

TOWN OF BABYLON

FINANCIAL STATEMENTS

Year Ended December 31, 2012

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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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Babylon, New York, as of and for the year ended December 31, 2012 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 Town of Babylon Industrial Development Agency, the discretely presented component unit presented in the financial statements. As of December 31, 2012, the Town of Babylon Industrial Development Agency has total assets of \$2,118,977 and total revenues of \$737,349 for the year then ended. 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 \$295,901 at December 31, 2012 and total revenue of \$679,935 for the year then ended. 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 Town of Babylon Industrial Development Agency, and 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.

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

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

PERSONAL SERVICE. TRUSTED ADVICE. 

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

245 PARK AVENUE, 24TH FLOOR
NEW YORK, NY 10167
T: 212.792.4075

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

www.avz.com
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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 unit, each major fund, and the aggregate remaining fund information of the Town of Babylon, New York, as of December 31, 2012, 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. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" as of and for the year ended December 31, 2012.

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 August 29, 2013, on our consideration of the Town of Babylon, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town of Babylon, New York's internal control over financial reporting and compliance.

Albert, Viggiano, Lurak & Co., P.C.

Hauppauge, New York
August 29, 2013

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

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, 2012.

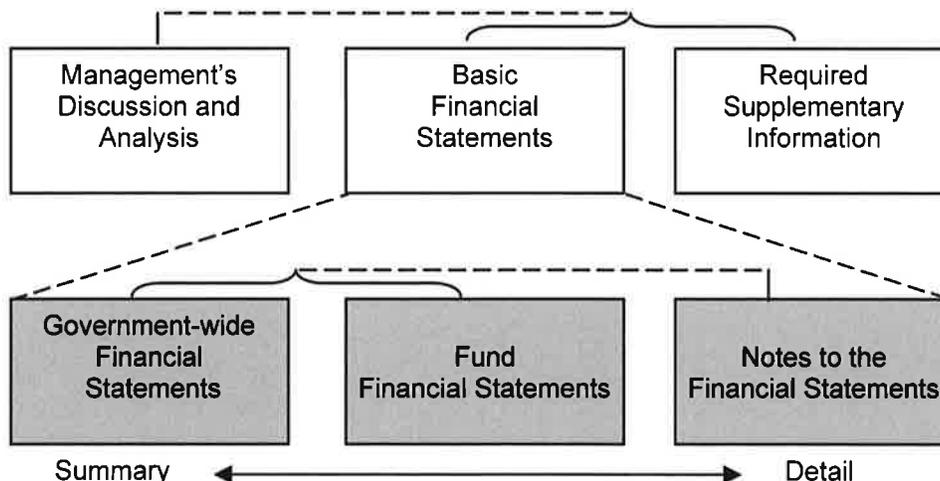
FINANCIAL HIGHLIGHTS

- The assets of the Town's primary government exceeded its liabilities and deferred inflows of resources at the close of 2012 by \$92,872,854 (net position) of which \$86,306,650 was related to the governmental activities and \$6,566,204 was related to the business-type activities.
- The Town's governmental net position decreased by \$7,816,305. The most notable factor contributing to this decrease is the ongoing recognition of postemployment benefits healthcare costs.
- The Town's business-type activities reported a decrease in net position of \$151,432 as a result of less charges for services and a reduction in the ongoing pollution remediation settlement received.
- As of the close of 2012, the Town's governmental funds reported combined ending fund balances of \$64,271,615. Of this amount, \$6,839,356 is not in spendable form or is required to remain intact. The remaining \$57,432,259 or approximately 89.36% 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 2012, the Town's total fund balance for the General Fund was \$21,720,777, an increase of \$5,802,511 or 36.45% from the prior year. The unassigned fund balance deficit for the General Fund was \$481,884.
- The Town's total bonded debt (inclusive of general obligation bonds and bond anticipation notes) was \$135,089,998, of which \$135,028,658 relates to governmental activities and \$61,340 relates to business-type activities. The total bonded debt increased by 2.37% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise 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, 2012

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, 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 component units for which the Town is financially accountable. Financial information for one of the component units is reported separately (discretely presented) 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.

Certain amounts presented in the prior year data have been reclassified, pertaining to deferred inflows of resources, in order to be consistent with the current year's presentation.

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. One of these entities is reported in a separate column in the government-wide statements, the remaining component units activities are blended with the primary government. The Town includes four separate legal entities in its report (an industrial development agency (discretely presented) and three not-for-profits (blended)).

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, 2012

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, 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, 2012

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 exceeded liabilities by \$86,306,650 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, 2012 and 2011

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
Assets				
Current assets	\$ 140,282,779	\$ 144,046,474	\$ 3,259,568	\$ 3,617,579
Capital assets	241,477,692	230,542,897	6,690,133	6,706,698
Other noncurrent assets	37,224,066	39,308,586		
Total Assets	418,984,537	413,897,957	9,949,701	10,324,277
Liabilities				
Current liabilities	117,730,120	125,617,027	301,020	346,327
Noncurrent liabilities	214,947,767	194,157,975	244,977	347,814
Total Liabilities	332,677,887	319,775,002	545,997	694,141
Deferred inflow of resources	-0-	-0-	2,837,500	2,912,500
Net Position				
Net investment in capital assets	125,848,138	112,042,627	6,628,793	6,579,358
Restricted	4,672,134	5,193,727		
Unrestricted	(44,213,622)	(23,113,399)	(62,589)	138,278
Total Net Position	\$ 86,306,650	\$ 94,122,955	\$ 6,566,204	\$ 6,717,636

Certain amounts in 2011 Statement of Net Position have been reclassified to conform to the current year presentation.

Total assets of the Town's governmental activities, as of December 31, 2012, were \$418,984,537, an increase of \$5,086,580. Total liabilities as of December 31, 2012 were \$332,677,887, an increase of \$12,902,885. This results in a total net position balance of \$86,306,650 for 2012, a decrease of \$7,816,305. Of the Town's net position balance, \$125,848,138 was the net investment in capital assets, while \$4,672,134 was restricted by statute or other specific purposes leaving a \$44,213,622 unrestricted deficit net position. Total governmental net position was again decreased in the current year and will continue to decrease 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 2012 by \$5,975,836 bringing the unfunded liability at year end to \$40,452,763. Additional information on other postemployment benefits can be found in Note 3.G to the financial statements.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

By far the largest portion of the Town's governmental activities net position, \$125,848,138 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 and total 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, 2012, were \$9,949,701, a decrease of \$374,576. Total liabilities as of December 31, 2012 were \$545,997, a decrease of \$148,144. Deferred inflows of resources were \$2,837,500, a decrease of \$75,000 from prior year. This results in a total net position balance of \$6,566,204 for 2012, a decrease of \$151,432. Of the business-type activities net position balance, \$6,628,793 was the net investment in capital assets and the remaining \$62,589 is the unrestricted deficit net position.

Changes in Net Position

For the years ended December 31, 2012 and 2011

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
Program Revenue				
Charges for services	\$ 56,082,466	\$ 60,779,437	\$ 77,714	\$ 154,585
Operating grants and contributions	21,914,963	18,702,572		
Capital grants and contributions	4,370,489	5,224,759		
Total Program Revenues	82,367,918	84,706,768	77,714	154,585
General Revenues				
Real property taxes	61,500,519	59,397,047		
Other real property tax items	10,334,770	7,725,054		
Non-property tax items	3,585,494	3,446,986		
Interest earnings	1,169,351	764,865	12,849	3,322
Sale of property and compensation for loss	1,483,379	1,322,176	65,330	1,540,171
Mortgage tax	3,404,971	3,546,949		
State aid	1,115,651	1,115,650		
Other	294,276	735,255	250,619	163,294
Total General Revenues	82,888,411	78,053,982	328,798	1,706,787
Total Revenues	165,256,329	162,760,750	406,512	1,861,372

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Changes in Net Position (continued)
 For the years ended December 31, 2012 and 2011

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
Program Expenses				
General government support	25,555,353	25,100,533		
Public safety	20,150,433	21,201,230		
Health	4,055,804	2,719,464		
Transportation	25,379,096	25,087,826		
Economic assistance and opportunity	350,026	175,190		
Culture and recreation	17,119,750	16,059,988		
Home and community services	75,507,967	73,770,285	557,944	598,415
Interest on debt	4,954,205	5,169,825		
Total Program Expenses	<u>173,072,634</u>	<u>169,284,341</u>	<u>557,944</u>	<u>598,415</u>
Change in net position	(7,816,305)	(6,523,591)	(151,432)	1,262,957
Net position, beginning of year	94,122,955	100,646,546	6,717,636	5,454,579
Net position, end of year	<u>\$ 86,306,650</u>	<u>\$ 94,122,955</u>	<u>\$ 6,566,204</u>	<u>\$ 6,717,536</u>

Net position from all governmental activities, decreased by \$7,816,305 in the current year.

Key elements of the governmental activities are:

- Overall program revenues decreased by \$2,338,850 from the prior year. Charges for services decreased by \$4,696,971 primarily due to a \$6,076,945 reduction in special assessments for the Garbage District Funds which was offset by increased loan repayments from the Long Island Green Homes initiative of \$1,185,893. Operating grants increased by \$3,212,391 primarily related to an increase in the amount of emergency disaster aid received for costs related to Hurricane Sandy. Capital grants decreased \$854,270 primarily related to the timing of certain projects and the related reimbursements.
- General revenues increased by \$4,834,429 from the prior year, primarily due to an increase in real property taxes (excluding special assessments) of \$2,103,472 and other real property tax items of \$2,609,716.
- Overall program expenses increased by \$3,788,293 from the prior year. Culture and recreation expenses were higher due to the recognition of the impairments of various Town owned marinas that were damaged by Hurricane Sandy in the amount of \$1,151,522. The increase in home and community services expenses related to additional disbursements for the Section 8 Housing Choice Voucher grant (\$854,460), additional investments in the Long Island Green Homes initiative (\$464,803) and an overall increase in salaries and overtime for debris removal as a result of Hurricane Sandy.

Net position from the business-type activities decreased by \$151,432 in the current year. Key elements of the business-type activities are:

- Business-type activities program revenues decreased by \$76,871 as there were less receipts for charges and services in the current year. General revenues decreased by \$1,377,989, a result of the East Farmingdale Water District receiving less from a pollution settlement in the current year as the relating project is closer to completion.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Net Cost of Services for Governmental Activities
 For the years ended December 31, 2012 and 2011

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2012	2011	2012	2011	2012	2011
General government support	\$ 25,555,353	\$ 25,100,533	\$ 3,112,658	\$ 1,888,372	\$ (22,442,695)	\$ (23,212,161)
Public safety	20,150,433	21,201,230	2,824,790	2,733,182	(17,325,643)	(18,468,048)
Health	4,055,804	2,719,464	675,428	546,732	(3,380,376)	(2,172,732)
Transportation	25,379,096	25,087,826	4,572,692	1,796,073	(20,806,404)	(23,291,753)
Economic assistance and opportunity	350,026	175,190	33,128	26,239	(316,898)	(148,951)
Culture and recreation	17,119,750	16,059,988	4,541,661	4,546,112	(12,578,089)	(11,513,876)
Home and community services	75,507,967	73,770,285	66,607,561	73,170,058	(8,900,406)	(600,227)
Interest on debt	4,954,205	5,169,825			(4,954,205)	(5,169,825)
	<u>\$ 173,072,634</u>	<u>\$ 169,284,341</u>	<u>\$ 82,367,918</u>	<u>\$ 84,706,768</u>	<u>\$ (90,704,716)</u>	<u>\$ (84,577,573)</u>

The total cost of all governmental activities this year was \$173,072,634. The net cost of these services after being subsidized by programs revenues of \$82,367,918 was \$90,704,716.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

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

At December 31, 2012, the Town's governmental funds reported total ending fund balances of \$64,271,615 a decrease of \$7,150,643 in comparison with the prior year. The category breakdown is as follows:

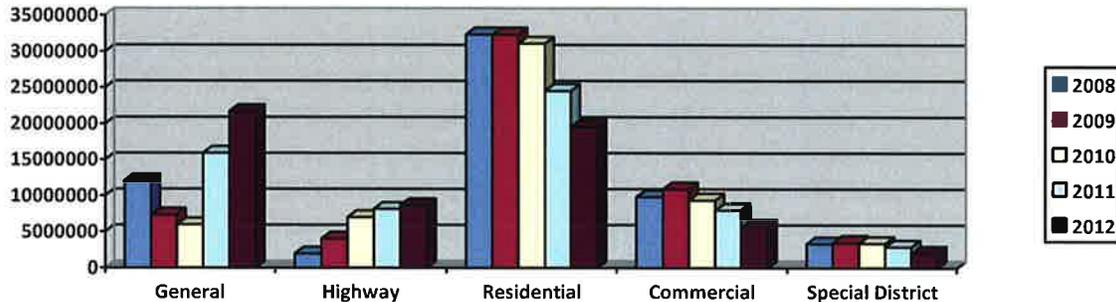
- **Nonspendable fund balance** - \$6,839,356 (inherently non spendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$30,098,295 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$34,870,579 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance (deficit)** - (\$7,536,615) (residual net resources) is the remaining fund balance in the General Fund in excess of nonspendable, restricted, and assigned fund balance, a negative balance of \$481,884, and the negative balances of the Capital Projects and non-major funds in the amounts of \$5,148,090 and \$1,906,641, respectively (funds in excess of nonspendable and restricted fund balance).

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Below is a summary of the Town's major funds' fund balances for 2008 through 2012.



The Town began the year with an anticipated overall \$10,578,317 decrease resulting from the appropriation of fund balance for the 2012 budget. Total revenues increased from the prior year by \$1,285,144, a result of the decrease in property taxes (including special assessments) and state and county aid in the amounts of \$3,973,473 and \$2,485,613, respectively, which was more than offset by increases in other real property items, departmental income and federal aid of \$2,609,717, \$953,427 and \$4,160,946, respectively. The decrease in state and county aid is due to a \$2,239,254 grant received for the Wyandanch sewer expansion project in the prior year that did not recur. The increase in other property tax items was a result of payments in lieu of taxes recognized in the current year in the Residential Garbage District. The increase in departmental income was primarily a result of an increase in loan repayments from the Long Island Green Homes program and the federal aid increase was due to the emergency assistance grant received for the costs of Hurricane Sandy.

Overall, governmental expenditures increased by \$10,467,421, due to the \$2,535,001 increase in employee benefits, primarily relating to insurance benefits and retirement benefits, as well as increases in capital projects activity of \$5,807,821.

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 \$21,720,777, increasing \$5,802,511 or 36.45% from the prior year. Of this amount, \$5,631,661 is not in spendable form (property held for resale) and \$16,571,000 is restricted as a portion of future proceeds from the sale of property held for resale which will be restricted for debt service once received. The remaining fund balance is a deficit of \$481,884 is shown as unassigned fund balance.

The key elements of the fund balance increase of \$5,802,511 are as follows:

- Interfund revenues were \$2,139,277 over budget due to a more precise allocation of services provided to other funds, primarily the two Garbage District Funds.
- State aid was under budget by \$1,219,999 primarily due to a shortfall in mortgage tax revenue resulting from a continuing weak housing market.
- Federal aid was over budget by \$590,131 due to additional aid received for costs related to Hurricane Sandy.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

General Fund (continued)

- General government support was \$1,069,881 under budget primarily due to unallocated insurance, judgment and claims expenditures which were \$653,873 under budget and general implementation of expenditure reductions providing additional savings of \$416,008.
- Employee benefits were \$328,631 under budget primarily due to lower increases in health insurance and retirement plan contributions than the Town anticipated.
- Proceeds from bond anticipation notes in the amount of \$8,500,000 were received.
- A budgeted operating transfer of \$200,000 was not received.
- Premiums relating to the issuance of bond anticipation notes and refunding bonds were received in the amount of \$499,195.
- A special item in the amount of \$5,287,088 was recognized relating to properties held for resale that were reclassified as Town owned assets during 2012.

Residential Garbage District Fund

At the end of the current year, the total fund balance of the Residential Garbage District Fund was \$19,616,172, decreasing \$4,927,419 or 20.08% from the prior year. Of this amount, \$1,130,254 is not in spendable form (long-term receivable from the Part Town Fund). The remaining \$18,485,918 of the fund balance is in spendable form as follows, \$196,258 has been assigned for purchase orders by the Town Comptroller and \$18,289,660 is assigned for residential garbage district purposes.

The fund balance in the Residential Garbage District Fund decreased by \$4,927,419 from the prior year. This was primarily due to:

- There was an originally planned decrease of \$8,158,460 resulting from the appropriation of fund balance for the 2012 budget.
- Special assessment property taxes decreased \$5,401,444 from the prior year.
- Payments in lieu of taxes in the amount of \$2,667,522 were recognized into revenue this year (in prior years this was included in deferred revenues).
- Revenues from the Long Island Green Homes program exceeded budget expectations by \$1,436,059.
- Receipt of federal aid in excess of budgeted amounts totaling \$3,109,001 relating to an energy efficiency and conservation grant in the amount of \$709,249 and an emergency disaster assistance grant in the amount of \$2,399,752 for costs related to Hurricane Sandy.
- Garbage improvement area expenditures were over budget by \$4,516,256 primarily due to higher than anticipated Long Island Green Homes loan expenditures in the amount of \$2,025,793, as well as an increase in overall expenditures mostly relating to the costs associated with Hurricane Sandy. Actual garbage improvement area expenditures were lower than last year by \$1,203,404.
- A budgeted operating transfer of \$250,000 was not made.
- Premiums relating to the issuance of refunding bonds were received in the amount of \$135,078.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Commercial Garbage District Fund

At the end of the current year, the total fund balance of the Commercial Garbage District Fund was \$5,684,437, decreasing \$2,295,354 or 28.76% from the prior year. All of fund balance is in spendable form and is assigned for commercial garbage district purposes.

The fund balance in the Commercial Garbage District Fund decreased \$2,295,354 from the prior year. This was primarily due to:

- Special assessment property taxes decreased by \$675,501 from the prior year.
- Refuse and garbage fees decreased by \$334,645 due to the poor economy leading to less refuse and garbage generated by the residents and commercial enterprises within the Town. Actual refuse and garbage fees were \$1,793,344 lower than budgeted amounts.
- Garbage improvement area expenditures and related personal services expenditures exceeded the final budget by \$765,148, due to the delay of the leachate sewer line project originally anticipated to be completed by July 2012, for which the savings were budgeted in 2012, but will not be realized until 2103.
- A budgeted operating transfer of \$250,000 was not made.
- Premiums relating to the issuance of refunding bonds were received in the amount of \$122,213.

Combined Highway Fund

At the end of the current year, the total fund balance of the Combined Highway Fund was \$8,690,525, increasing \$542,389, or 6.66%, from the prior year. This balance of \$8,690,525 is in spendable form as follows: \$1,873,004 has been assigned by the Town Board for the subsequent year's budget, \$87,844 has been assigned for purchase orders by the Town Comptroller and the remaining \$6,729,677 is assigned for highway purposes.

The fund balance increased in the Combined Highway Fund by \$542,389 from the prior year. This was primarily due to:

- There was an originally planned decrease of \$1,713,065 resulting from the appropriation of fund balance for the 2012 budget.
- Real property taxes decreased from prior year by \$1,130,820.
- Federal aid exceeded budgeted expectations by \$1,793,212 due to aid received for costs related to Hurricane Sandy.
- Transportation expenditures for repairs and maintenance were over budget by \$567,284, a result of costs associated with Hurricane Sandy, however expenditures related to snow removal were under budget by \$519,441 due to less severe snowfall in the current year.
- Employee benefits were \$172,799 under budget primarily due to lower increases in health insurance and retirement plan contributions than the Town anticipated.
- Premiums relating to the issuance of refunding bonds were received in the amount of \$112,381.

Special Districts Fund

At the end of the current year, the total fund balance of the Special Districts Fund was \$2,077,012, a decrease of \$834,558, or 28.66%, from the prior year. Of this amount, \$74,941 is not in spendable form (prepaid items). Of the remaining balance, \$1,996 has been assigned by the Town Board for the subsequent year's budget and the remaining \$2,000,075 is assigned for special districts fund purposes.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

Special Districts Fund (continued)

The fund balance decreased in the Special District Fund by \$834,558 from the prior year. This was primarily due to:

- There had been an originally planned decrease of \$706,792 resulting from the appropriation of fund balance for the 2012 budget with the goal to minimize tax increases for 2012.
- Total revenues of \$15,268,513 remained consistent with the 2011 revenues of \$15,175,057.
- Fire protection costs increased \$416,134 or 2.92% from the prior year and the 2012 actual expenditures were over the final budget in the amount of \$159,319, due to an unanticipated capital purchase.

Capital Projects Fund

The fund balance decreased in the Capital Projects Fund by \$4,691,191 or 55.86% from the prior year as a result of timing differences between project expenditures and the recognition of corresponding permanent financing.

At the end of the current year, the Capital Projects Fund had a total fund balance of \$3,707,071. Of this amount \$8,855,161 was restricted to specific capital project expenditures and \$5,148,090 is an unassigned fund balance deficit.

Non-major Governmental Funds

The net change in fund balances was a decrease of \$747,021.

- The Part-Town Fund's fund balance was a deficit of \$1,873,935 at December 31, 2012, which is a decrease of \$386,735 from the prior year. Total revenues in the Part-Town Fund of \$5,978,501 increased \$922,002 or 18.23% from the prior year and were fairly consistent with budgeted amounts. The increase is primarily related to a \$995,998 or 60.18% increase in real property taxes. Overall, total expenditures were \$6,365,236 for 2012 a decrease of \$310,341 or 4.65% from the prior year. The decrease is attributable to less costs incurred related to the Wyandanch Rising Redevelopment Initiative as well as overall cost reductions offset by an increase in retirement plan contributions. Actual expenditures of \$6,365,235 exceeded the final budget by \$189,304 or 3.06%.
- The Community Agency Fund's fund balance increased by \$979,241, primarily a result timing differences between the receipt of guarantee assistance contract loan proceeds and the relating expenditures. As of year end, there were unspent proceeds in the amount of \$862,831 relating to this loan.
- The Housing Assistance Agency Fund's fund balance decreased by \$1,453,024 as planned due to a change in the way the Section 8 Housing Choice Voucher program is administered, requiring the Agency to use available fund balance prior to requesting Federal funds.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2012

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

Governmental Funds (continued)

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, 2012 and 2011, the amount of the change and percentage change in relation to the prior year.

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues (in Millions)				
Real property taxes	\$85.3	\$89.3	-\$4.0	-4.48%
Other real property tax items	10.3	7.7	2.6	33.77%
Non-property tax items	3.6	3.4	0.2	5.88%
Department income	29.6	28.6	1.0	3.50%
Use of money and property	1.8	1.5	0.3	20.00%
Licenses and permits	0.3	0.3	0.0	0.00%
Fines and forfeitures	1.5	1.2	0.3	25.00%
Sale of property and compensation for loss	1.6	1.3	0.3	23.08%
Interfund revenue	4.3	4.7	-0.4	-8.51%
Miscellaneous local sources	0.6	1.3	-0.7	-53.85%
State and County aid	7.5	10.0	-2.5	-25.00%
Federal aid	22.4	18.3	4.1	22.40%
Total Governmental Fund Revenues	<u>\$168.8</u>	<u>\$167.6</u>	<u>\$1.2</u>	<u>0.72%</u>
Expenses (in Millions)				
General government support	\$14.8	\$15.2	-\$0.4	-2.63%
Public safety	18.7	18.3	0.4	2.19%
Health	3.6	3.4	0.2	5.88%
Transportation	8.6	8.8	-0.2	-2.27%
Economic assistance and opportunity	0.3	0.2	0.1	50.00%
Culture and recreation	12.3	10.2	2.1	20.59%
Home and community services	76.3	77.4	-1.1	-1.42%
Employee benefits	16.6	16.1	0.5	3.11%
Capital outlay	20.5	14.7	5.8	39.46%
Debt Service:				
Principal	19.0	16.5	2.5	15.15%
Interest	5.6	5.3	0.3	5.66%
Bond issuance costs	0.2	0.1	0.1	100.00%
Total Governmental Fund Expenses	<u>\$196.5</u>	<u>\$186.2</u>	<u>\$10.3</u>	<u>5.53%</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The differences between the 2012 original budget and the final amended budget are adopted by Town Board resolution throughout the year. During the year there were no major changes in the appropriations between the original and final amended budget and there are no variances that are expected to have a significant effect on future services or liquidity. Please see the "General Fund" section for more details on the comparison of final budgets and actual amounts.

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2012

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, 2012 amounted to \$241,477,692 and \$6,690,133, respectively. The Town's capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges and the water system infrastructure.

In 2012, the Town of Babylon's major capital expenditures were as follows:

Sewer system expansion	\$ 9,390,987
Highway resurfacing and equipment	4,785,202
Park improvements	3,774,612

Capital Assets at December 31, 2012 and 2011
 (Net of Depreciation)

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
Land	\$ 30,240,408	\$ 24,470,676	\$ 194,964	\$ 194,964
Construction in progress	43,927,703	26,322,707	4,155,514	4,090,186
Building and improvements	44,511,735	47,743,200	527,696	553,716
Machinery and equipment	9,665,643	11,449,816	24,448	29,018
Infrastructure	113,132,203	120,556,498	1,787,511	1,838,814
Totals	\$ 241,477,692	\$ 230,542,897	\$ 6,690,133	\$ 6,706,698

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 \$112,889,998 and long-term bond anticipation notes outstanding of \$22,200,000. The entire debt is backed by the full faith and credit of the Town. The Town also has \$3,475,000 outstanding in guaranteed assistance contract loans payable.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds payable	\$ 112,828,658	\$ 128,692,658	\$ 61,340	\$ 127,340	\$ 112,889,998	\$ 128,819,998
Revolving fund revenue bonds payable		3,145,000				3,145,000
Bond anticipation note	22,200,000				\$ 22,200,000	
Guaranteed assistance contract loans payable	3,475,000	630,000			3,475,000	630,000
	\$ 138,503,658	\$ 132,467,658	\$ 61,340	\$ 127,340	\$ 138,564,998	\$ 132,594,998

TOWN OF BABYLON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Long-Term Debt (continued)

In 2012 the Town's total debt increased by \$5,970,000 or 4.5% which is a net change in the debt retired and new borrowings.

In 2012 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 \$1,683,718,413. The percentage of debt contracting exhausted at December 31, 2012 was 8.2% of the current debt limitation.

Additional information on the Town's debt activity can be found in Note 3.E 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 2013 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 2013 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 \$2.1 million additional revenue. As a result, the Town is expecting the General Fund's fund balance to increase at the close of 2013.
- Similar to the 2012 budget, the Town did not exceed the 2% tax cap in accordance with New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions.

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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 67,589,736	\$ 3,243,581	\$ 70,833,317	\$ 1,401,474
Cash with fiscal agent	3,230,084		3,230,084	
Accounts receivable, net of allowance and noncurrent portion	7,153,195	15,987	7,169,182	717,503
Taxes receivable	44,833,112		44,833,112	
Long Island Green Homes receivable, net of noncurrent portion	1,334,397		1,334,397	
Due from business-type activities	27,337		27,337	
Due from other governments	14,198,390		14,198,390	
Prepaid items	781,023		781,023	
Restricted cash	126,206		126,206	
Property held for resale	1,009,299		1,009,299	
Total Current Assets	<u>140,282,779</u>	<u>3,259,568</u>	<u>143,542,347</u>	<u>2,118,977</u>
Noncurrent Assets:				
Accounts receivable, non-current portion	8,180,223		8,180,223	
Long Island Green Homes receivable, noncurrent portion	5,874,375		5,874,375	
Property held for resale	22,202,661		22,202,661	
Deferred financing costs	966,807		966,807	
Non-depreciable capital assets	74,168,111	4,350,478	78,518,589	
Capital assets, net of accumulated depreciation	167,309,581	2,339,655	169,649,236	
Total Noncurrent Assets	<u>278,701,758</u>	<u>6,690,133</u>	<u>285,391,891</u>	<u>-0-</u>
Total Assets	<u>418,984,537</u>	<u>9,949,701</u>	<u>428,934,238</u>	<u>2,118,977</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	13,777,633	206,738	13,984,371	138,232
Accrued interest payable	1,292,414		1,292,414	
Developer and homeowner deposits		5,605	5,605	
Due to governmental activities		27,337	27,337	
Due to other governments	1,526,212		1,526,212	974,820
Unearned revenues	79,727,569		79,727,569	
Other liabilities				150,000
Noncurrent liabilities due within one year:				
Bonds payable	12,866,882	61,340	12,928,222	
Guaranteed assistance contract loans payable	262,000		262,000	
Due to employees' retirement system	725,823		725,823	
Compensated absences	3,110,000		3,110,000	
Claims and judgments payable	478,287		478,287	
Estimated liability for landfill closure and post closure care costs	3,963,300		3,963,300	
Total Current Liabilities	<u>117,730,120</u>	<u>301,020</u>	<u>118,031,140</u>	<u>1,263,052</u>
Noncurrent Liabilities:				
Unearned revenues	6,341,316		6,341,316	
Due to other governments	7,689,524		7,689,524	
Bond anticipation note payable	22,200,000		22,200,000	
Bonds payable	102,132,618		102,132,618	
Guaranteed assistance contract loans payable	3,213,000		3,213,000	
Due to employees' retirement system	3,337,102		3,337,102	
Compensated absences	1,766,451		1,766,451	
Claims and judgments payable	5,949,860		5,949,860	
Estimated liability for landfill closure and post closure care costs	21,865,133		21,865,133	
Other postemployment benefits payable	40,452,763	244,977	40,697,740	419,643
Total Noncurrent Liabilities	<u>214,947,767</u>	<u>244,977</u>	<u>215,192,744</u>	<u>419,643</u>
Total Liabilities	<u>332,677,887</u>	<u>545,997</u>	<u>333,223,884</u>	<u>1,682,695</u>
DEFERRED INFLOW OF RESOURCES				
Deferred service concession arrangement receipt		2,837,500	2,837,500	
Total Deferred Inflow of Resources	<u>-0-</u>	<u>2,837,500</u>	<u>2,837,500</u>	<u>-0-</u>
NET POSITION				
Net investment in capital assets	125,848,138	6,628,793	132,476,931	
Restricted - Home and community services	4,151,015		4,151,015	
Culture and recreation	521,119		521,119	
Unrestricted	(44,213,622)	(62,589)	(44,276,211)	436,282
Total Net Position	<u>\$ 86,306,650</u>	<u>\$ 6,566,204</u>	<u>\$ 92,872,854</u>	<u>\$ 436,282</u>

See notes to the financial statements.

TOWN OF BABYLON
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
 Year Ended December 31, 2012

Function/ Program	Expenses	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues	Primary Government			Component Unit
						Governmental Activities	Business-type Activities	Total	
PRIMARY GOVERNMENT:									
Governmental Activities:									
General government support	\$ 25,555,353	\$ 2,396,312	\$ 207,701	\$ 508,645	\$ 3,112,658	\$ (22,442,695)		\$ (22,442,695)	
Public safety	20,150,433	2,740,732	84,058		2,824,790	(17,325,643)		(17,325,643)	
Health	4,055,804	13,411	662,017		675,428	(3,380,376)		(3,380,376)	
Transportation	25,379,096	76,315	2,081,679	2,414,698	4,572,692	(20,806,404)		(20,806,404)	
Economic assistance and opportunity	350,026		33,128		33,128	(316,898)		(316,898)	
Culture and recreation	17,119,750	2,912,830	1,523,722	105,109	4,541,661	(12,578,089)		(12,578,089)	
Home and community services	75,507,967	47,942,866	17,322,658	1,342,037	66,607,561	(8,900,406)		(8,900,406)	
Interest on debt	4,954,205					(4,954,205)		(4,954,205)	
Total Governmental Activities	173,072,634	56,082,466	21,914,963	4,370,489	82,367,918	(90,704,716)	\$ -0-	(90,704,716)	
Business-type Activities:									
Water	557,944	77,714			77,714		(480,230)	(480,230)	
Total Business-type Activities	557,944	77,714	-0-	-0-	77,714	-0-	(480,230)	(480,230)	
Total Primary Government	\$ 173,630,578	\$ 56,160,180	\$ 21,914,963	\$ 4,370,489	\$ 82,445,632	\$ (90,704,716)	\$ (480,230)	\$ (91,184,946)	
COMPONENT UNIT:									
Economic assistance and opportunity	\$ 741,939								\$ (741,939)
Total Component Unit	\$ 741,939								\$ (741,939)
GENERAL REVENUES:									
Real property taxes						\$ 61,500,519		\$ 61,500,519	
Other real property tax items						10,334,770		10,334,770	\$ 645,093
Non-property tax items						3,585,494		3,585,494	
Interest earnings						1,169,351	\$ 12,849	1,182,200	4,247
Sale of property and compensation for loss						1,483,379	65,330	1,548,709	
Mortgage tax						3,404,971		3,404,971	
State aid						1,115,651		1,115,651	
Other						294,276	250,619	544,895	88,009
Total General Revenues						82,888,411	328,798	83,217,209	737,349
Change in Net Position						(7,816,305)	(151,432)	(7,967,737)	(4,590)
Net Position at Beginning of Year						94,122,955	6,717,636	100,840,591	440,872
Net Position at End of Year						\$ 86,306,650	\$ 6,566,204	\$ 92,872,854	\$ 436,282

TOWN OF BABYLON
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

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	\$ 12,351,930	\$ 17,269,249	\$ 7,097,423	\$ 9,279,803	\$ 3,812,667	\$ 8,501,769	\$ 58,312,841	\$ 9,276,895	\$ 67,589,736
Cash with fiscal agent	1,322,205	10,935	9,970	1,871,858			3,214,968	15,116	3,230,084
Accounts receivable	2,723,390	606,440	4,124,685	5,720			7,460,235	7,873,183	15,333,418
Taxes receivable	19,752,119			10,911,015		10,535,402	41,198,536	3,634,576	44,833,112
Long Island Green Homes receivable		7,208,772					7,208,772		7,208,772
Due from other funds	2,804,832	9,928,176	813	177,065	2,128,511		15,039,397	2,615	15,042,012
Due from other governments	3,412,798	2,499,607	21,432	2,859,088	4,341,459		13,134,384	1,064,006	14,198,390
Prepaid items						74,941	74,941	2,500	77,441
Restricted cash								126,206	126,206
Property held for resale	22,202,661						22,202,661	1,009,299	23,211,960
Total Assets	\$ 64,569,935	\$ 37,523,179	\$ 11,254,323	\$ 25,104,549	\$ 10,282,637	\$ 19,112,112	\$ 167,846,735	\$ 23,004,396	\$ 190,851,131
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable and accrued liabilities	\$ 1,809,965	\$ 3,413,756	\$ 1,154,396	\$ 300,297	\$ 6,026,358	\$ 182,236	\$ 12,887,008	\$ 764,418	\$ 13,651,426
Due to other funds	7,473,761	38,493	2,013,358		508,532	49,071	10,083,215	4,931,460	15,014,675
Due to other governments	71,502			13,737	40,676	1,258,049	1,383,964	7,831,772	9,215,736
Deferred revenue	33,493,930	14,454,758	2,402,132	16,099,990		15,545,744	81,996,554	6,574,919	88,571,473
Liabilities payable from restricted cash								126,206	126,206
Total Liabilities	42,849,158	17,907,007	5,569,886	16,414,024	6,575,566	17,035,100	106,350,741	20,228,775	126,579,516
FUND BALANCES									
Nonspendable	5,631,661	1,130,254				74,941	6,836,856	2,500	6,839,356
Restricted	16,571,000				8,855,161		25,426,161	4,672,134	30,098,295
Assigned		18,485,918	5,684,437	8,690,525		2,002,071	34,862,951	7,628	34,870,579
Unassigned	(481,884)				(5,148,090)		(5,629,974)	(1,906,641)	(7,536,615)
Total Fund Balances	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
Total Liabilities and Fund Balances	\$ 64,569,935	\$ 37,523,179	\$ 11,254,323	\$ 25,104,549	\$ 10,282,637	\$ 19,112,112	\$ 167,846,735	\$ 23,004,396	\$ 190,851,131

TOWN OF BABYLON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2012

Total Fund Balance - Governmental Funds \$ 64,271,615

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	\$ 74,168,111	
Capital assets - depreciable	497,800,289	
Accumulated depreciation	<u>(330,490,708)</u>	
		241,477,692

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. 703,582

Deferred financing costs are included in the Statement of Net Position. 966,807

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	(22,200,000)	
Bonds payable, inclusive of related premiums	(114,999,500)	
Mortgage notes payable	(3,475,000)	
Due to employees' retirement system	(4,062,925)	
Compensated absences	(4,876,451)	
Claims and judgments payable	(6,428,147)	
Estimated liability for landfill closure and post closure care costs	(25,828,433)	
Other postemployment benefits payable	<u>(40,452,763)</u>	
		(222,323,219)

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. (1,292,414)

Revenue that was deferred or not reported on the fund statements because it does not meet the availability criteria under the modified accrual basis of accounting is included in the Statement of Net Position. 2,502,587

Net Position of Governmental Activities \$ 86,306,650

TOWN OF BABYLON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 Year Ended December 31, 2012

	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	\$ 26,882,932	\$ 17,697,969	\$ 6,146,683	\$ 16,213,868		\$ 14,690,207	\$ 81,631,659	\$ 3,713,512	\$ 85,345,171
Other real property tax items	1,013,855	8,083,972		545,960		569,044	10,212,831	121,939	10,334,770
Non-property tax items	3,585,494						3,585,494		3,585,494
Departmental income	2,817,502	6,933,252	16,332,758				26,083,512	3,472,315	29,555,827
Use of money and property	1,421,747	231,347	17,033	32,044	\$ 7,517	7,490	1,717,178	25,148	1,742,326
Licenses and permits	209,312			76,315			285,627		285,627
Fines and forfeitures	1,527,699						1,527,699		1,527,699
Sale of property and compensation for loss	1,483,379		87,625				1,571,004		1,571,004
Interfund revenue	4,339,277						4,339,277		4,339,277
Miscellaneous local sources	356,357	5,372	585	74,706	8,000	1,772	446,792	167,503	614,295
State and County aid	3,824,386	59,518		1,099,343	558,923		5,542,170	1,935,296	7,477,466
Federal aid	1,161,649	3,109,001	21,432	1,793,212	1,523,221		7,608,515	14,834,174	22,442,689
Total Revenues	48,623,589	36,120,431	22,606,116	19,835,448	2,097,661	15,268,513	144,551,758	24,269,887	168,821,645
EXPENDITURES									
Current:									
General government support	14,436,222						14,436,222	369,106	14,805,328
Public safety	1,445,878					14,626,834	16,072,712	2,606,300	18,679,012
Health	1,995,298					1,376,911	3,372,209	236,376	3,608,585
Transportation				7,038,304			7,038,304	1,549,526	8,587,830
Economic assistance and opportunity	247,814						247,814	31,858	279,672
Culture and recreation	9,937,001						9,937,001	2,502,301	12,439,302
Home and community services	814,917	36,812,064	20,876,458			99,326	58,602,765	17,722,568	76,325,333
Employee benefits	10,115,500	358,265	360,891	3,118,719			13,953,375	2,622,298	16,575,673
Capital Outlay					20,533,027		20,533,027		20,533,027
Debt Service:									
Principal	5,157,854	3,631,883	3,434,269	6,579,145			18,803,151	200,852	19,004,003
Interest	2,220,248	336,105	311,703	2,633,874			5,501,930	80,723	5,582,653
Bond issuance costs	105,253	21,511	19,462	27,423			173,649		173,649
Total Expenditures	46,475,985	41,159,828	25,002,783	19,397,465	20,533,027	16,103,071	168,672,159	27,921,908	196,594,067
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,147,604	(5,039,397)	(2,396,667)	437,983	(18,435,366)	(834,558)	(24,120,401)	(3,652,021)	(27,772,422)
OTHER FINANCING SOURCES (USES)									
Principal amount of bond anticipation note	8,500,000				13,700,000		22,200,000		22,200,000
Loan proceeds from guarantee assistance contract								2,950,000	2,950,000
Refunding bond proceeds	4,004,000	1,617,000	1,463,000	616,000			7,700,000		7,700,000
Premium on bond anticipation note and refunding bond	499,195	135,078	122,213	112,381			868,867		868,867
Payments to refunded bond escrow agent	(4,061,200)	(1,640,100)	(1,483,900)	(624,800)			(7,810,000)		(7,810,000)
Operating transfers in				825	45,000		45,825		45,825
Operating transfers out					(825)		(825)	(45,000)	(45,825)
Total Other Financing Sources (Uses)	8,941,995	111,978	101,313	104,406	13,744,175	-0-	23,003,867	2,905,000	25,908,867
SPECIAL ITEM									
Property held for resale reclassified as Town owned assets	(5,287,088)						(5,287,088)		(5,287,088)
Net Change in Fund Balances	5,802,511	(4,927,419)	(2,295,354)	542,389	(4,691,191)	(834,558)	(6,403,622)	(747,021)	(7,150,643)
Fund Balances at Beginning of Year	15,918,266	24,543,591	7,979,791	8,148,136	8,398,262	2,911,570	67,899,616	3,522,642	71,422,258
Fund Balances at End 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

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, 2012

Net Change in Fund Balance \$ (7,150,643)

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)	\$	23,779,272	
Donated assets		508,645	
Depreciation expense		(16,488,687)	
Loss on dispositions and impairments		(2,151,524)	
		5,647,706	5,647,706

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. 5,287,088

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. 108,241

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 deferred in the fund statements. 1,037,345

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 issuance cost, 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:

Refunding bonds issued		(7,700,000)	
Payment to escrow agent for refunding		7,810,000	
Bond anticipation note issued		(22,200,000)	
Premium on bonds issued		(643,227)	
Repayment of bond principal		18,899,003	
Bond issuance cost		546,657	
Amortization of bond premiums		315,283	
Amortization of deferred charges		(121,586)	
Loan proceeds from guarantee assistance contract		(2,950,000)	
Repayment of guarantee assistance contract loans		105,000	
Employees' retirement system		(1,176,542)	
Compensated absences		(112,677)	
Claims and judgments		982,484	
Estimated liability for landfill closure and post closure care costs		(563,266)	
Other postemployment benefits payable		(5,975,836)	
		(12,784,707)	(12,784,707)

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. 38,665

Change in Net Position of Governmental Activities \$ (7,816,305)

TOWN OF BABYLON
EAST FARMINGDALE WATER DISTRICT
STATEMENT OF NET POSITION
ENTERPRISE FUND
December 31, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 3,243,581
Accounts receivable, net of allowance	15,987
Total Current Assets	<u>3,259,568</u>

Noncurrent Assets:

Capital assets, net of accumulated depreciation	<u>6,690,133</u>
Total Assets	<u>9,949,701</u>

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	206,738
Developer and homeowner deposits	5,605
Due to other funds	27,337
General obligation bonds	61,340
Total Current Liabilities	<u>301,020</u>

Noncurrent Liabilities:

Other postemployment benefits payable	<u>244,977</u>
Total Liabilities	<u>545,997</u>

DEFERRED INFLOW OF RESOURCES

Deferred service concession arrangement receipt	<u>2,837,500</u>
Total Deferred Inflow of Resources	<u>2,837,500</u>

NET POSITION

Net investment in capital assets	6,628,793
Unrestricted	<u>(62,589)</u>
Total Net Position	<u>\$ 6,566,204</u>

TOWN OF BABYLON
EAST FARMINGDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
ENTERPRISE FUND
Year Ended December 31, 2012

OPERATING REVENUES

Rental income from water plant	\$ 75,000
Charges and fees	2,714
Total Operating Revenues	<u>77,714</u>

OPERATING EXPENSES - HOME AND COMMUNITY

Retiree benefits	126,609
Management fee	316,865
Administration fees	27,337
Depreciation	81,894
Other	1,441
Total Operating Expenses	<u>554,146</u>

Loss from Operations (476,432)

NON-OPERATING REVENUE (EXPENSE)

Rental income from cell tower rentals	250,619
Interest income	12,849
Settlement - remediation revenues	65,330
Interest expense	(3,798)
Total Non-Operating Revenue (Expense)	<u>325,000</u>

Change in Net Position

(151,432)

Net Position - Beginning of Year

6,717,636

Net Position - End of Year

\$ 6,566,204

TOWN OF BABYLON
EAST FARMINGDALE WATER DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	(12,273)
Cash paid to suppliers and others		(387,363)
Cash paid on behalf of retirees		(168,106)
		(567,742)
Net Cash Used for Operating Activities		(567,742)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets		(65,329)
Principal paid on serial bonds		(66,000)
Settlement received for pollution remediation costs		65,330
Interest paid on serial bonds		(2,725)
		(68,724)
Net Cash Used for Capital and Related Financing Activities		(68,724)

CASH FLOWS FROM INVESTING ACTIVITIES

Rental income from cell towers		250,619
Interest income		12,849
		263,468
Net Cash Provided by Investing Activities		263,468

Net decrease in cash and cash equivalents		(372,998)
Cash and cash equivalents at January 1, 2012		3,616,579
		3,243,581
Cash and Cash Equivalents at December 31, 2012	\$	3,243,581

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

Loss from operations		\$ (476,432)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation expense		81,894
(Increase) decrease in:		
Accounts receivable		(14,987)
Increase (decrease) in:		
Accounts payable and accrued liabilities		(44,297)
Accrued interest payable		1,073
Deferred service concession arrangement receipts		(75,000)
Due to other funds		1,504
Other postemployment benefits payable		(41,497)
		(41,497)
Net Cash Used for Operating Activities	\$	(567,742)

TOWN OF BABYLON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2012

ASSETS

Cash	\$ 38,529,078
	<hr/>
Total Assets	\$ 38,529,078
	<hr/> <hr/>

LIABILITIES

Due to school districts	\$ 34,142,572
Due to fire districts	1,965,940
Due to other Counties for tuition tax	974,146
Agency fund liabilities	1,446,420
	<hr/>
Total Liabilities	\$ 38,529,078
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Babylon (the "Town") which was established in 1872 is governed by Town Law and other general laws of the State of New York and various local laws. The Town Board is the legislative body responsible for overall operations. The Town Board consists of the Supervisor 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 Unit:

The Town of Babylon Industrial Development Agency (the "Agency") is a public benefit corporation created by the New York State Legislature by Article 18-A of the General Municipal law under Section 907A. The Agency was created to promote the economic welfare, recreation opportunities and prosperity of the Town of Babylon's residents. Its members shall be appointed by the governing body of the Town of Babylon.

The Town of Babylon Industrial Development Agency is a component unit of the Town and it is discretely presented.

Complete financial statements of the Town of Babylon Industrial Development Agency can be obtained by contacting:

The Town of Babylon Industrial Development Agency
57 West Sunrise Highway
Lindenhurst, New York 11757

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

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.
- 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 operating space and equipment for Human & Therapeutic Services.
- 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 acquires equipment and provides operating space and real property for Senior Citizens Community Services.

Complete financial statements of the individual 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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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, liabilities, 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, 2012

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 – The Garbage District Funds, consisting 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 – The 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 – The 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 – The 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 – The Lighting District Fund is used to account for lighting repairs and construction within the Town.

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

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

Other Special Revenue Fund – The 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) 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.

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, 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.

Propriety 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.

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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, DEFERRED 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, 2012.

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. Receivables relating to business-type activities primarily consist of amounts due from residents and other entities for services rendered. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred and are recorded net of an allowance of approximately \$342,000 which relates to business-type activities.

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 2022.

In the Statement of Net Position, receivables are reported as current and 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. RECEIVABLES (continued)

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.

Long-term advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds statements to indicate that the funds are not available for appropriation and are not expendable available financial resources.

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

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 and Community Development Agency Fund is recorded at cost and is adjusted for any costs to maintain the property. Property is acquired from various sources and held for redevelopment and resale to eligible individuals or developers. Management reviews annually for any impairment issues.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6. UNEARNED REVENUE/ DEFERRED REVENUE

Unearned revenue/deferred revenue are those where asset recognition criteria have been met, but which revenue recognition criteria have not been met. Such amounts include collections in advance, unearned income and amounts deemed to be "measurable" but not "available" to finance current expenses pursuant to generally accepted accounting principles. Accordingly, the amount has been recorded as deferred revenue in the funds statements and unearned revenue in the government-wide statements.

Deferred revenues relating to governmental-type activities consists primarily of the 2013 real estate taxes, lease income received in advance, 2013 licenses, and accrual of mortgage tax revenue.

7. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the Statement of Net 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 business-type fund has one type of item that qualifies for reporting in this category. The East Farmingdale Water District's deferred inflow of resources is comprised of 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, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Bond issuance costs that are immaterial are charged as an operating expense. Premiums that are immaterial will not be amortized.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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), or (b) will not convert to cash within the current period (i.e. long-term receivables and financial assets held for resale), or (c) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

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

- 2) Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Town’s highest decision making authority is the Town Board, who by adoption of a Town ordinance prior to year end, can commit fund balance. Those committed amounts cannot be used for any other purpose unless the Town Board removes or changes the specified use by taking the same type of action imposing the commitment.
- 4) Assigned fund balance reflects the amounts constrained by the Town’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Town Board 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. NET POSITION AND FUND BALANCE CLASSIFICATION (continued)

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 ("Receiver"). The Town assessment rolls are used for the levy of property taxes by the Town and the school districts, as well as by the County of Suffolk, New York ("County") and by special districts based upon a single tax bill.

The Town of Babylon Receiver of Taxes ("Receiver") collects all real property taxes for the Town, Suffolk County, Town Special Districts, and School Districts located within the Town of 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 Districts levies from the amount collected, prior to distributing the remaining balance collected to the County.

2. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. REVENUES AND EXPENDITURES/EXPENSES (continued)

3. COMPENSATED ABSENCES

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and noncurrent obligations in the government-wide statements for governmental 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 Agencies. 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.

H. NEW ACCOUNTING PRINCIPLES

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended December 31, 2012, the Town adopted:

- 1) GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.
- 2) GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
- 3) GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

I. SUBSEQUENT EVENTS

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

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 Housing Assistance and Community Development Agency Funds and Capital Projects Fund, for which legally adopted budgets are not required.
- c) After public hearings are conducted to obtain taxpayer comments and no later than November 20th, the Town Board adopts the budget. All modifications of the budget must be approved by the Town Board. However, the Comptroller is authorized to transfer certain budgeted amounts within departments.
- d) Budgets for the General and certain Special Revenue Funds are legally adopted each year. The budgets are adopted on a basis of accounting consistent with GAAP, except that appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations are made. The Capital Projects, Housing Assistance and Community Development Agency Funds are budgeted on a project or grant basis.

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.

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:								
Long-term receivables		\$ 1,130,254						\$ 1,130,254
Property held of resale	\$ 5,631,661							5,631,661
Prepaid items						\$ 74,941	\$ 2,500	77,441
Total Nonspendable	5,631,661	1,130,254	\$ -0-	\$ -0-	\$ -0-	74,941	2,500	6,839,356
Restricted for:								
Property held of resale	16,571,000							16,571,000
Capital projects					8,855,161			8,855,161
Grantors and donors restrictions							3,809,303	3,809,303
Guaranteed assistance contract							862,831	862,831
Total Restricted	16,571,000	-0-	-0-	-0-	8,855,161	-0-	4,672,134	30,098,295
Assigned to:								
Subsequent year's budget			691,650	1,873,004		1,996		2,566,650
Purchases on order or contractual obligations		196,258		87,844				284,102
Special revenue funds		18,289,660	4,992,787	6,729,677		2,000,075	7,626	32,019,827
Total Assigned	-0-	18,485,918	5,684,437	8,690,525	-0-	2,002,071	7,626	34,870,579
Unassigned, reported in								
General Fund	(481,884)							(481,884)
Capital Projects Fund					(5,148,090)			(5,148,090)
Part Town Fund							(1,873,935)	(1,873,935)
Lighting District Fund							(32,706)	(32,706)
Total Unassigned	(481,884)	-0-	-0-	-0-	(5,148,090)	-0-	(1,906,641)	(7,536,615)
Total Fund Balances	\$ 21,720,777	\$ 19,616,172	\$ 5,684,437	\$ 8,690,525	\$ 3,707,071	\$ 2,077,012	\$ 2,775,621	\$ 64,271,615

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. FUND EQUITY (continued)

2. DEFICIT FUND EQUITY

The Part-Town Fund and the Lighting District Fund reported fund deficits of \$1,873,935 and \$32,706, respectively, at December 31, 2012 which was a result of incurring unanticipated expenditures. The Lighting District Fund deficit is expected to be eliminated in the subsequent year by expenditure reductions. The deficit in the Part-Town Fund is expected to be eliminated in 2013 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, 2012:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
Residential Garbage District	\$ 36,995,027	\$ 41,159,828	\$ 4,164,801
Commercial Garbage District	24,052,785	25,002,783	949,998
Special Districts	15,941,073	16,103,071	161,998
Part-Town	6,175,931	6,365,235	189,304
Highway - Repairs and Maintenance	15,640,163	15,945,914	305,751

The over expenditures in the Residential Garbage District Fund were a result of unanticipated expenditures related to Hurricane Sandy and higher than expected costs incurred relating to the Long Island Green Homes program. These expenditures were financed through grants from the Federal Emergency Management Agency ("FEMA") and available fund balance. The over expenditures in the Commercial Garbage District and Special District Funds, a result of unexpected costs, were primarily funded with available fund balance. The Highway- Repairs and Maintenance Fund over expenditures, a result of costs related to Hurricane Sandy were financed by grants from FEMA and available fund balance. The Part-Town Fund funded over expenditures from Hurricane Sandy costs and other unanticipated expenditures with temporary advances from other funds and FEMA grants.

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, 2012.

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, 2012 the Town's cash book balance was \$112,459,219. This amount is inclusive of Fiduciary fund deposits of \$38,529,078, cash with fiscal agent of \$3,230,084 and restricted cash of \$126,206 but exclusive of petty cash of \$3,914 and component unit cash of \$255,552. The available bank balance was \$112,712,658. Of the available bank balance, \$33,852,585 was covered by Federal deposit insurance, and \$78,860,073 was covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND CASH EQUIVALENTS (continued)

At December 31, 2012 the Town's component unit's bank balance was \$1,652,607. Of this balance, \$561,613 was covered by Federal deposit insurance and \$1,090,994 was covered by collateral held by the component unit's agent, a third-party financial institution.

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, 2012, 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, are shown as restricted cash on the balance sheet.

B. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At December 31, 2012 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	\$ 2,804,832	\$ 7,473,761
Residential Garbage District Fund	9,928,176	38,493
Commercial Garbage District Fund	813	2,013,358
Combined Highway Fund	177,065	
Capital Projects Fund	2,128,511	508,532
Special Districts		49,071
Non-major Funds	2,615	4,931,460
Enterprise Fund:		
East Farmingdale Water District		27,337
Total	\$ 15,042,012	\$ 15,042,012

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 Residential Garbage Fund has loaned the General Fund monies to finance the acquisition of property held for resale and at December 31, 2012 the related outstanding interfund balance is \$6,111,167. The Town expects the interfund receivables and payables will be paid within the next year, except for \$1,130,254 of the non-major Part-Town balance due to the Residential Garbage District Fund. Accordingly, \$1,130,254 of the Residential Garbage District Fund's fund balance is reported as nonspendable for this long-term receivable.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

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

At December 31, 2012, 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:			
Combined Highway Fund	\$ 825		\$ 825
Capital Projects Fund		\$ 45,000	45,000
Total	<u>\$ 825</u>	<u>\$ 45,000</u>	<u>\$ 45,825</u>

C. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 is as follows:

	<u>Balance 1/1/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 24,470,676	\$ 5,769,732 *		\$ 30,240,408
Construction in progress	26,322,707	18,174,302	\$ (569,306)	43,927,703
Total capital assets not being depreciated	<u>50,793,383</u>	<u>23,944,034</u>	<u>(569,306)</u>	<u>74,168,111</u>
Depreciable capital assets:				
Building and improvements	79,823,996	293,869	(2,487,784)	77,630,081
Machinery and equipment	32,151,335	359,769	(190,263)	32,320,841
Infrastructure	383,948,504	5,487,949	(1,587,086)	387,849,367
Total depreciable capital assets	<u>495,923,835</u>	<u>6,141,587</u>	<u>(4,265,133)</u>	<u>497,800,289</u>
Less: accumulated depreciation				
Buildings and improvements	32,080,796	1,783,885	(746,335)	33,118,346
Machinery and equipment	20,701,519	2,143,942	(190,263)	22,655,198
Infrastructure	263,392,006	12,560,860	(1,235,702)	274,717,164
Total accumulated depreciation	<u>\$ 316,174,321</u>	<u>\$ 16,488,687</u>	<u>\$ (2,172,300)</u>	<u>330,490,708</u>
Total net depreciable capital assets				<u>167,309,581</u>
Total net capital assets				<u>\$ 241,477,692</u>

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

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS (continued)

Depreciation was charged to functions and programs as follows:

General government support	\$	605,474
Public safety		214,133
Transportation		12,118,682
Culture and recreation		1,531,308
Home and community services		<u>2,019,090</u>
Total depreciation expense - governmental activities	\$	<u><u>16,488,687</u></u>

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 194,964			\$ 194,964
Construction in progress	<u>4,090,185</u>	\$ 65,329		<u>4,155,514</u>
Total capital assets not being depreciated	<u>4,285,149</u>	<u>65,329</u>	\$ -0-	<u>4,350,478</u>
Depreciable capital assets:				
Building and improvements	1,306,327			1,306,327
Machinery and equipment	351,670			351,670
Infrastructure	<u>2,702,033</u>			<u>2,702,033</u>
Total depreciable capital assets	<u>4,360,030</u>	<u>-0-</u>	<u>-0-</u>	<u>4,360,030</u>
Less: accumulated depreciation				
Buildings and improvements	752,611	26,020		778,631
Machinery and equipment	322,652	4,570		327,222
Infrastructure	<u>863,218</u>	<u>51,304</u>		<u>914,522</u>
Total accumulated depreciation	<u>\$ 1,938,481</u>	<u>\$ 81,894</u>	<u>\$ -0-</u>	<u>2,020,375</u>
Total net depreciable capital assets				<u>2,339,655</u>
Total net capital assets				<u><u>\$ 6,690,133</u></u>

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

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

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Town's policy is to record an impairment loss in the period when the Town determines that the carrying amount of the asset will not be recoverable. During the year ended December 31, 2012, the Town realized a loss from impairment in the amount of \$ 2,092,833 relating to the effect of Hurricane Sandy. This loss, offset by insurance proceeds of \$1,000,000 was reported as a program expense in the Statement of Activities.

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 2014.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

D. PROPERTY HELD FOR RESALE (continued)

As of December 31, 2012, the Town invested \$27,489,750 for the cost of these properties, which includes the purchase price and costs of maintaining the properties. The Town has issued \$8,450,000 of general obligations bonds and \$8,500,000 of bond anticipation notes for this purpose and issued an additional \$9,240,000 of bond anticipation notes for the revitalization program on August __, 2013 (see note 5). 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.

Subsequent to year end, rezoning for the first phase of the project was finalized and the Town determined that a portion of the property held for resale in the amount of \$5,287,088 was considered Town owned property for use of the government (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.

As of December 31, 2012, the Town's Community Development Agency Fund owned six properties purchased with grant proceeds in the amount of \$1,009,299 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 2013; therefore the property held for resale is classified as a current asset in the Statement of Net Position.

E. INDEBTEDNESS

LONG-TERM DEBT

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 September 2012, the Town issued \$22,200,000 of bond anticipation notes for various public improvement projects and property acquisition. In August of 2013, the Town refinanced the BANs with general obligation bonds and another BAN as part of a larger bond issuance (see Note 5). The Town reported this BAN as an other financing source in the fund financial statements and a noncurrent liability in the government-wide financial statements for the year ended December 31, 2012.

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. As of December 31, 2012, the Town received \$2,950,000 of this commitment amount and spent \$2,087,169. 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 LIBOR rate plus .20%, and will mature in August 2027. The variable rate as of December 31, 2012 was .51%, which is the rate used to determine the future interest payments below.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

E. INDEBTEDNESS (continued)

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
2013	\$ 262,000	\$ 48,888	\$ 310,888
2014	278,000	40,835	318,835
2015	294,000	32,017	326,017
2016	316,000	22,418	338,418
2017	172,000	11,661	183,661
2018-2022	975,000	43,909	1,018,909
2023-2027	1,178,000	16,114	1,194,114
Total	<u>\$ 3,475,000</u>	<u>\$ 215,842</u>	<u>\$ 3,690,842</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.

Bonds Payable

General Obligation Bonds – 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 2.00% to 5.38% and mature at varying dates through April 2029.

Revolving Fund Revenue Bonds – The Town issued revolving fund revenue bonds for the purpose of constructing publicly owned systems for the storage, treatment, recycling and reclamation of municipal landfills and certain other water pollution control projects. These long-term liabilities were backed by the full faith and credit of the Town and matured in June 2012.

Future principal and interest payments for bonds payable are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities		Total Principal and Interest
	Principal	Interest	Principal	Interest	
2013	\$ 12,408,658	\$ 4,304,008	\$ 61,340	\$ 1,610	\$ 16,775,616
2014	12,900,000	3,855,307			16,755,307
2015	13,145,000	3,349,782			16,494,782
2016	13,805,000	2,858,619			16,663,619
2017	14,360,000	2,305,188			16,665,188
2018-2022	32,265,000	5,869,475			38,134,475
2023-2027	9,750,000	2,011,075			11,761,075
2028-2032	4,195,000	189,113			4,384,113
Total	<u>\$ 112,828,658</u>	<u>\$ 24,742,567</u>	<u>\$ 61,340</u>	<u>\$ 1,610</u>	<u>\$ 137,634,175</u>

CURRENT AND ADVANCED REFUNDINGS OF BONDS

In September 2012, the Town issued \$7,700,000 in Public Improvement Refunding Serial Bonds for the primary government, with interest rates ranging from 2.0% to 4.0%. The proceeds were used to advance refund \$4,420,000 of the outstanding 2001 Weekly Adjustable/Fixed Rate general obligation bonds ("2001 bonds") with an interest rate of 5.0% through the year 2017 and to current refund \$2,825,000 of 1999 Series A Public Improvement Serial bonds ("1999 Series A") with interest rates ranging from 4.6% to 5.0% through the year 2017 and \$565,000 of 1999 Series C Public Improvement Serial bonds ("1999 Series C"), which had an interest rate of 5.5% through the year 2014. The 2001 bonds, 1999 Series A and 1999 Series C bonds are collectively considered the refunded bonds.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

E. INDEBTEDNESS (continued)

CURRENT AND ADVANCED REFUNDINGS OF BONDS (continued)

The net proceeds of \$8,240,795 (the par amount of the bonds plus a net premium of \$643,227 less underwriters' fees, insurance and other issuance costs of \$102,432) were used to buy U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds removed from the noncurrent government liabilities.

The Town's current and advance refundings will reduce its total debt service payments over the next 5 years by \$558,646 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$527,998.

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, 2012, \$21,565,000 of these bonds outstanding is considered defeased.

CHANGES IN LONG-TERM LIABILITIES

Long term liability activity, for the year ended December 31, 2012 is as follows:

	Balance 1/1/12	Issued/ Additions	Maturities/ Reductions	Other Net Increase or (Decrease)	Balance 12/31/12
Governmental activities:					
General obligation bonds	\$ 128,692,658	\$ 7,700,000	\$ 15,754,000	\$ (7,810,000)	\$ 112,828,658
Plus: premiums on issuance	1,842,898	643,227	315,283		2,170,842
General obligation bonds, net	130,535,556	8,343,227	16,069,283	(7,810,000)	114,999,500
Revolving fund revenue bonds	3,145,000		3,145,000		-0-
Total Bonds	133,680,556	8,343,227	19,214,283	(7,810,000)	114,999,500
Bond anticipation note	-0-	22,200,000			22,200,000
Guaranteed assistance					
contract loans payable	630,000	2,950,000	105,000		3,475,000
Due to employees'					
retirement system	2,886,383	1,717,663	541,121		4,062,925
Compensated absences	4,763,774	3,029,968	2,917,291		4,876,451
Claims and judgments payable	7,410,631	879,250	559,758	(1,301,976)	6,428,147
Estimated liability for					
landfill closure and post					
closure care costs	25,265,167		1,278,010	1,841,276	25,828,433
Other postemployment					
benefits payable	34,476,927	10,360,747	4,384,911		40,452,763
Business-type activities:					
General obligation bonds	127,340		66,000		61,340
Other postemployment					
benefits payable	286,474	97,426	138,923		244,977
	<u>\$ 209,527,252</u>	<u>\$ 49,578,281</u>	<u>\$ 29,205,297</u>	<u>\$ (7,270,700)</u>	<u>\$ 222,629,536</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

E. INDEBTEDNESS (continued)

CHANGES IN LONG-TERM LIABILITIES (continued)

A summary of current and long-term debt amounts as of December 31, 2012 is as follows:

	Noncurrent Liabilities due Within One Year	Noncurrent Liabilities	Balance at 12/31/2012
Governmental activities:			
General obligation bonds, net	\$ 12,408,658	\$ 100,420,000	\$ 112,828,658
Plus: premiums on issuance	458,224	1,712,618	2,170,842
Total bonds payable	<u>12,866,882</u>	<u>102,132,618</u>	<u>114,999,500</u>
Bond anticipation note payable		22,200,000	22,200,000
Guaranteed assistance contract loans payable	262,000	3,213,000	3,475,000
Due to employees' retirement system	725,823	3,337,102	4,062,925
Compensated absences	3,110,000	1,766,451	4,876,451
Claims and judgments payable	478,287	5,949,860	6,428,147
Estimated liability for landfill closure and post closure care costs	3,963,300	21,865,133	25,828,433
Other postemployment benefits payable		40,452,763	40,452,763
Business-type activities:			
General obligation bonds	61,340		61,340
Other postemployment benefits payable		244,977	244,977
	<u>\$ 21,467,632</u>	<u>\$ 201,161,904</u>	<u>\$ 222,629,536</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, 2012, the outstanding Series 2009 A and B bond balances were \$52,980,000.

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, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

F. 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 "Comptroller") serves as sole trustee and administrative head of the System. The 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 after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary 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 System's 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:

	<u>Annual Required Contribution</u>	<u>Credits & Miscellaneous Adjustments</u>	<u>Amortization Payment</u>	<u>2010 Incentive Installments</u>	<u>Prepayment Discount</u>	<u>2010-2012 Amortization / Deferral</u>	<u>Total Payment</u>
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
2010	2,823,724	(43,797)	131,480		(27,415)	(329,715)	2,554,277

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, 2012, the outstanding amount owed to the System was \$242,989.

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, 2012, the amount due to the System related to this deferral is \$2,632,439.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

F. RETIREMENT SYSTEM (continued)

Funding Policy (continued)

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, 2012, the outstanding balance due to the System related to this retirement incentive was \$1,187,497.

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
\$ 725,823	\$ 190,495	\$ 916,318
767,545	148,774	916,319
681,241	104,395	785,636
265,286	63,713	328,999
274,425	54,576	329,001
1,348,605	126,058	1,474,663
\$ 4,062,925	\$ 688,011	\$ 4,750,936

G. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

For Civil Service Employees Association members, eligibility requirements for coverage upon retirement are: 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Description (continued)

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, 2011, the effective date of the OPEB valuation is as follows:

	Total	Town	Component Unit
Active employees	313	309	4
Retirees	324	322	2
Spouses of retired employees	212	211	1
	849	842	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, 2012, the Town's (excluding the discretely presented component unit) annual other postemployment benefits cost (expense) was \$10,458,173. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$4,523,834 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$5,934,339 for the year ended December 31, 2012. The Town's discretely presented component unit's annual other postemployment benefits cost (expense) was \$69,909. The payment of current health insurance premiums totaled \$17,000 for retirees and the component unit's beneficiaries, resulting in an increase in the other postemployment benefits liability of \$52,909 for the year ended December 31, 2012.

Benefit Obligations and Normal Cost

	Total	Town	Component Unit
Actuarial Accrued Liability (AAL)			
Retired employees	\$ 79,692,181	\$ 79,374,441	\$ 317,740
Active employees	60,458,662	59,713,274	745,388
Total Actuarial Accrued Liability (AAL)	140,150,843	139,087,715	1,063,128
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 140,150,843	\$ 139,087,715	\$ 1,063,128
Funded ratio	0%	0%	0%
Normal cost at the beginning of the year	\$ 3,997,973	\$ 3,963,976	\$ 33,997
Amortization cost at the beginning of the year	\$ 5,961,458	\$ 5,928,905	\$ 32,553
Annual covered payroll	\$ 23,373,403	\$ 23,373,403	n/a*
UAAL as a percentage of covered payroll	599.62%	595.07%	n/a*

*Information was not available for the component unit

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefit Obligations and Normal Cost (continued)

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, 2012 amounted to \$139,087,715. The unfunded actuarial accrued liability for the component unit for the year ended December 31, 2012 amounted to \$1,063,128.

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	\$ 4,097,922	\$ 4,063,075	\$ 34,847
Amortization of unfunded actuarial liability (UAAL) over 30 years	6,358,917	6,323,575	35,342
Interest	327,351	324,989	2,362
Annual required contribution (ARC)	10,784,190	10,711,639	72,551
Interest on net OPEB obligation	1,405,033	1,390,536	14,497
Adjustment to ARC	(1,661,141)	(1,644,002)	(17,139)
Annual OPEB cost	10,528,082	10,458,173	69,909
Less: Contribution for year ended December 31, 2012	(4,540,834)	(4,523,834)	(17,000)
Increase in other postemployment benefits liability	5,987,248	5,934,339	52,909
Other postemployment benefits liability at December 31, 2011	35,130,135	34,763,401	366,734
Other postemployment benefits liability at December 31, 2012	\$ 41,117,383	\$ 40,697,740	\$ 419,643
Percent of annual OPEB cost contributed	43.13%	43.26%	24.32%

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
2012	\$ 10,458,173	\$ 4,523,834	43.26%	\$ 40,697,740
2011	10,029,740	4,169,520	41.57%	34,763,401
2010	9,820,418	3,816,898	38.87%	28,903,181

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

G. OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress (continued)

The projected funded status of the plan as of December 31, 2012, based on the January 1, 2011 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	\$ 139,087,715	\$ -0-	\$ 139,087,715	0.00%	\$ 23,373,403	595.07%
Component Unit	1,063,128	-0-	1,063,128	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, 2011 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 10.0% (pre 65) and an 8.5% (post 65) healthcare cost trend for 2011, with an ultimate medical trend rate of 5% to be reached in 2016 for both pre and post 65. The remaining amortization period at December 31, 2012 was twenty-four years.

H. 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.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

H. SERVICE AWARD PROGRAM (continued)

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.

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, Pencent, LTD. Portions of the following information are derived from reports prepared by the actuaries.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

H. SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

Plan financial condition as of and for the year ended December 31, 2012:

	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
<u>Assets</u>					
Actuarial present value of benefits at January 1	\$ 4,105,992	\$ 1,866,034	\$ 4,826,980	\$ 3,344,573	
benefits at February 1					\$ 522,783
Less: assets available for benefits	<u>3,343,115</u>	<u>1,455,578</u>	<u>3,022,603</u>	<u>1,880,395</u>	<u>377,984</u>
Total unfunded benefits	762,877	410,456	1,804,377	1,464,178	144,799
Less: unfunded liability for prior service	<u>(762,877)</u>	<u>(410,456)</u>	<u>(1,804,377)</u>	<u>(1,464,178)</u>	<u>(298,192)</u>
Unfunded (overfunded) normal benefits	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (153,393)</u>
<u>Assets Available for Benefits</u>					
Cash & short-term investments	\$ 123,347	\$ 41,032	\$ 139,188	\$ 28,283	
Annuities	2,611,561	1,146,710	1,712,398	1,374,996	\$ 377,984
Insurance contracts	<u>698,207</u>	<u>267,836</u>	<u>1,171,017</u>	<u>477,116</u>	
Total assets available for benefits	<u>\$ 3,433,115</u>	<u>\$ 1,455,578</u>	<u>\$ 3,022,603</u>	<u>\$ 1,880,395</u>	<u>\$ 377,984</u>
<u>Receipts and Disbursements</u>					
Plan assets, beginning of year	\$ 3,196,290	\$ 1,393,839	\$ 2,793,914	\$ 1,743,193	\$ 319,659
Plan contributions - 2012	89,783	110,169	177,619	181,472	73,406
Investment income earned	163,946	60,718	146,262	77,049	13,851
Other receipts	92,720		71,473	26,906	222
Plan benefit withdrawals	(109,624)	(109,148)	(166,665)	(148,225)	(26,326)
Administrative fees					<u>(2,828)</u>
Plan assets, end of year	<u>\$ 3,433,115</u>	<u>\$ 1,455,578</u>	<u>\$ 3,022,603</u>	<u>\$ 1,880,395</u>	<u>\$ 377,984</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

3. DETAILED NOTES ON ALL FUNDS (continued)

H. SERVICE AWARD PROGRAM (continued)

Fiduciary Investment Control (continued)

Plan financial condition as of and for the year ended December 31, 2012:

	East Farmingdale	North Amityville	North Babylon	North Lindenhurst	Wyandanch
Prior Service Costs					
Amortization period	9 years	10- 14 years	10- 20 years	10- 20 years	25 years
Discount rate	5.25%	5.25%	5.25%	5.25%	4.75%
Contributions					
Recommend by actuary - 2012					
Minimum	\$ 234,217	\$ 102,578	\$ 308,191	\$ 232,310	\$ 77,316
Maximum	\$ 234,217	\$ 116,453	\$ 392,130	\$ 304,237	\$ 77,316
2012 Actual Contribution	\$ 89,783	\$ 110,169	\$ 177,619	\$ 181,472	\$ 73,406
Administration Fees					
Paid to Plan Administrator by:					
Sponsor	\$ 2,960	\$ 2,678	\$ 6,340	\$ 5,022	\$ -0-
Plan	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 2,828
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	1/1/2013	1/1/2013	1/1/2013	1/1/2013	2/1/2013
Actuary report date	March 2013	April 2013	July 2013	May 2013	April 2013
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

I. COMPENSATED ABSENCES

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

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the statement of net position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2012, the value of the accumulated vacation time and sick leave of the primary government was \$4,876,451.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

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 \$4,906,459. 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.

In addition, the Town was self-insured for its workers' compensation coverage until June 1999. In 1999, the Town purchased an insurance policy for the workers' compensation coverage in order to minimize the costs. 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	
	2012	2011	2012	2011
Beginning balances of claims liabilities at January 1	\$ 5,579,700	\$ 5,826,200	\$ 1,830,931	\$ 2,042,114
Adjustments	(455,634)	(131,724)	32,908	138,211
Payments	<u>(217,607)</u>	<u>(114,776)</u>	<u>(342,151)</u>	<u>(349,394)</u>
Ending balance of claims liabilities at December 31	<u>\$ 4,906,459</u>	<u>\$ 5,579,700</u>	<u>\$ 1,521,688</u>	<u>\$ 1,830,931</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, 2012

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 \$25,828,433 at December 31, 2012, 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 53.27% of the estimated capacity of the southern ash landfill. The Town will recognize the remaining estimated cost of closure and post closure care of \$7,886,472 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 2012 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, 2012, these commitments, reported in the Capital Project Fund amounted to \$12,033,848.

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. Obligor 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 legally committed itself to conduct remediation activities on a water well on Town-owned and operated property. The Town estimates the cost of site clean-up, including the construction of a wellhead treatment system, will be approximately \$4.5 million, of which approximately \$4.2 million has been paid through December 31, 2012. As of December 31, 2012, the Town has received approximately \$4.2 million from an outside third party to fund these costs. Unspent reimbursements are reported in the Statement of Fiduciary Assets and Liabilities. When the site clean-up is completed, unused settlement proceeds will be remitted to the East Farmingdale Water District for reimbursement of costs incurred in prior years. The Town did not report a liability for this obligation as the costs are capitalized when incurred and included in the capital assets of the proprietary fund.

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, 2012, the Town does not have any liability related to these future costs and has not reported a liability on the government-wide statements.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

4. COMMITMENTS AND CONTINGENCIES (continued)

F. RESOURCE RECOVERY FACILITY

The Town of has entered into a 30 year agreement, expiring in 2019, with Ogden Martin Systems of 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 Long Island Power Authority ("LIPA") pursuant to an Electricity Agreement. Additionally, Covanta reclaims and sells recoverable materials from the Facility's Ash residue.

Under the terms of the agreement, the Town has obligated itself to pay service fees 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 LIPA 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, 2012 are as follows:

Years Ending December 31, 2013	\$	430,881
2014		306,158
2015		270,782
2016		224,729
2017		208,367
Thereafter		3,838,807
		<u>\$ 5,279,724</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, 2012 approximated \$539,000. The maximum future non-cancelable operating lease payments are as follows:

Years Ending December 31, 2013	\$	381,087
2014		249,943
2015		165,244
2016		58,085
2017		5,853
		<u>\$ 860,212</u>

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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 \$4,360,029 and \$2,339,654, 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, 2012, the Town reported a deferred inflow of resources in the amount of \$2,837,500 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 \$316,865 of management fees to SCWA during the year ended December 31, 2012. 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.

J. AVAILABLE PROJECT FINANCING

The Town has \$14,668,482 of available financing through New York State Environmental Facilities Corporation to fund a sewer expansion project. The financing available is comprised of two components: \$7,334,241 of available short term interest-free financing which matures September 2013 and \$7,334,241 of available short term market rate financing which matures September 2013 and bears interest at .69%. As of December 31, 2012 there have been no advances and the available credit is \$14,668,482. Subsequent to year end, the Town borrowed from this available financing (see Note 5). Once the project is completed the Town anticipates converting the outstanding short term funding to long-term bonds through the New York State Environmental Facilities Corporation.

5. SUBSEQUENT EVENTS

In June 2013, the Town drew down monies on the New York State Environmental Facilities Corporation available financing in the amount of \$6,156,106. On August 1, 2013, New York State Environmental Facilities Corporation bonds Series 2013 B in the amount of \$13,047,902 were issued. The proceeds of these bonds were used to refinance the draw of \$6,156,106 and the remaining amount of \$6,891,796 is available for the Town to draw down as needed. These bonds will mature in May of 2043 and bear interest at rates ranging from .26% to 4.76%.

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. The remaining proceeds of \$19,590,000 will be used for property acquisition and to finance various projects related to repair work from damage caused by Hurricane Sandy. The bond anticipation notes will mature in August of 2014.

In August 2013, the Town issued general obligation bonds 2013, 2013 Series A and 2013 Series B in the amount of \$34,510,000, with interest rates ranging from 2.00% to 5.25%. Bond proceeds in the amount of \$17,200,000 will be used to refinance a portion of the 2012 bond anticipation notes. The remaining bond proceeds of \$17,310,000 will be used for various capital projects and to purchase equipment. The general obligation bonds will mature in September of 2032.

TOWN OF BABYLON
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

6. NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61 *"The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34"*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2012.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 65 *"Items Previously Reported as Assets and Liabilities"*. This Statement 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 requirements of the new statement become effective for fiscal periods beginning after December 15, 2012.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 66 *"Technical Corrections 2012 – an amendment of GASB Statements No. 10 and No. 62"*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements 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*. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2012.

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

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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, 2012

REVENUES	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 26,882,932	\$ 26,882,932	\$ 26,882,932	\$ -0-
Total Real Property Taxes	<u>26,882,932</u>	<u>26,882,932</u>	<u>26,882,932</u>	<u>-0-</u>
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	550,000	550,000	788,775	238,775
Interest and penalties on real property taxes	300,000	300,000	225,080	(74,920)
Total Other Real Property Tax Items	<u>850,000</u>	<u>850,000</u>	<u>1,013,855</u>	<u>163,855</u>
NON-PROPERTY TAX ITEMS				
Cable franchise fees	2,700,000	2,700,000	2,908,525	208,525
Lot clean-up program	550,000	550,000	676,969	126,969
Total Non-Property Tax Items	<u>3,250,000</u>	<u>3,250,000</u>	<u>3,585,494</u>	<u>335,494</u>
DEPARTMENTAL INCOME				
Assessor's fees	15,000	15,000	15,090	90
Town clerk fees	250,000	250,000	396,207	146,207
Consultation fees	75,000	75,000	29,071	(45,929)
Public pound fees and dog control service	50,000	50,000	27,407	(22,593)
Wyandanch program fees	80,000	80,000	77,350	(2,650)
Park and recreation charges and fees	2,065,000	2,065,000	2,011,441	(53,559)
Medicaid	100,000	100,000	260,331	160,331
Charges for cemetery services	5,000	5,000	605	(4,395)
Total Departmental Income	<u>2,640,000</u>	<u>2,640,000</u>	<u>2,817,502</u>	<u>177,502</u>
USE OF MONEY AND PROPERTY				
Interest and earnings on investments	250,000	250,000	43,649	(206,351)
Rental of real property/beach leases	750,000	750,000	773,612	23,612
Other	500,000	500,000	604,486	104,486
Total Use of Money and Property	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,421,747</u>	<u>(78,253)</u>
LICENSES AND PERMITS				
Business and occupational licenses	45,000	45,000	1,350	(43,650)
Bingo license fees/games of chance	29,000	29,000	10,421	(18,579)
Dog licenses	9,000	9,000	18,776	9,776
Licenses - other	15,000	15,000	729	(14,271)
Plumbing permits	25,000	25,000	40,976	15,976
Impact fees	200,000	200,000	100,000	(100,000)
Permits - other	45,000	45,000	37,060	(7,940)
Other	5,000	5,000	5,000	(5,000)
Total Licenses and Permits	<u>373,000</u>	<u>373,000</u>	<u>209,312</u>	<u>(163,688)</u>
FINES AND FORFEITURES				
Fines and forfeited bail	1,100,000	1,100,000	1,473,249	373,249
Bid deposits	5,000	5,000	54,450	49,450
Total Fines and Forfeitures	<u>1,105,000</u>	<u>1,105,000</u>	<u>1,527,699</u>	<u>422,699</u>
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Sales, recycling	20,000	20,000	13,061	(6,939)
Sales of real property	500,000	500,000	400,000	(100,000)
Sales of equipment	150,000	150,000	63,880	(86,120)
Other compensation	1,000,000	1,000,000	1,000,000	-0-
Insurance recoveries	25,000	25,000	6,438	(18,562)
Total Sale of Property and Compensation for Loss	<u>1,695,000</u>	<u>1,695,000</u>	<u>1,483,379</u>	<u>(211,621)</u>

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
INTERFUND REVENUE				
Interfund revenue	2,200,000	2,200,000	4,339,277	2,139,277
Total Interfund Revenue	2,200,000	2,200,000	4,339,277	2,139,277
MISCELLANEOUS LOCAL SOURCES				
Gifts and donations	40,000	40,000	120,050	80,050
Refund of prior year expenditures	25,000	25,000	14,045	(10,955)
Playground improvements		20,000	20,000	-0-
Other miscellaneous revenue	300,000	300,000	202,262	(97,738)
Total Miscellaneous Local Sources	365,000	385,000	356,357	(28,643)
STATE AND COUNTY AID				
Mortgage tax	4,500,000	4,500,000	3,280,001	(1,219,999)
Narcotics guidance counsel	100,000	100,000	85,608	(14,392)
Youth programs	736,000	702,500	263,723	(438,777)
Therapeutic recreation program	25,000	25,000	47,849	22,849
Senior day training program	30,000	30,000	45,658	15,658
Nutrition programs	24,000	24,000	18,341	(5,659)
Emergency disaster assistance program- severe storms			52,368	52,368
State grants	300,000	309,000	30,838	(278,162)
Total State and County Aid	5,715,000	5,690,500	3,824,386	(1,866,114)
FEDERAL AID				
Narcotics guidance counsel	250,000	250,000	362,467	112,467
Home chores project	24,832	24,832	16,655	(8,177)
Wyandanch nutrition program	216,000	216,000	192,396	(23,604)
Emergency disaster assistance program - severe storms			590,131	590,131
Total Federal Aid	490,832	490,832	1,161,649	670,817
Total Revenues	47,066,764	47,062,264	48,623,589	1,561,325
EXPENDITURES				
GENERAL GOVERNMENT SUPPORT				
Town board	442,502	442,502	418,513	23,989
Municipal court	116,911	116,911	12,195	104,716
Traffic violations bureau	134,235	134,235	160,474	(26,239)
Town Supervisor	894,524	894,524	714,033	180,491
Finance	191,349	125,099	116,856	8,243
Comptroller	567,959	552,959	421,179	131,780
Auditor	140,000	140,000	219,000	(79,000)
Receiver of taxes	585,024	585,024	585,864	(840)
Fiscal agent	10,000	10,000	30,626	(20,626)
Purchasing	255,723	255,723	273,594	(17,871)
Assessor	1,796,020	1,796,020	1,833,016	(36,996)
Town Clerk	510,939	577,189	556,160	21,029
Town Attorney	1,354,170	1,354,170	1,544,791	(190,621)
Personnel	138,904	138,904	145,250	(6,346)
Engineering	301,100	301,100	314,828	(13,728)
Elections	1,600	1,600	1,250	350
Public works administration	251,810	251,810	206,222	45,588
Central service administration	36,721	36,721	30,976	5,745
Buildings and grounds	3,691,764	3,706,764	3,210,717	496,047
Vehicle and control	1,562,815	1,562,815	1,831,054	(268,239)
Central printing and mail	596,654	596,654	589,088	7,566
Central data processing	756,414	756,414	716,332	40,082
Unallocated insurance, judgments and claims	1,100,000	1,100,000	446,127	653,873
Municipal association dues	1,200	1,200	3,450	(2,250)
Taxes and assessments on municipal property	6,000	6,000	814	5,186
Contingencies - contractual and other	31,765	31,765		31,765
Other general government support	30,000	30,000	53,813	(23,813)
Total General Government Support	15,506,103	15,506,103	14,436,222	1,069,881

(continued)

TOWN OF BABYLON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
PUBLIC SAFETY				
Traffic control	658,789	663,789	691,629	(27,840)
Control of animals	462,987	462,987	715,759	(252,772)
Plumbing board	40,400	40,400	27,466	12,934
Civil defense	13,000	13,000	11,024	1,976
Total Public Safety	<u>1,175,176</u>	<u>1,180,176</u>	<u>1,445,878</u>	<u>(265,702)</u>
HEALTH				
Drug and alcohol control	966,623	966,623	963,140	3,483
Contracted narcotic addiction control services	356,792	356,792	406,829	(50,037)
Other health	624,890	618,970	624,948	(5,978)
Handicapped services	500	500	381	119
Total Health	<u>1,948,805</u>	<u>1,942,885</u>	<u>1,995,298</u>	<u>(52,413)</u>
ECONOMIC ASSISTANCE AND OPPORTUNITY				
Public information	113,800	113,800	101,361	12,439
Veterans' services	9,400	8,800	6,165	2,635
Programs for the aging	95,353	95,353	95,743	(390)
Family services	42,435	42,435	44,545	(2,110)
Total Economic Assistance and Opportunity	<u>260,988</u>	<u>260,388</u>	<u>247,814</u>	<u>12,574</u>
CULTURE AND RECREATION				
Recreation administration	722,370	742,370	835,406	(93,036)
Parks	3,998,036	3,993,036	4,223,125	(230,089)
Playground and recreation center	455,296	450,996	491,557	(40,561)
Beaches and pools	2,132,200	2,130,500	2,313,679	(183,179)
Youth programs	1,428,153	1,394,653	1,084,549	310,104
Town historian	67,566	76,566	90,292	(13,726)
Adult recreation and senior citizen programs	804,823	816,743	888,393	(71,650)
Council on the arts	10,000	10,000	10,000	-0-
Total Culture and Recreation	<u>9,618,444</u>	<u>9,614,864</u>	<u>9,937,001</u>	<u>(322,137)</u>
HOME AND COMMUNITY SERVICES				
Environmental control	865,870	865,870	814,917	50,953
Total Home and Community Services	<u>865,870</u>	<u>865,870</u>	<u>814,917</u>	<u>50,953</u>
EMPLOYEE BENEFITS				
Retirement system	2,304,357	2,304,357	2,016,561	287,796
Social security	1,344,774	1,344,774	1,457,412	(112,638)
Workers' compensation	1,100,000	1,100,000	1,103,481	(3,481)
Life insurance	15,000	15,000	11,234	3,766
Unemployment benefits	200,000	200,000	144,762	55,238
Disability benefits	25,000	25,000	22,871	2,129
Hospital, medical, and dental	5,075,000	5,075,000	4,976,243	98,757
Other employee benefits	380,000	380,000	382,936	(2,936)
Total Employee Benefits	<u>10,444,131</u>	<u>10,444,131</u>	<u>10,115,500</u>	<u>328,631</u>
DEBT SERVICE				
Principal	5,157,854	5,157,854	5,157,854	-0-
Interest	2,305,751	2,305,751	2,220,248	85,503
Bond issuance costs			105,253	(105,253)
Total Debt Service	<u>7,463,605</u>	<u>7,463,605</u>	<u>7,483,355</u>	<u>(19,750)</u>
Total Expenditures	<u>47,283,122</u>	<u>47,278,022</u>	<u>46,475,985</u>	<u>802,037</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(216,358)</u>	<u>(215,758)</u>	<u>2,147,604</u>	<u>2,363,362</u>
OTHER FINANCING SOURCES (USES)				
Principal amount of bond anticipation note			8,500,000	8,500,000
Refunding bond proceeds			4,004,000	4,004,000
Premium on bond anticipation note and refunding bond			499,195	499,195
Payments to refunded bond escrow agent			(4,061,200)	(4,061,200)
Operating transfers in	200,000	200,000		(200,000)
Operating transfers out		(600)		600
Total Other Financing Sources (Uses)	<u>200,000</u>	<u>199,400</u>	<u>8,941,995</u>	<u>8,742,595</u>
SPECIAL ITEM				
Property held for resale reclassified as Town owned assets			(5,287,088)	(5,287,088)
Net Change in Fund Balance	<u>\$ (16,358)</u>	<u>\$ (16,358)</u>	<u>5,802,511</u>	<u>\$ 5,818,869</u>
Fund Balance at Beginning of Year			<u>15,918,266</u>	
Fund Balance at End of Year			<u>\$ 21,720,777</u>	

TOWN OF BABYLON
RESIDENTIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 17,697,969	\$ 17,697,969	\$ 17,697,969	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Other tax items	5,416,450	5,416,450	5,416,450	-0-
Payment in lieu of taxes			2,667,522	2,667,522
Total Other Real Property Tax Items	<u>5,416,450</u>	<u>5,416,450</u>	<u>8,083,972</u>	<u>2,667,522</u>
DEPARTMENTAL INCOME				
Refuse and garbage fees	5,358,382	5,358,382	5,197,193	(161,189)
Long Island Green Homes	300,000	300,000	1,736,059	1,436,059
Total Departmental Income	<u>5,658,382</u>	<u>5,658,382</u>	<u>6,933,252</u>	<u>1,274,870</u>
USE OF MONEY AND PROPERTY				
Interest earnings	300,000	300,000	231,347	(68,653)
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			5,372	5,372
STATE AID				
Hazardous waste			15,412	15,412
Emergency disaster assistance program- severe storms			44,106	44,106
Total State Aid	<u>-0-</u>	<u>-0-</u>	<u>59,518</u>	<u>59,518</u>
FEDERAL AID				
Emergency disaster assistance program - severe storms			2,399,752	2,399,752
Energy efficiency and conservation			709,249	709,249
Total Federal Aid	<u>-0-</u>	<u>-0-</u>	<u>3,109,001</u>	<u>3,109,001</u>
Total Revenues	<u>29,072,801</u>	<u>29,072,801</u>	<u>36,120,431</u>	<u>7,047,630</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Garbage improvement area	31,369,416	31,369,416	35,885,672	(4,516,256)
Personal services	1,280,213	1,280,213	926,392	353,821
Total Home and Community Services	<u>32,649,629</u>	<u>32,649,629</u>	<u>36,812,064</u>	<u>(4,162,435)</u>
EMPLOYEE BENEFITS				
Retirement system	107,192	107,192	101,543	5,649
Social security	88,621	88,621	73,246	15,375
Workers' compensation	45,000	45,000	41,479	3,521
Life insurance	600	600	152	448
Unemployment benefits	8,000	8,000	7,181	819
Disability benefits	2,500	2,500	1,256	1,244
Hospital, medical, and dental	174,780	174,780	118,577	56,203
Other employee benefits	22,050	22,050	14,831	7,219
Total Employee Benefits	<u>448,743</u>	<u>448,743</u>	<u>358,265</u>	<u>90,478</u>
DEBT SERVICE				
Principal	3,631,883	3,631,883	3,631,883	-0-
Interest	264,772	264,772	336,105	(71,333)
Bond issuance costs			21,511	(21,511)
Total Debt Service	<u>3,896,655</u>	<u>3,896,655</u>	<u>3,989,499</u>	<u>(92,844)</u>
Total Expenditures	<u>36,995,027</u>	<u>36,995,027</u>	<u>41,159,828</u>	<u>(4,164,801)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,922,226)</u>	<u>(7,922,226)</u>	<u>(5,039,397)</u>	<u>2,882,829</u>
OTHER FINANCING SOURCES (USES)				
Refunding bond proceeds			1,617,000	1,617,000
Premium on refunding bond			135,078	135,078
Payments to refunded bond escrow agent			(1,640,100)	(1,640,100)
Operating transfers out	(250,000)	(250,000)		250,000
Total Other Financing Sources (Uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>111,978</u>	<u>361,978</u>
Net Change in Fund Balance	<u>\$ (8,172,226)</u>	<u>\$ (8,172,226)</u>	<u>(4,927,419)</u>	<u>\$ 3,244,807</u>
Fund Balance at Beginning of Year			24,543,591	
Fund at Balance End of Year			<u>\$ 19,616,172</u>	

TOWN OF BABYLON
COMMERCIAL GARBAGE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 6,146,683	\$ 6,146,683	\$ 6,146,683	\$ -0-
DEPARTMENTAL INCOME				
Refuse and garbage fees	18,126,102	18,126,102	16,332,758	(1,793,344)
USE OF MONEY AND PROPERTY				
Interest earnings	30,000	30,000	17,033	(12,967)
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Sale of equipment			87,625	87,625
MISCELLANEOUS LOCAL SOURCES				
Miscellaneous revenues			585	585
FEDERAL AID				
Emergency disaster assistance program - severe storms			21,432	21,432
Total Revenues	<u>24,302,785</u>	<u>24,302,785</u>	<u>22,606,116</u>	<u>(1,696,669)</u>
EXPENDITURES				
HOME AND COMMUNITY SERVICES				
Garbage improvement area	19,658,471	19,658,471	20,074,044	(415,573)
Personal services	452,839	452,839	802,414	(349,575)
Total Home and Community Services	<u>20,111,310</u>	<u>20,111,310</u>	<u>20,876,458</u>	<u>(765,148)</u>
EMPLOYEE BENEFITS				
Retirement system	70,000	70,000	118,168	(48,168)
Social security	34,642	34,642	62,991	(28,349)
Workers' compensation	45,000	45,000	41,479	3,521
Life insurance	400	400	134	266
Unemployment benefits	1,000	1,000		1,000
Disability benefits	1,000	1,000	1,498	(498)
Hospital, medical, and dental	104,000	104,000	128,016	(24,016)
Other employee benefits	4,000	4,000	8,605	(4,605)
Total Employee Benefits	<u>260,042</u>	<u>260,042</u>	<u>360,891</u>	<u>(100,849)</u>
DEBT SERVICE				
Principal	3,434,269	3,434,269	3,434,269	-0-
Interest	247,164	247,164	311,703	(64,539)
Bond issuance costs			19,462	(19,462)
Total Debt Service	<u>3,681,433</u>	<u>3,681,433</u>	<u>3,765,434</u>	<u>(84,001)</u>
Total Expenditures	<u>24,052,785</u>	<u>24,052,785</u>	<u>25,002,783</u>	<u>(949,998)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>250,000</u>	<u>250,000</u>	<u>(2,396,667)</u>	<u>(2,646,667)</u>
OTHER FINANCING SOURCES (USES)				
Refunding bond proceeds			1,463,000	1,463,000
Premium on refunding bond			122,213	122,213
Payments to refunded bond escrow agent			(1,483,900)	(1,483,900)
Operating transfers out	(250,000)	(250,000)		250,000
Total Other Financing Sources (Uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>101,313</u>	<u>351,313</u>
Net Change in Fund Balance	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(2,295,354)</u>	<u>\$ (2,295,354)</u>
Fund Balance at Beginning of Year			7,979,791	
Fund at Balance End of Year			<u>\$ 5,684,437</u>	

TOWN OF BABYLON
COMBINED HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
REAL PROPERTY TAXES				
Ad valorem taxes	\$ 16,213,868	\$ 16,213,868	\$ 16,213,868	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	545,000	545,000	545,960	960
USE OF MONEY AND PROPERTY				
Interest earnings	25,000	25,000	32,044	7,044
LICENSES AND PERMITS				
Street inspection fees	60,000	60,000	76,245	16,245
Road maintenance fees	50	50	70	20
Total Licenses and Permits	<u>60,050</u>	<u>60,050</u>	<u>76,315</u>	<u>16,265</u>
SALE OF PROPERTY AND COMPENSATION FOR LOSS				
Insurance recoveries	2,500	2,500		(2,500)
MISCELLANEOUS LOCAL SOURCES				
Refund of prior year expenditures			26,811	26,811
Other miscellaneous revenue	37,000	37,000	47,895	10,895
Total Miscellaneous Local Sources	<u>37,000</u>	<u>37,000</u>	<u>74,706</u>	<u>37,706</u>
INTERFUND REVENUES				
Interfund chargebacks	300,000	300,000		(300,000)
STATE AID				
Consolidated Local Street and Highway Improvement Program	900,000	900,000	929,977	29,977
Emergency disaster assistance program- severe storms			169,366	169,366
Total State Aid	<u>900,000</u>	<u>900,000</u>	<u>1,099,343</u>	<u>199,343</u>
FEDERAL AID				
Emergency disaster assistance program- severe storms			1,793,212	1,793,212
Total Revenues	<u>18,083,418</u>	<u>18,083,418</u>	<u>19,835,448</u>	<u>1,752,030</u>
EXPENDITURES				
TRANSPORTATION				
Repairs and maintenance	3,814,939	3,824,939	4,392,223	(567,284)
Improvements	970,000	960,000	973,201	(13,201)
Machinery	866,487	866,487	864,450	2,037
Miscellaneous	598,274	598,274	627,871	(29,597)
Snow removal	700,000	700,000	180,559	519,441
Total Transportation	<u>6,949,700</u>	<u>6,949,700</u>	<u>7,038,304</u>	<u>(88,604)</u>
EMPLOYEE BENEFITS				
Retirement system	660,697	660,697	625,242	35,455
Social security	359,358	359,358	372,020	(12,662)
Workers' compensation	319,046	319,046	323,487	(4,441)
Life insurance	300	300	242	58
Unemployment benefits	27,000	27,000	26,348	652
Disability benefits	600	600	249	351
Hospital, medical, and dental	1,816,517	1,816,517	1,670,109	146,408
Other employee benefits	108,000	108,000	101,022	6,978
Total Employee Benefits	<u>3,291,518</u>	<u>3,291,518</u>	<u>3,118,719</u>	<u>172,799</u>
DEBT SERVICE				
Principal	6,579,144	6,579,144	6,579,145	(1)
Interest	2,785,836	2,785,836	2,633,874	151,962
Bond issuance costs			27,423	(27,423)
Total Debt Service	<u>9,364,980</u>	<u>9,364,980</u>	<u>9,240,442</u>	<u>124,538</u>
Total Expenditures	<u>19,606,198</u>	<u>19,606,198</u>	<u>19,397,465</u>	<u>208,733</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,522,780)</u>	<u>(1,522,780)</u>	<u>437,983</u>	<u>1,960,763</u>
Other Financing Sources (Uses)				
Refunding bond proceeds			616,000	616,000
Premium on refunding bond			112,381	112,381
Payments to refunded bond escrow agent			(624,800)	(624,800)
Operating transfers in			825	825
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>104,406</u>	<u>104,406</u>
Net Change in Fund Balance	<u>\$ (1,522,780)</u>	<u>\$ (1,522,780)</u>	<u>542,389</u>	<u>\$ 2,065,169</u>
Fund Balance at Beginning of Year			<u>8,148,136</u>	
Fund Balance at End of Year			<u>\$ 8,690,525</u>	

TOWN OF BABYLON
SPECIAL DISTRICTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
REAL PROPERTY TAXES				
Special assessments	\$ 14,690,207	\$ 14,690,207	\$ 14,690,207	\$ -0-
OTHER REAL PROPERTY TAX ITEMS				
Payment in lieu of taxes	541,231	541,231	569,044	27,813
USE OF MONEY AND PROPERTY				
Interest earnings	2,843	2,843	7,490	4,647
MISCELLANEOUS LOCAL SOURCES				
Other miscellaneous revenue			1,772	1,772
Total Revenues	<u>15,234,281</u>	<u>15,234,281</u>	<u>15,268,513</u>	<u>34,232</u>
EXPENDITURES				
PUBLIC SAFETY				
Fire protection districts	14,467,515	14,467,515	14,626,834	(159,319)
HEALTH				
Ambulance districts	1,373,063	1,373,063	1,376,911	(3,848)
HOME AND COMMUNITY SERVICES				
Water supply districts	100,495	100,495	99,326	1,169
Total Expenditures	<u>15,941,073</u>	<u>15,941,073</u>	<u>16,103,071</u>	<u>(161,998)</u>
Net Change in Fund Balance	<u>\$ (706,792)</u>	<u>\$ (706,792)</u>	(834,558)	<u>\$ (127,766)</u>
Fund Balance at Beginning of Year			<u>2,911,570</u>	
Fund Balance at End of Year			<u>\$ 2,077,012</u>	

TOWN OF BABYLON
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
December 31, 2012

Actuarial Valuation Date January 1,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
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%