

TOWN OF SOUTHOLD

AUDIT REPORTS

Year Ended December 31, 2016

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**FINANCIAL
SECTION**



INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of two of the seven component units, Fishers Island Ferry District and Fishers Island Waste Management District, which represent 74.4%, 68.7%, and 78.8%, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those two component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Fishers Island Waste Management District were not audited in accordance with *Government Auditing Standards*.

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

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

PERSONAL SERVICE. TRUSTED ADVICE.

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

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Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the five component units, Cutchogue-New Suffolk Park District, Southold Park District, Orient-East Marion Park District, Mattituck Park District and Orient Mosquito District have not been audited, and we were not engaged to audit these financial statements as part of our audit of the Town of Southold, New York's basic financial statements. These financial activities are included in the Town's basic financial statements as discretely presented component units and represent 25.6%, 31.3%, and 21.2%, respectively, of the assets, net position, and revenues of the Town's aggregate discretely presented component units.

Qualified Opinion

In our opinion, based on the reports of other auditors, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the Town of Southold, New York, as of December 31, 2016, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified 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 Southold, New York as of December 31, 2016, 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, postemployment benefits healthcare costs – schedule of funding progress, schedule of contributions, schedule of proportionate share of the net pension liability and the budgetary comparison information 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

The combining non-major fund financial statements are the responsibility of management and were derived from and related 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 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, based on our audit, the procedures performed as described above, the combining non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Albrecht, Viggiano, Zul & Campy, P. C.

Hauppauge, New York
October 25, 2017

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

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

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

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the primary governmental activities of the Town exceeded its liabilities and deferred inflows at the close of 2016 by \$102,965,572 (net position).
- The Town's primary governmental activities net position increased by \$2,401,972.
- As of the close of 2016, the Town's governmental funds reported combined ending fund balances of \$28,445,484. Of this amount, \$1,370,717 is not in spendable form or is required to remain intact. The remaining \$27,074,767 or approximately 95.2% of total fund balance is in spendable form with various levels of spending constraint: restricted, assigned, or unassigned making them available for spending at the Town's discretion (See Note B.2.)
- At the end of 2016, the Town's total fund balance for the general fund was \$8,810,448, an increase of \$698,494 or 8.6% from the prior year. The assigned and unassigned fund balance for the general fund was \$7,757,088 or 27.7% of total general fund expenditures and other uses.
- The Town's total bonded debt was \$34,664,000, excluding premiums of \$2,500,577, is an increase of 7.0% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise these components: 1) government-wide financial statements, 2) fund financial statements 3) fiduciary fund financial statements and 4) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

The Statement of Net Position presents financial information on all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference 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 are 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 both the governmental activities of the Town itself (known as the primary government) and of its legally separate component units for which the Town is financially accountable. Financial information for all component units is reported separately (discretely presented) from the financial information presented for the primary government.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements (continued)

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

Component Units - Component units are legally separate organizations for which the Town is either financially accountable, or the nature and significance of their relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete. All of these entities are reported in a separate column in the government-wide statements as discretely presented.

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

Fund Financial Statements

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

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

The Town maintains eleven (11) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the five (5) major funds. The general fund, highway fund, capital projects fund, debt service fund and the community preservation fund are reported as major funds. Data from the six (6) other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general and special revenue funds, except for the capital projects fund, debt service fund and special grant fund. A budgetary comparison schedule for the general fund, highway fund, and community preservation fund can be found in the section labeled "Required Supplementary Information Other Than Management's Discussion and Analysis".

Fiduciary Funds

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Notes to the financial statements

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

Other information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$102,965,572 at the close of the most recent year.

Condensed Statement of Net Position
Primary Governmental Activities
December 31,

	2016	2015
Assets		
Current and other assets	\$ 36,400,223	\$ 42,069,399
Capital assets	164,603,418	157,683,190
Total Assets	201,003,641	199,752,589
Deferred Outflows of Resources	16,338,233	4,004,203
Liabilities		
Current and other liabilities	5,091,814	13,452,758
Long-term liabilities	101,296,979	82,281,997
Total Liabilities	106,388,793	95,734,755
Deferred Inflows of Resources	7,987,509	7,458,437
Net Position		
Net Investment in Capital Assets	127,951,617	122,029,919
Restricted	15,771,985	14,797,002
Unrestricted	(40,758,030)	(36,263,321)
Total Net Position	\$ 102,965,572	\$ 100,563,600

Total assets and deferred outflows of resources of the primary government as of December 31, 2016 were \$217,341,874, an increase of \$13,585,082 from December 31, 2015. Total liabilities and deferred inflows of resources as of December 31, 2016 were \$114,376,302, which represents an increase of \$11,183,110 from December 31, 2015. This resulted in a net position of \$102,965,572 an increase of \$2,401,972 from December 31, 2015. Of the Town's net position, \$127,951,617 was invested in capital assets and \$15,771,985 was restricted for future land acquisition and capital projects leaving a \$40,758,030 unrestricted deficit.

By far, the largest portion of the Town's net position \$127,951,617 reflects its investment in capital assets (i.e. land, buildings, machinery and equipment, intangibles, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

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

Changes in Net Position

Primary Governmental Activities

For the years ended December 31,

	2016	2015
Program Revenues		
Charges for services	\$ 3,834,984	\$ 3,679,608
Operating grants and contributions	1,006,277	955,209
Capital grants and contributions	2,182,933	1,426,909
	7,024,194	6,061,726
General Revenues		
Real property taxes	32,476,800	31,169,581
Other real property tax items	78,088	89,453
Non-property tax items	8,895,805	8,108,492
Interest earnings	160,145	111,187
State aid - unrestricted	1,341,622	1,305,490
Other	466,493	345,375
	43,418,953	41,129,578
Total Revenues	50,443,147	47,191,304
Program Expenses		
General government support	10,981,659	10,468,268
Public safety	20,521,101	17,653,201
Public health	33,300	40,964
Transportation	6,327,804	7,199,866
Economic assistance and opportunity	2,229,640	2,082,286
Culture and recreation	503,382	430,223
Home and community services	5,955,218	5,321,418
Interest on debt	1,489,071	1,447,220
	48,041,175	44,643,446
Total Expenses	48,041,175	44,643,446
Increase in Net Position	2,401,972	2,547,858
Net Position, beginning of year, as reported	100,563,600	98,187,403
Cumulative effect of change in accounting principle*	-	(171,661)
Net position, beginning of year, as restated	100,563,600	98,015,742
Net position, end of year	\$ 102,965,572	\$ 100,563,600

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

Certain Reclassifications have been made to the prior year information to confirm with the current year presentation. There was no effect on change in net position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net position, from all government activities, increased by \$2,401,972 in the current year.

Key elements of the governmental activities are:

- Overall program revenues increased by \$962,468 from the prior year. Capital grants and contributions increased \$756,024 in the current year due to the Town receiving new grants and contributions for the following: \$340,000 in donations for the radio room projects and \$464,522 from New York State Agriculture and Markets for the purchase of land.
- General revenues increased \$2,289,375 from the prior year. This was due to the increase in property taxes of \$1,307,219 and an increase in non-property tax items of \$787,313 which is due to the increase in the 2% transfer tax in the Community Preservation Fund.
- Overall expenses increased by \$3,397,729. General government support increased \$513,391 due to increase in salaries, data processing and insurance expenditures along with an increase in the employee benefits related to the increase in the net pension liability. Public safety expenditures increased \$2,867,900 as a result of the increase in employee benefits being allocated to this function due to the increase in the net pension liability. Transportation expenses decreased \$872,062 due to the decrease in depreciation expense of \$774,635 which was a result of various roads being fully depreciated in 2015 resulting in no depreciation expense in the current year. Home and community services expenses increased \$633,800 in the current due to the Town reducing the landfill closure liability by \$453,042 in 2015.

Total Cost of Services

Net Cost of Services for Governmental Activities

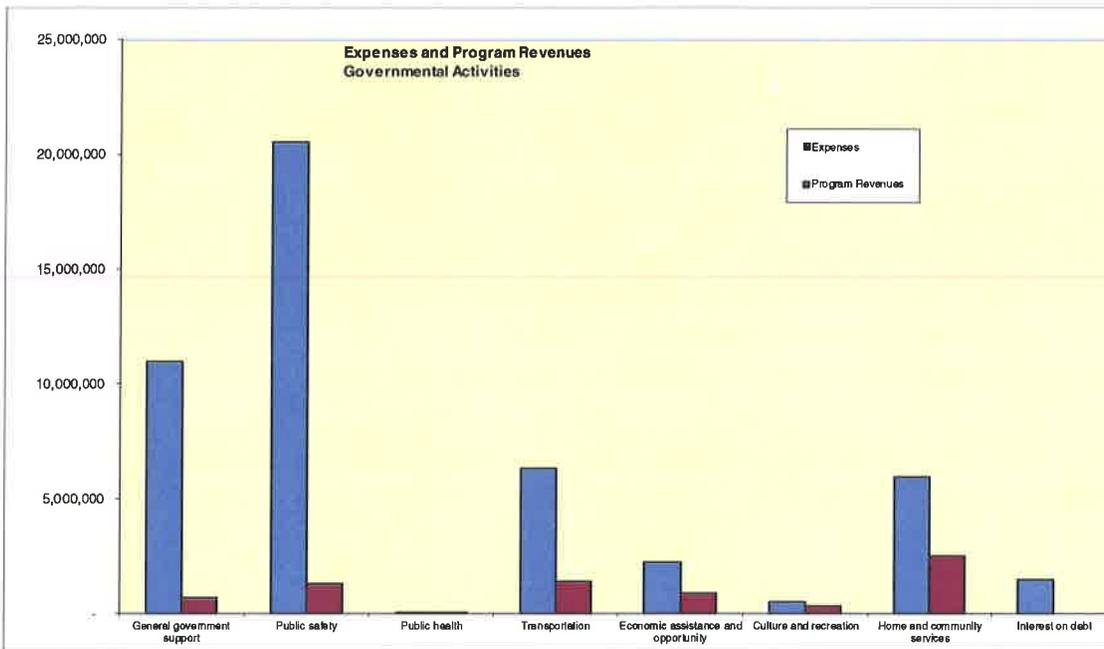
For the years ended December 31,

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2016	2015	2016	2015	2016	2015
General government support	\$10,981,659	\$10,292,144	\$ 664,038	\$ 516,981	\$ (10,317,621)	\$ (9,775,163)
Public safety	20,521,101	17,653,201	1,274,947	948,157	(19,246,154)	(16,705,044)
Public health	33,300	40,964	8,848	9,063	(24,452)	(31,901)
Transportation	6,327,804	7,199,866	1,360,561	738,917	(4,967,243)	(6,460,949)
Economic assistance and opportunity	2,229,640	2,082,286	877,251	427,813	(1,352,389)	(1,654,473)
Culture and recreation	503,382	430,223	330,302	297,838	(173,080)	(132,385)
Home and community services	5,955,218	5,497,542	2,508,247	3,122,957	(3,446,971)	(2,374,585)
Interest on debt	1,489,071	1,447,220			(1,489,071)	(1,447,220)
	<u>\$48,041,175</u>	<u>\$44,643,446</u>	<u>\$ 7,024,194</u>	<u>\$ 6,061,726</u>	<u>\$ (41,016,981)</u>	<u>\$ (38,581,720)</u>

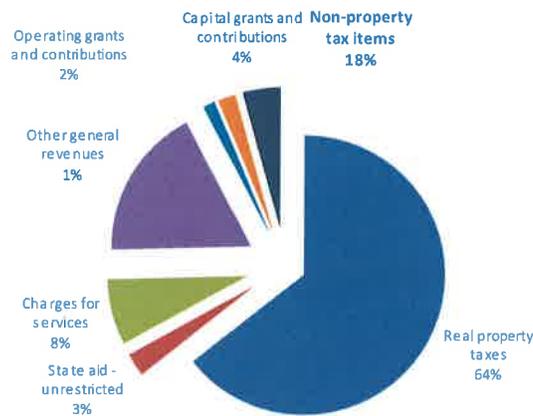
The total cost of all governmental activities this year was \$48,041,175. The net cost of these services after being subsidized by program revenues of \$7,024,194 was \$41,016,981.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)



Revenues by Source – Governmental Activities for the Year ended December 31, 2016



Revenue by Source
 Primary Governmental Activities
 For the year ended December 31,

	2016	2015
Real property taxes	\$ 32,476,800	\$ 31,169,581
State aid - unrestricted	1,341,622	1,305,490
Charges for services	3,834,984	3,679,608
Non-property tax items	8,895,805	8,108,492
Other general revenues	704,726	546,015
Operating grants and contributions	1,006,277	955,209
Capital grants and contributions	2,182,933	1,426,909
	<u>\$ 50,443,147</u>	<u>\$ 47,191,304</u>

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

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

- **Nonspendable fund balance** - \$1,370,717 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$15,771,985 (externally enforceable limitations on use) includes amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$5,513,863 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making and negative fund balances in funds other than the general fund.
- **Unassigned fund balance** - \$5,788,919 (residual net resources) is the total fund balance in the general fund in excess of nonspendable, restricted and assigned fund balance and negative fund balances in funds other than the general fund.

The following schedule presents a summary of the Governmental Funds – (general, special revenue, debt service and capital projects) revenues and expenditures for the year ended December 31, 2016, and the amount of change and percentage of total in relation to the prior year.

	2016	2015	Increase (Decrease)
REVENUES			
Real property taxes	\$ 32,476,800	\$ 31,169,581	\$ 1,307,219
Other real property tax items	78,088	89,453	(11,365)
Non-property tax items	8,895,805	8,108,492	787,313
Departmental income	2,663,875	2,579,435	84,440
Intergovernmental charges	132,936	202,607	(69,671)
Use of money and property	236,307	278,876	(42,569)
Licenses and permits	540,401	531,669	8,732
Fines and forfeitures	343,332	285,314	58,018
Sale of property and compensation for loss	489,169	393,128	96,041
Miscellaneous local sources	533,871	130,780	403,091
Interfund revenues	41,680	30,000	11,680
State aid	2,751,400	2,332,742	418,658
Federal aid	644,490	305,013	339,477
Total Governmental Fund Revenues	<u>\$ 49,828,154</u>	<u>\$ 46,437,090</u>	<u>\$ 3,391,064</u>
EXPENDITURES			
General government support	\$ 6,602,121	\$ 6,163,234	\$ 438,887
Public safety	11,067,429	11,197,005	(129,576)
Public health	33,300	40,964	(7,664)
Transportation	4,644,702	4,577,664	67,038
Economic assistance and opportunity	1,313,636	1,270,735	42,901
Culture and recreation	333,819	296,303	37,516
Home and community services	7,801,507	4,722,314	3,079,193
Employee benefits	11,421,845	11,341,215	80,630
Capital Outlay	3,223,085	2,120,204	1,102,881
Debt service principal and interest	3,594,806	3,734,276	(139,470)
Bond issuance costs	283,673	102,900	180,773
Total Governmental Fund Expenditures	<u>\$ 50,319,923</u>	<u>\$ 45,566,814</u>	<u>\$ 4,753,109</u>

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

- Although the Town appropriated \$4,596,190 of prior year fund balance to finance the 2016 operations, excluding open purchase orders brought forward, the total fund balance increased \$4,400,480. Governmental revenues increased by \$3,391,064. The increase is due to the following: increases in real property taxes of \$1,307,219 and an increase in non-property tax items of \$787,313 which is mainly attributable to an additional revenue from the 2% transfer tax. Increases in miscellaneous local sources of \$403,091 is due to the Town receiving a donation for the Radio Room Project of \$340,000. In addition, federal and state aid have increased \$339,477 and \$418,658, respectively. Federal aid increased due to additional reimbursements from FEMA for road projects of \$345,842. State aid increased as a result of the Town receiving a new grant in the current year of \$464,522 to purchase land.
- Overall, governmental expenditures increased \$4,753,109. The increase is due to the following: increases in general government support of \$438,887, \$176,529 for restoration project funded by FEMA funds; \$120,753 in additional salaries and contractual expenditures in the law department in the part town fund. Home and community expenditures increased \$3,079,193 due to significantly more land purchases than the prior year. Capital outlay costs increased \$1,102,881 due to the Town commencing larger projects in 2016 versus 2015.

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 \$8,810,448, increasing by \$698,494 or 8.6% from the prior year. Of this amount, \$1,053,360 is not in spendable form (i.e. inventory and prepaid items). The remaining \$7,757,088 of the fund balance is in spendable form as follows: \$373,307 is assigned for insurance claims; \$1,375,000 has been assigned by the Town Board for the subsequent year's budget and \$219,862 has been assigned for encumbrances resulting from open purchase orders, and the remaining \$5,788,919 represents spendable, unassigned fund balance.

As a measure of the general funds' liquidity, it may be useful to compare spendable fund balance and total fund balance to total fund expenditures and other financing uses. Spendable and total fund balance represents 27.73% and 31.49%, respectively, of total general fund expenditures and other financing uses.

The key elements of the fund balance increase of \$698,494 are as follows:

- There was a planned fund balance reduction of \$2,000,000, excluding prior year encumbrances brought forward, a result of appropriations in the current year's budget.
- General government support was \$916,954 under budget primarily due to lower than anticipated insurance premiums of \$144,012, retirement accrual payments of \$170,594, personnel costs of \$210,712, unused contingency amounts of \$42,419 along with cost savings across various Town departments.
- Public safety was \$495,448 less than budgeted which resulted mainly from the lower than expected personal services of \$330,756 and vehicle costs of \$86,438.
- Employee benefits were \$754,394 under budget due to the Town conservatively budgeting for health insurance premiums and retirement contributions which amounted to approximately \$471,000. In addition, the Town estimates Social Security benefits based on positions to be filled. These costs were approximately \$296,000 under budget.

Highway Fund

At the end of the current year, the total fund balance of the highway fund was \$659,616 increasing by \$12,619 or 1.95% from the prior year. Of this amount, \$169,088 is not in spendable form (i.e. prepaid items). The remaining \$490,528 of the fund balance is in spendable form as follows: \$615 has been assigned by the Town Board for the subsequent year's budget, \$79,931 has been assigned for encumbrances resulting from open purchase orders, and the remaining \$409,982 is assigned for highway purposes.

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

The key elements of the fund balance increase of \$12,619 are as follows:

- There was a planned fund balance reduction of \$250,440 a result of appropriations in the current year's budget.
- State aid was less than budgeted by \$245,001 due to the Town adjusting the budget for a state grant that was anticipated to be received in the current year. It was later determined that the Town would receive these funds in a future period.
- Transportation savings of \$185,970 resulted from less costs for snow removal than anticipated and cost savings in personnel of \$109,204 and \$67,043 for contractual expenditures for road repairs
- Employee benefits savings of \$153,605 resulted from conservative budgeting for retirement and health insurance costs.

Capital Projects Fund

At the end of the current year, the capital projects fund had a fund balance of \$1,267,733.

The fund balance increased in the capital projects fund by \$2,908,559 from the prior year.

- The increase resulted from the Town issuing general obligation bonds of \$4,613,000 along with transfers from the General Fund and the Highway Fund of \$819,917 to finance the Town's projects. This was offset by \$3,223,085 of capital outlay.

Community Preservation Fund

The Community Preservation Fund's total fund balance, which is restricted for land preservation acquisitions, increased by \$974,983 to \$15,771,985. The increase in fund balance is attributable to an excess of the 2% transfer tax over land acquisitions and related debt service costs.

Nonmajor Governmental Funds

At the end of the current year, the total fund balance of the nonmajor governmental funds was \$1,935,702, decreasing \$194,175 from the prior year. Of this amount \$148,269 is not in spendable form (i.e. prepaids). The remaining \$1,787,433 of the fund balance is in spendable form as follows; \$405,168 for subsequent year's budget, \$32,756 assigned for encumbrances resulting from open purchase orders, and the remaining \$1,349,509 of fund balance is assigned for nonmajor governmental fund purposes.

The key elements of the fund balance decrease of \$194,175 are as follows:

- The Part Town's fund balance was \$988,703 which is a decrease of \$159,689 from the prior year.
- Actual revenues exceeded budgeted expectations by \$26,602 due to additional franchise fee revenue offset by lower than anticipated departmental income. Overall, total expenditures were less than expected by \$153,630 due to savings in consultant costs of \$87,000 and employee benefits of \$33,012. In addition, the Town appropriated \$340,000 of fund balance from the prior year.
- The Solid Waste Management District's fund balance was \$861,034 at December 31, 2016 which is a decrease of \$44,432 from the prior year. Actual revenues were less than anticipated by \$78,315 due to lower than budgeted amounts for construction disposal and recyclables. Overall, total expenditures were less than anticipated by \$282,547 mainly due to lower than anticipated disposal costs and savings in personnel costs. In addition, the Town appropriated \$250,000 of fund balance from the prior year.

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

General Fund Budgetary Highlights

The Town appropriated expenditures in the original general fund budget in excess of estimated revenues in the amounts of \$2,106,249, inclusive of \$106,249 of encumbrances, by assigning fund balance from the prior year. Actual revenues were more than anticipated by \$140,202. Actual expenditures in all budgetary line items were less than the budgetary appropriation by \$2,405,925.

Over the course of the year, the Town Board revises the budget as needed so that expenditures do not exceed appropriations. In all Town funds, various transfers between appropriations were approved for this purpose. The following are the main components of the increase in appropriations:

- Intergovernmental charges decreased by \$109,309 due to additional grants not being received.
- Town decreased their appropriations of \$84,551 in public safety due to allocating a portion of the annual PSAP grant to capital transfers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016 the primary government had \$164,603,418 in net capital assets including land and land development rights, buildings, improvements, machinery and equipment, and infrastructure. The Town's component units had \$14,775,298 in net capital assets including land, buildings, improvements, machinery and equipment, and infrastructure.

Capital Assets at December 31,

<u>Primary Government</u>	<u>2016</u>	<u>2015</u>
Land	\$ 8,686,728	\$ 8,677,637
Land development rights	121,575,610	117,590,063
Construction in progress	1,371,822	1,381,732
Buildings	15,576,538	13,329,610
Improvements other than buildings	16,370,677	15,849,791
Machinery and equipment	11,858,071	11,767,729
Software	1,144,497	1,119,056
Infrastructure	81,190,412	79,525,483
Total Capital Assets	<u>257,774,355</u>	<u>249,241,101</u>
Less: accumulated depreciation	<u>93,170,937</u>	<u>91,557,911</u>
Primary Government - Total Net Capital Assets	<u>\$ 164,603,418</u>	<u>\$ 157,683,190</u>
<u>Component Units</u>		
Land	\$ 2,103,162	\$ 2,103,162
Buildings	14,145,321	14,145,321
Improvements other than buildings	2,545,238	2,545,238
Machinery and equipment	4,011,124	4,011,124
Infrastructure	4,366,330	4,366,330
Total Capital Assets	<u>27,171,175</u>	<u>27,171,175</u>
Less: accumulated depreciation	<u>12,395,877</u>	<u>11,538,699</u>
Component Units - Total Net Capital Assets	<u>\$ 14,775,298</u>	<u>\$ 15,632,476</u>

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

In 2016, the Town of Southhold's major capital asset acquisitions were as follows:

- Land and land development rights of \$3,994,638
- Construction in progress of \$1,201,175
- Buildings of \$1,035,843
- Machinery and equipment of \$931,034
- Highway resurfacing and drainage of \$1,699,043

The capital program is a long-range financing guide and not a definitive plan. Each appropriation must be authorized by Town Board resolution before being undertaken. Each may be financed by issuance of general obligation bonds, which, at times, are preceded by issuance of bond anticipation notes for various periods of time depending on the probable usefulness of the purpose of expenditure. The Town's three-year capital plan is summarized below:

	2017	2018	2019
<u>Machinery and Equipment</u>			
General Fund	\$ 268,400	\$ 145,000	\$ 56,000
Highway Fund	27,000	-0-	-0-
<u>Building and Improvements</u>			
General Fund	404,862	-0-	-0-
<u>Infrastructure</u>			
General Fund	16,000	-0-	-0-
Highway Fund	2,422,000	-0-	-0-
Totals	\$ 3,138,262	\$ 145,000	\$ 56,000

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

Long-Term Debt

At December 31, 2016, the Town had approximately \$34.7 million in long term general obligation bonds outstanding.

During 2016, the Town issued \$20,290,000 in Refunding Serial Bonds with interest rates ranging from 2.0% to 4.0% and annual maturities through March 2030. The refunding was done in order to reduce debt payments in the short-term. The refunding reduced future total debt service payments by \$1,660,198. The overall transaction resulted in an, \$1,988,273 economic gain for the Town.

Outstanding Debt	Governmental Activities	
	2016	2015
General obligation bonds payable*	\$ 34,664,000	\$ 32,392,000
Bond anticipation notes	-0-	2,110,000
	\$ 34,664,000	\$ 34,502,000

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt (continued)

The Town of Southhold's bond credit rating from Moody's Investors Services was Aa1 as of December 31, 2016.

Debt Limit - The Town has the power to contract indebtedness for any Town purpose so long as the principal amount thereof, subject to certain limited exceptions, shall not exceed seven percent 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 method for determining full valuation is calculated by taking the assessed valuation of taxable real estate as shown upon the latest completed assessment roll and dividing the same by the equalization rate as determined by the State Board of Equalization and Assessment. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuation of the last completed assessment roll and the four preceding assessment rolls and dividing such sum by five. The percentage of debt contracting power exhausted at December 31, 2016 was 5.37%.

Additional information on the Town's debt activity can be found in Note C.4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Property Tax

The Town has adopted a budget for the 2017 fiscal year which factors in inflation and other adjustments to revenues and expenditures as well as prior year positive and negative fund balances. The 2017 budget includes an overall increase in real property tax revenues from the prior year of approximately 7.76% for the general Town governmental activities.

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 that affects the Town and its municipal component units. 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). Local governments can exceed the tax levy limit by a 60% vote of the governing body, or local law. There are permitted exceptions and adjustments. The Town is currently evaluating the effect of the cap on future year's budgets.

State Aid and Local Assistance

The Town receives financial assistance from New York State and from Suffolk County. During 2016, financial assistance included state aid consisting of mortgage tax of \$1,245,260, consolidated highway aid of \$516,549, and \$702,022 in capital. State aid per capita was \$88,328 and County sales tax of \$1,154,273 and local government assistance was \$132,186. Additionally, 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. The Town's 2017 budget included similar amounts for this financial assistance.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

**BASIC FINANCIAL
STATEMENTS**

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

	Primary Governmental Activities	Non-major Component Units
ASSETS		
Current Assets:		
Cash and investments	\$ 31,581,613	\$ 2,810,886
Accounts receivable	367,824	365,731
State and federal aid receivables	500,056	
Due from other governments	2,580,013	
Due from primary government		403,323
Inventory of material and supplies	1,474	
Prepays	1,369,243	122,615
Total Current Assets	36,400,223	3,702,555
Noncurrent Assets:		
Non-depreciable capital assets	131,634,160	2,103,162
Depreciable capital assets, net of depreciation	32,969,258	12,673,136
Total Noncurrent Assets	164,603,418	14,776,298
Total Assets	201,003,641	18,478,853
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refundings	1,757,636	
Pensions	14,580,597	676,069
	16,338,233	676,069
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	938,763	896,923
Accrued interest payable	324,866	15,480
Due to component units	403,323	
Due to other governments	2,123	
Unearned revenue	89,837	
Noncurrent liabilities due within one year		
General obligation bonds payable	2,814,000	324,000
Compensated absences	468,683	48,521
Claims and judgments payable	33,605	
Estimated liability for landfill closure and postclosure care costs	16,614	
Total Current Liabilities	5,091,814	1,284,924
Noncurrent Liabilities:		
General obligation bonds payable	34,350,577	1,170,000
Compensated absences	8,904,973	145,562
Claims and judgments payable	371,500	
Estimated liability for landfill closure and postclosure care costs	409,660	
Net pension liability	12,755,261	652,907
Other postemployment benefits payable	44,505,008	319,717
Total Noncurrent Liabilities	101,296,979	2,288,186
Total Liabilities	106,388,793	3,573,110
DEFERRED INFLOWS OF RESOURCES		
Unearned revenue from real property taxes	6,094,763	403,323
Pensions	1,892,746	79,885
	7,987,509	483,208
NET POSITION		
Net Investment in Capital Assets	127,951,617	13,282,296
Restricted	15,771,985	
Unrestricted	(40,758,030)	1,816,308
Total Net Position	\$ 102,965,572	\$ 15,098,604

See notes to the financial statements.

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

Function/Program	Expenses	Program Revenues			Net Expenses and Change in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
PRIMARY GOVERNMENT						
Government Activities:						
General government support	\$ 10,981,659	\$ 398,891	\$ 265,147		\$ (10,317,621)	
Public safety	20,521,101	678,928	131,674	\$ 464,345	(19,246,154)	
Public health	33,300		8,848		(24,452)	
Transportation	6,327,804	77,584	276,042	1,006,935	(4,967,243)	
Economic assistance and opportunity	2,229,640	180,512	232,217	464,522	(1,352,389)	
Culture and recreation	503,382	330,302			(173,080)	
Home and community services	5,955,218	2,168,767	92,349	247,131	(3,446,971)	
Interest on debt	1,489,071				(1,489,071)	
Total Primary Government	48,041,175	3,834,984	1,006,277	2,182,933	(41,016,981)	
COMPONENT UNITS						
General government support	214,849					\$ (214,849)
Public health	85,940					(85,940)
Transportation	4,418,626	2,883,049	419,353	136,772		(979,452)
Culture and recreation	973,032	22,878				(950,154)
Home and community services	881,023	63,460				(817,563)
Interest on debt	38,695					(38,695)
Total Component Units	\$ 6,612,165	\$ 2,969,387	\$ 419,353	\$ 136,772		\$ (3,086,653)
GENERAL REVENUES						
					32,476,800	2,379,452
					78,088	
					8,895,805	
					160,145	5,936
					1,341,622	
					466,493	100,224
					<u>43,418,953</u>	<u>2,485,612</u>
					Change in Net Position	2,401,972 (601,041)
					Net Position at Beginning of Year	<u>100,563,600</u> <u>15,699,645</u>
					Net Position at End of Year	<u>\$ 102,965,572</u> <u>\$ 15,098,604</u>

See notes to financial statements.

TOWN OF SOUTHOLD
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	MAJOR GOVERNMENTAL FUNDS					Non-Major	Totals
	General	Highway	Capital Projects	Community Preservation	Debt Service	Governmental Funds	
ASSETS							
Cash and investments	\$ 13,706,694	\$ 297,504	\$ 666,083	\$ 14,960,071		\$ 1,951,261	\$ 31,581,613
Accounts receivable	97,457	23	95	11,473		258,776	367,824
Due from other funds	4,037	1,025,512	718,815			642,067	2,390,431
State and federal aid receivable	197,212	250,267	3,666			48,911	500,056
Due from other governments	1,285,240		36,047	836,401			2,157,688
Inventory of material and supplies	1,474						1,474
Prepays	1,051,886	169,088				148,269	1,369,243
Total Assets	\$ 16,344,000	\$ 1,742,394	\$ 1,424,706	\$ 15,807,945	\$ -0-	\$ 3,049,284	\$ 38,368,329
LIABILITIES							
Accounts payable and accrued liabilities	\$ 430,630	\$ 58,480	\$ 153,307	\$ 35,960		\$ 260,386	\$ 938,763
Judgments and claims	3,605						3,605
Due to other funds	2,386,394		3,666			371	2,390,431
Due to component units	403,323						403,323
Due to other governments	1,963	160					2,123
Unearned revenue						89,837	89,837
Total Liabilities	3,225,915	58,640	156,973	35,960	-0-	350,594	3,828,082
DEFERRED INFLOWS OF RESOURCES							
Unearned revenue from real property taxes	4,307,637	1,024,138				762,988	6,094,763
FUND BALANCE							
Nonspendable	1,053,360	169,088				148,269	1,370,717
Restricted				15,771,985			15,771,985
Assigned	1,968,169	490,528	1,267,733			1,787,433	5,513,863
Unassigned	5,788,919						5,788,919
Total Fund Balance	8,810,448	659,616	1,267,733	15,771,985	-0-	1,935,702	28,445,484
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 16,344,000	\$ 1,742,394	\$ 1,424,706	\$ 15,807,945	\$ -0-	\$ 3,049,284	\$ 38,368,329

See notes to the financial statements.

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

Total Fund Balances - Governmental Funds \$ 28,445,484

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	\$ 131,634,160	
Capital assets - depreciable	126,140,195	
Accumulated depreciation	<u>(93,170,937)</u>	
		164,603,418

Deferred outflows of resources are included in the Statement of Net Position 16,338,233

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 payable	(37,164,577)	
Compensated absences	(9,373,656)	
Claims and judgments payable	(401,500)	
Estimated liability for landfill closure and postclosure care costs	(426,274)	
Net pension liability	(12,755,261)	
Other postemployment benefits payable	<u>(44,505,008)</u>	
		(104,626,276)

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds. 422,325

Deferred inflows of resources are included in the Statement of Net Position (1,892,746)

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. (324,866)

Net Position of Governmental Activities \$ 102,965,572

See notes to financial statements.

TOWN OF SOUTHOLD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year Ended December 31, 2016

	MAJOR GOVERNMENTAL FUNDS					Non-Major	Totals
	General	Highway	Capital Projects	Community Preservation	Debt Service	Governmental Funds	
REVENUES							
Real property taxes	\$ 23,991,479	\$ 5,263,180				\$ 3,222,141	\$ 32,476,800
Other real property tax items	75,566	2,277				245	78,088
Non-property tax items	1,154,273			\$ 7,073,493		668,039	8,895,805
Departmental income	434,452					2,229,423	2,663,875
Intergovernmental charges and local aid	132,186	750					132,936
Use of money and property	193,843	5,490	\$ 1,306	29,297		6,371	236,307
Licenses and permits	345,888	21,456				173,057	540,401
Fines and forfeitures	343,332						343,332
Sale of property and compensation for loss	192,690	58,133				238,346	489,169
Miscellaneous local sources	24,181	280	464,345			45,065	533,871
Interfund revenues	33,192	8,488					41,680
State aid	1,418,065	521,549	237,500	464,522		109,764	2,751,400
Federal aid	337,107	256,149				51,234	644,490
Total Revenues	28,676,254	6,137,752	703,151	7,567,312	-0-	6,743,685	49,828,154
EXPENDITURES							
Current:							
General government support	6,210,765	7,269				384,087	6,602,121
Public safety	9,746,819					1,320,610	11,067,429
Public health	33,300						33,300
Transportation	549,361	4,095,341					4,644,702
Economic assistance and opportunity	1,313,636						1,313,636
Culture and recreation	333,819						333,819
Home and community services	329,184			4,274,227		3,198,096	7,801,507
Employee benefits	8,363,806	1,722,892				1,335,147	11,421,845
Capital Outlay			3,223,085				3,223,085
Debt Service:							
Principal	392,200	70,000		1,364,143		534,657	2,361,000
Interest	140,456	27,945		953,959		111,446	1,233,806
Bond issuance costs			58,858		\$ 224,815		283,673
Total Expenditures	27,413,346	5,923,447	3,281,943	6,592,329	224,815	6,884,043	50,319,923
Excess (Deficiency) of Revenues Over Expenditures	1,262,908	214,305	(2,578,792)	974,983	(224,815)	(140,358)	(491,769)
Other Financing Sources (Uses)							
Debt proceeds			4,613,000				4,613,000
Payments to refunded bond escrow agent					(21,602,309)		(21,602,309)
Refunding bond issues					20,290,000		20,290,000
Premiums on debt issuance			54,434		1,537,124		1,591,558
Transfers in			819,917				819,917
Transfers out	(564,414)	(201,686)				(53,817)	(819,917)
Total Other Financing Sources (Uses)	(564,414)	(201,686)	5,487,351	-0-	224,815	(53,817)	4,892,249
Net Change in Fund Balance	698,494	12,619	2,908,559	974,983	-0-	(194,175)	4,400,480
Fund Balances (Deficit) at Beginning of Year	8,111,954	646,997	(1,640,826)	14,797,002		2,129,877	24,045,004
Fund Balances at End of Year	\$ 8,810,448	\$ 659,616	\$ 1,267,733	\$ 15,771,985	\$ -0-	\$ 1,935,702	\$ 28,445,484

See notes to the financial statements.

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

Net Change in Fund Balance \$ 4,400,480

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 in the current period is:

Capital asset additions	\$	9,408,060	
Depreciation expense		(2,412,753)	
Loss on dispositions		<u>(75,079)</u>	
			6,920,228

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 96,362

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

Deferred charges on refundings		1,299,592	
Pension related amounts		<u>11,034,438</u>	
			12,334,030

Net change in deferred inflows of resources related to pensions (1,663,513)

Premiums on bond issuances recognized in governmental fund statements when issued and capitalized and amortized in the Statement of Activities (1,521,633)

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

Bonds issued		(4,613,000)	
Repayment of bond principal		2,361,000	
Payments to refunded bond escrow agent		(20,290,000)	
Refunding bond issues		<u>20,270,000</u>	
			(2,272,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:

Compensated absences			(449,548)
Claims and judgments payable			24,528
Estimated liability for landfill closure and postclosure care costs			16,614
Net pension liability			(10,828,513)
Other postemployment benefits payable			(4,716,188)
Accrued interest payable			<u>61,125</u>

Change in Net Position of Governmental Activities \$ 2,401,972

See notes to financial statements.

TOWN OF SOUTHOLD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
December 31, 2016

	<u>Totals</u>
ASSETS	
Cash and investments	\$ 16,691,221
Other receivables	<u>1,500</u>
Total Assets	<u>\$ 16,692,721</u>
LIABILITIES	
Due to other governments	\$ 16,300,413
Other liabilities	126,754
Deposits held	<u>265,554</u>
Total Liabilities	<u>\$ 16,692,721</u>

See notes to financial statements.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Southold (the "Town"), which was established in 1640, 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 five council members who are elected for terms of four years. The Town Board appoints the Town Attorney and Town Comptroller. The Town Clerk, Receiver of Taxes, Superintendent of Highways, Justices and Town Trustees are all elected and serve for four years, respectively. 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 financial statements of the Town of Southold 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 more significant of the government's accounting policies are described below.

1. REPORTING ENTITY

The financial reporting entity consists of: (a) the primary government, which is the Town of Southold; (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 of Southold reporting entity is based on several criteria including legal standing, dependency and financial accountability. The current guidance also clarifies the status as a major or nonmajor component unit. Based on the application of these criteria, the following is a summary of certain entities considered in determining the Town's reporting entity.

Discretely Presented Component Units:

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

- a) Fishers Island Ferry District was established in 1947 by a special act of legislation within the State of New York, known as the Ferry District Enabling Act. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of five members, all of whom are elected by the residents of the District. The primary function of the District is to provide ferry operations and services to district residents. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Budgets and tax rates are not approved by the Town. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.

- b) Fishers Island Waste Management District was established in 1952 and is governed by the laws of New York State. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of five members, all of whom are elected by the residents of the District. The primary function of the District is to provide waste management and disposal services to district residents. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. REPORTING ENTITY (continued)

Discretely Presented Component Units (continued):

- c) Cutchogue-New Suffolk Park District was established in 1953 and is governed by the laws of New York State. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of three members, all of whom are elected by the residents of the District. The primary function of the District is to maintain and operate the specific private beaches of residents who reside within the park district. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.
- d) Southold Park District was established in 1907 and is governed by the laws of New York State. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of three members, all of whom are elected by the residents of the District. The primary function of the District is to maintain and operate the specific private beaches of residents who reside within the park district. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.
- e) Orient-East Marion Park District was established in 1969 and is governed by the laws of New York State. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of three members, all of whom are elected by the residents of the District. The primary function of the District is to maintain and operate the specific private beaches of residents who reside within the park district. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.
- f) Mattituck Park District was established in 1941 and is governed by the laws of New York State. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of three members, all of whom are elected by the residents of the District. The primary function of the District is to maintain and operate the specific private beaches of residents who reside within the park district. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.
- g) Orient Mosquito District was established in 1916 and is governed by the laws of New York State. The Board of Commissioners is the legislative body responsible for the overall operations. The Board of Commissioners consists of five members, all of whom are elected by the residents of the District. The primary function of the District is to provide pest control services to district residents. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. The Town issues indebtedness on behalf of the District which is responsible for the payment of annual debt service on the obligations. Tax levies of the District are collected by the Town Receiver of Taxes. This district is included in the Town's reporting entity since the primary government issues debt on behalf of the District as these districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town.

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

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. 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 separate columns for the primary governmental activities as well as the discretely presented component units. For the most part, the effect of interfund activity has been eliminated from the government-wide financial statements, except for interfund services provided and used.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, (2) grants and contributions that are restricted to meeting the operation and capital requirements of a particular function, (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.

Fund Financial Statements

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

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

Governmental Funds - Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon the 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 all financial resources not accounted for and reported in another fund.

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.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

Governmental Funds (continued)

Highway Fund - is a Special Revenue Fund used to account for revenues and expenditures for highway purposes. The major areas of expenditures are repairs and improvements to roadways, machinery, snow removal and miscellaneous. The major source of revenue is real property taxes.

Community Preservation Fund - is used to account for and report financial resources that are restricted for the purchase of land and land development rights.

Capital Projects Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.

Debt Service Fund - used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest and for financial resources that are being accumulated for principal and interest in future years.

Additionally, the Town accounts for and reports the following non-major funds:

General Fund Part Town – is used to account for revenues and expenditures for certain services provided by the area of the Town located outside of the Village of Greenport. The major source of revenue is real property taxes and building permits.

Special Grant Fund – is used to account for federal aid for the Community Development Block Grant Program.

Special District Funds – are used to account for taxes or other revenues, which are raised or received to provide special services to areas that encompass less than the whole town. The Special District Funds consist of a number of separate districts, which are administered by the Town Board as follows: East-West Fire Protection District, Southold Wastewater District, Fishers Island Sewer District and Solid Waste Management District.

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

Agency Fund - is used to account for money (and/or property) received and held in the capacity of trustee, custodian or agent.

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

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

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 60 days after the year end. In certain circumstances this application of the Town's normal availability period for a given revenue source might distort revenue trends from one year to the next. In such unusual circumstances, revenues may be considered available if received beyond 60 days. However, to the extent the revenue remains uncollected after one year the Town would classify the fund balance as nonspendable.

Revenues susceptible to accrual include Suffolk County local assistance at year end on behalf of the Town, franchise fees, mortgage taxes and certain charges for services and intergovernmental revenues. Permits, fees, and other similar revenues are not susceptible to accrual because generally they are not measurable until they are received in cash. In those instances where expenditures are the prime factor in determining eligibility for state and federal grants, revenues are recognized when the expenditure is incurred. In the governmental funds, long-term debt is recognized as revenue upon receipt of the proceeds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closure and postclosure care costs, other postemployment healthcare cost benefits and the proportionate share of the net pension liability are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources and uses.

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

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

CASH AND INVESTMENTS

Cash consists of funds deposited in demand accounts, time deposit accounts and certificates of deposit with maturities of less than three months.

State statutes govern the Town's investment policies. The Town's investments are governed by a formal investment policy. The Town's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Town is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies and investments made by the Cooperative Liquid Asset Security System (CLASS).

Collateral is required for demand deposits and time deposit accounts at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies, obligations of the State and its municipalities, and school districts. The Town's collateral agreements are based on the Town's available balance.

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

RECEIVABLES

Receivables include amounts due from Federal, State and other governments or entities for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred.

DUE FROM/TO OTHER FUNDS

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

INVENTORY AND PREPAID ITEMS

Inventory is valued at cost and consists of supplies on hand. Inventory in these funds is accounted for under the consumption method.

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. Prepaids in the general and special revenue funds represent health insurance and retirement benefits that will benefit a future 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.

CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value as of 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 and amortization on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	10-40 years
Improvements and other	20 years
Machinery and equipment	5-10 years
Software	5-10 years
Infrastructure	20-30 years

Infrastructure assets, consisting of certain improvements other than buildings including roads, curbs, sidewalks, bridges, and street lighting are capitalized along with other capital assets.

Intangible assets lack physical substance, are nonfinancial in nature, and have an estimated useful life extending beyond a single reporting period. The term depreciation, as used in these footnotes, includes amortization of intangible assets.

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

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

UNEARNED REVENUE

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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, 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. Deferred outflows of resources consist of deferred charges on refundings and pension related amounts. The deferred charges on refundings stem from advanced refunding of debt. The difference between the cost of securities placed in a trust for future payment of refunded debt and the net carrying value of that debt is deferred and amortized as a component of interest expense over the shorter of the term of the refunding issue or the original term of the refunded debt. The amounts related to pensions consists of contributions made subsequent to the measurement date, differences between the pension plans projected and actual investment earnings and differences between the pension plans expected and actual experience.

In addition to liabilities, the Statement of Net Position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town's deferred inflows of resources consists of the following: unavailable revenue and pension related amounts. In the governmental funds, unavailable revenue represents amounts that do not meet the availability criteria applicable to revenue recognition under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period 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 the Town's contributions and proportionate share of contributions.

PREMIUMS OF DEBT ISSUANCE

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.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences, claims and judgments, liability for landfill closure and postclosure costs, net pension liability, and other postemployment benefits are recognized in the Statement of Net Position. Bond premiums or discounts are deferred and amortized on a straight-line basis over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

INTERFUND TRANSACTIONS

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

a) Interfund Revenues

In the general fund, interfund revenues, which are quasi-external transactions, represent amounts charged for services or facilities provided by the general fund. The amount paid by the fund receiving the benefit of the service or facilities is reflected as an expenditure of that fund.

b) Transfers

Transfers primarily represent payments to the capital projects fund from the other funds for their appropriate share of the capital project costs or related BAN debt service amounts.

NET POSITION AND FUND EQUITY CLASSIFICATIONS

In the government-wide statements, equity is classified as net position and displayed in three components:

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

In the fund financial 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 regulation 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.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NET POSITION AND FUND EQUITY CLASSIFICATIONS (continued)

- 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.

NET POSITION AND FUND BALANCE FLOW ASSUMPTIONS

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

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

FUND BALANCE POLICIES

The Town has, by resolution, adopted a fund balance policy that states the Town must maintain a minimum unassigned fund balance in the general fund equal to 10% of general fund expenditures. In the event that the balance drops below the established minimum level, the Town's Board will develop a plan to replenish the fund balance to the established minimum level within the current or ensuing fiscal year.

5. REVENUES AND EXPENDITURES

REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES

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

The Town of Southold Receiver of Taxes collects all real property taxes for the Town, Suffolk County, Town Special Districts and School Districts. These taxes are levied on December 1, and are due in two installments, 50% on December 1 and 50% on May 10, payable without penalty to January 10 and May 31, respectively. Penalties are imposed thereafter at the rate of one-twelfth of the rate of interest determined by the State Commissioner of Taxation and Finance, after which taxes are payable to the County Treasurer. The Town retains the total amount of Town, Highway and Town Special Districts levies from the amount collected, and forwards the balance collected to the County which assumes collection responsibility. The Town and Town's Special Districts therefore realize annually the 100% collection of real property taxes.

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. REVENUES AND EXPENDITURES (continued)

OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees. Substantially all of the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town.

Health care benefits 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 Empire Plan (the "Empire Plan") whose premiums are based on the benefits paid throughout the State during the year or under the Town of Southold's self-insurance plan which is further described in Note D.

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 union contracts and ordinances require that it provide its eligible enrollees with 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 other 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.

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 and currently known facts. Compensated absence liabilities and expenses are reported in governmental funds only if they have matured, for example, as a result of employee resignations, terminations, and retirements.

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

PENSIONS

For purposes of measuring the net pension liability, 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.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded for budgetary control purposes, 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.

6. USE OF ESTIMATES

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows of resources and, disclosure of contingent amounts, at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. NEW ACCOUNTING PRINCIPLES

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, 2016, the Town adopted:

Statement No. 72 "*Fair Value Measurement and Application*" includes requirements that will enhance the comparability of financial statements among governments by requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this Statement resulted in additional footnote disclosure in the Town's financial statements.

Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB 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 2016 had no impact on the Town's financial statements

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

Statement No. 77, "*Tax Abatement Disclosures*," the objective of which is to improve financial reporting by providing the users of financial statements with information about the nature and magnitude of tax abatements, and helping the users understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations, as well as the impact on the government's financial position and economic condition. The Town has evaluated this pronouncement and has determined the information is immaterial for disclosure. The Town will evaluate the tax abatements each year and will disclose when significant.

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

8. SUBSEQUENT EVENTS

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

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. BUDGETARY INFORMATION

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

Budgets for the general and special revenue funds, exclusive of the special grant fund, are legally adopted for 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 unanticipated revenues are received (i.e. specific grant revenues) and exceed budgeted amounts, additional budgetary appropriations may be made. The capital projects and special grant funds are budgeted on a project or grant basis.

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

- a) No later than October 1, the Supervisor submits a tentative budget to the Town Board for the fiscal year commencing the following fiscal year. The tentative budget includes the proposed means of financing for all funds.
- b) After public hearings are conducted to obtain taxpayer comments, no later than November 20, the Town Board adopts the budget.
- c) The Town Board must approve all modifications of the budget. However, the Supervisor is authorized to transfer certain budgeted amounts within departments.
- d) 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.

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

2. 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	Capital Projects Fund	Community Preservation Fund	Other Governmental Funds	Total
Fund Balances:						
Nonspendable:						
Inventory	\$ 1,474					\$ 1,474
Prepaid items	1,051,886	\$ 169,088			\$ 148,269	1,369,243
Total Nonspendable	1,053,360	169,088	-0-	-0-	148,269	1,370,717
Restricted for:						
Other reserves				\$ 15,771,985		15,771,985
Total Restricted	-0-	-0-	-0-	15,771,985	-0-	15,771,985
Assigned to:						
Subsequent year's budget	1,375,000	615			405,168	1,780,783
Purchases on order						
or contractual obligations	219,862	79,931	\$ 1,024,857		32,756	1,357,406
Special revenue funds		409,982	242,876		1,349,509	2,002,367
Judgments and claims	373,307					373,307
Total Assigned	1,968,169	490,528	1,267,733	-0-	1,787,433	5,513,863
Unassigned, reported in						
General Fund	5,788,919					5,788,919
Total Unrestricted	5,788,919	-0-	-0-	-0-	-0-	5,788,919
Total Fund Balances	\$ 8,810,448	\$ 659,616	\$ 1,267,733	\$ 15,771,985	\$ 1,935,702	\$ 28,445,484

C. DETAILED NOTES ON ALL FUNDS

1. CASH AND INVESTMENTS

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 not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town's investments policy defines permissible investments, limits the amount of deposits at any time at any one bank or trust company, requires that bank balances in excess of the Federal Deposit Insurance Corporation insurance limits of \$250,000 be protected with custodial agreements which requires that balances are fully collateralized in accordance with New York State General Municipal Law (GML) and limits the form of acceptable collateralization.

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

1. CASH AND INVESTMENTS (continued)

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.

Financial institutions can satisfy collateral requirements by furnishing an eligible letter of credit, an eligible surety bond, by pledging eligible securities as specified in Section 10 of GML, or participating in a deposit placement program pursuant to section 9-r of the banking law. Irrevocable letters of credit issued as collateral in certain situations may require a threshold of up to 140% of aggregate deposits. 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 obligations of municipalities of New York State.

The use of available daily balances to determine collateral requirements may result in the available balance being under-collateralized at various times during the year.

At December 31, 2016, the Town's cash book balance was \$48,272,834. This amount is inclusive of fiduciary fund deposits of \$16,691,221 but exclusive of petty cash of \$543. The available bank balance was \$48,359,813, exclusive of CLASS deposits. Of the bank balance, \$10,469,052 was covered by Federal deposit insurance, and \$37,890,761 covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name and \$65,139 was uncollateralized.

External Investment Pool

The Town participates in the Cooperative Liquid Assets Securities System - New York (CLASS), a multi-municipal cooperative investment pool consisting of U.S. Treasury Obligations and repurchase agreements relating to treasury obligations. Investments are stated at cost, which approximates market value. CLASS was established as a cooperative investment arrangement organized under the CLASS Municipal Cooperation Agreement made pursuant to New York General Municipal Law, Article 3A and 5-G. The pool is not registered with the SEC and is overseen by an elected Governing Board. The District's fair value of its position in the pool is the same as the value of pool shares.

In accordance with FASB guidance, CLASS utilizes ASC 820 "Fair Value Measurement and Disclosure" to define fair value, establish a framework for measuring fair value, and expand disclosure requirements regarding fair value measurements. ASC 820 does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Various inputs are used in determining the value of CLASS's portfolio investments defined pursuant to this standard.

Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at cost, which approximates market value. There have been no significant changes in valuation techniques used in valuing any such positions held by CLASS since the beginning of their fiscal year. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

1. CASH AND INVESTMENTS (continued)

The Town's \$53,970 CLASS investment consists of U.S Treasury Obligations and repurchase agreements relating to Treasury obligations and is not subject to risk categorization.

The above amounts represent the cost of the investment pool shares, and are considered to approximate market value. Additional information concerning the cooperative is presented in the annual report of the New York CLASS, which can be found on its website at www.newyorkclass.org.

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

2. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances for the primary government at December 31, 2016 are expected to be paid currently. These balances represent various temporary loans, recharges, and reimbursements between funds for operating and capital expenditures and are stated as follows:

	Amount Receivable	Amount Payable
Major Governmental Funds:		
General Fund - Town wide	\$ 4,037	\$ 2,386,394
Highway Fund	1,025,512	
Capital Projects Fund	718,815	3,666
Subtotal	1,748,364	2,390,060
Non-Major Governmental Funds:		
General Fund - Part Town	187,507	
Special Grant		371
East-West Fire Protection District	127,830	
Southold Wastewater District	75	
Fishers Island Sewer District	16,505	
Solid Waste Management District	310,150	
Subtotal	642,067	371
Total	\$ 2,390,431	\$ 2,390,431

Interfund transfer balances for the primary government at December 31, 2016 represent primarily the payment of BAN debt service expenditures and capital project transfers and are stated as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund - Town wide		\$ 564,414
Highway Fund		201,686
Capital Projects Fund	\$ 819,917	
Subtotal	819,917	766,100
Non-Major Governmental Funds:		
Southold Wastewater District		53,817
Subtotal	-0-	53,817
Total	\$ 819,917	\$ 819,917

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

3. CAPITAL ASSETS

Primary government	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital assets not being depreciated				
Land	\$ 8,677,637	\$ 9,091		\$ 8,686,728
Land development rights	117,590,063	3,985,547		121,575,610
Construction in progress	1,381,732	1,201,175	\$ 1,211,085	1,371,822
Total capital assets not being depreciated	127,649,432	5,195,813	1,211,085	131,634,160
Depreciable capital assets				
Buildings	13,329,610	2,246,928		15,576,538
Improvements other than buildings	15,849,791	520,886		16,370,677
Machinery and equipment	11,767,729	931,034	840,692	11,858,071
Software	1,119,056	25,441		1,144,497
Infrastructure	79,525,483	1,699,043	34,114	81,190,412
Total depreciable capital assets	121,591,669	5,423,332	874,806	126,140,195
Less accumulated depreciation				
Buildings	5,241,228	388,268		5,629,496
Improvements other than buildings	7,606,187	558,183		8,164,370
Machinery and equipment	9,100,172	610,926	788,697	8,922,401
Software	906,742	118,152		1,024,894
Infrastructure	68,703,582	737,224	11,030	69,429,776
Total accumulated depreciation	\$ 91,557,911	\$ 2,412,753	\$ 799,727	93,170,937
Total net depreciable capital assets				32,969,258
Total net capital assets				\$ 164,603,418
Depreciation expense was charged to governmental functions as follows:				
General government support				\$ 460,902
Public safety				340,048
Transportation				1,026,659
Economic assistance and opportunity				25,214
Culture and recreation				37,856
Home and community services				522,074
				\$ 2,412,753

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, 2016, the Town has not recorded any such impairment losses.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

3. CAPITAL ASSETS (continued)

Nonmajor component units	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Capital assets not being depreciated				
Land	\$ 2,103,162			\$ 2,103,162
Total capital assets not being depreciated	2,103,162	\$ -0-	\$ -0-	2,103,162
Depreciable capital assets				
Buildings	14,145,321			14,145,321
Improvements other than buildings	2,545,238			2,545,238
Machinery and equipment	4,011,124			4,011,124
Infrastructure	4,366,330			4,366,330
Total depreciable capital assets	25,068,013	-0-	-0-	25,068,013
Less accumulated depreciation				
Buildings	4,858,499	453,036		5,311,535
Improvements other than buildings	859,656	94,679		954,335
Machinery and equipment	3,435,717	138,400		3,574,117
Infrastructure	2,384,827	171,063		2,555,890
Total accumulated depreciation	\$ 11,538,699	\$ 857,178	\$ -0-	12,395,877
Total net depreciable capital assets				12,672,136
Total net capital assets				\$ 14,775,298
Depreciation expense was charged to governmental functions as follows:				
Transportation				\$ 605,256
Culture and recreation				108,036
Home and community services				143,886
				\$ 857,178

4. INDEBTEDNESS

SHORT TERM DEBT

Bond Anticipation Notes (BANs) – Bond anticipation notes (BANs) are used as a temporary means of financing capital expenditures in the capital projects fund. 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. 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. These BANs bear interest at various rates from 1.27% to 1.75% and were repaid in full during 2016.

A summary of changes in BANs for the year ended December 31, 2016 is as follows:

	Balance 1/1/16	Increases	Reductions	Balance 12/31/16
Primary Government	\$ 2,830,000	\$	\$ 2,830,000	\$ -0-
Component Units	699,000		699,000	-0-
	\$ 3,529,000	\$ -0-	\$ 3,529,000	\$ -0-

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

LONG TERM DEBT

General Obligation Bonds –The Town borrows money in order to acquire land, 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.

These long-term liabilities are backed by the full faith and credit of the Town, including bonds of the Town Special Districts which are payable from tax revenues of the general fund and special revenue funds. Interest rates on these bonds vary from 2.00% to 5.00% and have maturity dates in 2017 through 2034.

Future principal and interest payments to maturity for both the primary government and the component units are as follows:

Years Ending December 31,	Primary Government			Component Units		
	Principal	Interest	Totals	Principal	Interest	Totals
2017	\$ 2,814,000	\$ 994,709	\$ 3,808,709	\$ 324,000	\$ 38,121	\$ 362,121
2018	2,775,000	1,008,790	3,783,790	320,000	28,961	348,961
2019	2,350,000	918,901	3,268,901	320,000	22,424	342,424
2020	2,245,000	829,663	3,074,663	265,000	14,299	279,299
2021	2,310,000	740,713	3,050,713	265,000	4,999	269,999
2022-2026	12,040,000	2,295,763	14,335,763			
2027-2031	9,425,000	544,128	9,969,128			
2031-2034	705,000	31,431	736,431			
Total	\$34,664,000	\$ 7,364,098	\$42,028,098	\$ 1,494,000	\$ 108,804	\$ 1,602,804

Advance Refunding of Bonds

In September 2016, the Town issued \$20,290,000 in Refunding Serial Bonds with interest rates ranging from 2.0% to 4.0% and annual maturities through February 2030.

The net proceeds of \$21,602,309 (the par amount of the bonds plus a premium of \$1,537,124 less underwriter's fees, insurance and other issuance costs of \$224,815), were used to refund \$20,270,000 of outstanding 2008, 2009, and 2011 Refunding Serial Bonds with interest rates ranging from 3.00% to 4.375%.

The net proceeds were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the governmental liabilities portion of the statement of net assets.

The refunding was done in order to reduce debt payments in the short-term. The refunding reduced future total debt service payments by \$1,660,198. The overall transaction resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$1,988,273 for the Town.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Defeasance of Debt

In the current year and in prior years, the Town of Southold defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At December 31, 2016, \$3,400,000 of these bonds outstanding are considered defeased.

CHANGES IN LONG-TERM LIABILITIES

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

	As Restated			Balance 12/31/2016	Noncurrent liabilities due within one year	Noncurrent liabilities
	Balance 1/1/2016	Increases	Reductions			
Primary Government:						
General obligation bonds	\$ 32,392,000	\$ 24,903,000	\$ 22,631,000	\$ 34,664,000	\$ 2,814,000	\$ 31,850,000
Add: Premiums on Obligations	978,944	1,591,558	69,925	2,500,577		2,500,577
Total General Obligation Bonds						
Payable	33,370,944	26,494,558	22,700,925	37,164,577	2,814,000	34,350,577
Compensated absences	8,924,108	613,462	163,914	9,373,656	468,683	8,904,973
General claims and judgments liability	426,028	126,500	147,423	405,105	33,605	371,500
Estimated liability for landfill closure and postclosure care costs	442,888		16,614	426,274	16,614	409,660
Net pension liability	1,926,748	16,141,546	5,313,033	12,755,261		12,755,261
Other postemployment benefits payable	39,788,820	6,476,820	1,760,632	44,505,008		44,505,008
Component Units:						
General obligation bonds	1,138,000	550,000	194,000	1,494,000	324,000	1,170,000
Compensated absences	159,340	194,083	159,341	194,082	48,521	145,561
Net pension liability	134,178	518,729		652,907		652,907
Other postemployment benefits payable	323,799	35,845	39,927	319,717		319,717

The liabilities for compensated absences, net pension liability and other postemployment benefits payable will be liquidated through future budgetary appropriations in the funds that gave rise to the liability. In most instances, these amounts will be liquidated from the general fund, highway fund, and certain special revenue funds. Payments for estimated claims and judgments will be liquidated primarily from the general fund. The estimated liability for landfill closure and postclosure costs will be liquidated by the solid waste management fund.

5. RETIREMENT SYSTEM

Plan Description

The Town of Southold participates in the New York State and Local Employees' Retirement System (NYSERS) and Local Police and Fire Retirement System (PFRS) (the "System"). This is a cost-sharing multiple-employer 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 fiduciary net position allocated to the system. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. 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 SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (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 <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

Benefits Provided

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

Tiers 1 and 2

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

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

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year's compensation used in the 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% 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 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

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

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4, and 5 members, each year'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 SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

5. 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 members is age 63 for ERS members and 62 for PFRS members.

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

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year'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.

Special Plans

The 25-Year Plan allow a retirement after 25 years of service with a benefit of one-half of final average salary, and the 20-Year Plan allow a retirement after 20 years of service with a benefit of one-half of final average salary. These plans are available to certain PFRS members, sheriffs, and correction officers.

Ordinary Disability Benefits

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

Accidental Disability Benefits

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

Ordinary Death Benefits

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

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

Contributions

Plan members who joined the system before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute 3% of their salary for NYSERS members throughout active membership. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, depending upon their salary, throughout active membership. Under the authority of the NYSRSSL, the Comptroller shall certify annually the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's year ended March 31. The actual contributions were equal to 100% of the actuarially required amounts. The credits and miscellaneous adjustments represent modifications made by the NYSERS and NYSPFRS to the prior year's contributions due to differences between estimated and actual salaries for the plan year. Amortization payments relate to the pension related debt, as discussed below. The required contributions as billed by the Plan, for the Town, for the current year and two preceding years were:

	ERS	PFRS
2016	\$ 1,783,174	\$ 1,587,581
2015	1,981,226	1,762,500
2014	2,053,052	1,455,243

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

Below is the Town's proportionate share of the net pension liability of the System and its related employer allocation percentage.

	Measurement Date	Net Pension Liability	Allocation of the System's Total Net Liability
ERS	March 31, 2016	\$ 6,686,629	0.0045709%
PFRS	March 31, 2016	6,068,632	0.2049668%

The net pension liability was determined by an actuarial valuation as of April 1, 2015, and 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. There was no significant change in the Town's proportionate share from March 31, 2015 to March 31, 2016.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

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

For the year ended December 31, 2016, the Town recognized pension expense of \$4,798,859 of which \$2,578,362 relates to ERS and \$2,220,497 relates to PFRS. At December 31, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	ERS	PFRS	Totals
Deferred Outflows of Resources:			
Difference between expected and actual experience	\$ 33,775	\$ 54,430	\$ 88,205
Changes of Assumptions	1,782,372	2,616,167	4,398,539
Net difference between projected and actual investment earning on pension plan investments	3,965,206	3,400,977	7,366,183
Changes in Proportion and Differences between Employer contributions and proportionate share of contributions	61,233	137,487	198,720
Contributions made subsequent to the measurement date	1,338,264	1,190,686	2,528,950
Total Deferred Outflows of Resources - pension amounts	\$ 7,180,850	\$ 7,399,747	\$ 14,580,597
Deferred Inflows of Resources:			
Differences between expected and actual experience	\$ 792,255	\$ 917,504	1,709,759
Changes in proportion and differences between the Town's contributions and proportionate share of contributions	25,532	157,455	182,987
Total Deferred Inflows of Resources - pension amounts	\$ 817,787	\$ 1,074,959	\$ 1,892,746

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, 2016. Other amounts will be recognized in pension expense as follows:

	ERS	PFRS
Plan Year Ended March 31, 2017	\$ 1,272,265	\$ 1,203,557
2018	1,272,265	1,203,557
2019	1,272,265	1,203,557
2020	1,208,004	1,156,202
2021	367,229	367,229
	\$ 5,024,799	\$ 5,134,102

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

Actuarial Assumptions

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

	ERS	PFRS
Actuarial Valuation Date	April 1, 2015	April 1, 2015
Interest Rate	7.00%	7.00%
Salary scale:		
Inflation	2.50%	2.50%
Productivity and merit	1.30%	2.00%
Total salary scale	3.80%	4.50%
Inflation rate	2.50%	2.50%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience	April 1, 2010 - March 31, 2015 System's Experience

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

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

The long-term rate of return on pension plan investments was determined using a building-clock 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, 2016 are summarized below:

<u>Asset Type:</u>	Target Allocation	Long-term Expected Rate of Return
Equity:		
Domestic equity	38.00%	7.30%
International equity	13.00%	8.55%
Alternatives:		
Private equity	10.00%	11.00%
Real estate	8.00%	8.25%
Absolute return strategies	3.00%	6.75%
Opportunistic portfolio	3.00%	8.60%
Real assets	3.00%	8.65%
Bonds and mortgages	18.00%	4.00%
Cash	2.00%	2.25%
Inflation indexed bonds	2.00%	4.00%
	<u>100.00%</u>	

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

Actuarial Assumptions (continued)

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 Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Town's 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:

	1.00% Decrease 6.00%		Current Assumption 7.00%		1.00% Increase 8.00%
Town's proportionate share of the collective net pension liability/(asset)					
ERS	\$ 15,071,518	\$	6,686,629	\$	(403,435)
PFRS	13,554,927		6,068,632		(206,506)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the Town as of the respective valuation dates were as follows:

	ERS	PFRS
	(Dollars in thousands)	(Dollars in thousands)
Valuation Date	April 1, 2015	April 1, 2015
Employers' total pension liability	\$ 172,303,544	\$ 30,347,727
Plan net position	156,253,265	27,386,940
Employers' net pension liability	<u>\$ 16,050,279</u>	<u>\$ 2,960,787</u>
Ratio of plan net position to the Employers' total pension liability	90.70%	90.20%

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

6. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)

In the government-wide financial statements, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. The Town recognizes the costs of postemployment healthcare in the year when the employee benefits are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, which commenced with the 2008 liability.

Plan Description

The Town, as a single-employer defined benefit OPEB plan, per its contracts with employees, will pay full premium costs for medical insurance coverage (currently provided by the Empire Plan) at retirement. Employees are eligible for retiree health insurance provided that the employee has been eligible for coverage under the Town's health insurance plan for at least 10 consecutive years and is employed by the Town on the last date immediately prior to retirement. The retiree and spouse are eligible for full Medicare premium reimbursement. Healthcare benefits for non-union employees are similar to those of union employees. Surviving spouses of deceased employees may continue coverage by paying the premium equivalent for participants.

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

Active employees	202
Retirees and dependents	189
Surviving spouses	<u>4</u>
Total	<u>395</u>

There have been no significant changes in the number or type of coverage since that date.

Funding Policy

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

Annual Other Postemployment Benefits Cost and Net Obligation

For the year ended December 31, 2016, the Town's annual other postemployment benefits cost (expenses) were \$6,476,820. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$1,760,632 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$4,716,188 for the year ended December 31, 2016. The Town's component units annual other postemployment benefits cost (expenses) were \$35,845. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$39,927 for retirees, the result was a decrease in the other postemployment benefits liability of \$4,082 for the year ended December 31, 2016.

Benefit Obligations and Normal Cost as of December 31, 2016

	<u>Governmental Activities</u>
Retired employees	\$ 33,843,483
Active employees	<u>42,319,978</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 76,163,461</u>

The Town's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Town's unfunded actuarial accrued liability for the year ended December 31, 2016 amounted to \$76,163,461.

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

6. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (continued)

Annual Other Postemployment Benefits Cost and Net Obligation (continued)

The Town's annual other postemployment benefits cost, the amount actually paid and changes to the Town's net other postemployment benefits obligation to the Plan for the year ended December 31, 2016 are as follows:

Normal Cost	\$ 3,001,424
Amortization of unfunded actuarial liability (UAAL) over 30 years	4,001,071
Interest	<u>245,087</u>
Annual required contribution (ARC)	7,247,582
Interest on net other postemployment benefits obligation	1,392,609
Adjustment to ARC	<u>(2,163,371)</u>
Annual OPEB cost (expense)	6,476,820
Less: contribution for year ended December 31, 2016	<u>1,760,632</u>
Increase in net OPEB obligation	4,716,188
Net OPEB obligation - beginning of year	<u>39,788,820</u>
Net OPEB obligation - end of year	<u>\$ 44,505,008</u>
Percent of annual OPEB cost contributed	27.18%

Funded Status and Funding Progress:

The percentage contributed, as it relates to the Town of Southold, for the current year and preceding year was:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2016	\$ 6,476,820	\$ 1,760,632	27.18%	\$ 44,505,008
2015	5,973,325	1,580,053	26.45%	39,788,820
2014	5,906,329	1,237,840	20.96%	35,395,548

The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The funded status of the plan projected as of January 1, 2015, is as follows:

	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	UAAL as a Funded Ratio	Covered Payroll	Percentage of Payroll
Town	\$ -0-	\$ 76,163,461	\$ 76,163,461	0%	\$ 15,859,856	480.23%
Component Units	-0-	499,363	499,363	0%	1,120,537	44.56%

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

C. DETAILED NOTES ON ALL FUNDS (continued)

6. OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (continued)

Actuarial Methods and Assumptions:

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

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

In the January 1, 2015, actuarial valuation, the liabilities were computed using the projected unit credit cost method, level dollar amortization method, and an open year amortization period to amortize the initial unfunded liability. The actuarial assumptions utilized a 3.50% discount rate. The valuation assumes an 8.25% healthcare cost trend increase for the year, reduced by decrements down to 5.00% in fiscal year 2022.

7. COMPENSATED ABSENCES

Town employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations. Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the Statement of Net Position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2016, the value of the accumulated vacation time and sick leave was \$9,373,656 for the primary government.

D. COMMITMENTS AND CONTINGENCIES

Risk Management

In common with other municipalities, the Town receives numerous notices of claims. The Town established a self-insurance risk management program for general liability insurance which is accounted for in the general fund. Although the eventual outcome of these claims cannot be presently determined, the Town has estimated unsettled claims and litigation to be \$401,500 which is included as claims and judgments payable in the government-wide financial statements and \$3,605 is included as judgments and claims payable as a current liability in the fund financial statements. 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.

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

D. COMMITMENTS AND CONTINGENCIES (continued)

Risk Management (continued)

For the year ended December 31, 2016, the Town has a deductible liability exposure of \$50,000 per claim for general liability, \$25,000 per claim for automobile liability, police liability and employee benefits, and \$10,000 per claim for public officials and employment practices. Any liability exposure above the deductible amounts is covered by primary insurance policies up to \$1,000,000 per claim for general liability, public officials, police and employment practices, and employee benefits.

Aggregate exposures are \$1,000,000 per claim for public officials, police and employment practices, \$3,000,000 for employee benefits and general liability. After primary policy limits are exhausted, the excess exposure above the per claim or aggregate limits is covered by an umbrella liability policy of \$10,000,000 per claim and \$10,000,000 in the aggregate.

In relation to the health insurance benefits that were self-insured, the self-funded plan was terminated as of December 31, 2014, and coverage was provided through the New York State Insurance Program's Empire Plan as of January 1, 2015. All claims through the self-insured plan were settled during 2015.

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 liability for general liability claims is determined and reported by a third-party administrator, and is reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Claims reserves for general liability claims are re-evaluated periodically to take into consideration recently settled claims and any new developments and changes.

The Town's liabilities for medical claims outstanding at year end were reported by the third-party administrator and were recorded when the claim had been incurred and paid within 60 days of the year end.

The Town's discretely presented component units are not included in the Town's self-insurance risk management program for any claims.

Fund balance is assigned for future catastrophic losses and is not available for other uses. Changes in the liability for claims and judgments for the year ended December 31, 2016 and 2015 are as follows:

	Medical		General Liability	
	2016	2015	2016	2015
Unpaid Claims as of December 31, prior year	\$ -0-	\$ 802,509	\$ 432,226	\$ 350,483
Incurred Claims:				
Provision for insured events of the current fiscal year	-0-	1,976	126,500	124,281
Increase (decrease) in net provision for insured events of prior fiscal years	-0-	-0-	(81,633)	-0-
Total Incurred Claims and Claim adjustments	-0-	804,485	477,093	474,764
Payments of:				
Claims during the year	-0-	804,485	71,988	42,538
Unpaid Claims as of December 31,	\$ -0-	\$ -0-	\$ 405,105	\$ 432,226

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

D. COMMITMENTS AND CONTINGENCIES (continued)

Contingent Liabilities

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

Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations required the Town to place a final cover on its landfill sites and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. The Town ceased accepting waste at its Cutchogue landfill as of October 8, 1993. Accordingly, as of December 31, 2016 the Town has recorded a liability of \$426,274, in the government-wide financial statements which represents the provision to be made in future budgets for unfunded closure and postclosure landfill costs. As the liability is based on 100% of capacity there are no estimated costs of closure or postclosure remaining to be recognized. Actual costs may vary due to inflation or deflation, changes in technology, or changes in regulations or applicable laws

Construction and Other Capital Acquisition Commitments

The Town is committed to capital improvements to its various facilities and infrastructure. At December 31, 2016, these commitments amounted to \$1,002,048 in the capital projects fund.

Animal Shelter Agreement

In May 2011, the Town entered into an agreement with the North Fork Animal Welfare League to operate and manage the Town of Southold Animal Shelter. The agreement is for a term of four years commencing on June 1, 2011. The agreement was renewed in March 2015 with the lease to begin March 2016 expiring in February 2026. The future payments associated with this agreement are as follows:

2017	\$	226,651
2018		231,651
2019		232,484
2020		232,484
2021		232,484
2022-2026		968,683
	\$	2,124,437

Lease Commitments and Leased Assets

The Town leases property and equipment under operating leases. Total rental expenditures on such leases for the year ended December 31, 2016 were \$234,552. Future obligations over the primary terms of the Town's leases as of December 31, 2016 are as follows:

2017	\$	190,568
2018		169,470
2019		54,550
2020		28,872
2021		28,285
2022-2023		49,828
Total	\$	521,573

TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

E. CONDENSED FINANCIAL STATEMENTS FOR THE DISCRETELY PRESENTED COMPONENT UNITS

The following represents condensed financial statements for the discretely presented component units as of and for the year ended December 31, 2016:

Condensed Statement of Net Position:

	Current Assets	Due from Primary Government	Capital Assets Net of Depreciation	Deferred Outflows of Resources	Current Liabilities	Other Long-Term Liabilities	Deferred Inflows of Resources	Net Position
Fishers Island								
Ferry District	\$ 1,147,989	\$ 135,373	\$ 9,079,993	\$ 676,069	\$ 1,247,020	\$ 2,288,186	\$ 215,258	\$ 7,288,960
Fishers Island Waste Management District	513,436	95,376	2,603,788		34,651		95,376	3,082,573
Cutchoogue-New Suffolk Park District*	160,995	23,538	114,114				23,538	275,109
Southold Park District*	214,508	54,921	777,914				54,921	992,422
Orient-East Marion Park District*	23,830	7,846	458,416		125		7,846	482,121
Mattituck Park District*	1,200,904	70,613	1,742,073		3,128		70,613	2,939,849
Orient Mosquito District*	37,570	15,656					15,656	37,570
	<u>\$ 3,299,232</u>	<u>\$ 403,323</u>	<u>\$ 14,776,298</u>	<u>\$ 676,069</u>	<u>\$ 1,284,924</u>	<u>\$ 2,288,186</u>	<u>\$ 483,208</u>	<u>\$ 15,098,604</u>

*unaudited component units

Condensed Statement of Activities:

	Program			General Revenue		Net Position		
	Expenses	Revenue	Net Expense	Property Tax	Other	Change	1/1/2016	12/31/2016
Fishers Island								
Ferry District	\$ 4,682,857	\$ 3,302,402	\$ 1,380,455	\$ 796,169	\$ 9,782	\$ (574,504)	\$ 7,863,464	\$ 7,288,960
Fishers Island Waste Management District	881,023	63,460	817,563	562,729	3,723	(251,111)	3,333,684	3,082,573
Cutchoogue-New Suffolk Park District*	110,258		110,258	140,000	103	29,845	245,264	275,109
Southold Park District*	325,434		325,434	327,726	48,646	50,938	941,484	992,422
Orient-East Marion Park District*	26,509		26,509	44,000	990	18,481	463,640	482,121
Mattituck Park District*	500,144	159,650	340,494	420,397	42,896	122,799	2,817,050	2,939,849
Orient Mosquito District*	85,940		85,940	88,431	20	2,511	35,059	37,570
	<u>\$ 6,612,165</u>	<u>\$ 3,525,512</u>	<u>\$ 3,086,653</u>	<u>\$ 2,379,452</u>	<u>\$ 106,160</u>	<u>\$ (601,041)</u>	<u>\$ 15,699,645</u>	<u>\$ 15,098,604</u>

*unaudited component units

TOWN OF SOUTHDOLD
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

E. CONDENSED FINANCIAL STATEMENTS FOR THE DISCRETELY PRESENTED COMPONENT UNITS

Complete financial statements and financial records of these component units can be obtained from their respective administrative offices:

Orient Mosquito District 145 Platt Road Orient, NY	Fishers Island Waste Management District Fishers Island, NY 06390
Cutchogue-New Suffolk Park District P.O. Box 311 Cutchogue, NY 11935	Orient-East Marion Park District P.O. Box 12 Orient, NY 11957
Southold Park District P.O. Box 959 Southold, NY 11971	Mattituck Park District P.O. Box 1413 Mattituck, NY 11952
Fishers Island Ferry District P.O. Box H Fishers Island, NY 06390	

F. 2% TRANSFER TAX

Transfer tax receipts are recorded in the Community Preservation Fund, and are used for the purchase and/or preservation of agricultural land, open space, parks, or historic preservation sites. The tax applies to sales of vacant land amounts in excess of \$100,000 or sales of improved land in excess of \$250,000. Conveyance of real property for open space, parks or historic preservation purposes are exempt from this tax.

I. NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following Statements:

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 addressing employers and governmental nonemployer contributing entities for pension that are not within the scope of Statement No. 68 are effective for reporting periods beginning on or after June 15, 2016.

Statement No. 74, *“Financial Reporting for Postemployment Benefits Other Than Pension Plans”*, establishes new accounting and financial reporting requirements pertaining to defined benefit OPEB plans. It establishes footnote disclosure requirements, required supplementary schedules and establishes the measurement of the net OPEB liability criteria. The requirements of this Statement are effective for financial statements are for years beginning after June 15, 2016.

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

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

Statement No. 81, *Irrevocable Split-Interest Agreements*, provides guidance over financing reporting for irrevocable split-interest agreements where the government is a beneficiary of the agreement. The provisions of this Statement are effective for periods beginning after December 31, 2016 for the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

The Town is currently evaluating the impact of the aforementioned GASB Statements on its financial statements.

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

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

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 are made. The Capital Projects and Special Grant Funds are budgeted on a project or grant basis.

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

	Original Budget	Final Budget	Actual	Encumbrances	Variance Positive (Negative)
REVENUES					
Real property taxes	\$ 23,991,479	\$ 23,991,479	\$ 23,991,479		\$ -0-
Other real property tax items	71,300	71,300	75,566		4,266
Non-property tax items	1,154,273	1,154,273	1,154,273		-0-
Departmental income	425,823	434,177	434,452		275
Intergovernmental charges and local aid	527,956	418,647	132,186		(286,461)
Use of money and property	210,000	210,000	193,843		(16,157)
Licenses and permits	302,535	302,535	345,888		43,353
Fines and forfeitures	185,500	185,500	343,332		157,832
Sale of property and compensation for loss	127,500	127,500	192,690		65,190
Miscellaneous local sources	17,675	27,895	24,181		(3,714)
Interfund revenues	30,000	30,000	33,192		3,192
State aid	1,355,500	1,355,500	1,418,065		62,565
Federal aid	204,746	227,246	337,107		109,861
Total Revenues	<u>28,604,287</u>	<u>28,536,052</u>	<u>28,676,254</u>	<u>-0-</u>	<u>140,202</u>
EXPENDITURES					
Current:					
General government support	7,165,310	7,129,965	6,210,765	\$ 2,246	916,954
Public safety	10,540,237	10,455,686	9,746,819	213,419	495,448
Public health	33,300	33,300	33,300		-0-
Transportation	579,792	585,792	549,361		36,431
Economic assistance and opportunity	1,414,632	1,427,132	1,313,636	42	113,454
Culture and recreation	358,735	382,360	333,819		48,541
Home and community services	368,280	373,560	329,184	4,155	40,221
Employee benefits	9,170,800	9,118,200	8,363,806		754,394
Debt service:					
Principal	392,200	392,200	392,200		-0-
Interest	141,000	140,938	140,456		482
Total Expenditures	<u>30,164,286</u>	<u>30,039,133</u>	<u>27,413,346</u>	<u>219,862</u>	<u>2,405,925</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>(1,559,999)</u>	<u>(1,503,081)</u>	<u>1,262,908</u>	<u>(219,862)</u>	<u>2,546,127</u>
Other Financing Uses					
Transfers out	(546,250)	(602,668)	(564,414)		38,254
Total Other Financing Uses	<u>(546,250)</u>	<u>(602,668)</u>	<u>(564,414)</u>	<u>-0-</u>	<u>38,254</u>
Net Change in Fund Balance	<u>\$ (2,106,249)</u>	<u>\$ (2,105,749)</u>	<u>698,494</u>	<u>\$ (219,862)</u>	<u>\$ 2,584,381</u>
Fund Balance at Beginning of Year			<u>8,111,954</u>		
Fund Balance at End of Year			<u>\$ 8,810,448</u>		

See notes to the financial statements.

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

	Original Budget	Final Budget	Actual	Encumbrances	Variance Positive (Negative)
REVENUES					
Real property taxes	\$ 5,263,180	\$ 5,263,180	\$ 5,263,180		\$ -0-
Other real property tax items	1,825	1,825	2,277		452
Intergovernmental charges and local aid			750		750
Use of money and property	6,000	6,000	5,490		(510)
Licenses and permits	12,000	12,000	21,456		9,456
Sale of property and compensation for loss	1,000	55,601	58,133		2,532
Miscellaneous local sources			280		280
Interfund Revenues			8,488		8,488
State aid	422,755	766,550	521,549		(245,001)
Federal aid		217,500	256,149		38,649
Total Revenues	<u>5,706,760</u>	<u>6,322,656</u>	<u>6,137,752</u>	<u>-0-</u>	<u>(184,904)</u>
EXPENDITURES					
Current:					
General government support	11,100	11,100	7,269		3,831
Transportation	3,739,620	4,361,242	4,095,341	\$ 79,931	185,970
Employee benefits	1,884,997	1,876,497	1,722,892		153,605
Debt Service:					
Principal	70,000	70,000	70,000		-0-
Interest	28,315	28,315	27,945		370
Total Expenditures	<u>5,734,032</u>	<u>6,347,154</u>	<u>5,923,447</u>	<u>79,931</u>	<u>343,776</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>(27,272)</u>	<u>(24,498)</u>	<u>214,305</u>	<u>(79,931)</u>	<u>158,872</u>
Other Financing Sources and Uses					
Transfers out	<u>(229,000)</u>	<u>(231,774)</u>	<u>(201,686)</u>		<u>30,088</u>
Total Other Financing Sources and Uses	<u>(229,000)</u>	<u>(231,774)</u>	<u>(201,686)</u>	<u>-0-</u>	<u>30,088</u>
Net Change in Fund Balance	<u>\$ (256,272)</u>	<u>\$ (256,272)</u>	<u>12,619</u>	<u>\$ (79,931)</u>	<u>\$ 188,960</u>
Fund Balance at Beginning of Year			<u>646,997</u>		
Fund Balance at End of Year			<u>\$ 659,616</u>		

See notes to the financial statements.

TOWN OF SOUTHOLD
COMMUNITY PRESERVATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Non-property tax items	\$ 6,500,000	\$ 6,500,000	\$ 7,073,493	\$ 573,493
Use of money and property	7,500	7,500	29,297	21,797
State aid			464,522	464,522
Total Revenues	<u>6,507,500</u>	<u>6,507,500</u>	<u>7,567,312</u>	<u>1,059,812</u>
EXPENDITURES				
Current:				
Home and community services	10,388,525	10,388,525	4,274,227	6,114,298
Debt service:				
Principal	1,363,500	1,364,200	1,364,143	57
Interest	959,475	958,775	953,959	4,816
Total Expenditures	<u>12,711,500</u>	<u>12,711,500</u>	<u>6,592,329</u>	<u>6,119,171</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(6,204,000)</u>	<u>(6,204,000)</u>	974,983	7,178,983
Net Change in Fund Balance	<u>\$ (6,204,000)</u>	<u>\$ (6,204,000)</u>	974,983	<u>\$ 7,178,983</u>
Fund Balance at Beginning of Year			<u>14,797,002</u>	
Fund Balance at End of Year			<u>\$ 15,771,985</u>	

See notes to the financial statements.

TOWN OF SOUTHOLD
POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS - SCHEDULE OF FUNDING PROGRESS
Year Ended December 31, 2016

Actuarial Valuation Date January 1,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
2016*	\$ -0-	\$ 76,163,461	\$ 76,163,461	0.00%	\$ 15,859,856	480.23%
2015	\$ -0-	\$ 68,923,944	\$ 68,923,944	0.00%	\$ 15,249,862	451.96%
2014	\$ -0-	\$ 68,001,588	\$ 68,001,588	0.00%	\$ 14,982,384	453.88%

* These amounts are projected based on the rollforward calculation by the actuary.

Changes in assumptions:

In the January 1, 2016 actuarial valuation the discount rate used was 3.75% per annum.

TOWN OF SOUTHDOLD
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
For the Year Ended December 31, 2016

Years Ended December 31,	Contractually required contributions	Contributions recognized by the plan in relation to the contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contribution as a percentage of covered payroll
ERS					
2016	\$1,783,174	\$ 1,783,174	\$ -0-	\$ 11,594,297	15.38%
2015	1,981,226	1,981,226	-0-	11,429,154	17.33%
2014	2,053,052	2,053,052	-0-	11,076,674	18.53%
2013	2,362,280	2,362,280	-0-	10,713,710	22.05%
2012	1,915,070	1,915,070	-0-	10,813,507	17.71%
2011	1,649,526	1,649,526	-0-	10,343,478	15.95%
2010	1,145,410	1,145,410	-0-	10,193,620	11.24%
2009	718,918	718,918	-0-	10,502,285	6.85%
2008	842,976	842,976	-0-	10,277,355	8.20%
2007	890,628	890,628	-0-	9,707,731	9.17%
PFRS					
2016	\$1,587,581	\$ 1,587,581	\$ -0-	\$ 7,139,568	22.24%
2015	1,762,500	1,762,500	-0-	6,769,147	26.04%
2014	1,455,243	1,455,243	-0-	6,737,987	21.60%
2013	2,073,878	2,073,878	-0-	6,127,253	33.85%
2012	1,209,715	1,209,715	-0-	6,410,344	18.87%
2011	1,308,331	1,308,331	-0-	6,057,237	21.60%
2010	957,407	957,407	-0-	5,999,280	15.96%
2009	861,865	861,865	-0-	6,222,524	13.85%
2008	905,458	905,458	-0-	5,997,070	15.10%
2007	967,286	967,286	-0-	5,580,419	17.33%

Note - 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

TOWN OF SOUTHDOLD
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ERS			
Town's proportion of the net pension liability	0.4164%	0.4180%	0.4180%
Town's proportionate share of the net collective pension liability	\$ 6,686,629	\$ 1,412,260	\$ 1,889,088
Town's covered-employee payroll	\$ 11,791,354	\$ 11,429,154	\$ 11,076,674
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.71%	12.36%	17.05%
Plan net position as a percentage of the total pension liability coming from plan	90.70%	97.90%	97.20%
PFRS			
Town's proportion of the net pension liability	0.24967%	0.18691%	0.18691%
Town's proportionate share of the net collective pension liability	\$ 6,068,632	\$ 514,888	\$ 778,124
Town's covered-employee payroll	\$ 6,887,011	\$ 6,769,147	\$ 6,737,987
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	88.12%	7.61%	11.55%
Plan net position as a percentage of the total pension liability coming from plan	90.20%	99.90%	98.50%

**OTHER SUPPLEMENTARY
INFORMATION**

TOWN OF SOUTHOLD
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2016

	Special Revenue Funds						Total Non-Major Funds
	General Fund Part Town	Special Grant	East-West Fire Protection District	Southold Wastewater District	Fishers Island Sewer District	Solid Waste Management District	
ASSETS							
Cash and investments	\$ 770,155	\$ 69,130	\$ 25,569	\$ 18,488	\$ 55,931	\$ 1,011,988	\$ 1,951,261
Accounts receivable	171,102				396	87,278	258,776
Due from other funds	187,507		127,830	75	16,505	310,150	642,067
State and federal aid receivables		31,078				17,833	48,911
Prepays	76,476					71,793	148,269
Total Assets	<u>\$ 1,205,240</u>	<u>\$ 100,208</u>	<u>\$ 153,399</u>	<u>\$ 18,563</u>	<u>\$ 72,832</u>	<u>\$ 1,499,042</u>	<u>\$ 3,049,284</u>
LIABILITIES							
Accounts payable and accrued liabilities	\$ 50,726	\$ 10,000	\$ 13,137		\$ 1,437	\$ 185,086	\$ 260,386
Due to other funds		371					371
Unearned revenue		89,837					89,837
Total Liabilities	<u>50,726</u>	<u>100,208</u>	<u>13,137</u>	<u>-0-</u>	<u>1,437</u>	<u>185,086</u>	<u>350,594</u>
DEFERRED INFLOWS OF RESOURCES							
Unearned revenue from real property taxes	165,811		127,830		16,425	452,922	762,988
FUND BALANCE							
Nonspendable	76,476					71,793	148,269
Assigned	912,227		12,432	18,563	54,970	789,241	1,787,433
Total Fund Balance	<u>988,703</u>	<u>-0-</u>	<u>12,432</u>	<u>18,563</u>	<u>54,970</u>	<u>861,034</u>	<u>1,935,702</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,205,240</u>	<u>\$ 100,208</u>	<u>\$ 153,399</u>	<u>\$ 18,563</u>	<u>\$ 72,832</u>	<u>\$ 1,499,042</u>	<u>\$ 3,049,284</u>

TOWN OF SOUTHOLD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	Special Revenue Funds						Total Non-Major Funds
	General Fund Part Town	Special Grant	East-West Fire Protection District	Southold Wastewater District	Fishers Island Sewer District	Solid Waste Management District	
REVENUES							
Real property taxes	\$ 481,428		\$ 752,906			\$ 1,987,807	\$ 3,222,141
Other real property tax items	208		10			27	245
Non-property tax items	668,039						668,039
Departmental income	737,121			\$ 1,025	\$ 28,460	1,462,817	2,229,423
Use of money and property	2,033		245		38	4,055	6,371
Licenses and permits	18,920					154,137	173,057
Sale of property and compensation for loss						238,346	238,346
Miscellaneous local sources	2,685	\$ 42,380					45,065
State aid	88,733					21,031	109,764
Federal aid		51,234					51,234
Total Revenues	1,999,167	93,614	753,161	1,025	28,498	3,868,220	6,743,685
EXPENDITURES							
General government support	175,379					208,708	384,087
Public safety	567,242		753,368				1,320,610
Home and community services	751,247	93,614			10,215	2,343,020	3,198,096
Employee benefits	664,988					670,159	1,335,147
Debt service:							
Principal					6,000	528,657	534,657
Interest					3,155	108,291	111,446
Total Expenditures	2,158,856	93,614	753,368	-0-	19,370	3,858,835	6,884,043
Excess (Deficiency) of Revenues							
Over Expenditures	(159,689)	-0-	(207)	1,025	9,128	9,385	(140,358)
Other Financing Uses:							
Transfers out						(53,817)	(53,817)
Total Other Financing Uses	-0-	-0-	-0-	-0-	-0-	(53,817)	(53,817)
Net Change in Fund Balance	(159,689)	-0-	(207)	1,025	9,128	(44,432)	(194,175)
Fund Balances at Beginning of Year	1,148,392	-0-	12,639	17,538	45,842	905,466	2,129,877
Fund Balances at End of Year	\$ 988,703	\$ -0-	\$ 12,432	\$ 18,563	\$ 54,970	\$ 861,034	\$ 1,935,702

OTHER REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Town of Southold, New York as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town of Southold, New York's basic financial statements and have issued our report thereon dated October 25, 2017.

Our report includes a reference to other auditors who audited the financial statements of Fishers Island Ferry District and the Fishers Island Waste Management District, as described in our report on the Town of Southold, New York's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Fishers Island Waste Management were not audited in accordance with *Governmental Auditing Standards*.

The financial statements of the Town of Southold's discretely presented component units with the exception of the two referenced above were not audited as of the report date, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. The unaudited discretely presented component units represent 25.6%, 31.3%, and 21.2%, respectively, of the assets and deferred outflows of resources, net position, and revenues of the aggregate discretely presented component units.

Internal Control Over Financial Reporting

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

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

Internal Control Over Financial Reporting (continued)

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

Compliance and Other Matters

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

Purpose of Report

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

Albrecht, Viggiano, Zal & Carr, P.C.

Hauppauge, New York
October 25, 2017