

TOWN OF BABYLON

FINANCIAL STATEMENTS

Year Ended December 31, 2013

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Babylon, New York (the "Town"), as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following blended component units: Babylon Human and Therapeutic Service Institute, Inc., Town of Babylon Senior Citizens Community Services, Inc., and Town of Babylon Youth Development Research Institute, Inc., whose statements collectively reflect total assets of \$417,268, total fund balance of \$383,921 and total revenues of \$838,076 as of and for the year ended December 31, 2013. Those financial statements were audited by another auditor whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the blended component units mentioned above is based solely on the report of the other auditor.

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

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

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

PERSONAL SERVICE. TRUSTED ADVICE. 

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Honorable Supervisor and Town Board
Town of Babylon
Page 2

Opinions

In our opinion, based on our audit and the reports of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Babylon, New York, as of December 31, 2013, and the respective changes in financial position, and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

New Accounting Guidance

As described in Note 1.H to the basic financial statements, the Town of Babylon, New York adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 61, "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,*" GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" and GASB Statement No. 66, "*Technical Corrections 2012 – an amendment of GASB Statements No. 10 and No. 62*" as of and for the year ended December 31, 2013.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, scheduling of funding progress for the retiree medical program 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014, on our consideration of the Town of Babylon, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Babylon, New York's internal control over financial reporting and compliance.

Albrecht, Veggraw, Zurek & Co., P.C.

Hauppauge, New York
September 19, 2014

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

As management of the Town of Babylon, New York (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2013.

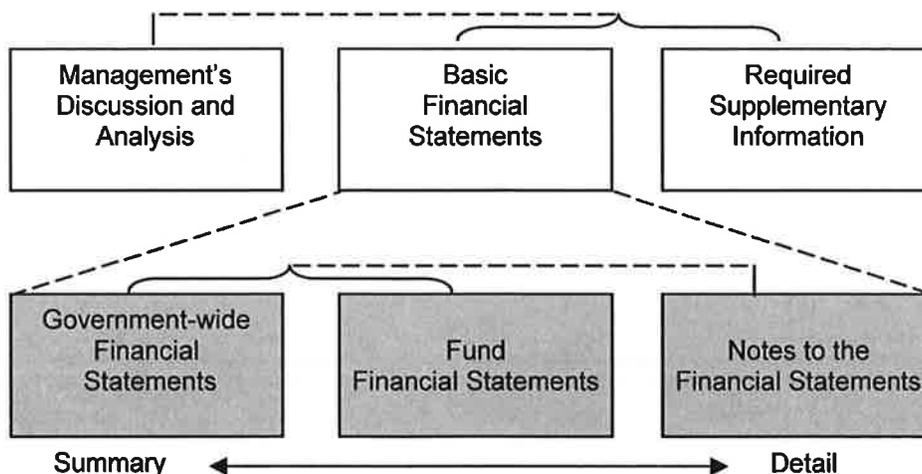
FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town's primary government exceeded its liabilities and deferred inflows of resources at the close of 2013 by \$98,452,678 (net position) of which \$92,273,767 was related to the governmental activities and \$6,178,911 was related to the business-type activities.
- The Town's governmental net position decreased by \$3,394,714. The most notable factor contributing to this decrease is the ongoing recognition of postemployment benefits healthcare costs which was partially offset by significant cost savings related to residential garbage collection services.
- The Town's business-type activities reported a decrease in net position of \$387,293 as a result of increases in management fees paid in the current year, depreciation expense and postemployment benefit healthcare costs coupled with a reduction in revenue.
- As of the close of 2013, the Town's governmental funds reported combined ending fund balances of \$90,602,198. Of this amount, \$4,722,339 is not in spendable form or is required to remain intact. The remaining \$85,879,859 or approximately 94.79% of total fund balances is in spendable form with various levels of spending constraint: restricted, assigned, or unassigned making them available for spending at the Town's discretion (see Note 2.B).
- At the end of 2013, the Town's total fund balance for the general fund was \$28,117,334, an increase of \$6,396,557 or 29.45% from the prior year. The unassigned fund balance for the general fund was \$8,973,672.
- The Town's total bonded debt (inclusive of general obligation bonds and bond anticipation notes) was \$172,567,900 for the Town's governmental activities. The business-type activities did not have any debt outstanding at year end. The total bonded debt increased by 27.74% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**COMPONENTS OF
THE ANNUAL FINANCIAL REPORT**



TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements

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

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

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

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

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

The prior year net position for the governmental activities has been restated as a result of the Town implementing Governmental Accounting Standards Board (GASB) Statement No. 65 as described in Note 1.H to the financial statements.

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

Business-Type Activities - The Town's business-type activity includes reporting the operations of leasing its water plant to the Suffolk County Water Authority.

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

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

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements

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

Governmental Funds

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

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

The Town maintains ten (10) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the six (6) major funds. The general fund, residential garbage district fund, commercial garbage district fund, combined highway fund, capital projects fund and special districts fund are reported as major funds. Data from the four (4) other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Fund

The Town maintains one proprietary type fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund, the East Farmingdale Water District, to account for the operations of leasing its water plant to the Suffolk County Water Authority.

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

Fiduciary Funds

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

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2013

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 of resources by \$98,452,678 at the close of the most recent year.

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

Condensed Statements of Net Position
 As of December 31, 2013 and 2012

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Assets				
Current assets	\$ 183,505,675	\$ 140,282,779	\$ 2,762,777	\$ 3,259,568
Capital assets	248,270,143	241,477,692	6,570,242	6,690,133
Other noncurrent assets	33,329,634	37,224,066		
Total Assets	465,105,452	418,984,537	9,333,019	9,949,701
Deferred outflow of resources	504,929	-0-	-0-	-0-
Liabilities				
Current liabilities	39,997,815	117,730,120	125,499	301,020
Noncurrent liabilities	247,371,670	214,947,767	266,109	244,977
Total Liabilities	287,369,485	332,677,887	391,608	545,997
Deferred inflows of resources	85,967,129	-0-	2,762,500	2,837,500
Net Position				
Net investment in capital assets	107,437,667	125,848,138	6,570,242	6,628,793
Restricted	6,954,905	4,672,134		
Unrestricted	(22,118,805)	(44,213,622)	(391,331)	(62,589)
Total Net Position	\$ 92,273,767	\$ 86,306,650	\$ 6,178,911	\$ 6,566,204

Total assets and deferred outflows of resources of the Town's governmental activities, as of December 31, 2013, were \$465,610,381, an increase of \$46,625,844. Total liabilities and deferred inflows of resources as of December 31, 2013 were \$373,336,614, an increase of \$40,658,727. This results in a total net position balance of \$92,273,767 for 2013, an increase of \$5,967,117. Of the Town's net position balance, \$107,437,667 was the net investment in capital assets, while \$6,954,905 was restricted by statute or other specific purposes leaving a \$22,118,805 unrestricted deficit net position. Total governmental net position was again impacted in the current year and will continue to be impacted in subsequent years due to the ongoing recognition of other postemployment benefits. The unfunded liability for postemployment benefits healthcare costs related to governmental activities increased in 2013 by \$5,416,745 bringing the unfunded liability at year end to \$45,869,508. Additional information on other postemployment benefits can be found in Note 3.H to the financial statements.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

By far the largest portion of the Town's governmental activities net position, \$107,437,667 reflects its investment in capital assets (e.g., 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.

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

Total assets of the Town's business-type activities, as of December 31, 2013, were \$9,333,019, a decrease of \$616,682. Total liabilities and deferred inflows of resources as of December 31, 2013 were \$3,154,108, a decrease of \$229,389. This results in a total net position balance of \$6,178,911 for 2013, a decrease of \$387,293. Of the business-type activities net position balance, \$6,570,242 was the net investment in capital assets and the remaining \$391,331 is the unrestricted deficit net position.

Changes in Net Position

For the years ended December 31, 2013 and 2012

	Governmental Activities		Business-type Activities	
	2013	2012 *	2013	2012
Program Revenue				
Charges for services	\$ 57,258,554	\$ 57,082,466	\$ 88,815	\$ 77,714
Operating grants and contributions	18,702,538	21,914,963		
Capital grants and contributions	7,603,980	4,370,489		
Total Program Revenues	83,565,072	83,367,918	88,815	77,714
General Revenues				
Real property taxes	66,155,175	61,500,519		
Other real property tax items	6,023,276	10,334,770		
Non-property tax items	3,788,306	3,585,494		
Interest earnings	961,491	1,169,351	7,106	12,849
Sale of property and compensation for loss	921,225	483,379		65,330
Mortgage tax	3,737,520	3,404,971		
State aid	1,115,651	1,115,651		
Other	219,256	294,276	265,875	250,619
Total General Revenues	82,921,900	81,888,411	272,981	328,798
Total Revenues	166,486,972	165,256,329	361,796	406,512

*Certain amounts from prior year were reclassified to conform to the current year presentation. There is no effect on the total revenues reported in 2012.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Changes in Net Position (continued)
 For the years ended December 31, 2013 and 2012

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Program Expenses				
General government support	26,930,185	25,555,353		
Public safety	20,545,454	20,150,433		
Health	4,335,088	4,055,804		
Transportation	24,446,523	25,379,096		
Economic assistance and opportunity	340,909	350,026		
Culture and recreation	17,634,551	17,119,750		
Home and community services	70,570,282	75,507,967	749,089	557,944
Interest on debt	5,078,694	4,954,205		
Total Program Expenses	169,881,686	173,072,634	749,089	557,944
Change in net position	(3,394,714)	(7,816,305)	(387,293)	(151,432)
Net position, beginning of year	86,306,650	94,122,955	6,566,204	6,717,636
Cumulative effect of change in accounting principle **	9,361,831			
Net position, beginning of year, as restated	95,668,481	94,122,955	6,566,204	6,717,636
Net position, end of year	\$ 92,273,767	\$ 86,306,650	\$ 6,178,911	\$ 6,566,204

**The Town's financial statements presented herein are for the year ended December 31, 2013 and the cumulative effect of applying Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" is shown as an adjustment to the beginning net position of 2013. Accordingly, the condensed financial information presented above also reflects this cumulative effect of the accounting change to the beginning net position of 2013. The condensed financial information for the year ended December 31, 2012 was not restated.

Net position from all governmental activities, decreased by \$3,394,714 in the current year. Key elements of the governmental activities are:

- Overall program revenues increased by \$197,154 from the prior year. Charges for services remained fairly consistent with prior year amounts. Operating grants decreased by \$3,212,425 primarily a result of the Town recognizing emergency disaster aid in 2012 for costs related to Hurricane Sandy (labor and equipment usage) that did not recur in 2013. However, capital grants increased \$3,233,491 primarily related to the timing of certain projects and the related reimbursements. The most significant reimbursement, in the amount of \$2,606,731, related to a culture and recreation project in which the Town is reconstructing the marinas at three beaches, a result of the damage caused by Hurricane Sandy in 2012.
- General revenues increased by \$1,033,489 from the prior year, primarily due to an increase in real property taxes (excluding special assessments) of \$4,654,656, additional revenue from the sale of property and compensation for loss of \$437,846 as well as an increase in the amount of mortgage tax earned in 2013 of \$332,549. These amounts were offset by the decrease in other real property tax items of \$4,311,494, a result of the residential garbage fund recognizing a one time payment in lieu of taxes in the amount of \$2,667,521 in the prior year and the Town phasing out the commercial assessed valuation tax resulting in a decrease of \$1,689,905 in collections compared to the prior year.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

- Overall program expenses decreased by \$3,190,948 from the prior year. General government support expenses increased from the prior year by \$1,374,832, a result of an overall increase in operating costs (i.e. utilities), salaries and related employee benefit costs. There was an overall decrease of \$4,937,685 in home and community services expenses compared to the prior year. This decrease was primarily the result of the decrease in costs for the residential garbage district (\$9,812,453), which was offset by Town recognizing the loss on the sale of two parcels of land classified as property held for resale (\$2,829,709). The Town realized a significant amount of costs savings for garbage collection services when the contract was re-bid in the second half of 2012. In addition, the Town provided fewer loans to residents for the Long Island Green Homes Program and did not have any recurring costs for debris removal for Hurricane Sandy in the current year. The Town's community development agency fund spent additional federal and state funding in the amount of \$1,115,815 in the current year.

Net position from the business-type activities decreased by \$387,293 in the current year. Key elements of the business-type activities are:

- Business-type activities general revenues decreased by \$55,817 primarily a result of the East Farmingdale Water District (the "Water District") not receiving any pollution remediation settlements in the current year as the related project was completed in 2013. Home and community services expenditures increased by \$191,145 due to higher depreciation expense as one major capital project was placed into service during 2013 as well as an increase in management fees paid to the Suffolk County Water Authority ("SCWA"). The management fee increase was a result of an increase in water rates charged by the SCWA, which the Water District absorbs instead of passing the increase back to the residents, and higher water usage by residents in the current year. The Water District's expense for other postemployment benefits also increased in the current year.

Net Cost of Services for Governmental Activities
 For the years ended December 31, 2013 and 2012

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2013	2012	2013	2012	2013	2012
General government support	\$ 26,930,185	\$ 25,555,353	\$ 3,533,536	\$ 4,112,658	\$ (23,396,649)	\$ (21,442,695)
Public safety	20,545,454	20,150,433	3,137,658	2,824,790	(17,407,796)	(17,325,643)
Health	4,335,088	4,055,804	539,204	675,428	(3,795,884)	(3,380,376)
Transportation	24,446,523	25,379,096	3,227,853	4,572,692	(21,218,670)	(20,806,404)
Economic assistance and opportunity	340,909	350,026	30,898	33,128	(310,011)	(316,898)
Culture and recreation	17,634,551	17,119,750	7,901,984	4,541,661	(9,732,567)	(12,578,089)
Home and community services	70,570,282	75,507,967	65,193,939	66,607,561	(5,376,343)	(8,900,406)
Interest on debt	5,078,694	4,954,205			(5,078,694)	(4,954,205)
	<u>\$ 169,881,686</u>	<u>\$ 173,072,634</u>	<u>\$ 83,565,072</u>	<u>\$ 83,367,918</u>	<u>\$ (86,316,614)</u>	<u>\$ (89,704,716)</u>

The total cost of all governmental activities this year was \$169,881,686. The net cost of these services after being subsidized by programs revenues of \$83,565,072 was \$86,316,614.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

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

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

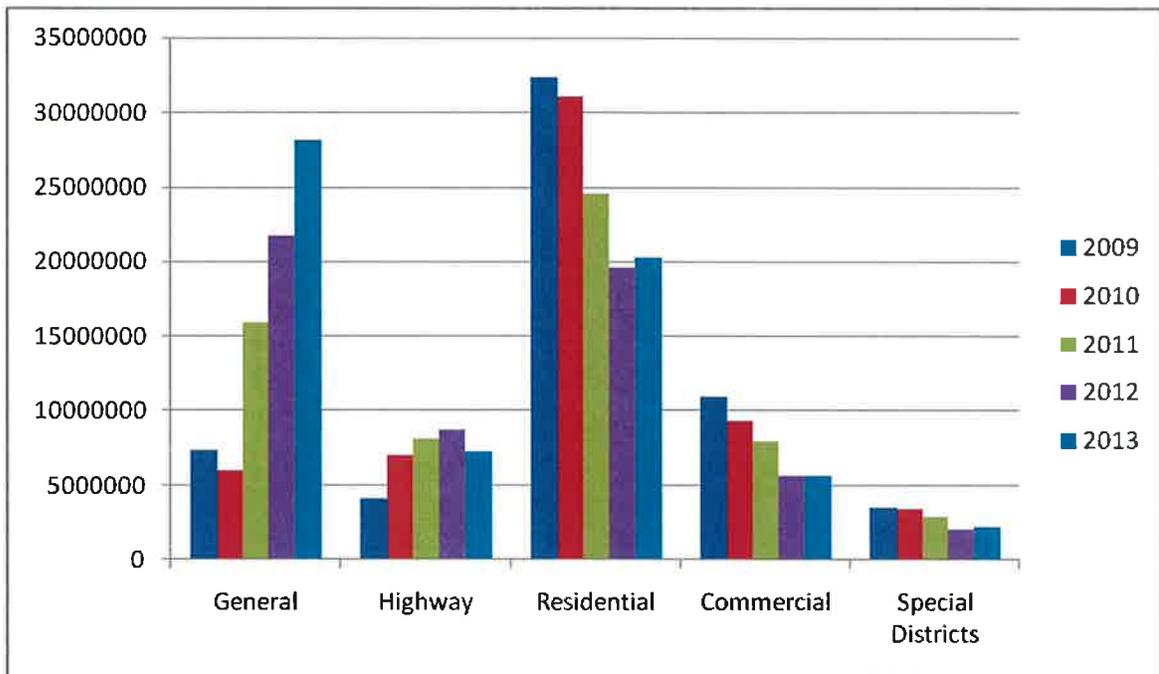
FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

At December 31, 2013, the Town's governmental funds reported total ending fund balances of \$90,602,198 an increase of \$26,330,583 in comparison with the prior year. The category breakdown is as follows:

- **Nonspendable fund balance** - \$4,722,339 (inherently non spendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$41,432,310 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$36,230,465 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$8,217,084 (residual net resources) is the remaining fund balance in the General Fund in excess of nonspendable, restricted, and assigned fund balance, a balance of \$8,973,672, and the negative balance of the non-major part-town fund in the amount of \$756,588.

Below is a summary of the Town's major funds' fund balances for 2009 through 2013.



The Town began the year with an anticipated overall \$2,566,650 decrease resulting from the appropriation of fund balance for the 2013 budget. Total revenues increased from the prior year by \$2,086,146, primarily a result of the increase in property taxes (including special assessments) and state and county aid in the amounts of \$3,984,060 and \$2,190,870, respectively, which was offset by the decrease in other real property items of \$4,311,494. The increase in property taxes was a result of increased tax rates. The increase in state and county aid is due to additional state funding provided to the Community Development Agency for construction of a daycare center (\$702,918), additional state grants for various ongoing capital projects in the current year (\$859,724) and an increase in mortgage tax received in the current year (\$303,550). The decrease in other property tax items was a result of a one time payment in lieu of taxes that was recognized in the prior year in the residential garbage district and did not recur (\$2,667,521) as well as the Town phasing out the commercial assessed valuation tax (\$1,689,905).

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Overall, governmental expenditures decreased by \$6,784,993, primarily due to the reduction of debt principal payments in the current year and the decrease in home and community expenditures in the amounts of \$6,333,340 and \$5,440,403, respectively, which was offset by the increase in employee benefit costs and capital projects activity in the amounts of \$2,805,578 and \$3,116,297, respectively.

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 \$28,117,334, increasing \$6,396,557 or 29.45% from the prior year. Of this amount, \$3,290,017 is not in spendable form (property held for resale) and \$15,790,484 is restricted for debt service and for future proceeds from the sale of property held for resale which will be restricted for debt service once received. Of the remaining fund balance of \$9,036,833, \$63,161 has been assigned for purchase orders by the Town Comptroller and \$8,973,672 is shown as unassigned fund balance.

The key elements of the fund balance increase of \$6,396,557 are as follows:

- Interfund revenues were \$1,050,218 over budget due to a more accurate allocation of services provided to other funds, primarily the two garbage district funds.
- State aid was under budget by \$706,852 mostly due to a shortfall in mortgage tax revenue resulting from a continuing weak housing market and less than expected aid from youth program grants.
- General government support was \$880,853 under budget primarily due to unallocated insurance, judgment and claims expenditures which were \$524,258 under budget and general implementation of expenditure reductions providing additional savings of \$356,595.
- Home and community services expenditures were over budget due to the loss on the sale of two parcels of land as part of the Town's revitalization project in the amount of \$2,829,710.
- Employee benefits were \$620,433 over budget primarily due to the Town paying the NYS Retirement costs on a pay as you go basis instead of deferring a portion of the payment to future periods as was done in prior years.
- Proceeds from bond anticipation notes in the amount of \$9,240,000 were received.
- A budgeted operating transfer out of \$1,000,600 was not realized.
- Premiums relating to the issuance of bond anticipation notes were received in the amount of \$308,683.
- A special item in the amount of \$1,524,719 was recognized relating to properties held for resale that were reclassified as Town owned assets during 2013.

Residential Garbage District Fund

At the end of the current year, the total fund balance of the residential garbage district fund was \$20,243,320, increasing \$627,148 or 3.20% from the prior year. Total fund balance is in spendable form as follows, \$187,133 has been assigned for purchase orders by the Town Comptroller and \$20,056,187 is assigned for residential garbage district purposes.

The key elements of the fund balance increase of \$627,148 are as follows:

- Departmental income was over budget as a result of revenues from the Long Island Green Homes program and refuse and garbage fees exceeding budgeted expectations by \$482,743 and \$789,359, respectively.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Residential Garbage District Fund (continued)

- Interest earnings were over budget in the amount of \$443,332 as a result of the general fund making an interest payment in the current year to the residential garbage fund related to the interfund borrowing from prior years, as well as an increase in the interest earnings as the fund's average cash balance was higher compared to the prior year.
- Overall actual revenues decreased by \$7,280,611 which was a result of the residential garbage fund recognizing a one time payment in lieu of taxes in the amount of \$2,667,521 in the prior year and the Town phasing out the commercial assessed valuation tax resulting in a decrease of \$1,689,905 in collections compared to the prior year. In addition, this fund received an additional \$3,052,596 of disaster assistance aid in 2012 to reimbursement the Town for the debris removal costs from Hurricane Sandy.
- Garbage improvement area expenditures were over budget by \$1,727,163 primarily due to higher than anticipated Long Island Green Homes loan expenditures and general expenses in the amount of \$1,282,146 and \$1,788,290, respectively. These amounts were offset by a surplus in the budget for professional fees and equipment purchases. Actual garbage improvement area expenditures were lower than last year by \$9,565,180 primarily due to the Town changing vendors for residential collection which resulted in approximately \$7,200,000 in cost savings as well as less costs in general since the prior year had significant costs related to debris removal from Hurricane Sandy in the amount of approximately \$1,700,000.
- A budgeted operating transfer of \$250,000 was not made.

Commercial Garbage District Fund

At the end of the current year, the total fund balance of the commercial garbage district fund was \$5,648,944 decreasing \$35,493 or .62% from the prior year. All of fund balance is in spendable form and is assigned for commercial garbage district purposes.

The key elements of the fund balance decrease of \$35,493 are as follows:

- There was an originally planned decrease of \$691,650 resulting from the appropriation of fund balance for the 2013 budget.
- Overall revenues were under budget by \$1,595,570 primarily a result of refuse and garbage fees which did not meet budgeted expectations by \$1,654,875 due to under realized extra service billings. Actual revenues were consistent with prior year amounts.
- Total expenditures were under budget by \$1,751,727 due to a surplus in the garbage improvement area expenditures in the amount of \$2,180,620 resulting from under realized professional fees (\$377,356) and refuse collection and disposal fees (\$1,866,727). Actual expenditures decreased by \$2,557,382 compared to prior year due to less debt service payments made in the current year as general obligations bonds matured in the prior year.
- A budgeted operating transfer of \$500,000 to fund the landfill expansion capital project that was determined to be not required.

Combined Highway Fund

At the end of the current year, the total fund balance of the combined highway fund was \$7,265,750, decreasing \$1,424,775, or 16.39%, from the prior year. This balance of \$7,265,750 is in spendable form as follows: \$1,000,000 has been assigned by the Town Board for the subsequent year's budget, \$5,400 has been assigned for purchase orders by the Town Comptroller and the remaining \$6,260,350 is assigned for highway purposes.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Combined Highway Fund (continued)

The key elements of the fund balance decrease of \$1,424,775 are as follows:

- There was an originally planned decrease of \$1,673,004 resulting from the appropriation of fund balance for the 2013 budget.
- Federal aid exceeded budgeted expectations by \$346,149 due to aid received for costs related to the blizzard which took place in February of the current year. Actual Federal aid decreased from the prior year by \$1,447,063 as the Town received more reimbursements for the cost of debris removal and clean up in 2012.
- Transportation expenditures for repairs and maintenance were under budget by \$138,739, a result of the Town's continued effort to reduce expenditures. Overall actual transportation costs were consistent with prior year.
- Employee benefits were \$375,877 over budget primarily due to the Town paying the NYS Retirement costs on a pay as you go basis instead of deferring a portion of the payment to future periods. Actual expenditures were higher than prior year by \$558,802.
- Debt service payments were lower than in prior year by \$347,477 due to the maturity of certain general obligation bonds.

Capital Projects Fund

The fund balance increased in the capital projects fund by \$19,077,525 from the prior year as a result of timing differences between project expenditures and the recognition of corresponding permanent financing. The Town received a significant amount of general obligation bonds and bond anticipation note proceeds which will be spent in future year expenditures.

At the end of the current year, the capital projects fund had a total fund balance of \$22,784,596. Of this amount \$21,057,874 was restricted to specific capital project expenditures. The remaining balance of \$1,726,722 includes an amount of \$1,620,800 which is assigned for capital projects costs and outstanding amounts for purchases orders or contractual obligations in the amount of \$105,922.

Special Districts Fund

At the end of the current year, the total fund balance of the special districts fund was \$2,184,880, an increase of \$107,868, or 5.19%, from the prior year. Of this amount, \$1,429,822 is not in spendable form (prepaid items). Of the remaining balance, \$1,993 has been assigned by the Town Board for the subsequent year's budget and the remaining \$753,065 is assigned for special districts fund purposes.

The key elements of the fund balance increase of \$107,868 are as follows:

- There had been an originally planned decrease of \$1,996 resulting from the appropriation of fund balance for the 2013 budget with the goal to minimize tax increases for 2013.
- Total revenues had a surplus of \$84,331 due to higher than expected collections of payments in lieu of taxes. Actual revenues were higher than the prior year, primarily a result of an increase in real property taxes in the amount of \$855,537 in the current year.
- Total expenditures for the special districts fund were consistent with prior year and budgeted amounts.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2013

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Non-major Governmental Funds

The net change in fund balances was an increase of \$1,581,753.

- The part-town fund's fund balance was a deficit of \$756,588 at December 31, 2013, which is an increase of \$1,117,347 from the prior year. Total revenues in the part-town fund of \$7,441,746 increased by \$1,463,245 from the prior year, a result of an increase in real property taxes and safety inspection fees in the amounts of \$1,200,257 and 305,535, respectively. Actual revenues exceeded budgeted expectations by \$122,471. Overall, total expenditures were \$6,824,399 for 2013, an increase of \$459,163 from the prior year. The increase is attributable to higher costs incurred related to the Wyandanch Rising Redevelopment Initiative as well as the Town paying the current year NYS Retirement contribution on a pay as you go basis instead of deferring a portion of the costs to future periods. Actual expenditures of \$6,824,399 exceeded the final budget by \$420,940 or 3.06%. The part-town fund received bond proceeds in the amount of \$500,000 in the current year which was not budgeted for.
- The total fund balance of the lighting district fund was \$414,068, an increase of \$446,774 from the prior year, which is primarily a result of an increase in real property taxes assessed in the amount of \$449,998.

Summary of All Governmental Funds Revenues and Expenditures

The following schedule presents in summary all of the governmental funds revenues and expenditures for the years ended December 31, 2013 and 2012, the amount of the change and percentage change in relation to the prior year.

	2013	2012	\$ Change	% Change
Revenues (in Millions)				
Real property taxes	\$89.3	\$85.3	\$4.0	4.69%
Other real property tax items	6.0	10.3	-4.3	-41.75%
Non-property tax items	3.8	3.6	0.2	5.56%
Department income	30.2	29.6	0.6	2.03%
Use of money and property	2.9	1.8	1.1	61.11%
Licenses and permits	0.3	0.3	0.0	0.00%
Fines and forfeitures	1.5	1.5	0.0	0.00%
Sale of property and compensation for loss	2.2	1.6	0.6	37.50%
Interfund revenue	3.3	4.3	-1.0	-23.26%
Miscellaneous local sources	0.8	0.6	0.2	33.33%
State and County aid	9.7	7.5	2.2	29.33%
Federal aid	20.9	22.4	-1.5	-6.70%
Total Governmental Fund Revenues	\$170.9	\$168.8	\$2.1	1.24%
Expenses (in Millions)				
General government support	\$15.5	\$14.8	\$0.7	4.73%
Public safety	18.9	18.7	0.2	1.07%
Health	3.7	3.6	0.1	2.78%
Transportation	8.9	8.6	0.3	3.49%
Economic assistance and opportunity	0.3	0.3	0.0	0.00%
Culture and recreation	10.6	12.4	-1.8	-14.52%
Home and community services	70.9	76.3	-5.4	-7.08%
Employee benefits	19.4	16.6	2.8	16.87%
Capital outlay	23.6	20.5	3.1	15.12%
Debt Service:				
Principal	12.7	19.0	-6.3	-33.16%
Interest	5.0	5.6	-0.6	-10.71%
Bond issuance costs	0.3	0.2	0.1	50.00%
Total Governmental Fund Expenses	\$189.8	\$196.6	-\$6.8	-3.46%

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

The differences between the 2013 original budget and the final amended budget are adopted by Town Board resolution throughout the year. During the year the Town increased the original budget for insurance recoveries and Federal aid by \$1,012,719 and \$35,000, respectively. Original budgets for the Town's expenditures and operating transfers out also increased by \$47,117 and \$1,000,600, respectively. There are no variances between the budgeted and actual amounts that are expected to have a significant effect on future services or liquidity. Please see the "General Fund" section for more details on the comparison of final budgets and actual amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of December 31, 2013 amounted to \$248,270,143 and \$6,570,242, respectively. The Town's capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges and the water system infrastructure.

In 2013, the Town of Babylon's major capital expenditures were as follows:

Various highway road improvements	\$ 7,079,347
Reconstruction of parks	6,001,053
Sewer system expansion	3,578,437

Capital Assets at December 31, 2013 and 2012
(Net of depreciation)

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Land	\$ 31,719,404	\$ 30,240,408	\$ 194,964	\$ 194,964
Construction in progress	38,452,166	43,927,703	74,580	4,155,514
Building and improvements	53,204,028	44,511,735	501,676	527,696
Machinery and equipment	9,439,512	9,665,643	19,878	24,448
Infrastructure	115,455,033	113,132,203	5,779,144	1,787,511
Totals	<u>\$ 248,270,143</u>	<u>\$ 241,477,692</u>	<u>\$ 6,570,242</u>	<u>\$ 6,690,133</u>

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

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

Long-Term Debt

At the end of the current year, the Town has total long-term bonded debt outstanding of \$147,977,900 and long-term bond anticipation notes outstanding of \$21,090,000. The entire debt is backed by the full faith and credit of the Town. The Town also has \$3,213,000 outstanding in guaranteed assistance contract loans payable.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Long-Term Debt (continued)

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds payable	\$ 147,977,900	\$ 112,828,658	\$ -0-	\$ 61,340	\$ 147,977,900	\$ 112,889,998
Bond anticipation notes	21,090,000	22,200,000			21,090,000	22,200,000
Guaranteed assistance contract loans payable	3,213,000	3,475,000			3,213,000	3,475,000
	<u>\$ 172,280,900</u>	<u>\$ 138,503,658</u>	<u>\$ -0-</u>	<u>\$ 61,340</u>	<u>\$ 172,280,900</u>	<u>\$ 138,564,998</u>

In 2013 the Town's total long-term debt increased by approximately \$33,715,900 or 24.33% which is a net change in the debt retired and new borrowings.

In August of 2014, Standard and Poor's Corporation reaffirmed the Town's credit rating of AA+ and Moody's Investors Service, Inc. reaffirmed the Town's underlying rating of Aa2.

State statutes limit the amount of general obligation a governmental entity may issue to 7% of a 5-year average full valuation. The current debt limitation for the Town is \$1,590,506,105. The percentage of debt contracting exhausted at December 31, 2013 was 9.8% of the current debt limitation

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town's elected and appointed officials considered many factors when setting the upcoming 2014 budget, tax rates, and fees that will be charged. One of those factors is the economy. The Town, located in Suffolk County, New York, generally has more favorable financial statistical data than the county or New York State.
- Inflation in the Town's geographic area is consistent with the metropolitan area and is similar though somewhat higher than national averages. Stable contractual increases in negotiated labor contracts are comparable with regional municipalities while providing similar fringe benefits. These factors form the basis for estimating the 2014 budget lines.
- Revenues are subject to regional economic trends and the Town anticipates a decline in mortgage tax revenue and interest earnings on deposited funds. However, the effects of this will be more than offset by the general fund's tax rate increase which generated approximately \$5.2 million additional revenue. As a result, the Town is expecting the general fund's fund balance to increase at the close of 2014.
- 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, 2016, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however the permitted increase will not be less than 1%. Local governments can exceed the tax levy limit by a 60% vote of the governing body, or local law. In the 2014 budget, the Town exceeded the 2% tax cap by obtaining proper approval by the Town Board on November 7, 2013.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

TOWN OF BABYLON
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF NET POSITION
 December 31, 2013

	Primary Government			Non-major Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 114,949,364	\$ 2,762,777	\$ 117,712,141	\$ 2,685,553
Cash with fiscal agent	3,281,874		3,281,874	
Accounts receivable, net of allowance and noncurrent portion	5,480,118		5,480,118	571,958
Taxes receivable	40,559,219		40,559,219	
Long Island Green Homes receivable, net of noncurrent portion	1,821,100		1,821,100	
Due from other governments	13,529,119		13,529,119	
Prepaid items	2,716,762		2,716,762	18,926
Restricted cash	163,690		163,690	
Property held for resale	1,004,429		1,004,429	
Total Current Assets	<u>183,505,675</u>	<u>2,762,777</u>	<u>186,268,452</u>	<u>3,276,437</u>
Noncurrent Assets:				
Accounts receivable, noncurrent portion	8,188,115		8,188,115	
Long Island Green Homes receivable, noncurrent portion	6,809,518		6,809,518	
Property held for resale	18,332,001		18,332,001	
Non-depreciable capital assets	70,171,570	269,544	70,441,114	748,500
Capital assets, net of accumulated depreciation	178,098,573	6,300,698	184,399,271	
Total Noncurrent Assets	<u>281,599,777</u>	<u>6,570,242</u>	<u>288,170,019</u>	<u>748,500</u>
Total Assets	<u>465,105,452</u>	<u>9,333,019</u>	<u>474,438,471</u>	<u>4,024,937</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred charge on refunding	504,929		504,929	
Total Deferred Outflow of Resources	<u>504,929</u>	<u>-0-</u>	<u>504,929</u>	<u>-0-</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	12,718,634	119,894	12,838,528	58,094
Accrued interest payable	1,622,484		1,622,484	
Developer and homeowner deposits		5,605	5,605	
Due to other governments	1,267,303		1,267,303	1,631,850
Bond anticipation note payable	3,500,000		3,500,000	
Unearned revenues	437,996		437,996	
Noncurrent liabilities due within one year:				
Bond anticipation notes payable	260,000		260,000	
Bonds payable	14,613,222		14,613,222	
Guaranteed assistance contract loans payable	278,000		278,000	
Due to employees' retirement system	767,545		767,545	
Compensated absences	3,155,000		3,155,000	
Claims and judgments payable	616,331		616,331	
Estimated liability for landfill closure and post closure care costs	761,300		761,300	
Total Current Liabilities	<u>39,997,815</u>	<u>125,499</u>	<u>40,123,314</u>	<u>1,689,944</u>
Noncurrent Liabilities:				
Unearned revenues	2,068,587		2,068,587	
Due to other governments	7,767,519		7,767,519	
Bond anticipation notes payable	20,830,000		20,830,000	
Bonds payable	135,077,300		135,077,300	
Guaranteed assistance contract loans payable	2,935,000		2,935,000	
Due to employees' retirement system	2,569,557		2,569,557	
Compensated absences	1,941,964		1,941,964	
Claims and judgments payable	5,820,358		5,820,358	
Estimated liability for landfill closure and post closure care costs	22,491,877		22,491,877	
Other postemployment benefits payable	45,869,508	266,109	46,135,617	471,179
Total Noncurrent Liabilities	<u>247,371,670</u>	<u>266,109</u>	<u>247,637,779</u>	<u>471,179</u>
Total Liabilities	<u>287,369,485</u>	<u>391,608</u>	<u>287,761,093</u>	<u>2,161,123</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue- property taxes	85,967,129		85,967,129	
Deferred service concession arrangement receipt		2,762,500	2,762,500	
Total Deferred Inflows of Resources	<u>85,967,129</u>	<u>2,762,500</u>	<u>88,729,629</u>	<u>-0-</u>
NET POSITION				
Net investment in capital assets	107,437,667	6,570,242	114,007,909	748,500
Restricted - Home and community services	4,055,845		4,055,845	
Debt service	2,370,953		2,370,953	
Culture and recreation	528,107		528,107	
Unrestricted	(22,118,805)	(391,331)	(22,510,136)	1,115,314
Total Net Position	<u>\$ 92,273,767</u>	<u>\$ 6,178,911</u>	<u>\$ 98,452,678</u>	<u>\$ 1,863,814</u>

TOWN OF BABYLON
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
 Year Ended December 31, 2013

Function/ Program	Expenses	Program Revenues			Total Program Revenues	Net (Expenses) Revenues and Changes in Net Position			Non-major Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:									
Governmental Activities:									
General government support	\$ 26,930,185	\$ 3,479,923	\$ 53,613		\$ 3,533,536	\$ (23,396,649)		\$ (23,396,649)	
Public safety	20,545,454	3,079,304	23,354	\$ 35,000	3,137,658	(17,407,796)		(17,407,796)	
Health	4,335,088	8,931	530,273		539,204	(3,795,884)		(3,795,884)	
Transportation	24,446,523	95,033	346,708	2,786,112	3,227,853	(21,218,670)		(21,218,670)	
Economic assistance and opportunity	340,909		30,898		30,898	(310,011)		(310,011)	
Culture and recreation	17,634,551	2,941,057	1,309,506	3,651,421	7,901,984	(9,732,567)		(9,732,567)	
Home and community services	70,570,282	47,654,306	16,408,186	1,131,447	65,193,939	(5,376,343)		(5,376,343)	
Interest on debt	5,078,694					(5,078,694)		(5,078,694)	
Total Governmental Activities	169,881,686	57,258,554	18,702,538	7,603,980	83,565,072	(86,316,614)	\$ -0-	(86,316,614)	
Business-type Activities:									
Water	749,089	88,815			88,815		(660,274)	(660,274)	
Total Business-type Activities	749,089	88,815	-0-	-0-	88,815	-0-	(660,274)	(660,274)	
Total Primary Government	\$ 170,630,775	\$ 57,347,369	\$ 18,702,538	\$ 7,603,980	\$ 83,653,887	\$ (86,316,614)	\$ (660,274)	\$ (86,976,888)	
NON-MAJOR COMPONENT UNITS:									
Economic assistance and opportunity	\$ 943,747	\$ 2,217,172							\$ 1,273,425
Total Component Unit	\$ 943,747	\$ 2,217,172							\$ 1,273,425
GENERAL REVENUES:									
Real property taxes						\$ 66,155,175		\$ 66,155,175	
Other real property tax items						6,023,276		6,023,276	
Non-property tax items						3,788,306		3,788,306	
Interest earnings						961,491	\$ 7,106	968,597	\$ 4,057
Sale of property and compensation for loss						921,225		921,225	
Mortgage tax						3,737,520		3,737,520	
State aid						1,115,651		1,115,651	
Other						219,256	265,875	485,131	150,050
Total General Revenues						82,921,900	272,981	83,194,881	154,107
Change in Net Position						(3,394,714)	(387,293)	(3,782,007)	1,427,532
Net Position at Beginning of Year						86,306,650	6,566,204	92,872,854	436,282
Cumulative Effect of Change in Accounting Principle						9,361,831	-0-	9,361,831	-0-
Net Position at Beginning of Year, as Restated						95,668,481	6,566,204	102,234,685	436,282
Net Position at End of Year						\$ 92,273,767	\$ 6,178,911	\$ 98,452,678	\$ 1,863,814

TOWN OF BABYLON
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013

MAJOR FUNDS

	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Combined Highway Fund	Capital Projects Fund	Special Districts Fund	Total Major Governmental Funds	Non-major Governmental Funds	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 25,118,055	\$ 29,928,874	\$ 7,202,858	\$ 13,016,426	\$ 23,415,095	\$ 9,215,246	\$ 107,896,554	\$ 7,052,810	\$ 114,949,364
Cash with fiscal agent	1,335,067	11,158	10,174	1,910,051			3,266,450	15,424	3,281,874
Accounts receivable	1,349,641	802,549	2,958,708	3,523			5,114,421	8,553,812	13,668,233
Taxes receivable	18,805,620			9,838,655		8,741,965	37,386,240	3,172,979	40,559,219
Long Island Green Homes receivable		8,630,618					8,630,618		8,630,618
Due from other funds	1,397,398			220,599	5,980		1,623,977	18,672	1,642,649
Due from other governments	1,786,523	886,554	21,432	740,256	8,164,723	18,526	11,618,014	1,911,105	13,529,119
Prepaid items						1,429,822	1,429,822	2,500	1,432,322
Restricted cash								163,690	163,690
Property held for resale	18,332,001						18,332,001	1,004,429	19,336,430
Total Assets	<u>\$ 68,124,305</u>	<u>\$ 40,259,753</u>	<u>\$ 10,193,172</u>	<u>\$ 25,729,510</u>	<u>\$ 31,585,798</u>	<u>\$ 19,405,559</u>	<u>\$ 195,298,097</u>	<u>\$ 21,895,421</u>	<u>\$ 217,193,518</u>
LIABILITIES									
Accounts payable and accrued liabilities	\$ 2,319,927	\$ 2,155,143	\$ 1,199,301	\$ 483,109	\$ 5,027,714	\$ 180,706	\$ 11,365,900	\$ 1,189,044	\$ 12,554,944
Due to other funds	2,262		18,413		273,488		294,163	1,348,486	1,642,649
Due to other governments	111,511			13,737		1,075,784	1,201,032	7,833,790	9,034,822
Unearned revenue	2,135,528	171,055					2,306,583	200,000	2,506,583
Bond anticipation notes payable					3,500,000		3,500,000	-0-	3,500,000
Liabilities payable from restricted cash								163,690	163,690
Total Liabilities	<u>4,569,228</u>	<u>2,326,198</u>	<u>1,217,714</u>	<u>496,846</u>	<u>8,801,202</u>	<u>1,256,490</u>	<u>18,667,678</u>	<u>10,735,010</u>	<u>29,402,688</u>
DEFERRED INFLOWS OF RESOURCES									
Unearned revenue- property taxes	34,341,987	9,059,617	2,835,814	17,966,914		15,964,189	80,168,521	5,798,608	85,967,129
Unavailable revenue	1,095,756	8,630,618	490,700				10,217,074	1,004,429	11,221,503
Total Deferred Inflow of Resources	<u>35,437,743</u>	<u>17,690,235</u>	<u>3,326,514</u>	<u>17,966,914</u>	<u>-0-</u>	<u>15,964,189</u>	<u>90,385,595</u>	<u>6,803,037</u>	<u>97,188,632</u>
FUND BALANCES									
Nonspendable	3,290,017					1,429,822	4,719,839	2,500	4,722,339
Restricted	15,790,484				21,057,874		36,848,358	4,583,952	41,432,310
Assigned	63,161	20,243,320	5,648,944	7,265,750	1,726,722	755,058	35,702,955	527,510	36,230,465
Unassigned	8,973,672						8,973,672	(756,588)	8,217,084
Total Fund Balances	<u>28,117,334</u>	<u>20,243,320</u>	<u>5,648,944</u>	<u>7,265,750</u>	<u>22,784,596</u>	<u>2,184,880</u>	<u>86,244,824</u>	<u>4,357,374</u>	<u>90,602,198</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 68,124,305</u>	<u>\$ 40,259,753</u>	<u>\$ 10,193,172</u>	<u>\$ 25,729,510</u>	<u>\$ 31,585,798</u>	<u>\$ 19,405,559</u>	<u>\$ 195,298,097</u>	<u>\$ 21,895,421</u>	<u>\$ 217,193,518</u>

TOWN OF BABYLON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2013

Total Fund Balance - Governmental Funds \$ 90,602,198

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	\$ 70,171,570	
Capital assets - depreciable	522,821,987	
Accumulated depreciation	<u>(344,723,414)</u>	
		248,270,143

Prepaid retirement expenses are included in the Statement of Net Position, since the payment made in the current year is through March 31st of the subsequent year. 1,284,440

Deferred charges related to refundings are included in the Statement of Net Position. 504,929

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:

Bond anticipation note payable	(21,090,000)	
Bonds payable, inclusive of related premiums	(149,690,522)	
Guaranteed assistance contract loans payable	(3,213,000)	
Due to employees' retirement system	(3,337,102)	
Compensated absences	(5,096,964)	
Claims and judgments payable	(6,436,689)	
Estimated liability for landfill closure and post closure care costs	(23,253,177)	
Other postemployment benefits payable	<u>(45,869,508)</u>	
		(257,986,962)

Interest payable applicable to the Town's governmental activities is not due and payable in the current period and accordingly is not reported in the funds. However, these liabilities are included in the Statement of Net Position. (1,622,484)

Deferred inflows of resources that are considered unavailable on the fund statements because it does not meet the availability criteria and therefore only reported as revenue on the Statement of Net Position. 11,221,503

Net Position of Governmental Activities \$ 92,273,767

TOWN OF BABYLON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 Year Ended December 31, 2013

	MAJOR FUNDS						Total Major Governmental Funds	Non-major Governmental Funds	Total Governmental Funds
	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Combined Highway Fund	Capital Projects Fund	Special Districts Fund			
REVENUES									
Real property taxes	\$ 29,145,674	\$ 17,724,557	\$ 5,449,499	\$ 16,099,990		\$ 15,545,744	\$ 83,965,464	\$ 5,363,767	\$ 89,329,231
Other real property tax items	991,280	3,726,545		538,132		589,698	5,845,655	177,621	6,023,276
Non-property tax items	3,788,308						3,788,308		3,788,308
Departmental income	2,912,612	6,660,825	16,876,104				26,449,541	3,779,191	30,228,732
Use of money and property	2,127,429	643,332	13,592	31,509	\$ 33,763	5,243	2,854,868	9,857	2,864,725
Licenses and permits	230,322			95,033			325,355		325,355
Fines and forfeitures	1,461,960						1,461,960		1,461,960
Sale of property and compensation for loss	1,290,176		70,100		875,000		2,235,276		2,235,276
Interfund revenue	3,250,218						3,250,218		3,250,218
Miscellaneous local sources	328,395	2,382	613	20,101			351,491	447,950	799,441
State and County aid	4,238,574	13,484		1,203,355	1,418,647		6,874,060	2,794,276	9,668,336
Federal aid	485,210	68,695		346,149	3,815,531	18,526	4,734,111	16,198,822	20,932,933
Total Revenues	50,250,158	28,839,820	22,409,908	18,334,269	6,142,941	16,159,211	142,136,307	28,771,484	170,907,791
EXPENDITURES									
Current:									
General government support	15,189,024						15,189,024	339,160	15,528,184
Public safety	1,603,692					14,638,601	16,242,293	2,665,044	18,907,337
Health	2,097,262					1,412,742	3,510,004	239,165	3,749,169
Transportation				7,188,557			7,188,557	1,670,344	8,858,901
Economic assistance and opportunity	219,449						219,449	31,757	251,206
Culture and recreation	10,111,937						10,111,937	483,299	10,595,236
Home and community services	3,807,264	27,011,900	21,281,564				52,100,728	18,784,202	70,884,930
Employee benefits	11,772,105	435,744	471,475	3,677,522			16,356,846	3,024,405	19,381,251
Capital Outlay					23,649,324		23,649,324		23,649,324
Debt Service:									
Principal	4,617,618	655,650	593,371	6,442,481			12,309,120	361,543	12,670,663
Interest	2,331,341	109,378	98,991	2,415,598			4,955,308	83,879	5,039,187
Bond issuance costs	159,769			34,886	97,550		292,205	1,481	293,686
Total Expenditures	51,909,461	28,212,672	22,445,401	19,759,044	23,746,874	16,051,343	162,124,795	27,684,279	189,809,074
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,659,303)	627,148	(35,493)	(1,424,775)	(17,603,933)	107,868	(19,988,488)	1,087,205	(18,901,283)
OTHER FINANCING SOURCES (USES)									
Principal amount of bond anticipation note	9,240,000				6,850,000		16,090,000		16,090,000
Principal amount of bond proceeds					29,857,902		29,857,902	500,000	30,357,902
Premium on bond anticipation note	308,683						308,683		308,683
Operating transfers in	31,896				5,452		37,348		37,348
Operating transfers out					(31,896)		(31,896)	(5,452)	(37,348)
Total Other Financing Sources (Uses)	9,580,579	-0-	-0-	-0-	36,681,458	-0-	46,262,037	494,548	46,756,585
SPECIAL ITEM									
Property held for resale reclassified as Town owned assets	(1,524,719)						(1,524,719)		(1,524,719)
Net Change in Fund Balances	6,396,557	627,148	(35,493)	(1,424,775)	19,077,525	107,868	24,748,830	1,581,753	26,330,583
Fund Balances at Beginning of Year	21,720,777	19,616,172	5,684,437	8,690,525	3,707,071	2,077,012	61,495,994	2,775,621	64,271,615
Fund Balances at End of Year	\$ 28,117,334	\$ 20,243,320	\$ 5,648,944	\$ 7,265,750	\$ 22,784,596	\$ 2,184,880	\$ 86,244,824	\$ 4,357,374	\$ 90,602,198

TOWN OF BABYLON
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2013

Net Change in Fund Balance \$ 26,330,583

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

Capital outlay (not including amounts reclassified from property held for resale)	\$ 24,074,254	
Depreciation expense	(15,550,211)	
Loss on dispositions and reductions of amount in construction in progress	<u>(3,256,312)</u>	
		5,267,731

Special item reported in the fund statements which is not included in the Statement of Activities since the item relates to property reported in the Statement of Net Position. 1,524,719

Prepaid retirement expenses are expensed in the fund statements, but not in the Statement of Activities, since the payment made in the current year is through March 31st of the subsequent year. 580,858

Some intergovernmental revenues will not be collected for several months after the Town's year end. These are not considered "available" revenues in the governmental funds until received. The change in the amount is reported as a deferred inflow in the fund statements. (916,132)

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 assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. The following amounts are the effect of these differences in the treatment of long-term debt and related items:

Bond anticipation note issued	(16,090,000)	
Bonds issued	(30,357,902)	
Repayment of bond principal	12,408,663	
Amortization of bond premiums	458,220	
Amortization of deferred charges on refundings	(188,662)	
Repayment of guarantee assistance contract loans	262,000	
Employees' retirement system	725,823	
Compensated absences	(220,513)	
Claims and judgments	(8,542)	
Estimated liability for landfill closure and post closure care costs	2,575,256	
Other postemployment benefits payable	<u>(5,416,745)</u>	
		(35,852,402)

Bond interest is recorded as an expenditure on the fund statements when it is paid, and on the Statement of Activities when it is incurred. (330,071)

Change in Net Position of Governmental Activities \$ (3,394,714)

TOWN OF BABYLON
EAST FARMINGDALE WATER DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUND
December 31, 2013

ASSETS

Current Assets:

Cash and cash equivalents \$ 2,762,777

Noncurrent Assets:

Non-depreciable capital assets 269,544

Capital assets, net of accumulated depreciation 6,300,698

Total Noncurrent Assets 6,570,242

Total Assets 9,333,019

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities 119,894

Developer and homeowner deposits 5,605

Total Current Liabilities 125,499

Noncurrent Liabilities:

Other postemployment benefits payable 266,109

Total Liabilities 391,608

DEFERRED INFLOW OF RESOURCES

Deferred service concession arrangement receipt 2,762,500

Total Deferred Inflow of Resources 2,762,500

NET POSITION

Net investment in capital assets 6,570,242

Unrestricted (391,331)

Total Net Position \$ 6,178,911

TOWN OF BABYLON
EAST FARMINGDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
ENTERPRISE FUND
Year Ended December 31, 2013

OPERATING REVENUES

Rental income from water plant	\$ 75,000
Charges and fees	13,815
Total Operating Revenues	<u>88,815</u>

OPERATING EXPENSES - HOME AND COMMUNITY

Retiree benefits	190,634
Management fee	416,424
Administration fees	18,213
Depreciation	122,337
Other	944
Total Operating Expenses	<u>748,552</u>
Loss from Operations	<u>(659,737)</u>

NON-OPERATING REVENUE (EXPENSE)

Rental income from cell tower rentals	265,875
Interest income	7,106
Interest expense	(537)
Total Non-Operating Revenue (Expense)	<u>272,444</u>

Change in Net Position	(387,293)
Net Position - Beginning of Year	<u>6,566,204</u>
Net Position - End of Year	<u>\$ 6,178,911</u>

TOWN OF BABYLON
EAST FARMINGDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 29,802
Cash paid to suppliers and others	(548,689)
Cash paid on behalf of retirees	(169,502)
	<u>(688,389)</u>
Net Cash Used for Operating Activities	<u>(688,389)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(2,446)
Principal paid on serial bonds	(61,340)
Interest paid on serial bonds	(1,610)
	<u>(65,396)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(65,396)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Rental income from cell towers	265,875
Interest income	7,106
	<u>272,981</u>
Net Cash Provided by Investing Activities	<u>272,981</u>

Net decrease in cash and cash equivalents (480,804)

Cash and cash equivalents at January 1, 2013 3,243,581

Cash and Cash Equivalents at December 31, 2013 \$ 2,762,777

RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES

Loss from operations	\$ (659,737)
Adjustments to reconcile loss from operations to net cash used for operating activities:	
Depreciation expense	122,337
(Increase) decrease in:	
Accounts receivable	15,987
Increase (decrease) in:	
Accounts payable and accrued liabilities	(85,771)
Deferred service concession arrangement receipts	(75,000)
Due to other funds	(27,337)
Other postemployment benefits payable	21,132
	<u>21,132</u>
Net Cash Used for Operating Activities	<u><u>\$ (688,389)</u></u>

TOWN OF BABYLON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2013

ASSETS	
Cash	\$ 47,082,189
	<hr/>
Total Assets	\$ 47,082,189
	<hr/> <hr/>
LIABILITIES	
Due to school districts	\$ 41,274,538
Due to fire districts	2,617,490
Due to other Counties for tuition tax	2,021,182
Agency fund liabilities	1,168,979
	<hr/>
Total Liabilities	\$ 47,082,189
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. REPORTING ENTITY

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

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

Discretely Presented Component Units:

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

Discretely Presented Component Units (continued):

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

The governing body of the Town of Babylon appoints the Town of Babylon L.D. Corporation II's and Wyandanch Rising, Inc.'s Board of Directors which results in interdependency with the Town of Babylon. However the both the Corporation's and WRI's Boards of Directors have complete responsibility for approval and adoption of policies and accountability for fiscal matters. Accordingly, the Corporation and WRI have been determined to be discretely presented component units of the Town of Babylon. The year ended December 31, 2013 was the first year the Corporation and the WRI had financial activity and therefore were included in the Town of Babylon financial statements.

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

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

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

Blended Component Units:

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

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

Blended Component Units (continued):

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

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

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

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Financial Statements

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

The Town reports the following major governmental funds:

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

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

Governmental Funds (continued)

The Town reports the following major Special Revenue governmental funds:

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

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

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

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

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

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

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

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

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

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

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

The Town reports the following proprietary fund:

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements (continued)

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

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

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

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

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

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

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

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

1. CASH AND CASH EQUIVALENTS

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

State statutes govern the Town's investment policies. The Town has a written investment policy stating that Town money must be deposited in FDIC-insured commercial banks. The Town is authorized to use demand accounts, special time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, and obligations of New York State and its localities and participation in State authorized cooperative investment programs. All demand deposits and time deposit accounts are carried at cost. The Town has no investments at December 31, 2013.

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

2. RECEIVABLES

Receivables relating to governmental-type activities primarily include amounts due from federal, state, and other local governments; individuals and entities for services provided by the Town, as well as amounts due related to various grant and franchise agreements. The receivable balance, relating to business-type activity, consists of an amount due from a third party for reimbursement of remediation costs incurred. Collection is not certain as of December 31, 2013 and therefore the balance is reported net of an allowance of \$342,000, which represents the entire balance of the Water Fund's receivables.

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

The Long Island Green Homes receivables are loans that have been provided to the Town's residents for specific energy efficiency improvements. These loans bear interest at 3%, are secured by liens on real property and are payable in monthly installments through December of 2023.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. RECEIVABLES (continued)

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

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

a) Interfund Revenues

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

b) Operating Transfers

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

3. PREPAIDS

Certain payments to vendors and other parties reflect costs applicable to future accounting periods and are reported as prepaid expenses in both the government-wide and fund financial statements.

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

4. CAPITAL ASSETS

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

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

Buildings	50 years
Improvements	20 years
Machinery and equipment	5-20 years
Infrastructure	10-50 years

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. CAPITAL ASSETS (continued)

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

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

5. PROPERTY HELD FOR RESALE

Real property presented in the general fund, community development agency fund, and Wyandanch Rising, Inc., a non-major discretely presented component unit, is recorded at cost and is adjusted for any costs to maintain the property. Property is acquired from various sources and held for redevelopment and resale to eligible individuals or developers. Management reviews annually for any impairment issues.

6. UNEARNED REVENUE

Unearned revenues, reported as liabilities in the fund and government-wide financial statements, are those which asset recognition criteria have been met, but which revenue recognition criteria have not been met for exchange type transactions. Such amounts include collections in advance for leases and fee income relating to 2014.

7. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for the deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has reported deferred outflows of resources of approximately \$505,000 for a deferred charge on refunding bonds in the government-wide Statement of Net Position. A deferred charge on a refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

The Town's governmental funds report the following items as deferred inflows on the Balance Sheet: unearned revenues which relate to 2014 real estate taxes of approximately \$85,976,000 and unavailable revenues of approximately \$11,222,000 which primarily consist of mortgage tax revenue, deferrals related to Long Island Green Home loans and Community Development Block Grant loans. Unavailable revenues, which arise only under a modified accrual basis of accounting, are only reported in the governmental funds Balance Sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The unearned revenues, relating to the collection of real estate taxes for a future period, are accordingly reported as a deferred inflow in the government-wide Statement of Net Position as well as the governmental funds Balance Sheet.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. DEFERRED OUTFLOWS/ INFLOWS OF RESOURCES (continued)

The Town's proprietary fund has reported deferred inflows of resources of approximately \$2,763,000 resulting from lease income received in advance in a service concession arrangement which is being amortized and recognized in revenue over the lease term.

8. LONG-TERM OBLIGATIONS

In the government-wide and proprietary fund financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences, guaranteed assistance contract loans, amounts due to employees' retirement system, judgments and claims, liability for landfill closure and post closure care costs, pollution remediation, and other postemployment benefits ("OPEB") are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of applicable bond premium or discount. Debt issuance costs are expensed as incurred.

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

9. NET POSITION AND FUND BALANCE CLASSIFICATION

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

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

In the fund financials statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned. Not all of the Town's funds will necessarily have all of the components of fund balance available to that fund.

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. NET POSITION AND FUND BALANCE CLASSIFICATION (continued)

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

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

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

E. REVENUES AND EXPENDITURES/EXPENSES

1. REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES/EXPENSES (continued)

2. OTHER POSTEMPLOYMENT BENEFITS

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

Health care benefits are currently provided by the New York State Health Insurance Program NYSHIP (Empire Plan) whose premiums are based on the benefits paid throughout the State during the year.

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

3. COMPENSATED ABSENCES

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

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

F. ENCUMBRANCES

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

G. USE OF ESTIMATES

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. NEW ACCOUNTING PRINCIPLES

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable for the year ended December 31, 2013:

- 1) GASB Statement No. 61, *"The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34"* which modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that were previously included as a component under the fiscal dependency criterion, a financial benefit/burden relationship must also be present between the primary government and the organization to be included in the reporting entity as a component unit. For organizations that do not meet the criterion for inclusion as a component unit but management determines it would be misleading not to include it, this statement clarifies the manner in which that determination should be made. This Statement had no effect on the Town's financial statements.
- 2) GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this Statement resulted in reporting a restatement of the Town's net position (see Note 5) and to change the presentation of the statement of net position and balance sheet of the governmental funds.
- 3) GASB Statement No. 66, *"Technical Corrections 2012 – an amendment of GASB Statements No. 10 and No. 62,"* which enhances the usefulness and consistency of the financial reports by resolving conflicting reporting guidance resulting from the issuance of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement had no effect on the Town's financial statements.

I. SUBSEQUENT EVENTS

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

- a) The Town Charter establishes the fiscal year as the twelve-month period beginning January 1st.
- b) On or before September 30th (October 30th for the Town's Special and Garbage District funds), each department, officer or district submits a detailed budget request to the Comptroller, who then prepares a tentative budget, which is submitted to the Town Clerk. The tentative budget includes proposed expenditures and the proposed means of financing the entire Town's governmental, special revenue, and proprietary funds, with the exception of the blended component units, the capital projects fund, and the housing assistance and community development agency funds, for which legally adopted budgets are not required.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. BUDGETARY INFORMATION (continued)

- c) After public hearings are conducted to obtain taxpayer comments and no later than November 20th, the Town Board adopts the budget. All modifications of the budget must be approved by the Town Board. However, the Comptroller is authorized to transfer certain budgeted amounts within departments.
- d) Budgets for the general and certain special revenue funds are legally adopted each year. The budgets are adopted on a basis of accounting consistent with GAAP, except that appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations are made. The capital projects, housing assistance and community development agency funds are budgeted on a project or grant basis.

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, 2016, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however, local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. The Town did not exceed the 2% property tax cap for 2013.

B. FUND EQUITY

1. FUND BALANCE

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

	General Fund	Residential Garbage District Fund	Commercial Garbage District Fund	Combined Highway Fund	Capital Projects Funds	Special District Fund	Other Governmental Funds	Total
Fund Balances:								
Nonspendable:								
Property held of resale	\$ 3,290,017							\$ 3,290,017
Prepaid items						\$ 1,429,822	\$ 2,500	1,432,322
Total Nonspendable	<u>3,290,017</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>1,429,822</u>	<u>2,500</u>	<u>4,722,339</u>
Restricted for:								
Debt service	748,500							748,500
Property held of resale	15,041,984							15,041,984
Capital projects					21,057,874			21,057,874
Grantors and donors restrictions							3,719,312	3,719,312
Guaranteed assistance contract							864,640	864,640
Total Restricted	<u>15,790,484</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>21,057,874</u>	<u>-0-</u>	<u>4,583,952</u>	<u>41,432,310</u>
Assigned to:								
Subsequent year's budget				1,000,000		1,993		1,001,993
Capital projects					1,620,800			1,620,800
Purchases on order or contractual obligations	63,161	187,133	5,648,944	5,400	105,922		32,702	394,318
Special revenue funds		20,056,187	5,648,944	6,260,350		753,065	494,808	33,213,354
Total Assigned	<u>63,161</u>	<u>20,243,320</u>	<u>5,648,944</u>	<u>7,265,750</u>	<u>1,726,722</u>	<u>755,058</u>	<u>527,510</u>	<u>36,230,465</u>
Unassigned, reported in								
General Fund	8,973,672							8,973,672
Part Town Fund							(756,588)	(756,588)
Total Unassigned	<u>8,973,672</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(756,588)</u>	<u>8,217,084</u>
Total Fund Balances	<u>\$ 28,117,334</u>	<u>\$ 20,243,320</u>	<u>\$ 5,648,944</u>	<u>\$ 7,265,750</u>	<u>\$ 22,784,596</u>	<u>\$ 2,184,880</u>	<u>\$ 4,357,374</u>	<u>\$ 90,602,198</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. FUND EQUITY (continued)

2. DEFICIT FUND EQUITY

The part-town fund reported a fund deficit of \$756,588 at December 31, 2013. This fund carried a deficit fund balance from the prior year in the amount of \$1,873,935, which was reduced by an increase in property taxes, fee income and bond proceeds during 2013. The remaining deficit in the part-town fund is expected to be eliminated in 2014 by an increase in property taxes.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

An excess of expenditures over appropriations in individual funds were as follows for the year ended December 31, 2013:

	Final Budget	Actual	Excess*
General Fund	\$ 48,716,004	\$ 51,909,461	\$ 3,193,457
Residential Garbage District	26,986,083	28,212,672	1,226,589
Highway - Repairs and Maintenance	15,719,333	15,854,899	135,566
Highway - Machinery	2,322,599	2,389,927	67,328
Part-Town Fund	6,404,503	6,822,917	418,414

* This does not include other financing uses or special items

The over expenditure in the general fund was primarily a result of the loss on the sale of two parcels of land on behalf of the Wyandanch Rising, Inc. to an outside developer. These parcels were part of property held for resale for the revitalization project (see Note 3.D).

Residential garbage district fund over expenditures were primarily a result of higher than expected costs incurred relating to the Long Island Green Homes program. This expenditure was financed by available fund balance.

The highway - repairs and maintenance and machinery fund over expenditures were a result of higher than anticipated retirement costs as the Town made a decision in the current year to fund retirement costs on a pay as you go basis instead of deferring the costs to future periods, as well as unanticipated costs due to inclement weather, both of which were financed by available fund balance.

The part-town fund funded over expenditures from unanticipated retirement costs and other general expenditures with additional property tax revenues generated by a tax rate increase in 2013.

3. DETAILED NOTES ON ALL FUNDS

A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits/ Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, 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 had no investments as of December 31, 2013.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND CASH EQUIVALENTS (continued)

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

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

At December 31, 2013 the Town's cash book balance was \$167,914,816. This amount is inclusive of Fiduciary fund deposits of \$47,082,189 cash with fiscal agent of \$3,281,874 and restricted cash of \$163,690 but exclusive of petty cash of \$2,414 and blended component unit cash of \$322,664. The Town's available bank balance was \$146,319,136, excluding the blended component units. Of the Town's available bank balance, \$26,040,935 was covered by Federal deposit insurance, and \$120,278,201 was covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name. The blended component unit's available balance was \$327,153, of which \$302,741 was covered by Federal deposit insurance. The remaining balance of \$24,412 was under collateralized.

At December 31, 2013 the Town's discretely presented component units' bank balances were \$2,701,598. Of this balance, \$422,741 was covered by Federal deposit insurance and \$2,278,857 was covered by collateral held by the discretely presented component unit's agent, a third-party financial institution, in the Town of Babylon Industrial Development Agency's name.

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

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

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

As of December 31, 2013, the Town of Babylon did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

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

B. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At December 31, 2013 individual fund interfund receivable and payable balances for the primary government are generally expected to be paid currently. These balances represent various temporary loans, recharges and reimbursements between funds and are stated as follows:

	Due from Other Funds	Due to Other Funds
Governmental Funds:		
General Fund	\$ 1,397,398	\$ 2,262
Commercial Garbage District Fund		18,413
Combined Highway Fund	220,599	
Capital Projects Fund	5,980	273,488
Non-major Funds	18,672	1,348,486
Total	\$ 1,642,649	\$ 1,642,649

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

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

These receivables and payables are the result of several factors, including temporary advances between the funds and unpaid interfund charges for administrative and other costs. The Town expects the interfund receivables and payables will be paid within the next year.

For the year ended December 31, 2013, individual fund interfund transfers balances for the primary government primarily represent residual equity transfers related to completed and closed capital projects and transfers to the capital project fund to finance specific capital projects and are stated as follows:

	<u>Transfers out:</u>		
	<u>Major Fund:</u>	<u>Non-major Fund:</u>	<u>Totals</u>
	Capital Projects Fund	Other Special Revenue Fund	
<u>Transfers in:</u>			
Governmental Funds:			
Major Funds:			
General Fund	\$ 31,896		\$ 31,896
Capital Projects Fund		\$ 5,452	5,452
Total	<u>\$ 31,896</u>	<u>\$ 5,452</u>	<u>\$ 37,348</u>

C. CAPITAL ASSETS

Capital assets activity for the governmental activities for the year ended December 31, 2013 is as follows:

	<u>Balance</u> <u>1/1/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/13</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 30,240,408	\$ 1,945,366 *	\$ (466,370)	\$ 31,719,404
Construction in progress	43,927,703	8,848,630	\$ (14,324,167)	38,452,166
Total capital assets not being depreciated	<u>74,168,111</u>	<u>10,793,996</u>	<u>(14,790,537)</u>	<u>70,171,570</u>
Depreciable capital assets:				
Building and improvements	77,630,081	10,672,845		88,302,926
Machinery and equipment	32,320,841	1,790,186	(1,326,530)	32,784,497
Infrastructure	387,849,367	13,885,197		401,734,564
Total depreciable capital assets	<u>497,800,289</u>	<u>26,348,228</u>	<u>(1,326,530)</u>	<u>522,821,987</u>
Less: accumulated depreciation				
Buildings and improvements	33,118,346	1,980,552		35,098,898
Machinery and equipment	22,655,198	2,007,292	(1,317,505)	23,344,985
Infrastructure	274,717,164	11,562,367		286,279,531
Total accumulated depreciation	<u>\$ 330,490,708</u>	<u>\$ 15,550,211</u>	<u>\$ (1,317,505)</u>	<u>344,723,414</u>
Total net depreciable capital assets				<u>178,098,573</u>
Total net capital assets				<u>\$ 248,270,143</u>

*Includes reclassification of property held for resale to Town owned property (see Note 3.D)

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

Depreciation was charged to functions and programs as follows:

General government support	\$	627,122
Public safety		217,175
Transportation		11,555,836
Culture and recreation		1,790,447
Home and community services		<u>1,359,631</u>
Total depreciation expense - governmental activities		<u><u>\$ 15,550,211</u></u>

Capital assets activity for the business-type activities for the year ended December 31, 2013 is as follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 194,964			\$ 194,964
Construction in progress	4,155,514		\$ (4,080,934)	74,580
Total capital assets not being depreciated	<u>4,350,478</u>	\$ -0-	<u>(4,080,934)</u>	<u>269,544</u>
Depreciable capital assets:				
Building and improvements	1,306,327			1,306,327
Machinery and equipment	351,670			351,670
Infrastructure	2,702,033	4,083,380		6,785,413
Total depreciable capital assets	<u>4,360,030</u>	<u>4,083,380</u>	<u>-0-</u>	<u>8,443,410</u>
Less: accumulated depreciation				
Buildings and improvements	778,631	26,020		804,651
Machinery and equipment	327,222	4,570		331,792
Infrastructure	914,522	91,747		1,006,269
Total accumulated depreciation	<u>\$ 2,020,375</u>	<u>\$ 122,337</u>	<u>\$ -0-</u>	<u>2,142,712</u>
Total net depreciable capital assets				<u>6,300,698</u>
Total net capital assets				<u><u>\$ 6,570,242</u></u>

Depreciation for the business-type activities was charged to the home and community services function.

Capital assets activity for the discretely presented nonmajor component unit for the year ended December 31, 2013 is as follows:

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
<u>Discretely Presented Nonmajor Component Unit- Wyandanch Rising, Inc.:</u>				
Capital assets not being depreciated:				
Land	\$ -0-	\$ 748,500	\$ -0-	\$ 748,500
Total capital assets not being depreciated	<u>\$ -0-</u>	<u>\$ 748,500</u>	<u>\$ -0-</u>	<u>748,500</u>
Total net capital assets				<u><u>\$ 748,500</u></u>

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Town's policy is to record an impairment loss in the period when the Town determines that the carrying amount of the asset will not be recoverable. During the year ended December 31, 2013, the Town has not recorded any such impairment loss.

D. PROPERTY HELD FOR RESALE

The Town is currently undergoing a major community revitalization program in the northern central part of the Town. Since 2008, the Town has been purchasing commercial properties with available surplus funds of the general and residential garbage funds, of which a majority will be repaid with the issuance of authorized general obligation bonds. The Town is completing the pre-development work for the project which includes rezoning, securing necessary permits and community approvals, demolishing existing structures and grading the projects and then intends to sell the property to a private developer and complete the program by 2015.

As of December 31, 2013, the Town invested \$28,722,018 for the cost of these properties, which includes the purchase price of the properties held for resale, the cost of the surrounding areas that will be used by the Town for roads and parks, the properties sold to an outside developer, and the costs of maintaining the properties. The Town has issued \$8,450,000 of general obligations bonds and \$17,740,000 of bond anticipation notes for this purpose and issued an additional \$3,390,000 of bond anticipation notes for the revitalization program on August 1, 2014 (see Note 6). The Town accounts for this program in the general fund and property held for resale is considered a noncurrent asset in the Statement of Net Position. The general fund's fund balance related to this program is classified as either nonspendable or restricted.

During the year ended December 31, 2013, rezoning for the first phase of the project was reevaluated and the Town determined that a portion of the property held for resale in the amount of \$1,524,719 was considered Town owned property for use of the Town (i.e. roads and parks). As a result, in the fund statements, the Town reclassified the property held for resale balance and reported the reclassification as a special item in the Statement of Revenues, Expenditures and Changes in Fund Balance. In the government-wide financial statements, the property was reclassified to the Town's capital assets.

In October 2011, the Town entered into a Master Developer Designation Agreement ("Master Agreement") with Wyandanch Rising Inc., a discretely presented non-major component unit of the Town and a third party developer. Per the guidelines defined in this Agreement, during 2013 the Town transferred title of two parcels of land classified as property held for resale to Wyandanch Rising Inc. The third party developer paid the Town \$748,500 for the two parcels on behalf of WRI. At the time of the title transfer of land, WRI entered into a Development Lease Agreement ("Lease agreement") with the third party developer in which the third party acting as the lessee, subleased the land to the Babylon IDA, who in turn subleased the property back to the third party developer for a \$1 per annum. The purpose of the lease leaseback transaction is to provide future financial benefits to the third party developer such as certain sales tax and mortgage recording tax exemptions and real estate tax abatements as this community revitalization program progresses. As a result of these transactions, the Town reported a loss on sale of property held for resale in the amount of \$2,829,710 in the home and community expenditures/expenses in the fund and government-wide financial statements at December 31, 2013. WRI reported land in the amount of \$748,500 at December 31, 2013 (see Note 3.C).

As of December 31, 2013, the Town's community development agency fund owned seven properties purchased with grant proceeds in the amount of \$1,004,429, for the purpose of resale to individuals in accordance with the Neighborhood Stabilization Program, under the Housing and Economic Recovery Act. The Town intends to sell these properties in 2014; therefore the property held for resale is classified as a current asset in the Statement of Net Position.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

E. SHORT-TERM DEBT

The schedule below details the changes in short-term debt during the year ended December 31, 2013 for the governmental activities:

	Balance 1/1/13	Issued/ Additions	Maturities/ Reductions	Other Net Decrease*	Balance 12/31/13
<u>Governmental activities:</u>					
Bond anticipation notes	\$ -0-	\$ 19,590,000		\$ (16,090,000)	\$ 3,500,000
New York State Environmental Facilities Corporation Financing	-0-	6,156,106	\$ 6,156,106		-0-
	<u>\$ -0-</u>	<u>\$ 25,746,106</u>	<u>\$ 6,156,106</u>	<u>\$ (16,090,000)</u>	<u>\$ 3,500,000</u>

*The short term debt was refinanced by another bond anticipation note subsequent to year end (see Note 6) and therefore is considered long-term debt at December 31, 2013.

Bond Anticipation Notes (BANs)

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

In August 2013, the Town issued 2013 bond anticipation notes in the amount of \$24,590,000 with interest rates ranging from 1.00% to 2.00%. These notes were partially used to refinance a portion of the 2012 bond anticipation notes in the amount of \$5,000,000. This is reported as a long-term bond anticipation note. The remaining proceeds of \$19,590,000 were used for property acquisition and to finance various projects related to repair work from damage caused by Hurricane Sandy. In August of 2014, the Town refinanced a portion of the BAN with another BAN and therefore \$16,090,000 was reported as an other financing source in the fund financial statements. The remaining balance of \$3,500,000 was used to pay down the principal of the BAN and therefore reported as a short term debt at December 31, 2013.

Available Financing

The Town had \$14,668,482 of available financing through New York State Environmental Facilities Corporation to fund a sewer expansion project. During 2013, the Town borrowed from this available financing in the amount of \$6,156,106 which was subsequently converted to long-term bonds through the New York State Environmental Facilities Corporation.

F. LONG-TERM DEBT

Guaranteed Assistance Contract Loans

The Town's guaranteed assistance contract loans payable consists of two loans due to the U.S. Department of Housing and Urban Development issued under Section 108 of the Housing and Community Development Act of 1974. One of the loans bears interest at rates ranging from 4.95% to 6.59% and matures in August 2016. The second loan dated December 2012, stipulates a maximum commitment amount of \$4,100,000 for a specific capital project. During 2012, the Town received \$2,950,000 of this commitment amount and spent \$2,087,169. There was no activity in 2013 and the remaining amount of \$862,831 is reported as restricted fund balance. This loan bears interest at a variable rate, which is adjusted monthly at the London Interbank Offered Rate plus .20%, and will mature in August 2027. The variable rate as of December 31, 2013 was .45%, which is the rate used to determine the future interest payments below.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG-TERM DEBT (continued)

Guaranteed Assistance Contract Loans (continued)

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

Years Ending December 31,	Principal	Interest	Total Principal and Interest
2014	\$ 278,000	\$ 39,047	\$ 317,047
2015	294,000	30,330	324,330
2016	316,000	20,837	336,837
2017	172,000	10,190	182,190
2018	180,000	9,397	189,397
2019-2023	1,014,000	33,886	1,047,886
2024-2027	959,000	9,168	968,168
Total	<u>\$ 3,213,000</u>	<u>\$ 152,855</u>	<u>\$ 3,365,855</u>

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

General Obligation Bonds Payable

The Town borrows money in order to acquire land or equipment or construct buildings and improvements. These long-term liabilities are backed by the full faith and credit of the Town, bear interest at rates ranging from .26% to 5.38% and mature at varying dates through May 2043.

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

Years Ending December 31,	Principal	Interest	Total Principal and Interest
2014	\$ 14,155,000	\$ 5,341,586	\$ 19,496,586
2015	15,432,900	4,791,858	20,224,758
2016	16,165,000	4,244,338	20,409,338
2017	16,795,000	3,631,212	20,426,212
2018	12,325,000	3,026,289	15,351,289
2019-2023	37,910,000	11,413,765	49,323,765
2024-2028	23,870,000	4,448,419	28,318,419
2029-2033	6,405,000	1,018,955	7,423,955
2034-2038	2,385,000	440,330	2,825,330
2039-2043	2,535,000	152,251	2,687,251
Total	<u>\$ 147,977,900</u>	<u>\$ 38,509,003</u>	<u>\$ 186,486,903</u>

There was no outstanding bonds payable for the business-type activities or the discretely presented non-major component units at December 31, 2013.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG-TERM DEBT (continued)

Prior Year Defeasance of Debt

In prior years, the Town of Babylon defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At December 31, 2013, \$17,070,000 of these bonds outstanding is considered defeased.

Changes in Long-term Liabilities

Long term liability activity, for the year ended December 31, 2013 is as follows:

	Balance 1/1/13	Issued/ Additions	Maturities/ Reductions	Other Net Increase or (Decrease)	Balance 12/31/13
Governmental activities:					
General obligation bonds	\$ 112,828,658	\$ 30,357,902	\$ 12,408,660	\$ 17,200,000	\$ 147,977,900
Plus: premiums on issuance	2,170,842		458,220		1,712,622
General obligation bonds, net	114,999,500	30,357,902	12,866,880	17,200,000	149,690,522
Bond anticipation notes payable	22,200,000	16,090,000		(17,200,000)	21,090,000
Guaranteed assistance contract loans payable	3,475,000		262,000		3,213,000
Due to employees' retirement system	4,062,925		725,823		3,337,102
Compensated absences	4,876,451	3,095,501	2,874,988		5,096,964
Claims and judgments payable	6,428,147	988,250	746,657	(233,051)	6,436,689
Estimated liability for landfill closure and post closure care costs	25,828,433		538,300	(2,036,956)	23,253,177
Other postemployment benefits payable	40,452,763	9,398,010	3,981,265		45,869,508
Business-type activities:					
General obligation bonds	61,340		61,340		-0-
Other postemployment benefits payable	244,977	56,264	35,132		266,109
	<u>\$ 222,629,536</u>	<u>\$ 59,985,927</u>	<u>\$ 22,092,385</u>	<u>\$ (2,270,007)</u>	<u>\$ 258,253,071</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG-TERM DEBT (continued)

Changes in Long-term Liabilities (continued)

A summary of current and long-term debt amounts as of December 31, 2013 is as follows:

	Noncurrent Liabilities due Within One Year	Noncurrent Liabilities	Balance at 12/31/13
Governmental activities:			
General obligation bonds	\$ 14,155,000	\$ 133,822,900	\$ 147,977,900
Plus: premiums on issuance	458,222	1,254,400	1,712,622
General obligation bonds, net	<u>14,613,222</u>	<u>135,077,300</u>	<u>149,690,522</u>
Bond anticipation notes payable	260,000	20,830,000	21,090,000
Guaranteed assistance			
contract loans payable	278,000	2,935,000	3,213,000
Due to employees'			
retirement system	767,545	2,569,557	3,337,102
Compensated absences	3,155,000	1,941,964	5,096,964
Claims and judgments payable	616,331	5,820,358	6,436,689
Estimated liability for			
landfill closure and post			
closure care costs	761,300	22,491,877	23,253,177
Other postemployment benefits payable		45,869,508	45,869,508
Business-type activities:			
Other postemployment benefits payable		266,109	266,109
	<u>\$ 20,451,398</u>	<u>\$ 237,801,673</u>	<u>\$ 258,253,071</u>

Other Long-Term Debt

The liabilities for compensated absences, amounts due to employees' retirement system, 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, combined highway fund, and certain special revenue funds. Payments for estimated claims and judgments will be liquidated primarily from the general fund, and the residential and commercial garbage district funds. The estimated liability for landfill closure and post closure care costs will be liquidated by the residential and commercial garbage district funds.

Conduit Debt Obligations

The Town of Babylon Industrial Development Agency has issued various series of bonds, considered conduit debt obligations of the Town, to finance a number of capital projects for the Town's Solid Waste Management Plan to handle, process, recycle and dispose of solid waste. Such bonds do not legally constitute a debt of the Town although the Town makes service payments sufficient to pay the principal and interest due thereon. The bonds are special and limited obligations of the Agency, payable solely from and secured by the revenues and assets pledged under the indenture. As of December 31, 2013, the outstanding Series 2009 A and B bond balances were \$46,970,000.

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

G. RETIREMENT SYSTEM

Plan Description

The Town participates in the New York State and Local Employees' Retirement System (NYSERS) (the "System"), a cost sharing multiple public employer retirement system. The System provides retirement benefits as well as death and disability benefits.

Obligation of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (the "New York State Comptroller") serves as sole trustee and administrative head of the System. The New York State Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplemental information. 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.

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System: on or after July 27, 1976 who generally contribute 3% of their salary for the first ten years of membership, on or after January 1, 2010, who generally contribute 3% of their salary for the entire length of service, and on or after April 1, 2012, who generally contribute 3% and 6% (based on annual wage) for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

The Town is required to contribute at an actuarially determined rate. The actual contributions were equal to 100% of the actuarially required amounts. The credits and miscellaneous adjustments represent modification made by the NYSERS to the prior year's contributions due to differences between estimated and actual salaries for the plan year.

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

	Annual Required Contribution	Credits & Miscellaneous Adjustments	Amortization Payments	2010 Incentive Installments	Prepayment Discount	2011-2012 Amortization / Deferral	Total Payment
2013	\$5,019,777	\$ 164,632	\$ 461,877	\$ 456,637	\$ (52,961)	\$ -0-	\$ 6,049,962
2012	4,317,427	255,714	259,771	456,637	(46,717)	(1,717,661)	3,525,171
2011	3,468,413	(356,511)	174,440	456,637	(32,967)	(697,575)	3,012,437

The Town's contribution to the system was 100% of the contributions required each year.

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

In 2004, the Town elected to defer a portion of its retirement bill under Chapter 49 of the Laws of 2003 of the State of New York. The deferred amount is due in ten annual installments including interest at 5%. At December 31, 2013, the outstanding amount owed to the System was \$124,458.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

G. RETIREMENT SYSTEM (continued)

Funding Policy (continued)

For years ending December 31, 2010, 2011 and 2012, the Town elected to defer a portion of its retirement bill under Chapter 57 of the Laws of 2010 of the State of New York, subject to certain stipulations. The amount deferred under Chapter 57 is payable in ten annual installments including a rate of interest set by the New York State Comptroller annually, 5% for 2012. At December 31, 2013 the amount due to the System related to this deferral is \$2,392,722.

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

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

The State Legislature authorized local governments to make available various retirement incentive programs and amortize certain contribution costs. During 2010, pursuant to Chapter 105 of the Laws of 2010, the Town participated in a retirement incentive program with an estimated total costs to the Town of \$1,986,064. The cost of the 2010 incentive program is being in five installments, beginning in 2011, including interest at 5%. At December 31, 2013, the outstanding balance due to the System related to this retirement incentive was \$819,922.

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

Principal	Interest	Total Principal and Interest
\$ 767,545	\$ 148,774	\$ 916,319
681,241	104,395	785,636
265,286	63,713	328,999
274,425	54,576	329,001
283,891	45,109	329,000
1,064,714	80,949	1,145,663
\$ 3,337,102	\$ 497,516	\$ 3,834,618

H. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

H. OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Description (continued)

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

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

For members of Local 237 requirements for coverage upon retirement are: five consecutive years of service with the Town and has attained the age of 55 years. The Town will contribute 100% of the premium for eligible retired Local 237 employees.

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

The number of participants as of January 1, 2013, the effective date of the OPEB valuation is as follows:

	Total	Town	Component Unit
Active employees	282	278	4
Retirees	312	310	2
Spouses of retired employees	318	317	1
	912	905	7

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

Funding Policy

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

Annual Other Postemployment Benefit Cost and Net Obligation

For the year ended December 31, 2013, the Town's (excluding the discretely presented component units) annual other postemployment benefits cost (expense) was \$9,454,274. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$4,016,397 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$5,437,877 for the year ended December 31, 2013. The Town's discretely presented component unit's annual other postemployment benefits cost (expense) was \$67,719. The payment of current health insurance premiums totaled \$16,183 for retirees and the component unit's beneficiaries, resulting in an increase in the other postemployment benefits liability of \$51,536 for the year ended December 31, 2013.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

H. OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefit Obligations and Normal Cost

	Total	Town	Component Unit
Actuarial Accrued Liability (AAL)			
Retired employees	\$ 66,884,584	\$ 66,563,386	\$ 321,198
Active employees	58,664,375	57,900,747	763,628
Total Actuarial Accrued Liability (AAL)	125,548,959	124,464,133	1,084,826
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 125,548,959	\$ 124,464,133	\$ 1,084,826
Funded ratio	0%	0%	0%
Normal cost at the beginning of the year	\$ 4,097,922	\$ 4,063,075	\$ 34,847
Amortization cost at the beginning of the year	\$ 6,358,917	\$ 6,323,575	\$ 35,342
Annual covered payroll	\$ 23,592,704	\$ 23,592,704	n/a*
UAAL as a percentage of covered payroll	532.15%	527.55%	n/a*

*Information was not available for the component unit

The Town's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC) of the employer, an amount which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The unfunded actuarial accrued liability for the Town for the year ended December 31, 2013 amounted to \$124,464,133. The unfunded actuarial accrued liability for the component unit for the year ended December 31, 2013 amounted to \$1,084,826.

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

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

	Total	Town	Component Unit
Normal cost	\$ 3,473,836	\$ 3,440,361	\$ 33,475
Amortization of unfunded actuarial liability (UAAL) over 30 years	6,220,840	6,184,242	36,598
Interest	306,884	304,656	2,228
Annual required contribution (ARC)	10,001,560	9,929,259	72,301
Interest on net OPEB obligation	1,644,696	1,627,910	16,786
Adjustment to ARC	(2,124,263)	(2,102,895)	(21,368)
Annual OPEB cost	9,521,993	9,454,274	67,719
Less: Contribution for year ended December 31, 2013	(4,032,580)	(4,016,397)	(16,183)
Increase in other postemployment benefits liability	5,489,413	5,437,877	51,536
Other postemployment benefits liability at December 31, 2012	41,117,383	40,697,740	419,643
Other postemployment benefits liability at December 31, 2013	\$ 46,606,796	\$ 46,135,617	\$ 471,179
Percent of annual OPEB cost contributed	42.35%	42.48%	23.90%

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

H. OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress

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

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2013	\$ 9,454,274	\$ 4,016,397	42.48%	\$ 46,135,617
2012	10,458,173	4,523,834	43.26%	40,697,740
2011	10,029,740	4,169,520	41.57%	34,763,401

The projected funded status of the plan as of December 31, 2013, based on the January 1, 2013 valuation is as follows:

	Actuarial Accrued Liability (AAL)	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Town	\$ 124,464,133	\$ -0-	\$ 124,464,133	0.00%	\$ 23,592,704	527.55%
Component Unit	1,084,826	-0-	1,084,826	0.00%	n/a*	n/a*

*Information was not available for the component unit

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

Actuarial Methods and Assumptions

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

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

In the January 1, 2013 actuarial valuation, the liabilities were computed using the projected unit credit cost method and level percentage of projected payroll of active plan members on a closed basis. The actuarial assumptions utilized a 4.00% discount rate and a 2.50% payroll growth rate. The valuation assumes a 9.0% (pre 65) and a 7.5% (post 65) healthcare cost trend for 2013, with an ultimate medical trend rate of 5% to be reached in 2017 for both pre and post 65. The remaining amortization period at December 31, 2013 was twenty-three years.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

I. SERVICE AWARD PROGRAM

Plan Description

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

Participation, Vesting, and Service Credit

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

Benefits

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

Fiduciary Investment Control

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

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

I. SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

The Trustees of the Service Award Program are the Town Board. Authority to invest Plan assets is vested in the Town Board. Subject to restrictions in the Plan document, Plan assets are invested in accordance with a statutory "prudent person" rule. The Town is required to retain an actuary to determine the amount of the Town's contributions to the plan. The actuary retained by the Town for this purpose is Harbridge, Inc., except for Wyandanch for which the Town retained Gerald R Shea, Percert, LTD. Portions of the following information are derived from reports prepared by the actuaries.

Plan financial condition as of and for the year ended December 31, 2013:

	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
<u>Assets</u>					
Actuarial present value of benefits at January 1	\$ 4,329,004	\$ 1,924,128	\$ 5,118,017	\$ 3,492,107	
benefits at February 1					\$ 534,712
Less: assets available for benefits	<u>3,502,246</u>	<u>1,507,005</u>	<u>3,151,063</u>	<u>1,976,739</u>	<u>406,598</u>
Total unfunded benefits	826,758	417,123	1,966,954	1,515,368	128,114
Less: unfunded liability for prior service	<u>(826,758)</u>	<u>(417,123)</u>	<u>(1,966,954)</u>	<u>(1,515,368)</u>	<u>(282,507)</u>
Unfunded (overfunded) normal benefits	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (154,393)</u>
<u>Assets Available for Benefits</u>					
Cash & short-term investments	\$ 39,703	\$ 134,833	\$ 135,305	\$ 113,543	
Annuities	2,879,899	1,097,276	1,808,224	1,421,767	\$ 406,598
Insurance contracts	<u>582,644</u>	<u>274,896</u>	<u>1,207,534</u>	<u>441,429</u>	
Total assets available for benefits	<u>\$ 3,502,246</u>	<u>\$ 1,507,005</u>	<u>\$ 3,151,063</u>	<u>\$ 1,976,739</u>	<u>\$ 406,598</u>
<u>Receipts and Disbursements</u>					
Plan assets, beginning of year	\$ 3,433,115	\$ 1,455,578	\$ 3,022,602	\$ 1,880,395	\$ 377,984
Plan contributions - 2013	91,000	100,000	175,000	185,000	88,412
Investment income earned	89,869	39,895	59,571	48,474	14,801
Change in insurance contracts	(115,563)	7,060	36,516	(35,688)	
Other receipts	115,722		112,865	27,463	1,430
Plan benefit withdrawals	(111,897)	(95,528)	(255,491)	(128,905)	(73,162)
Administrative fees					<u>(2,867)</u>
Plan assets, end of year	<u>\$ 3,502,246</u>	<u>\$ 1,507,005</u>	<u>\$ 3,151,063</u>	<u>\$ 1,976,739</u>	<u>\$ 406,598</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

3. DETAILED NOTES ON ALL FUNDS (continued)

I. SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

Plan financial condition as of and for the year ended December 31, 2013:

	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Prior Service Costs					
Amortization period	7-10 years	10- 13 years	10- 19 years	10- 19 years	25 years
Discount rate	5.25%	5.25%	5.25%	5.25%	4.75%
Contributions					
Recommend by actuary - 2013					
Minimum	\$ 258,525	\$ 90,127	\$ 320,230	\$ 246,628	\$ 85,604
Maximum	\$ 276,796	\$ 101,216	\$ 404,456	\$ 314,974	\$ 85,604
2013 Actual Contribution	\$ 91,000	\$ 100,000	\$ 175,000	\$ 185,000	\$ 88,412
Administration Fees					
Paid to Plan Administrator by:					
Sponsor	\$ 4,134	\$ 2,357	\$ 6,104	\$ 4,405	\$ -0-
Plan	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 3,023
Paid to Trustee	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other					
Effective date of Plan	1/1/1990	1/1/1990	1/1/1990	1/1/1990	2/1/2005
Valuation date	1/1/2014	1/1/2014	1/1/2014	1/1/2014	2/1/2014
Actuary report date	May 2014	March 2014	April 2014	May 2014	April 2014
Assumed rate of return	5.25%	5.25%	5.25%	5.25%	4.75%
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit	Unit Credit	Entry Age Normal Frozen Initial Liability
Mortality table used	**	**	**	**	U8400
Asset valuation method	Fair value	Fair value	Fair value	Fair value	Fair value

** 1994 Group Annuity Reserving Table - Male

J. COMPENSATED ABSENCES

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

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the Statement of Net Position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2013, the value of the accumulated vacation time and sick leave of the primary government was \$5,096,964.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2013

4. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

In common with other municipalities, the Town receives numerous notices of claims. The Town carries excess liability insurance coverage of \$5,000,000 per occurrence with a \$5,000,000 annual aggregate, excess of a \$1,000,000 self-insured retention, except for Public Officials and Employment Practices claims, which are subject to a \$100,000 self-insured retention. The Town established a self-insurance program for its general and auto liability coverage. This program is administered by an independent company, which furnishes claims review and processing. Although the eventual outcome of these claims cannot presently be determined, the Town Attorney and the independent company have estimated unsettled claims and litigation to be \$5,092,228. The Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position.

The Town procures "All Risk" property protection, subject to a deductible of \$50,000 per loss. The perils of earthquake and flood are limited at \$1,000,000.

The Town ceased being self-insured in June of 1999, and purchased an insurance policy for the workers' compensation coverage in order to minimize the costs. Any open claims prior to June 1999 have been reserved for as reported below. The Town estimates its workers' compensation and general liability reserves by consulting with legal counsel and past experience with similar claims. There have been no significant reductions in insurance coverage as compared to the prior year and there were no settlements in excess of insurance coverage over the last three years. The Town has not purchased any annuity contracts with regard to its workers' compensation or general liability claims. The schedule below presents the changes in claims liabilities for the past two years for workers' compensation and general liability and includes an estimate of claims that have been incurred but not yet reported.

The following is a reconciliation of the estimated liabilities:

	General & Auto Liability Coverage		Workers' Compensation	
	2013	2012	2013	2012
Beginning balances of claims liabilities at January 1	\$ 4,906,459	\$ 5,579,700	\$ 1,521,688	\$ 1,830,931
Claims incurred	988,250	879,250	-0-	-0-
Claims payments	(362,150)	(217,607)	(384,507)	(342,151)
Change to prior year estimates	(440,331)	(1,334,884)	207,280	32,908
Ending balance of claims liabilities at December 31	<u>\$ 5,092,228</u>	<u>\$ 4,906,459</u>	<u>\$ 1,344,461</u>	<u>\$ 1,521,688</u>

B. GENERAL LITIGATION

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

4. COMMITMENTS AND CONTINGENCIES (continued)

C. LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require the Town to place a final cover on its landfill sites and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and post closure care costs will be paid near or after the date that each landfill stops accepting waste, the Town reports a portion of these closure and post closure care costs as a program expense based on the landfill capacity used as of year end. The Town has accrued \$23,253,177 at December 31, 2013, which represents the cumulative amount based on the use of 100% of the solid waste landfill, 100% of the estimated capacity of the northern ash landfill and 56.12% of the estimated capacity of the southern ash landfill. The Town will recognize the remaining estimated cost of closure and post closure care of \$7,356,148 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care costs in 2013 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The solid waste landfill was closed in 1997 and the Town expects to close the northern ash landfill and southern ash landfill in 2014 and 2033, respectively.

D. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS INCLUDING ENCUMBRANCES

The Town is committed to capital improvements to its various facilities and infrastructure. At December 31, 2013, these commitments, reported in the Capital Project Fund amounted to \$8,818,096.

E. POLLUTION REMEDIATION OBLIGATION

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

The Town:

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

The Town has purchased properties throughout the Town with the intent to redevelop and resell to eligible individuals and businesses. Prior to the purchase of these properties, an outside engineer performs a site assessment of the land for any potential pollution remediation. If a potential liability exists, the seller of the property places the estimated costs for the cleanup in a third party escrow account to fund these future costs. Therefore, while certain Town owned properties have been identified as having contaminated land as of December 31, 2013, the Town does not have any liability related to these future costs and has not reported a liability on the government-wide statements.

F. RESOURCE RECOVERY FACILITY

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

4. COMMITMENTS AND CONTINGENCIES (continued)

F. RESOURCE RECOVERY FACILITY (continued)

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

G. FUTURE MINIMUM OPERATING LEASE EXPENSES

The Town leases various buildings and land to various parties under operating lease agreements with terms ranging from one year to twenty five years. The leases generally require the lessees to pay repairs and maintenance and utilities. Future minimum rentals under existing operating leases at December 31, 2013 are as follows:

Years Ending December 31, 2014	\$	462,844
2015		406,243
2016		352,727
2017		337,705
2018		305,413
Thereafter		4,512,759
	\$	<u>6,377,691</u>

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

The Town leases equipment accounted for as operating leases. Total rental expenditures on such leases for the year ended December 31, 2013 approximated \$564,000. The maximum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2014	\$	274,577
2015		218,434
2016		150,467
2017		96,641
2018		28,331
	\$	<u>768,450</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

4. COMMITMENTS AND CONTINGENCIES (continued)

H. SERVICE CONCESSION ARRANGEMENT

Pursuant to an agreement dated October 2010, the Town is leasing the East Farmingdale Water Plant to the Suffolk County Water Authority ("SCWA"). Under the terms of the agreement, SCWA will operate and maintain the water plant as well as provide retail sales of water to the District's residents using rates established by the District. The cost and net book value of the leased water plant is \$8,443,410 and \$6,300,968, respectively. In consideration, SCWA paid the District an upfront payment of \$3 million which is being amortized over the forty year term of the agreement. As of December 31, 2013, the Town reported a deferred inflow of resources in the amount of \$2,762,500 in the proprietary fund and government-wide financial statements. As mentioned previously, the authority to set the water billing rates resides with the District. However, pursuant to the lease agreement, SCWA is entitled to receive management fee revenue equal to the revenues it would have received if the SCWA rates were billed. The differential between revenues earned from the actual billings (using District set rates) and the management fee (calculated using SCWA rates) is billed quarterly. The District paid \$416,424 of management fees to SCWA during the year ended December 31, 2013. Any billings in excess of the SCWA management fee will be remitted back to the District.

I. OTHER COMMITMENTS

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

5. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2013, the Town implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*," which amends or supersedes the accounting and financial reporting guidance for items previously required to be reported as assets or liabilities. The objective is to properly classify certain items that were previously reports as assets and liabilities as deferred outflows or resources (expenses) or deferred inflows of resources (revenues). The cumulative effect of the accounting change in connection with the implementation of GASB Statement No. 65 was an increase of \$9,361,831 in the Town's governmental activities net position reported on the government-wide financial statements. This is a result of debt issuance costs in the amount of \$504,929 being recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized which was offset by the recognition of certain revenues in the amount of \$9,866,760 related to grant programs that no longer met the definition of a liability or deferred inflow under the amended guidance.

6. SUBSEQUENT EVENTS

In August 2014, the Town issued bond anticipation notes in the amount of \$19,480,000, with interest rates ranging from 1.00% to 1.50%. Bond anticipation note proceeds in the amount of \$16,090,000 will be used to refinance a portion of the 2013 bond anticipation notes and the remaining proceeds of \$3,390,000 will be used for property acquisition. The bond anticipation notes will mature August 1, 2015.

In August 2014, the Town issued general obligation bonds 2014 Series A and 2014 Series B in the amount of \$17,310,000, with interest rates ranging from 2.00% to 3.00%. Bond proceeds in the amount of \$4,740,000 will be used to refinance a portion of the 2013 bond anticipation notes. The remaining bond proceeds of \$12,570,000 will be used for various capital projects and to purchase equipment. The general obligation bonds will mature August 1, 2029

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

7. NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68 *“Accounting and Financial Reporting for Pensions”*—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2015.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 69 *“Governmental Combinations and Disposals of Governmental Operations.”* The statement establishes accounting and financial reporting standards related to governmental combinations and disposals of governmental operations. As used in this Statement, the term *government combination includes* a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 70 *“Accounting and Reporting for Nonexchange Financial Guarantees.”* The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 71 *“Pension Transition for Contributions Made Subsequent to the Measurement date – an amendment of GASB Statement No. 68.”* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *“Accounting and Financial Reporting for Pensions.”* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provision of Statement No. 68.

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

<p>REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS</p>
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NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

See Note to the Financial Statement 2.B for information regarding individual funds with an excess of expenditures over appropriations.

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2013

REVENUES	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 29,145,674	\$ 29,145,674	\$ 29,145,674	\$ -0-
Total Real Property Taxes	29,145,674	29,145,674	29,145,674	-0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	650,000	650,000	760,745	110,745
Interest and penalties on real property taxes	300,000	300,000	230,535	(69,465)
Total Other Real Property Tax Items	950,000	950,000	991,280	41,280
NON-PROPERTY TAX ITEMS				
Cable franchise fees	2,900,000	2,900,000	3,022,458	122,458
Lot clean-up program	550,000	550,000	765,850	215,850
Total Non-Property Tax Items	3,450,000	3,450,000	3,788,308	338,308
DEPARTMENTAL INCOME				
Assessor's fees	15,000	15,000	15,140	140
Town clerk fees	320,000	320,000	375,444	55,444
Consultation fees	50,000	50,000	87,824	37,824
Public pound fees and dog control service	50,000	50,000	57,451	7,451
Wyandanch program fees	80,000	80,000	80,883	883
Park and recreation charges and fees	1,905,000	1,905,000	1,950,611	45,611
Medicaid	200,000	200,000	345,259	145,259
Charges for cemetery services	5,000	5,000	(5,000)	(5,000)
Total Departmental Income	2,625,000	2,625,000	2,912,612	287,612
USE OF MONEY AND PROPERTY				
Interest and earnings on investments	100,000	100,000	50,929	(49,071)
Rental of real property/beach leases	700,000	700,000	874,506	174,506
Rental of real property/host fee	1,000,000	1,000,000	1,000,000	-0-
Other	550,000	550,000	201,994	(348,006)
Total Use of Money and Property	2,350,000	2,350,000	2,127,429	(222,571)
LICENSES AND PERMITS				
Business and occupational licenses	45,000	45,000	(45,000)	(45,000)
Bingo license fees/games of chance	20,000	20,000	10,696	(9,304)
Dog licenses	11,000	11,000	11,580	580
Licenses - other	10,000	10,000	148	(9,852)
Plumbing permits	40,000	40,000	56,413	16,413
Impact fees	150,000	150,000	100,000	(50,000)
Permits - other	41,000	41,000	51,485	10,485
Other	5,000	5,000	(5,000)	(5,000)
Total Licenses and Permits	322,000	322,000	230,322	(91,678)
FINES AND FORFEITURES				
Fines and forfeited bail	1,300,000	1,300,000	1,323,083	23,083
Bid deposits	15,000	15,000	138,877	123,877
Total Fines and Forfeitures	1,315,000	1,315,000	1,461,960	146,960
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Sales, recycling	20,000	20,000	7,783	(12,217)
Sales of equipment	175,000	175,000	257,810	82,810
Insurance recoveries	30,000	1,042,719	1,024,583	(18,136)
Total Sale of Property and Compensation for Loss	225,000	1,237,719	1,290,176	52,457

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
INTERFUND REVENUE				
Interfund revenue	2,200,000	2,200,000	3,250,218	1,050,218
Total Interfund Revenue	<u>2,200,000</u>	<u>2,200,000</u>	<u>3,250,218</u>	<u>1,050,218</u>
MISCELLANEOUS LOCAL SOURCES				
Gifts and donations	50,000	50,000	105,000	55,000
Refund of prior year expenditures	20,000	20,000	35,211	15,211
Other miscellaneous revenue	300,000	300,000	188,184	(111,816)
Total Miscellaneous Local Sources	<u>370,000</u>	<u>370,000</u>	<u>328,395</u>	<u>(41,605)</u>
STATE AND COUNTY AID				
Mortgage tax	4,000,000	4,000,000	3,583,550	(416,450)
Narcotics guidance counsel	59,500	59,500	39,649	(19,851)
Youth programs	506,926	506,926	293,592	(213,334)
Therapeutic recreation program	25,000	25,000	52,198	27,198
Senior day training program	30,000	30,000	42,174	12,174
Nutrition programs	24,000	24,000	18,614	(5,386)
State grants	300,000	300,000	208,797	(91,203)
Total State and County Aid	<u>4,945,426</u>	<u>4,945,426</u>	<u>4,238,574</u>	<u>(706,852)</u>
FEDERAL AID				
Narcotics guidance counsel	290,500	290,500	193,578	(96,922)
Home chores project	24,832	24,832	21,246	(3,586)
Wyandanch nutrition program	216,000	216,000	196,178	(19,822)
Emergency disaster assistance program - severe storms		35,000	74,208	39,208
Total Federal Aid	<u>531,332</u>	<u>566,332</u>	<u>485,210</u>	<u>(81,122)</u>
Total Revenues	<u>48,429,432</u>	<u>49,477,151</u>	<u>50,250,158</u>	<u>773,007</u>

EXPENDITURES

GENERAL GOVERNMENT SUPPORT				
Town board	440,148	440,148	448,309	(8,161)
Municipal court	122,344	122,344	57,712	64,632
Traffic violations bureau	135,774	135,774	135,336	438
Town Supervisor	824,633	794,430	790,233	4,197
Finance	126,053	126,483	125,157	1,326
Comptroller	583,728	583,298	549,847	33,451
Auditor	175,000	175,000	251,735	(76,735)
Receiver of taxes	647,485	647,485	608,302	39,183
Fiscal agent	10,000	10,000	46,358	(36,358)
Purchasing	262,560	264,711	294,807	(30,096)
Assessor	1,802,366	1,802,366	1,968,432	(166,066)
Town Clerk	549,355	541,555	519,085	22,470
Town Attorney	1,405,263	1,405,263	1,348,032	57,231
Personnel	151,325	161,325	159,734	1,591
Engineering	350,400	350,400	251,736	98,664
Elections	1,500	1,500	1,250	250
Public works administration	154,737	154,737	172,646	(17,909)
Central service administration	37,516	45,316	41,414	3,902
Buildings and grounds	3,802,130	3,789,979	3,584,809	205,170
Vehicle and control	1,789,555	1,787,352	1,824,594	(37,242)
Central printing and mail	676,009	676,009	600,291	75,718
Central data processing	810,632	810,632	750,319	60,313
Unallocated insurance, judgments and claims	1,100,000	1,100,000	575,742	524,258
Municipal association dues	1,200	1,200	300	900
Taxes and assessments on municipal property	110,000	110,000	9,079	100,921
Contingencies - contractual and other	108,624	32,570		32,570
Other general government support			73,765	(73,765)
Total General Government Support	<u>16,178,337</u>	<u>16,069,877</u>	<u>15,189,024</u>	<u>880,853</u>

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Traffic control	709,337	709,337	723,246	(13,909)
Control of animals	710,200	710,200	843,686	(133,486)
Plumbing board	27,500	27,500	27,707	(207)
Civil defense	11,500	11,500	9,053	2,447
Total Public Safety	<u>1,458,537</u>	<u>1,458,537</u>	<u>1,603,692</u>	<u>(145,155)</u>
HEALTH				
Drug and alcohol control	1,008,334	975,996	1,073,595	(97,599)
Contracted narcotic addiction control services	309,482	395,611	308,198	87,413
Other health	590,935	590,935	625,322	(34,387)
Handicapped services	67,885	90,148	90,147	1
Total Health	<u>1,976,636</u>	<u>2,052,690</u>	<u>2,097,262</u>	<u>(44,572)</u>
ECONOMIC ASSISTANCE AND OPPORTUNITY				
Public information	57,228	57,228	85,652	(28,424)
Veterans' services	9,400	8,800	5,001	3,799
Programs for the aging	97,050	97,050	104,536	(7,486)
Family services	45,133	45,133	24,260	20,873
Total Economic Assistance and Opportunity	<u>208,811</u>	<u>208,211</u>	<u>219,449</u>	<u>(11,238)</u>
CULTURE AND RECREATION				
Recreation administration	784,336	821,836	868,820	(46,984)
Parks	4,149,190	4,164,112	4,317,745	(153,633)
Playground and recreation center	491,500	489,000	496,305	(7,305)
Beaches and pools	2,392,111	2,392,111	2,237,884	154,227
Youth programs	1,410,630	1,410,630	1,141,574	269,056
Town historian	68,941	68,941	81,051	(12,110)
Adult recreation and senior citizen programs	821,220	851,423	958,558	(107,135)
Council on the arts	10,000	10,000	10,000	-0-
Total Culture and Recreation	<u>10,127,928</u>	<u>10,208,053</u>	<u>10,111,937</u>	<u>96,116</u>
HOME AND COMMUNITY SERVICES				
Environmental control	866,545	866,545	977,554	(111,009)
Loss on property held for resale- revitalization project			2,829,710	(2,829,710)
Total Home and Community Services	<u>866,545</u>	<u>866,545</u>	<u>3,807,264</u>	<u>(2,940,719)</u>
EMPLOYEE BENEFITS				
Retirement system	2,596,283	2,596,283	3,553,901	(957,618)
Social security	1,397,389	1,397,389	1,486,936	(89,547)
Workers' compensation	1,210,000	1,210,000	1,142,402	67,598
Life insurance	15,000	15,000	14,485	515
Unemployment benefits	200,000	200,000	95,282	104,718
Disability benefits	25,000	25,000	18,892	6,108
Hospital, medical, and dental	5,323,000	5,323,000	5,062,581	260,419
Other employee benefits	385,000	385,000	397,626	(12,626)
Total Employee Benefits	<u>11,151,672</u>	<u>11,151,672</u>	<u>11,772,105</u>	<u>(620,433)</u>
DEBT SERVICE				
Principal	4,646,218	4,646,218	4,617,618	28,600
Interest	2,054,201	2,054,201	2,331,341	(277,140)
Bond issuance costs			159,769	(159,769)
Total Debt Service	<u>6,700,419</u>	<u>6,700,419</u>	<u>7,108,728</u>	<u>(408,309)</u>
Total Expenditures	<u>48,668,885</u>	<u>48,716,004</u>	<u>51,909,461</u>	<u>(3,193,457)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(239,453)</u>	<u>761,147</u>	<u>(1,659,303)</u>	<u>(2,420,450)</u>
OTHER FINANCING SOURCES (USES)				
Principal amount of bond anticipation notes			9,240,000	9,240,000
Premium on bond anticipation notes			308,683	308,683
Operating transfers in	150,000	150,000	31,896	(118,104)
Operating transfers out		(1,000,600)		1,000,600
Total Other Financing Sources (Uses)	<u>150,000</u>	<u>(850,600)</u>	<u>9,580,579</u>	<u>10,431,179</u>
SPECIAL ITEM				
Property held for resale reclassified as Town owned assets			(1,524,719)	(1,524,719)
Net Change in Fund Balance	<u>\$ (89,453)</u>	<u>\$ (89,453)</u>	<u>6,396,557</u>	<u>\$ 6,486,010</u>
Fund Balance at Beginning of Year			<u>21,720,777</u>	
Fund Balance at End of Year			<u>\$ 28,117,334</u>	

TOWN OF BABYLON
RESIDENTIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 17,724,557	\$ 17,724,557	\$ 17,724,557	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Other tax items	3,726,545	3,726,545	3,726,545	-0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	4,388,723	4,388,723	5,178,082	789,359
Long Island Green Homes	1,000,000	1,000,000	1,482,743	482,743
Total Departmental Income	<u>5,388,723</u>	<u>5,388,723</u>	<u>6,660,825</u>	<u>1,272,102</u>
USE OF MONEY AND PROPERTY				
Interest earnings	200,000	200,000	643,332	443,332
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			2,382	2,382
STATE AID				
Hazardous waste			13,484	13,484
FEDERAL AID				
Energy efficiency and conservation			68,695	68,695
Total Revenues	<u>27,039,825</u>	<u>27,039,825</u>	<u>28,839,820</u>	<u>1,799,995</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Garbage improvement area	24,593,329	24,593,329	26,320,492	(1,727,163)
Personal services	1,066,472	1,066,472	691,408	375,064
Total Home and Community Services	<u>25,659,801</u>	<u>25,659,801</u>	<u>27,011,900</u>	<u>(1,352,099)</u>
EMPLOYEE BENEFITS				
Retirement system	181,198	181,198	167,302	13,896
Social security	121,016	121,016	59,807	61,209
Workers' compensation	45,000	45,000	43,543	1,457
Life insurance	600	600	419	181
Unemployment benefits	10,000	10,000	6,803	3,197
Disability benefits	2,000	2,000	1,075	925
Hospital, medical, and dental	166,754	166,754	141,513	25,241
Other employee benefits	17,000	17,000	15,282	1,718
Total Employee Benefits	<u>543,568</u>	<u>543,568</u>	<u>435,744</u>	<u>107,824</u>
DEBT SERVICE				
Principal	667,200	667,200	655,650	11,550
Interest	115,514	115,514	109,378	6,136
Total Debt Service	<u>782,714</u>	<u>782,714</u>	<u>765,028</u>	<u>17,686</u>
Total Expenditures	<u>26,986,083</u>	<u>26,986,083</u>	<u>28,212,672</u>	<u>(1,226,589)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>53,742</u>	<u>53,742</u>	<u>627,148</u>	<u>573,406</u>
OTHER FINANCING USES				
Operating transfers out	(250,000)	(250,000)		250,000
Total Other Financing Uses	<u>(250,000)</u>	<u>(250,000)</u>	<u>-0-</u>	<u>250,000</u>
Net Change in Fund Balance	<u>\$ (196,258)</u>	<u>\$ (196,258)</u>	<u>627,148</u>	<u>\$ 823,406</u>
Fund Balance at Beginning of Year			19,616,172	
Fund at Balance End of Year			<u>\$ 20,243,320</u>	

TOWN OF BABYLON
COMMERCIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 5,449,499	\$ 5,449,499	\$ 5,449,499	\$ -0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	18,530,979	18,530,979	16,876,104	(1,654,875)
USE OF MONEY AND PROPERTY				
Interest earnings	25,000	25,000	13,592	(11,408)
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Sale of equipment			70,100	70,100
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			613	613
Total Revenues	<u>24,005,478</u>	<u>24,005,478</u>	<u>22,409,908</u>	<u>(1,595,570)</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Garbage improvement area	22,581,390	22,581,390	20,400,770	2,180,620
Personal services	631,329	631,329	880,794	(249,465)
Total Home and Community Services	<u>23,212,719</u>	<u>23,212,719</u>	<u>21,281,564</u>	<u>1,931,155</u>
EMPLOYEE BENEFITS				
Retirement system	70,000	70,000	174,746	(104,746)
Social security	48,297	48,297	68,823	(20,526)
Workers' compensation	45,000	45,000	43,543	1,457
Life insurance	200	200	197	3
Unemployment benefits	500	500		500
Disability benefits	1,300	1,300	1,372	(72)
Hospital, medical, and dental	104,250	104,250	171,641	(67,391)
Other employee benefits	6,500	6,500	11,153	(4,653)
Total Employee Benefits	<u>276,047</u>	<u>276,047</u>	<u>471,475</u>	<u>(195,428)</u>
DEBT SERVICE				
Principal	603,820	603,820	593,371	10,449
Interest	104,542	104,542	98,991	5,551
Total Debt Service	<u>708,362</u>	<u>708,362</u>	<u>692,362</u>	<u>16,000</u>
Total Expenditures	<u>24,197,128</u>	<u>24,197,128</u>	<u>22,445,401</u>	<u>1,751,727</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(191,650)</u>	<u>(191,650)</u>	<u>(35,493)</u>	<u>156,157</u>
OTHER FINANCING USES				
Operating transfers out	(500,000)	(500,000)		500,000
Total Other Financing Uses	<u>(500,000)</u>	<u>(500,000)</u>	<u>-0-</u>	<u>500,000</u>
Net Change in Fund Balance	<u>\$ (691,650)</u>	<u>\$ (691,650)</u>	<u>(35,493)</u>	<u>\$ 656,157</u>
Fund Balance at Beginning of Year			5,684,437	
Fund at Balance End of Year			<u>\$ 5,648,944</u>	

TOWN OF BABYLON
COMBINED HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 16,099,990	\$ 16,099,990	\$ 16,099,990	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	550,000	550,000	538,132	(11,868)
USE OF MONEY AND PROPERTY				
Interest earnings	22,000	22,000	31,509	9,509
LICENSES AND PERMITS				
Street inspection fees	60,000	60,000	94,993	34,993
Road maintenance fees	50	50	40	(10)
Total Licenses and Permits	<u>60,050</u>	<u>60,050</u>	<u>95,033</u>	<u>34,983</u>
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Insurance recoveries	500	500		(500)
MISCELLANEOUS LOCAL SOURCES				
Refund of prior year expenditures			100	100
Other miscellaneous revenue	37,000	37,000	20,001	(16,999)
Total Miscellaneous Local Sources	<u>37,000</u>	<u>37,000</u>	<u>20,101</u>	<u>(16,899)</u>
INTERFUND REVENUES				
Interfund chargebacks	50,000	50,000		(50,000)
STATE AID				
Consolidated local street and highway improvement program	900,000	1,210,346	1,203,355	(6,991)
FEDERAL AID				
Emergency disaster assistance program- severe storms			346,149	346,149
Total Revenues	<u>17,719,540</u>	<u>18,029,886</u>	<u>18,334,269</u>	<u>304,383</u>
EXPENDITURES				
TRANSPORTATION				
Repairs and maintenance	3,859,723	3,887,723	3,748,984	138,739
Improvements	970,000	1,252,346	1,243,299	9,047
Machinery	879,320	879,320	892,250	(12,930)
Miscellaneous	645,074	565,074	570,500	(5,426)
Snow removal	722,800	802,800	733,524	69,276
Total Transportation	<u>7,076,917</u>	<u>7,387,263</u>	<u>7,188,557</u>	<u>198,706</u>
EMPLOYEE BENEFITS				
Retirement system	727,659	727,659	1,103,536	(375,877)
Social security	362,878	362,878	379,385	(16,507)
Workers' compensation	325,100	325,100	341,803	(16,703)
Life insurance	300	300	348	(48)
Unemployment benefits	41,050	41,050	15,570	25,480
Disability benefits	600	600	155	445
Hospital, medical, and dental	1,753,400	1,753,400	1,733,755	19,645
Other employee benefits	104,640	104,640	102,970	1,670
Total Employee Benefits	<u>3,315,627</u>	<u>3,315,627</u>	<u>3,677,522</u>	<u>(361,895)</u>
DEBT SERVICE				
Principal	6,446,880	6,446,880	6,442,481	4,399
Interest	2,440,964	2,440,964	2,415,598	25,366
Bond issuance costs			34,886	(34,886)
Total Debt Service	<u>8,887,844</u>	<u>8,887,844</u>	<u>8,892,965</u>	<u>(5,121)</u>
Total Expenditures	<u>19,280,388</u>	<u>19,590,734</u>	<u>19,759,044</u>	<u>(168,310)</u>
Net Change in Fund Balance	<u>\$ (1,560,848)</u>	<u>\$ (1,560,848)</u>	<u>(1,424,775)</u>	<u>\$ 136,073</u>
Fund Balance at Beginning of Year			8,690,525	
Fund Balance at End of Year			<u>\$ 7,265,750</u>	

TOWN OF BABYLON
SPECIAL DISTRICTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 15,545,744	\$ 15,545,744	\$ 15,545,744	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	529,136	529,136	589,698	60,562
USE OF MONEY AND PROPERTY				
Interest earnings			5,243	5,243
FEDERAL AID				
Emergency disaster assistance program - severe storms			18,526	18,526
Total Revenues	<u>16,074,880</u>	<u>16,074,880</u>	<u>16,159,211</u>	<u>84,331</u>
EXPENDITURES				
PUBLIC SAFETY				
Fire protection districts	14,665,856	14,665,856	14,638,601	27,255
HEALTH				
Ambulance districts	<u>1,411,020</u>	<u>1,411,020</u>	<u>1,412,742</u>	<u>(1,722)</u>
Total Expenditures	<u>16,076,876</u>	<u>16,076,876</u>	<u>16,051,343</u>	<u>25,533</u>
Net Change in Fund Balance	<u>\$ (1,996)</u>	<u>\$ (1,996)</u>	107,868	<u>\$ 109,864</u>
Fund Balance at Beginning of Year			<u>2,077,012</u>	
Fund Balance at End of Year			<u>\$ 2,184,880</u>	

TOWN OF BABYLON
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
December 31, 2013

<u>Actuarial Valuation Date January 1,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Covered Payroll</u>
2013	\$ -0-	\$ 124,464,133	\$ 124,464,133	0.00%	\$ 23,592,704	527.55%
2012	-0-	139,087,715	139,087,715	0.00%	23,373,403	595.07%
2011	-0-	133,862,762	133,862,762	0.00%	23,119,181	579.01%
2010	-0-	125,873,809	125,873,809	0.00%	24,137,139	521.49%
2009	-0-	119,897,070	119,897,070	0.00%	24,886,220	481.78%