,357		235,304
Transfers out	(15,000)	(2,368,297)	(2,368,297)		-0-
Premiums of debt issuance			13,312		13,312
Total other financing sources (uses)	<u>(15,000)</u>	<u>(2,295,244)</u>	<u>(2,046,628)</u>	<u>-0-</u>	<u>248,616</u>
Net change in fund balance	<u>\$ (239,938)</u>	<u>\$ (2,899,078)</u>	<u>1,067,968</u>	<u>\$ (154,800)</u>	<u>\$ 3,812,246</u>
Fund balance at beginning of year			<u>19,438,692</u>		
Fund balance at end of year			<u>\$ 20,506,660</u>		

TOWN OF SMITHTOWN
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2017

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Real property taxes	\$ 23,010,345	\$ 23,010,345	\$ 23,010,345		\$ -0-
Real property tax items	367,043	367,043	346,294		(20,749)
Intergovernmental charges			13,951		13,951
Use of money and property	13,300	13,300	48,205		34,905
Licenses and permits	50,000	50,000	83,825		33,825
Sale of property and compensation for loss	75,000	82,162	10,027		(72,135)
Interfund revenues	1,200,000	1,295,627	1,202,235		(93,392)
State aid	1,157,000	1,417,603	1,417,603		-0-
Total revenues	<u>25,872,688</u>	<u>26,236,080</u>	<u>26,132,485</u>		<u>(103,595)</u>
EXPENDITURES					
Current:					
Transportation	14,476,137	15,726,978	14,717,346	\$ 519,967	489,665
Employee benefits	6,754,365	6,899,455	6,899,455		-0-
Debt service:					
Principal	750,495	812,247	803,286		8,961
Interest	114,098	136,961	136,961		-0-
Total expenditures	<u>22,095,095</u>	<u>23,575,641</u>	<u>22,557,048</u>	<u>519,967</u>	<u>498,626</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,777,593</u>	<u>2,660,439</u>	<u>3,575,437</u>	<u>(519,967)</u>	<u>395,031</u>
OTHER FINANCING SOURCES (USES)					
Transfers in		798,426	1,083,451		285,025
Transfers out	(4,395,000)	(6,395,000)	(6,395,000)		-0-
Premiums of debt issuance			9,109		9,109
Total other financing sources (uses)	<u>(4,395,000)</u>	<u>(5,596,574)</u>	<u>(5,302,440)</u>	<u>-0-</u>	<u>294,134</u>
Net change in fund balance	<u>\$ (617,407)</u>	<u>\$ (2,936,135)</u>	<u>(1,727,003)</u>	<u>\$ (519,967)</u>	<u>\$ 689,165</u>
Fund balance at beginning of year			6,723,146		
Fund balance at end of year			<u>\$ 4,996,143</u>		

TOWN OF SMITHTOWN
REFUSE AND GARBAGE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2017

	Budgeted Amounts		Actual	Encumbrances	Variance with Final Budget
	Original	Final			
REVENUES					
Departmental income	\$ 12,775,000	\$ 12,775,000	\$ 12,775,542		\$ 542
Intergovernmental charges	480,000	480,000	480,008		8
Use of money and property	20,000	20,000	32,392		12,392
Sale of property and compensation for loss	180,000	180,000	224,917		44,917
Interfund revenues			621		621
State aid	15,700	15,700	102,850		87,150
Total revenues	<u>13,470,700</u>	<u>13,470,700</u>	<u>13,616,330</u>		<u>145,630</u>
EXPENDITURES					
Current:					
Home and community services	13,146,585	13,150,364	11,923,704	\$ 1,225	1,225,435
Employee benefits	1,310,922	1,327,194	1,320,949		6,245
Debt service:					
Principal	148,469	148,469	143,814		4,655
Interest	33,677	33,677	32,897		780
Total expenditures	<u>14,639,653</u>	<u>14,659,704</u>	<u>13,421,364</u>	<u>1,225</u>	<u>1,237,115</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,168,953)</u>	<u>(1,189,004)</u>	<u>194,966</u>	<u>(1,225)</u>	<u>1,382,745</u>
OTHER FINANCING SOURCES					
Transfers in			15,632		15,632
Premiums of debt issuance			6,388		6,388
Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>22,020</u>	<u>-0-</u>	<u>22,020</u>
Net change in fund balance	<u>\$ (1,168,953)</u>	<u>\$ (1,189,004)</u>	<u>216,986</u>	<u>\$ (1,225)</u>	<u>\$ 1,404,765</u>
Fund balance at beginning of year			<u>4,798,822</u>		
Fund balance at end of year			<u>\$ 5,015,808</u>		

TOWN OF SMITHTOWN
POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
SCHEDULE OF FUNDING PROGRESS
December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2017	\$ -0-	\$ 193,702,872	\$ 193,702,872 *	0%	\$ 36,836,874	525.8%
1/1/2016	-0-	183,791,376	183,791,376	0%	36,114,582	508.9%
1/1/2015	-0-	161,528,296	161,528,296 *	0%	37,187,499	434.4%
1/1/2014	-0-	152,230,825	152,230,825	0%	36,458,332	417.5%

*Projected in prior year valuation.

TOWN OF SMITHTOWN
PENSION PLAN
SCHEDULE OF PENSION CONTRIBUTIONS
December 31, 2017

Years Ended December 31,	Contractually Required Contributions (a)	Contributions Recognized by the Plan in Relation to the Contractually Required Contributions (b)	Unfunded Contributions Deficiency/ (Excess) (a - b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b / c)
2017	\$ 4,830,687	\$ 4,830,687	\$ -0-	\$ 32,802,922	14.73%
2016	4,930,204	4,930,204	-0-	32,200,243	15.31%
2015	5,520,698	5,520,698	-0-	33,273,118	16.59%
2014	6,228,840	6,228,840	-0-	32,514,803	19.16%
2013	6,577,816	6,577,816	-0-	31,848,580	20.65%
2012	5,452,428	5,452,428	-0-	31,870,671	17.11%
2011	4,227,579	4,227,579	-0-	30,729,230	13.76%
2010	3,024,895	3,024,895	-0-	30,318,846	9.98%
2009	2,190,103	2,190,103	-0-	29,458,769	7.43%
2008	2,330,423	2,330,423	-0-	28,257,799	8.25%

Notes:

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

The Plan used the April 1, 2016 actuarial valuation to determine the employer rates for contributions payable to the Plan for the Plan's year end March 31, 2017.

Additional Pension Plan information is shown in Note 3.E to the financial statements.

**TOWN OF SMITHTOWN
PENSION PLAN**
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
December 31, 2017

	March 31,			
	2017	2016	2015	2014
Town's proportion of the net pension liability	0.1143526%	0.1184077%	0.1197483%	0.1197483%
Town's proportionate share of the net pension liability	\$ 10,744,827	\$ 19,004,764	\$ 4,045,391	\$ 5,411,259
Covered payroll	\$ 32,443,248	\$ 31,658,188	\$ 32,227,296	\$ 32,498,633
Town's proportionate share of the net pension liability as a percentage of its covered payroll	33.12%	60.03%	12.55%	16.65%
Plan fiduciary net position as a percentage of total pension liability	94.70%	90.70%	97.95%	97.20%

Notes:

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

Additional Pension Plan information is shown in Note 3.E to the financial statements.

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OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances Nonmajor Governmental Funds

TOWN OF SMITHTOWN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2017

Special Revenue Funds				
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts
ASSETS				
Cash and cash equivalents	\$ 2,365,961	\$ 25,822	\$ 1,559,752	\$ 727,098
Cash - restricted		6,962		
Accounts receivable	10,317		5,711	3,050
Due from other funds	7,845	16,167		204
Due from other governments	35,977	143,399	41,941	
Prepays	238,192			39,152
Total assets	\$ 2,658,292	\$ 192,350	\$ 1,607,404	\$ 769,504
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 354,478	\$ 113,756	\$ 32,431	\$ 78,221
Due to other funds		63,332		
Unearned revenue		8,300		
Total liabilities	354,478	185,388	32,431	78,221
FUND BALANCES				
Nonspendable	238,192			39,152
Restricted	384	6,962		
Assigned	2,065,238		1,574,973	652,131
Total fund balances	2,303,814	6,962	1,574,973	691,283
Total liabilities, and fund balances	\$ 2,658,292	\$ 192,350	\$ 1,607,404	\$ 769,504

Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Permanent Fund Nissequogue River Improvement Permanent Fund	Total Nonmajor Governmental Funds
\$ 396,185	\$ 555,820	\$ 1,359,909		\$ 6,990,547
160,919	18,481	948,826	\$ 301,586	308,548
	253	1,134		1,147,304
	8,237	49,197		25,603
<u>\$ 557,104</u>	<u>\$ 582,791</u>	<u>\$ 2,359,066</u>	<u>\$ 301,586</u>	<u>\$ 9,028,097</u>
\$ 155,471	\$ 24,996	\$ 151,233		\$ 910,586
				63,332
				8,300
<u>155,471</u>	<u>24,996</u>	<u>151,233</u>	<u>-0-</u>	<u>982,218</u>
	8,237	49,197	\$ 301,586	636,364
	2,737	26,375		36,458
401,633	546,821	2,132,261		7,373,057
<u>401,633</u>	<u>557,795</u>	<u>2,207,833</u>	<u>301,586</u>	<u>8,045,879</u>
<u>\$ 557,104</u>	<u>\$ 582,791</u>	<u>\$ 2,359,066</u>	<u>\$ 301,586</u>	<u>\$ 9,028,097</u>

TOWN OF SMITHTOWN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended December 31, 2017

	Special Revenue Funds			
	Town Outside Village	Special Grants	Special Revenues	Street Lighting Districts
REVENUES				
Real property taxes	\$ 5,235,256			\$ 1,597,641
Real property tax items	80,314			22,611
Departmental income	838,155			
Intergovernmental charges	62,112			2,098
Use of money and property	13,658	\$ 199	\$ 12,895	2,747
Licenses and permits	1,647,487			
Sale of property and compensation for loss	4,870		226,377	
Miscellaneous local sources	2,248	38,297	716,921	
Interfund revenue	6,783			
State and local aid	297,422			
Federal aid		952,243		
Total revenues	<u>8,188,305</u>	<u>990,739</u>	<u>956,193</u>	<u>1,625,097</u>
EXPENDITURES				
Current:				
General governmental support	205,642		98,912	
Public safety	3,152,081			
Health				
Transportation				1,051,540
Culture and recreation				
Home and community services	1,711,899	1,142,767		
Employee benefits	2,431,503		1,821,258	398,864
Debt Service:				
Principal	125,143			254,498
Interest	29,298			84,212
Total expenditures	<u>7,655,566</u>	<u>1,142,767</u>	<u>1,920,170</u>	<u>1,789,114</u>
Excess (deficiency) of revenues over (under) expenditures	<u>532,739</u>	<u>(152,028)</u>	<u>(963,977)</u>	<u>(164,017)</u>
OTHER FINANCING SOURCES				
Premiums on debt issuance	983			
Operating transfers in	384	31,167		
Operating transfers out				
Total other financing sources	<u>1,367</u>	<u>31,167</u>	<u>-0-</u>	
Net change in fund balances	534,106	(120,861)	(963,977)	(164,017)
Fund balances at beginning of year	1,769,708	127,823	2,538,950	855,300
Fund balances at end of year	<u>\$ 2,303,814</u>	<u>\$ 6,962</u>	<u>\$ 1,574,973</u>	<u>\$ 691,283</u>

Ambulance Districts	Paul J. Fitzpatrick Country Club	Water Districts	Permanent Fund Nissequogue River Improvement Permanent Fund	Total Nonmajor Governmental Funds
\$ 1,011,223		\$ 42,542		\$ 7,886,662
67,351				170,276
1,074,209	\$ 500,578	4,069,992		6,482,934
				64,210
1,603	1,480	5,578	\$ 1,200	39,360
	27,569			1,675,056
		7,167		238,414
		11		757,477
				6,783
				297,422
				952,243
<u>2,154,386</u>	<u>529,627</u>	<u>4,125,290</u>	<u>1,200</u>	<u>18,570,837</u>
				304,554
				3,152,081
1,999,559				1,999,559
				1,051,540
	413,448			413,448
		3,308,417		6,163,083
	16,091	478,030		5,145,746
	14,550	91,387		485,578
	2,296	22,832		138,638
<u>1,999,559</u>	<u>446,385</u>	<u>3,900,666</u>	<u>-0-</u>	<u>18,854,227</u>
154,827	83,242	224,624	1,200	(283,390)
	643			1,626
		26,375		57,926
	(100,000)			(100,000)
-0-	(99,357)	26,375	-0-	(40,448)
154,827	(16,115)	250,999	1,200	(323,838)
246,806	573,910	1,956,834	300,386	8,369,717
<u>\$ 401,633</u>	<u>\$ 557,795</u>	<u>\$ 2,207,833</u>	<u>\$ 301,586</u>	<u>\$ 8,045,879</u>

APPENDIX C

FORM OF BOND COUNSEL OPINION

Hawkins Delafield & Wood LLP

March 13, 2019

The Town Board of the
Town of Smithtown, in the
County of Suffolk, New York

Ladies and Gentlemen:

We have acted as Bond Counsel to the Town of Smithtown (the "Town"), in the County of Suffolk, New York, a municipal corporation of the State of New York, and have examined a record of proceedings relating to the authorization, sale and issuance of the \$9,192,260 Public Improvement Serial Bonds-2019 (the "Bonds"), dated and delivered on the date hereof.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies thereof.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds are valid and legally binding general obligations of the Town for which the Town has validly pledged its faith and credit and, unless paid from other sources, all the taxable real property within the Town is subject to the levy of ad valorem real estate taxes to pay the Bonds and interest thereon, subject to certain statutory limitations imposed by Chapter 97 of the New York Laws of 2011, as amended. The enforceability of rights or remedies with respect to such Bonds may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

2. Under existing statutes and court decisions and assuming continuing compliance with certain tax certifications described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax.

The Code establishes certain requirements which must be met subsequent to the issuance of the Bonds in order that the interest on the Bonds be and remain excluded from gross income for federal income tax purposes under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Bonds, restrictions on the investment of proceeds of the Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause the interest on the Bonds to become subject to federal income taxation retroactive to their date of issuance, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of issuance of the Bonds, the Town will execute a Tax Certificate relating to the Bonds containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Certificate, the Town represents that the Town will comply with the provisions and procedures set forth therein and that the Town will do and perform all acts and things necessary or desirable to assure that the interest on the Bonds will, for federal income tax purposes, be excluded from gross income.

In rendering the opinion in this paragraph 2, we have relied upon and assumed (i) the material accuracy of the Town's representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of the interest on the Bonds, and (ii) compliance by the Town with the procedures and certifications set forth in the Tax Certificate as to such tax matters.

3. Under existing statutes, interest on the Bonds is exempt from personal income taxes of New York State and its political subdivisions, including The City of New York.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Bonds, or the ownership or disposition thereof, except as stated in paragraphs 2 and 3 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Bonds.

We give no assurances as to the adequacy, sufficiency or completeness of the Preliminary Official Statement and/or Official Statement relating to the Bonds or any proceedings, reports, correspondence, financial statements or other documents, containing financial or other information relative to the Town which have been or may hereafter be furnished or disclosed to purchasers of ownership interests in said Bonds.

Very truly yours,

APPENDIX D

FORM OF CONTINUING DISCLOSURE

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

Section 1. Definitions

“Annual Information” shall mean the information specified in Section 3 hereof.

“EMMA” shall mean the Electronic Municipal Market Access System implemented by the MSRB.

“GAAP” shall mean generally accepted accounting principles as in effect from time to time in the United States.

“Holder” shall mean any registered owner of the Securities and any beneficial owner of Securities within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934.

“Issuer” shall mean the **Town of Smithtown**, in the County of Suffolk, a municipal corporation of the State of New York.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

“Purchaser” shall mean the financial institution referred to in the Certificate of Award, executed by the Supervisor as of March 13, 2019.

“Rule” shall mean Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

“Securities” shall mean the Issuer’s **\$9,192,260 Public Improvement Serial Bonds-2019**, dated March 13, 2019, maturing in various principal amounts on February 15 in each of the years 2020 to 2039, inclusive, and delivered on the date hereof.

Section 2. Obligation to Provide Continuing Disclosure. (a) The Issuer hereby undertakes, for the benefit of Holders of the Securities, to provide or cause to be provided either directly or through Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York, to the EMMA System:

- (i) (A) no later than six (6) months after the end of each fiscal year, commencing with the fiscal year ending December 31, 2018, the Annual Information relating to such fiscal year, and (B) no later than six (6) months after the end of each fiscal year, commencing with the fiscal year ending December 31, 2018, the audited financial statements of the Issuer for each fiscal year, if audited financial statements are prepared by the Issuer and then available; provided, however, that if audited financial statements are not prepared or are not then available, unaudited financial

statements shall be provided and audited financial statements, if any, shall be delivered to the EMMA System within sixty (60) days after they become available and in no event later than one (1) year after the end of each fiscal year; provided further, however, that the unaudited financial statement shall be provided for any fiscal year only if the Issuer has made a determination that providing such unaudited financial statement would be compliant with federal securities laws, including Rule 10b-5 of the Securities Exchange Act of 1934 and Rule 17 (a)(2) of the Securities Act of 1933; and

- (ii) in a timely manner, not in excess of ten (10) business days after the occurrence of such event, notice of any of the following events with respect to the Securities:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults, if material;
 - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (5) substitution of credit or liquidity providers, or their failure to perform;
 - (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Securities, or other events affecting the tax status of the Securities;
 - (7) modifications to rights of Securities holders, if material;
 - (8) Bond calls, if material, and tender offers;
 - (9) defeasances;
 - (10) release, substitution, or sale of property securing repayment of the Securities, if material;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of the Issuer;

Note to clause (12): For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for

the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) incurrence of a financial obligation, as defined in Rule 15c2-12, of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.

- (iii) in a timely manner, not in excess of ten (10) business days after the occurrence of such event, notice of a failure to provide by the date set forth in Section 2(a)(i) hereof any Annual Information required by Section 3 hereof.

(b) Nothing herein shall be deemed to prevent the Issuer from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the Issuer disseminates any such additional information, the Issuer shall have no obligation to update such information or include it in any future materials disseminated hereunder.

(c) Nothing herein shall be deemed to prevent the Issuer from providing notice of the occurrence of certain other events, in addition to those listed above, if the Issuer determines that any such other event is material with respect to the Securities; but the Issuer does not undertake to commit to provide any such notice of the occurrence of any event except those events listed above.

Section 3. Annual Information. (a) The required Annual Information shall consist of the financial information and operating data for the preceding fiscal year, in a form generally consistent with the information contained or cross-referenced in the Issuer's final official statement relating to the Securities under the headings "THE TOWN," "DEMOGRAPHIC AND STATISTICAL INFORMATION," "INDEBTEDNESS OF THE TOWN," "FINANCIAL MATTERS," "REAL PROPERTY TAX INFORMATION" AND "LITIGATION" AND APPENDIX A.

(b) All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which are (i) available to the public on the EMMA System or (ii) filed with the SEC. If such a document is a final official statement, it also must be available from the EMMA System.

(c) Annual Information for any fiscal year containing any modified operating data or financial information (as contemplated by Section 7(e) hereof) for such fiscal year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Annual Information being provided for such fiscal year. If a change in accounting principles is included in any such modification, such Annual Information shall present a comparison between the financial statements or information prepared on the basis of the modified accounting principles and those prepared on the basis of the former accounting principles.

Section 4. Financial Statements. The Issuer's annual financial statements for each fiscal year, if prepared, shall be prepared in accordance with GAAP or New York State regulatory requirements as in effect from time to time. Such financial statements, if prepared, shall be audited by an independent accounting firm. The Issuer's Annual Financial Report Update Document prepared by the Issuer and filed annually with New York State in accordance with applicable law, shall not be subject to the foregoing requirements.

Section 5. Remedies. If the Issuer shall fail to comply with any provision of this Undertaking, then any Holder of Securities may enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Undertaking against the Issuer and any of the officers, agents and employees of the Issuer, and may compel the Issuer or any such officers, agents or employees to perform and carry out their duties under this Undertaking; provided that the sole and exclusive remedy for breach of this Undertaking shall be an action to compel specific performance of the obligations of the Issuer hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Failure to comply with any provision of this Undertaking shall not constitute an event of default on the Securities.

Section 6. Parties in Interest. This Undertaking is executed to assist the Purchaser to comply with paragraph (b)(5) of the Rule and is delivered for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 7. Amendments. Without the consent of any holders of Securities, the Issuer at any time and from time to time may enter into any amendments or changes to this Undertaking for any of the following purposes:

- (a) to comply with or conform to any changes in Rule 15c2-12 (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Issuer and the assumption of any such successor of the duties of the Issuer hereunder;
- (d) to add to the duties of the Issuer for the benefit of the Holders, or to surrender any right or power herein conferred upon the Issuer;
- (e) to modify the contents, presentation and format of the Annual Information from time to time to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Issuer or to reflect changes in the identity, nature or status of the Issuer or in the business, structure or operations of the Issuer or any mergers, consolidations, acquisitions or dispositions made by or affecting any such person; provided that any such modifications shall comply with the requirements of Rule 15c2-12 or Rule 15c2-12 as in effect at the time of such modification; or
- (f) to cure any ambiguity, to correct or supplement any provision hereof which may be inconsistent with any other provision hereof, or to make any other provisions with respect to matters or questions arising under this Undertaking which, in each case, comply with Rule 15c2-12 or Rule 15c2-12 as in effect at the time of such amendment or change;

provided that no such action pursuant to this Section 7 shall adversely affect the interests of the Holders in any material respect. In making such determination, the Issuer shall rely upon an opinion of nationally recognized bond counsel.

Section 8. Termination. This Undertaking shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Securities shall have been paid in full or the Securities shall have otherwise been paid or legally defeased pursuant to their terms. Upon any such legal defeasance, the Issuer shall provide notice of such defeasance to the EMMA System. Such notice shall state whether the Securities have been defeased to maturity or to redemption and the timing of such maturity or redemption.

In addition, this Agreement, or any provision hereof, shall be null and void in the event that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Securities, whether because such portions of the Rule are invalid, have been repealed, or otherwise.

Section 9. Undertaking to Constitute Written Agreement or Contract. This Undertaking shall constitute the written agreement or contract for the benefit of Holders of Securities, as contemplated under Rule 15c2-12.

Section 10. Governing Law. This Undertaking shall be governed by the laws of the State of New York determined without regard to principles of conflict of law.

IN WITNESS WHEREOF, the undersigned has duly authorized, executed and delivered this Undertaking as of March 13, 2019.

TOWN OF SMITHTOWN

By _____
Supervisor and Chief Fiscal Officer