

TOWN OF SMITHTOWN
REPORT ON AUDIT OF THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS
YEAR ENDED DECEMBER 31, 2011

TOWN OF SMITHTOWN
REPORT ON AUDIT OF THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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II. SINGLE AUDIT REPORTS SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Smithtown, as of December 31, 2011, and for the year then ended, which collectively comprise the Town of Smithtown's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Smithtown's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Smithtown, as of December 31, 2011, 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 (GAAP).

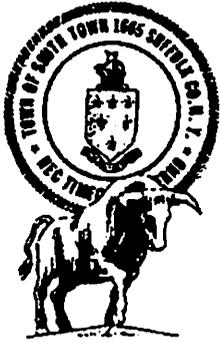
In accordance with *Government Auditing Standards*, we have issued our report dated September 10, 2012 on our consideration of the Town of Smithtown's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smithtown's financial statements. The Combining Balance Sheet – Community Development and Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Community Development and the Schedule of Expenditures of Federal Awards, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. The Combining Balance Sheet – Community Development and Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Community Development and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Balance Sheet – Community Development and Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Community Development and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Hauppauge, New York
September 10, 2012

Fuoco Group, LLP



TOWN OF SMITHTOWN

PATRICK R. VECCHIO
TOWN SUPERVISOR

TOWN OF SMITHTOWN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Town of Smithtown's financial performance for the fiscal year ended December 31, 2011. Please read it in conjunction with the Town's financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The Town of Smithtown's fund balances for the governmental funds (modified accrual basis of accounting) as noted below shows the financial position as of December 31, 2011.

General Fund	\$ 16,621,000
Highway	3,330,000
Refuse and Garbage	4,210,000
Capital	5,673,000
Non Major	13,249,000
Total	\$ 43,083,000

- This allows us to keep our property taxes stable even in this economic climate, yet provide all the high quality services that we are able for our residents and community.
- The Town's total debt as of December 31, 2011 was \$14.8 million, which is low for a Town of this size.
- Town issued Public Improvement Serial Bond in 2011 for \$2,275,000 for various Capital Improvements.
- The Town expended over \$ 12.8 million on new vehicles, equipment and investments in infrastructure assets.

- Town expended the following on Capital Projects:

Town Building	\$ 585,000
Building Improvements	358,000
Traffic Control	115,000
Public Safety	592,000
Highway	385,000
Parks & Recreation	640,000
Home & Community Services	628,000
Total	\$ 3,303,000

- Town received \$.6 million in State and Federal Aid to fund various other Capital Projects.
- Town transferred from Operating Budget to the Capital Project Fund the following:

Public Safety Replacement Vehicles	\$ 58,463
Recreation-Yamaha Boat Motor	16,000
Total	\$ 74,463

- Interest and investment income continued its decline to \$476 thousand from the 2010 amount of \$484 thousand.
- For 2011, mortgage taxes of \$3.7 million were less than budgeted revenues of \$4.2 million.
- Town suffered a severe winter of snow storms in 2011. Overtime and sand salt for Highway Snow Fund was \$1.5 million.
- Town struck by Tropical Storm Irene in August 2011 causing damage. Town of Smithtown received \$1.3 million in aid in 2012 from FEMA for damage resulting from the storm.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets (page 3) and the Statement of Activities (page 4) provide information about the activities of the Town as a whole and presents a longer-term view of the Town's finances. Fund financial statements start on page 5. Governmental activities statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government (page 18 & 19).

REPORTING THE TOWN AS A WHOLE

The Statement of Net Assets and the Statement of Activities

Our analysis of the Town as a whole begins on page 3 & 4. One of the most important questions asked about the Town's finances is "Is the Town as a whole better off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting* that is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. On page 4, one can see that the Town's governmental activities financial condition decreased \$8,193,000 given the severe winter and tropical storm, along with the increased costs and falling revenues indicative of the economy in 2011. Also a consideration is other post employment benefits shown on page 12 which do not require use of current financial resources but must be shown as an expense per GASB 45.

These two statements report the Town's *net assets* and changes in them. You can think of the Town's net assets – the difference between assets and liabilities – as one way to measure the Town's financial health, or *financial position*. Over time, *increases or decreases* in the Town's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's infrastructure to assess the *overall health* of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – Most of the Town’s basic services are reported here, including engineering, highway, parks, public safety, recreation, sanitation and general administration. Property taxes, user fees, and state and federal grants finance most of these activities.
- Business type activities –Includes the Smithtown and St. James Water Districts, as well as the Paul J. Fitzpatrick Smithtown Landing Country Club which provides golf & pool services. The Town charges a fee to customers to cover most of the cost of these services.

REPORTING THE TOWN OF SMITHTOWN’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the Town’s major funds begins on page 5. The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. The major funds consist of the Town’s General Fund, Highway Road Repair, Garbage Collection Improvement District and Capital Projects Fund.

Some funds are required to be established by State and Federal Law. The Town establishes funds to control and manage money and to show that it is meeting legal responsibilities. Example being Community Development fund categorized as a non-major fund that receives federal aid to provide Town residents such as Section 8 Housing Assistance.

The Town’s – *governmental* and *business type* – use different accounting approaches.

- *Governmental funds* – Most of the Town’s basic services are reported in governmental funds, which focus on how cash flows into and out of these funds. The balances left at year-end that is available for future budgets. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a *short-term view* of the Town’s general government operations and the services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future on Town programs. We describe differences between governmental *activities* (Reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation on pages 8 and 12.
- *Business Type Activities* – When the Town charges customers for the services it provides – whether to outside customer or to other units of the Town – these services are generally

- reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the Town's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as business type activities cash flows.

THE TOWN AS TRUSTEE

Reporting the Town's Fiduciary Responsibilities

The Town is the *fiduciary* for assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the Town's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 18 and 19. 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. An example being the Nissequogue River Trust Fund.

THE TOWN AS A WHOLE

The Town's *combined* net assets were reported for the first time in 2003. This statement looks at the net assets and net expenses of the governmental and business-type activities separately. The Town, as required, began reporting infrastructure assets in the 2006 statement. Infrastructure assets include the values of water mains, roads, drainage systems, streetlights and traffic signals. The Town as required also implemented GASB Statement No.45 in 2008, which required the recording of expense for Other Post Employment Benefits (OPEB). These amounts represent the phase in portion of the total obligation over a 30-year period of time. On 1/1/11 the Town adopted the new Fund Balance reporting under GASB 54. Town is required to categorize Fund Balance under the categories of Nonspendable, Restricted, Committed, Assigned and Unassigned Fund Balance.

The following focuses on the net assets (Table 1), of the Town's governmental and business-type activities as the primary government.

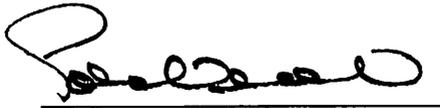
TABLE 1

**NET ASSETS
(In Millions)**

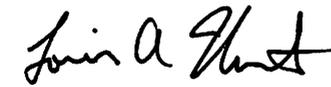
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	49.2	53.6	1.6	1.8	50.8	55.4
Capital assets	<u>109.4</u>	<u>105.3</u>	<u>8.7</u>	<u>8.8</u>	<u>118.1</u>	<u>114.1</u>
Total assets	<u>158.6</u>	<u>158.9</u>	<u>10.3</u>	<u>10.6</u>	<u>168.9</u>	<u>169.5</u>
Current Liabilities	8.5	9.7	.3	.5	8.8	10.2
Due in more than one year	<u>68.3</u>	<u>59.2</u>	<u>1.1</u>	<u>.8</u>	<u>69.4</u>	<u>60.0</u>
Total Liabilities	<u>76.8</u>	<u>68.9</u>	<u>1.4</u>	<u>1.3</u>	<u>78.2</u>	<u>70.2</u>
Net assets:						
Invested in capital assets	84.5	79.9	8.4	8.8	92.9	88.7
Restricted capital project	5.6	1.8	-	-	5.6	1.8
Unrestricted (deficit)	<u>(8.3)</u>	<u>8.3</u>	<u>.5</u>	<u>.5</u>	<u>(7.8)</u>	<u>8.8</u>
Total net assets	<u>81.8</u>	<u>90.0</u>	<u>8.9</u>	<u>9.3</u>	<u>90.7</u>	<u>99.3</u>

The total net assets of the governmental activities decreased \$8.2 million to \$81.8 million. The total net assets of our business-type activities have decreased by \$372 thousand effectively to \$8.9 million.

In closing, further information is provided in the notes to the financial statements.



Patrick R. Vecchio
Town Supervisor



Louis A. Necroto
Town Comptroller

**TOWN OF SMITHTOWN
GOVERNMENTWIDE FINANCIAL STATEMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 43,169,464	\$ 1,164,714
Cash restricted	477,021	-
Accounts receivable, net of allowance for doubtful accounts	775,726	392,615
Prepays and other	2,046,696	30,305
Due from federal, state and other governments	2,686,386	-
Due from water district and fiduciary funds	2,048	1
Total Current Assets	49,157,341	1,587,635
Non-Current Assets		
Deferred landfill closure and post closure charges (To be provided for in future budgets)	10,253,863	-
Deferred charge on advanced refunding bond	120,238	-
Capital Assets (net of accumulated depreciation)	99,029,474	8,720,458
Total Non-Current Assets	109,403,575	8,720,458
Total Assets	158,560,916	10,308,093
LIABILITIES		
Current Liabilities		
Accounts payable	3,330,332	121,065
Accrued liabilities	1,832,290	25,602
Security deposits	1,850	-
Due to other governments	-	281
Deferred revenue	936,431	60,326
Noncurrent liabilities:		
Premium on bonds payable	200,238	-
Due within one year	2,173,355	111,407
Total Current Liabilities	8,474,496	318,681
Noncurrent liabilities:		
Due in more than one year	68,325,988	1,080,422
Total Non-Current Liabilities	68,325,988	1,080,422
Total Liabilities	76,800,484	1,399,103
NET ASSETS		
Investment in capital assets, net of related debt	84,499,883	8,425,051
Restricted for:		
Capital projects	5,593,160	-
Unrestricted	(8,332,611)	483,939
Total Net Assets	\$ 81,760,432	\$ 8,908,990

See notes to the financial statements.

**TOWN OF SMITHTOWN
GOVERNMENTWIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	
GOVERNMENTAL FUNCTIONS/ PROGRAMS						
Primary Government:						
Governmental Activities:						
General government	\$ 17,843,194	\$ 187,268	\$ 5,494,948	\$ -	\$ (12,160,978)	
Public safety	8,487,925	2,123,459	-	-	(6,364,466)	
Health	2,769,766	-	-	-	(2,769,766)	
Transportation	33,244,316	10,888,086	-	1,231,256	(21,124,974)	
Economic assistance and opportunity	1,769,808	2,224,696	1,626,729	-	2,081,617	
Culture and recreation	11,010,842	3,351,937	-	-	(7,658,905)	
Home and community services	23,225,096	6,738,333	-	-	(16,486,763)	
Interest on long-term debt	519,059	-	-	-	(519,059)	
	<u>98,870,006</u>	<u>25,513,779</u>	<u>7,121,677</u>	<u>1,231,256</u>	<u>(65,003,294)</u>	
Total governmental activities						
	<u>\$ 98,870,006</u>	<u>\$ 25,513,779</u>	<u>\$ 7,121,677</u>	<u>\$ 1,231,256</u>	<u>\$ (65,003,294)</u>	
 Business Type Activities:						
Paul J. Fitzpatrick Country Club	\$ 776,462	\$ 576,055				\$ (200,407)
Water Districts	3,082,073	3,068,686				(13,387)
	<u>\$ 3,858,535</u>	<u>\$ 3,644,741</u>				<u>\$ (213,794)</u>
 General Revenues						
Property taxes				\$ 48,362,935		\$ 48,059
Mortgage taxes				3,708,337		-
Other taxes				709,596		-
Interest and investment income				475,733		111,275
Transfers				317,700		(317,700)
Miscellaneous				3,236,090		-
				<u>56,810,391</u>		<u>(158,366)</u>
Total general revenues and special items						
				<u>(8,192,903)</u>		<u>(372,160)</u>
Change in net assets for the year						
				<u>89,953,335</u>		<u>9,281,150</u>
Net assets - Beginning of year						
				<u>\$ 81,760,432</u>		<u>\$ 8,908,990</u>
Net assets - End of year						

See notes to the financial statements.

**TOWN OF SMITHTOWN
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2011**

	Major Governmental Funds	
	<u>General</u>	<u>Highway</u>
ASSETS		
Cash and cash equivalents	\$ 16,031,153	\$ 3,437,377
Cash restricted	-	-
Accounts receivable	713,409	5,782
Prepays	589,776	295,829
Due from federal, state and other governments	1,269,152	826,872
Due from other funds	23,742	306
	<hr/>	<hr/>
Total Assets	<u><u>\$ 18,627,232</u></u>	<u><u>\$ 4,566,166</u></u>
LIABILITIES AND FUND BALANCES		
Accounts payable and other current liabilities	\$ 402,378	\$ 934,309
Other current liabilities	-	-
Accrued liabilities	725,824	301,566
Security Deposits	1,850	-
Due to other funds	667,249	-
Deferred Revenue	209,089	-
	<hr/>	<hr/>
Total Liabilities	<u><u>2,006,390</u></u>	<u><u>1,235,875</u></u>
FUND BALANCES		
Nonspendable	589,776	295,829
Restricted	-	-
Assigned	4,298,812	3,034,462
Unassigned	11,732,254	-
	<hr/>	<hr/>
Total Fund Balances	<u><u>16,620,842</u></u>	<u><u>3,330,291</u></u>
	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u><u>\$ 18,627,232</u></u>	<u><u>\$ 4,566,166</u></u>

See notes to the financial statements.

Major Governmental Funds		Nonmajor Governmental Funds	
<u>Refuse and Garbage</u>	<u>Capital Projects</u>	<u>Funds</u>	<u>Total</u>
\$ 4,877,611	\$ 5,734,423	\$ 13,088,900	\$ 43,169,464
-	-	477,021	477,021
-	52,841	3,694	775,726
-	-	1,156,531	2,042,136
12,780	531,198	46,384	2,686,386
647,043	-	20,941	692,032
<u>\$ 5,537,434</u>	<u>\$ 6,318,462</u>	<u>\$ 14,793,471</u>	<u>\$ 49,842,765</u>
\$ 815,354	\$ 644,101	\$ 534,190	\$ 3,330,332
-	-	27,019	27,019
511,662	1,200	233,150	1,773,402
-	-	-	1,850
-	-	22,735	689,984
-	-	727,342	936,431
<u>1,327,016</u>	<u>645,301</u>	<u>1,544,436</u>	<u>6,759,018</u>
-	-	1,606,533	2,492,138
-	2,734,222	313,551	3,047,773
4,210,418	2,938,939	11,328,951	25,811,582
-	-	-	11,732,254
<u>4,210,418</u>	<u>5,673,161</u>	<u>13,249,035</u>	<u>43,083,747</u>
<u>\$ 5,537,434</u>	<u>\$ 6,318,462</u>	<u>\$ 14,793,471</u>	<u>\$ 49,842,765</u>

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**TOWN OF SMITHTOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Total Fund Balance - Governmental Funds	\$43,083,747
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Deferred charges associated with accrued liability for landfill post closure costs are recorded in the statement of net assets and not in the governmental funds	10,253,863
 Capital assets, less accumulated depreciation, are included in the Statement of Net Assets :	
Capital Assets - Non-Depreciable	\$ 11,176,318
Capital Assets - Depreciable	227,463,653
Accumulated Depreciation	<u>(139,610,497)</u>
	99,029,474
 Unexpired Insurance premiums and other prepaid items	 4,560
 Unamortized Premium on Bonds Payable	 (200,238)
 Unamortized deferred charge on advanced refunding bond	 120,238
 Interest and other payables applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the governmental funds. However these liabilities are included in the Statement of Net Assets.	 (31,869)
 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 Assets.	
Reserve for workers compensation	(1,166,914)
Reserve for claims and judgements payable	(2,500,000)
Employees' compensable leave	(7,983,414)
Estimated landfill closure and post closure care costs	(10,253,863)
Other post employment benefits	(34,065,561)
General obligation bonds payable	<u>(14,529,591)</u>
	<u>(70,499,343)</u>
 Net Assets of Governmental Activities	 <u><u>\$81,760,432</u></u>

See notes to the financial statements.

TOWN OF SMITHTOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

	<u>Major Governmental Funds</u>		
	<u>General</u>	<u>Highway</u>	<u>Refuse and Garbage</u>
REVENUES			
Real property taxes	\$ 19,584,307	\$ 19,997,503	\$ -
Other real property tax items (IDA and other)	365,637	195,954	-
Non-property tax items (Franchise fees)	2,224,696	-	-
Intergovernmental charges	400,037	75,006	427,785
Use of money and property	169,826	57,525	42,663
Departmental income	9,249,668	-	10,319,209
Licenses and permits	110,847	-	-
Fines and forfeitures	215,312	-	-
Sale of property	1,192,252	1,363	-
Miscellaneous local sources	29,980	795,563	-
Interfund revenues	-	-	-
State aid	4,962,993	666,513	12,780
Federal aid	137,356	-	-
Total Revenues	<u>38,642,911</u>	<u>21,789,427</u>	<u>10,802,437</u>
EXPENDITURES			
Current:			
General government support	10,056,825	-	-
Public safety	2,666,888	-	-
Health	866,364	-	-
Transportation	887,723	16,784,502	-
Economic assistance and opportunity	4,652	-	-
Culture and recreation	5,911,136	-	-
Home and community services	7,490,773	-	9,928,822
Employee benefits	3,630,265	1,727,253	-
Capital Outlay			
Debt Service:			
Principal	1,856,192	101,500	-
Interest	378,532	6,432	-
Total Expenditures	<u>33,749,350</u>	<u>18,619,687</u>	<u>9,928,822</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,893,561</u>	<u>3,169,740</u>	<u>873,615</u>
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	(6,593,063)	(3,489,400)	-
Proceeds of debt	-	-	-
Total Other Financing Sources (Uses)	<u>(6,593,063)</u>	<u>(3,489,400)</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	<u>(1,699,502)</u>	<u>(319,660)</u>	<u>873,615</u>
Fund Balances at Beginning of Year	<u>18,320,344</u>	<u>3,649,951</u>	<u>3,336,803</u>
Fund Balances at End of Year	<u>\$ 16,620,842</u>	<u>\$ 3,330,291</u>	<u>\$ 4,210,418</u>

See notes to the financial statements.

<u>Major Governmental</u> Capital Projects	<u>Nonmajor</u> Governmental Funds	<u>Total</u>
\$ -	\$ 12,489,462	\$ 52,071,272
-	148,005	709,596
-	-	2,224,696
-	93,635	996,463
103,078	102,641	475,733
-	493,871	20,062,748
-	1,814,512	1,925,359
-	-	215,312
-	100,808	1,294,423
550,885	565,239	1,941,667
76,421	-	76,421
155,359	394,599	6,192,244
409,381	1,626,729	2,173,466
<u>1,295,124</u>	<u>17,829,501</u>	<u>90,359,400</u>
942,627	1,102,230	12,101,682
591,776	3,046,593	6,305,257
-	1,254,361	2,120,725
499,547	7,260,141	25,431,913
-	-	4,652
640,681	-	6,551,817
628,209	3,246,461	21,294,265
-	13,972,712	19,330,230
-	158,900	2,116,592
110,047	34,650	529,661
<u>3,412,887</u>	<u>30,076,048</u>	<u>95,786,794</u>
<u>(2,117,763)</u>	<u>(12,246,547)</u>	<u>(5,427,394)</u>
74,463	10,325,700	10,400,163
-	-	(10,082,463)
<u>2,275,000</u>	<u>-</u>	<u>2,275,000</u>
<u>2,349,463</u>	<u>10,325,700</u>	<u>2,592,700</u>
231,700	(1,920,847)	(2,834,694)
<u>5,441,461</u>	<u>15,169,882</u>	<u>45,918,441</u>
<u>\$ 5,673,161</u>	<u>\$ 13,249,035</u>	<u>\$ 43,083,747</u>

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TOWN OF SMITHTOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDING DECEMBER 31, 2011

Net Change in Fund Balance **\$ (2,834,694)**

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

Capital Outlay	\$ 12,648,967	
Loss on dispositions	(271,799)	
Depreciation Expense	<u>(7,656,377)</u>	4,720,791

The issuance of long-term debt and increase in obligations under capital leases provides current financial resources to governmental funds, while the repayment of the principal of long term debt and capital leases consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.

Bonds Proceeds	(2,204,000)	
Repayment of Bond Principal	<u>2,116,592</u>	(87,408)

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

Amortization of bond premium	50,060	
Amortization of deferred charge on advanced refunding bond	(30,060)	
Insurance and other	(38,421)	
Interest expense	(9,398)	
Reserve for workers compensation	(875,734)	
Other post-employment benefits	<u>(9,088,039)</u>	<u>(9,991,592)</u>

Change in Net Assets of Governmental Activities **\$ (8,192,903)**

See notes to the financial statements.

**TOWN OF SMITHTOWN
COMBINING STATEMENT OF NET ASSETS
BUSINESS TYPE ACTIVITIES
DECEMBER 31, 2011**

	<u>Smithtown Water District</u>	<u>St. James Water District</u>	<u>Birchcroft Colony Water District</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 407,644	\$ 420,318	\$ 24,040
Accounts receivable	238,158	152,879	-
Prepaid and other	17,303	8,907	-
Due from other funds	-	-	-
Capital Assets (net of accumulated depreciation)	1,084,966	905,546	-
TOTAL ASSETS	<u>\$ 1,748,071</u>	<u>\$ 1,487,650</u>	<u>\$ 24,040</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Accounts Payable	\$ 80,792	\$ 30,321	\$ -
Accrued liabilities	7,882	10,900	-
Due to governmental funds	-	-	-
Deferred revenue	27,702	-	-
Noncurrent liabilities:			
Due within one year	20,000	-	-
Due in more than one year	535,352	263,528	-
TOTAL LIABILITIES	<u>671,728</u>	<u>304,749</u>	<u>-</u>
FUND BALANCES:			
Investment in capital assets, net of related debt	944,966	905,546	-
Unrestricted			
Designated for subsequent year's expenditures	22,000	19,926	-
Undesignated	109,377	257,429	24,040
TOTAL FUND BALANCES	<u>1,076,343</u>	<u>1,182,901</u>	<u>24,040</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,748,071</u>	<u>\$ 1,487,650</u>	<u>\$ 24,040</u>

See notes to the financial statements.

<u>1987</u> <u>Water</u> <u>Supply</u>	<u>1989</u> <u>Water</u> <u>Supply</u>	<u>Total</u> <u>Water</u> <u>Districts</u>	<u>Paul J.</u> <u>Fitzpatrick</u> <u>Country Club</u>	<u>Total</u> <u>Business</u> <u>Type</u>
\$ 17,501	\$ 7,300	\$ 876,803	\$ 287,911	\$ 1,164,714
-	-	391,037	1,578	392,615
-	-	26,210	4,095	30,305
1	-	1	-	1
-	-	1,990,512	6,729,946	8,720,458
<u>\$ 17,502</u>	<u>\$ 7,300</u>	<u>\$ 3,284,563</u>	<u>\$ 7,023,530</u>	<u>\$ 10,308,093</u>
\$ -	\$ -	\$ 111,113	\$ 9,952	\$ 121,065
-	-	18,782	6,820	25,602
281	-	281	-	281
17,500	6,400	51,602	8,724	60,326
-	-	20,000	91,407	111,407
-	-	798,880	281,542	1,080,422
<u>17,781</u>	<u>6,400</u>	<u>1,000,658</u>	<u>398,445</u>	<u>1,399,103</u>
-	-	1,850,512	6,574,539	8,425,051
-	-	41,926	48,315	90,241
(279)	900	391,467	2,231	393,698
<u>(279)</u>	<u>900</u>	<u>2,283,905</u>	<u>6,625,085</u>	<u>8,908,990</u>
<u>\$ 17,502</u>	<u>\$ 7,300</u>	<u>\$ 3,284,563</u>	<u>\$ 7,023,530</u>	<u>\$ 10,308,093</u>

**TOWN OF SMITHTOWN
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - BUSINESS TYPE ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

	<u>Smithtown Water District</u>	<u>St. James Water District</u>	<u>Birchcroft Colony Water District</u>
OPERATING REVENUES:			
Real property taxes	\$ 27,409	\$ -	\$ -
Sale of property	-	720	-
Departmental income	1,954,717	1,113,249	-
Total Operating Revenues	<u>1,982,126</u>	<u>1,113,969</u>	<u>-</u>
OPERATING EXPENSES:			
General Government support	-	-	-
Home and community services	1,762,656	1,139,038	-
Culture and recreation	-	-	-
Employee benefits	101,144	55,242	-
Interest	5,739	-	-
TOTAL OPERATING EXPENSES	<u>1,869,539</u>	<u>1,194,280</u>	<u>-</u>
OPERATING INCOME (LOSS)	112,587	(80,311)	-
NONOPERATING REVENUE			
Operating transfers	(182,800)	(118,100)	-
Interest and other income	5,530	86,475	24
CHANGE IN NET ASSETS	(64,683)	(111,936)	24
NET ASSETS BEGINNING OF YEAR	<u>1,141,026</u>	<u>1,294,837</u>	<u>24,016</u>
NET ASSETS END OF YEAR	<u>\$ 1,076,343</u>	<u>\$ 1,182,901</u>	<u>\$ 24,040</u>

See notes to the financial statements.

<u>1987 Water Supply</u>	<u>1989 Water Supply</u>	<u>Total Water Districts</u>	<u>Paul J. Fitzpatrick Country Club</u>	<u>Total Business Type</u>
\$ 14,450	\$ 6,200	\$ 48,059	\$ -	\$ 48,059
-	-	720	-	720
-	-	3,067,966	576,055	3,644,021
<u>14,450</u>	<u>6,200</u>	<u>3,116,745</u>	<u>576,055</u>	<u>3,692,800</u>
-	-	-	563,414	563,414
12,320	5,934	2,919,948	-	2,919,948
-	-	-	176,477	176,477
-	-	156,386	33,552	189,938
-	-	5,739	3,019	8,758
<u>12,320</u>	<u>5,934</u>	<u>3,082,073</u>	<u>776,462</u>	<u>3,858,535</u>
2,130	266	34,672	(200,407)	(165,735)
-	-	(300,900)	(16,800)	(317,700)
<u>3</u>	<u>1</u>	<u>92,033</u>	<u>19,242</u>	<u>111,275</u>
2,133	267	(174,195)	(197,965)	(372,160)
<u>(2,412)</u>	<u>633</u>	<u>2,458,100</u>	<u>6,823,050</u>	<u>9,281,150</u>
<u>\$ (279)</u>	<u>\$ 900</u>	<u>\$ 2,283,905</u>	<u>\$ 6,625,085</u>	<u>\$ 8,908,990</u>

**TOWN OF SMITHTOWN
STATEMENT OF CASH FLOWS
BUSINESS TYPE ACTIVITIES
DECEMBER 31, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from property taxes	\$ 48,059
Receipts from user charges	3,812,459
Interest collected	24,685
Miscellaneous revenue	87,310
Total cash received	3,972,513
Payments for general government support	(430,643)
Payments for home and community services	(2,908,680)
Payments for culture and recreation	(9,890)
Payments to employee benefit plan	(197,333)
Interest paid	(8,758)
Support of general government	(317,700)
Total cash paid	(3,873,004)
Net cash provided by operating activities	99,509

CASH FLOWS FROM CAPITAL AND RELATED FINANCING

Purchase of capital assets	(174,295)
Principal paid on capital debt	(99,408)
Proceeds from the issuance of debt	71,000
Increase in reserve for workers compensation	10,749
Net cash used for capital and related financing activities	(191,954)
Net increase in cash	(92,445)
Cash at beginning of year	1,257,159
Cash at end of year	\$ 1,164,714

Components of operating income not effecting cash and cash equivalents:

Change in net assets	\$ (372,160)
Depreciation expense	261,586
Abandonment of capital assets (net)	22,749
Other post-employment benefits	254,224
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	168,438
Prepays and other	(7,395)
Increase (decrease) in:	
Due to governmental funds	(9,028)
Accounts payable	(217,073)
Accrued expenses and other payables	(1,832)
Net cash provided by operating activities	\$ 99,509

See notes to the financial statements.

**TOWN OF SMITHTOWN
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2011**

	<u>Park Fund</u>	<u>Trust and Agency</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 248,086	\$ 2,083,314	\$ 2,331,400
Investments	-	291,956	291,956
Accounts receivable	-	25	25
	<u>\$ 248,086</u>	<u>\$ 2,375,295</u>	<u>\$ 2,623,381</u>
TOTAL ASSETS			
LIABILITIES			
Accounts payable	\$ -	\$ 15	\$ 15
Accrued liabilities	-	292,939	292,939
Due to other funds	-	1,768	1,768
Agency liabilities:			
Escrows	-	1,152,974	1,152,974
Park land deposits	248,086	-	248,086
Water main deposits	-	40,681	40,681
Subdivision settlement	-	309,503	309,503
Non-expendable trust - Nissequogue river	-	291,956	291,956
Tax Warrant and IDA taxes	-	285,459	285,459
	<u>\$ 248,086</u>	<u>\$ 2,375,295</u>	<u>\$ 2,623,381</u>
TOTAL LIABILITIES			

See notes to the financial statements.

TOWN OF SMITHTOWN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED DECEMBER 31, 2011

	<u>Balance</u> <u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>2011</u>
ASSETS:				
Cash	\$ 1,997,538	\$ 522,480,777	\$ 522,146,915	\$ 2,331,400
Investment	291,931	25	-	291,956
Accounts receivable	63	285	323	25
Due from other funds	66	-	66	-
TOTAL ASSETS	<u><u>\$ 2,289,598</u></u>	<u><u>\$ 522,481,087</u></u>	<u><u>\$ 522,147,304</u></u>	<u><u>\$ 2,623,381</u></u>
LIABILITIES:				
Accounts Payable	\$ 53	\$ 76,895,127	\$ 76,895,165	\$ 15
Accrued Liabilities	222,619	2,873,164	2,802,844	292,939
Due to other funds	46,131	44,768	89,131	1,768
Agency liabilities:				
Escrows	1,066,864	300,927	214,817	1,152,974
Park and land deposits	248,090	42,996	43,000	248,086
Water main deposits	39,086	118,452	116,857	40,681
Subdivision Escrows	307,982	1,521	-	309,503
Non-expendable trust-Nissequogue River	291,931	25	-	291,956
Tax Warrant and IDA Taxes	66,842	394,227,406	394,008,789	285,459
TOTAL LIABILITIES	<u><u>\$ 2,289,598</u></u>	<u><u>\$ 474,504,386</u></u>	<u><u>\$ 474,170,603</u></u>	<u><u>\$ 2,623,381</u></u>

See notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**TOWN OF SMITHTOWN
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011**

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Smithtown, New York, (the "Town") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units, except as noted in Note 1 for valuing certain general fixed assets at estimated replacement cost. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Town's financial records are maintained in conformity with the New York State Uniform System of Accounts. Certain adjustments and reclassifications have been reflected in the accompanying financial statements to conform to GAAP.

The more significant of the government's accounting policies are listed below:

a. Reporting entity

The Town includes all funds, account groups, agencies, boards, commissions and authorities where the elected officials (the Supervisor and/or the Board) exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. All such entities of the Town have been included in this report. The following organizations are not part of the Town and are thus excluded from this report:

- (1) all school districts within the Town,
- (2) all fire districts within the Town, and
- (3) all incorporated villages and hamlets within the Town

b. Basis of Presentation

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

Government-wide Financial Statements

The government-wide financial statements report information on the Town as a whole, except fiduciary activities with separate columns for the primary governmental activities as well as the business type activities.

In the government-wide Statement of Net Assets, the Town's governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functional categories (public safety, transportation, home and community services, etc.) which are otherwise supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants to produce the net cost of each program. Program revenues include (a) charges for services and (b) operating and capital grants and contributions that are directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function) are normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

1. Summary of Significant Accounting Policies (Cont'd)

Fund Financial Statements

The emphasis in the fund financial statements is on the major funds. Non-major funds are summarized into a single column.

The accounts of the Town are organized on the basis of funds and account groups, 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 equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into four generic fund types and two broad fund categories as follows:

(1) Governmental funds

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes. The funds included under this caption on the Combined Statements include Highway, Community Development, Special Districts and Risk Retention.

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment.

(2) Proprietary funds

Proprietary funds are used to account for enterprise (business type) activities and Internal Service funds and include the Water Districts and the Paul J. Fitzpatrick Country Club

(3) Fiduciary funds

Trust and Agency Funds: The Trust and Agency Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(4) The account groups utilized by the Town are as follows:

Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group.

The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

1. Summary of Significant Accounting Policies (Cont'd)

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

c. Basis of accounting and measurement focus

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

In the government-wide statements, governmental activities are presented using the economic resources measurement focus and are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the funds statements, governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. The modified accrual basis of accounting is followed by all governmental and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded as available, except for revenues susceptible to accrual and material revenues that are not received at the normal time of receipt. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues accrued under the modified accrual basis are primarily reimbursable amounts from federal and state supported programs. Expenditures are recorded on the accrual basis, except for the following:

- Disbursements for inventory-type items are considered expenditures at the time of purchase.
- Prepaid expenses are normally not recorded.
- Principal and interest on long-term debt are recorded when due.

d. Budgetary accounting

An operating budget is adopted each fiscal year for the General and Special Revenue Funds (except for the Community Development and Risk Retention Funds). The Supervisor, with the assistance of the Budget Officer, prepares the preliminary budget each year and the Town Board holds a public hearing. Subsequent to the public hearing, revisions (if any) are made and the budget is adopted by the Town Board as its final budget for the coming fiscal year. The budget is not subject to referendum. The Town Board maintains control over the budget authorizing all budgetary transfers between departments within any fund. Any supplementary appropriations that amend the total expenditures of any fund also require Town Board authorization. Appropriations lapse at year end. The Town prepares its budgets on the basis of cash receipts and disbursements. Differences between the budgetary basis of accounting and the method used for financial reporting purposes are not material. Budgetary control is exercised at the functional level.

Prepays

Prepays in the General and Special Revenue Funds represent insurance premiums paid for coverage and pension benefits that will benefit the subsequent period.

1. Summary of Significant Accounting Policies (Cont'd)

Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Improvements and other	25 years
Infrastructure	20 years
Machinery and equipment	5 years

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

Public domain ("Infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have also been capitalized. Depreciation has been provided on general fixed assets and the assets of proprietary funds in the statement of net activities.

Infrastructure assets, consisting of certain improvements other than buildings including roads, curbs, sidewalks, drainage system, street lighting, water mains and sewer system along with other capital assets at December 31, 2011.

Long-Term Obligations

The liabilities for long-term obligations consisting of general obligation bonds, compensated absences, due to employee retirement system, judgments and claims, liability for landfill closure and post closure costs, and other postemployment benefits are recognized in the government-wide financial statements.

In the fund statements long-term obligations are not reported as liabilities. The debt proceeds are reported as other financing sources, and payment of principle and interest are reported as expenditures.

Equity Classifications

In Government-wide Statements equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt – 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.
- b) Restricted net assets – consists of net assets 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 assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Governmental Accounting Standards Board Statement No. 54, Fund Balance reporting and Governmental Fund Definitions (GASB 54) has been implemented. GASB-54 changed the terminology and classification of fund balance to reflect spending constraints on resources rather than availability for appropriation. The fund balance section of the governmental funds balance sheets have been modified accordingly. Not all of the Town's funds will necessarily have all of the components of fund balance available to that fund. The implementation of these new components is intended to increase clarity and help serve the needs of the financial statements users.

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.

2. Summary of Significant Accounting Policies (Cont'd)

Equity Classifications (Cont'd)

- 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 (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).
- 2) The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.
- 3) 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.
- 4) 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.
- 5) Assigned fund balance reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. The Town Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
- 6) Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

Revenues and Expenditures

a) Real property tax assessment and collection procedures

All real property assessments are made by the Town. Real property tax payments are due in two equal installments, the first half payable by December 1st, preceding the year for which the tax is levied and the second half payable by May 31st, with the first half payable without penalty to January 10th. After May 31st, all taxes must be paid to the County Treasurer with a penalty charge and interest at the rate of 1 % per month from February 1st, for the first half payments and June 1st, for the second half payments.

The Town of Smithtown Receiver of Taxes collects all real estate taxes for the Town, Suffolk County, Town school districts and special district purposes. The Town distributes the collected tax money to Town school districts and special districts and retains its share prior to distributing the balance collected to the County. All payments to the Town are made in the year for which the tax has been levied. The Town of Smithtown Receiver of Taxes turns over uncollected items to the Suffolk County Treasurer who continues the collection of returned items. Responsibility for the collection of unpaid taxes rests with Suffolk County.

1. Summary of Significant Accounting Policies (Cont'd)

Revenues and Expenditures (Cont'd)

b) Grants

Grants and other intergovernmental revenues and related expenditures are generally recorded in the General and Special Revenue funds. For reimbursement type grants, the Town records intergovernmental receivables and revenues when the related expenditures/expenses are incurred. If release of grant funds is not contingent upon expenditure of funds, revenue is recorded when received.

c) 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. The current portion of this debt is estimated based on historical trends. In the fund financial statements, only the compensated absence liability payable from expendable available financial resources is incurred.

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

d) Inter-fund transactions and transfers

During the course of normal operations, the Town has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. Certain departments within the Town perform services for other departments. Charges for these services are billed substantially at cost. Other transactions between funds include loans and transfers of resources to service debt and insurance. The accompanying fund financial statements reflect such transactions as operating transfers.

e) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is required by generally accepted accounting principles only if legally prescribed. The New York State Uniform System of Accounts for Towns, which is prescribed pursuant to Section 36 of General Municipal Law, calls for the use of encumbrance accounting for all funds utilizing the modified accrual basis of accounting.

Stewardship, Compliance and Accountability

Budgetary Data

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

- a) On or before September 20th, each department, office or district submits to the Budget Officer and to the Comptroller a detailed estimate of the budget known as "departmental estimates" for the amount of revenue to be received and expenditures to be made for the ensuing fiscal year.
- b) On or before September 30th, the Budget Officer files with the Town Clerk and the Comptroller and presents to the Town Board a tentative budget for the ensuing fiscal year.
- c) On or before October 5th, the Town Board reviews the tentative budget and files with the Town Clerk a preliminary budget.
- d) The Town Board conducts a public hearing on the preliminary budget and on or before November 20th the Town Board meets to adopt the budget now known as the "annual budget". Formal budgetary integration is employed during the year as a management control device for the General and certain Special Revenue Funds. The Town Board adopts the budget and establishes legal level of control of the Budget at the object level of expenditures. The object level identifies expenditures by the article purchased or service obtained in order to carry out a function. Appropriations are adopted at the object level. All budgetary amendments and transfers of appropriation require Town Board approval. Appropriations for all governmental funds, except the Capital Project Fund, lapse at year-end.

1. Summary of Significant Accounting Policies (Cont'd)

Stewardship, Compliance and Accountability

Budgetary Data (Cont'd)

In order to show the full legal level of budgetary compliance for the General and certain Special Revenue Funds, detailed individual statements of revenues, expenditures and changes in fund balances – budget and actual, are presented in a separate budget report.

- e) Budgets for the General and certain Special Revenue Funds are legally adopted for each fiscal year. The budgets are adopted on a basis of accounting consistent with GAAP, except that appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior years. The Capital Projects and Special Grant Funds are budgeted on a project or grant basis.
- f) Budgetary controls for the Special Grant Funds are established in accordance with the applicable grant agreement, which covers a period other than the Town's fiscal year. Consequently, the budgets for such funds have been excluded.

Other Post-Employment Benefits

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

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

The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The Town's union contracts and ordinances require that it provide its eligible enrollees with Empire Plan benefit coverage, or if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Town has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss.

Subsequent Events

Management has evaluated events or transactions that have occurred through September 10, 2012 (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements.

2. Detailed Notes On All Funds

Cash and Investment Policy

The Town's investments are governed by a formal written investment policy. The investment policy designates the commercial banks in which the Town's monies may be deposited, all of which are Federal Deposit Insurance Company ("FDIC") insured. Permitted investments include special time deposits, certificates of deposit and obligations of the U.S. Treasury, U.S. Agencies and the State of New York.

It is the Town's policy to require collateral for all demand deposits, certificates of deposit and special time deposits not covered by FDIC insurance. Securities eligible to be pledged as collateral include obligations of the State of New York and its municipalities and school districts.

The Town's deposits and investments at December 31, 2011 were entirely covered by FDIC insurance or by collateral held by the Town's custodial banks in the Town's name.

2. Detailed Notes On All Funds

**Assets, Liabilities and Fund Equity
Receivables**

Receivables principally represent a back bill from the Town of Huntington, federal and state reimbursement and mortgage tax due from Suffolk County. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred.

3. Capital Assets

The following is a summary of changes in the General Fixed Assets for the primary government and business type activities:

	Balance at January 1, 2011	Additions	Less Retirements Disposals and Transfers	Balance at December 31, 2011
Land	\$ 17,404,293	\$ 257,470	\$ -	\$ 17,661,763
Infrastructure	211,530,450	9,228,477	4,718,163	216,040,764
Building and Improvements	17,027,713	1,058,891	12,745	18,073,859
Vehicles and Equipment	28,136,476	2,084,233	577,236	29,643,473
Furniture and Office equipment	<u>3,256,075</u>	<u>194,192</u>	<u>444,494</u>	<u>3,005,773</u>
	<u>277,355,007</u>	<u>12,823,263</u>	<u>5,752,638</u>	<u>284,425,632</u>
Less:				
Accumulated Depreciation				
Infrastructure	143,579,693	5,655,975	4,718,163	144,517,505
Building and Improvements	8,645,865	408,893	6,105	9,048,653
Vehicles and Equipment	20,370,769	1,714,204	456,348	21,628,625
Furniture and Office equipment	<u>1,619,499</u>	<u>138,891</u>	<u>277,473</u>	<u>1,480,917</u>
Total Accumulated Depreciation	<u>174,215,826</u>	<u>7,917,963</u>	<u>5,458,089</u>	<u>176,675,696</u>
Net Capital Assets Primary Government	<u>\$ 103,139,181</u>	<u>\$ 4,905,300</u>	<u>\$ 294,549</u>	<u>\$ 107,749,932</u>

Depreciation expense was charged to functions and programs as follows:

General government	\$ 1,606,131
Public safety	242,626
Transportation	5,245,499
Culture and recreation	309,779
Home and community service	503,403
Health	<u>10,525</u>
Total depreciation expense	<u>\$ 7,917,963</u>

4. Designation of Fund Balance

In order to comply with the Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the fund balance section of the balance sheets of the governmental funds has been modified. The change has been made in order for the Town's new fund balance components to focus on "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent" (GASB-54 paragraph 54). Previously, the fund balance section focused on whether these resources were available for appropriation. It also distinguished the unreserved fund balance from the reserved fund balance. In order to show compliance with GASB-54 however, the components of the new fund balance include the following items, as needed: 1) nonspendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

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

	General Fund	Highway Fund	Refuse and Garbage Funds	Capital Projects Funds	Nonmajor Governmental Funds	Total
FUND BALANCES:						
Nonspendable:						
Restricted Cash	\$ -	\$ -	\$ -	\$ -	\$ 450,002	\$ 450,002
Prepays	589,776	295,829	-	-	1,156,531	2,042,136
Total Nonspendable	<u>589,776</u>	<u>295,829</u>	<u>-</u>	<u>-</u>	<u>1,606,533</u>	<u>2,492,138</u>
Restricted for:						
Reserved for:						
encumbrances	-	-	-	1,269,165	35,502	1,304,667
Capital Projects	-	-	-	1,465,057	-	1,465,057
Special Revenue Fund	-	-	-	-	278,049	278,049
Total Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,734,222</u>	<u>313,551</u>	<u>3,047,773</u>
Assigned:						
Reserved for:						
encumbrances	48,812	172,921	-	161,389	759,115	1,142,237
Designated for						
subsequent years						
expenditures	4,250,000	565,000	626,600	-	3,130,240	8,571,840
Special Revenue Funds	-	2,296,541	3,583,818	-	4,003,806	9,884,165
Capital Projects	-	-	-	2,777,550	-	2,777,550
Designated for:						
Unemployment Insurance	-	-	-	-	162,110	162,110
Medical insurance	-	-	-	-	787,862	787,862
Liability insurance	-	-	-	-	1,520,725	1,520,725
Workers' Compensation						
reserve	-	-	-	-	965,093	965,093
Total Assigned	<u>4,298,812</u>	<u>3,034,462</u>	<u>4,210,418</u>	<u>2,938,939</u>	<u>11,328,951</u>	<u>25,811,582</u>
Unassigned, reported in:						
General Fund	11,732,254	-	-	-	-	11,732,254
Total Unassigned	<u>11,732,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,732,254</u>
Total Fund Balances	<u><u>\$16,620,842</u></u>	<u><u>\$3,330,291</u></u>	<u><u>\$4,210,418</u></u>	<u><u>\$5,673,161</u></u>	<u><u>\$ 13,249,035</u></u>	<u><u>\$43,083,747</u></u>

5. Pension Obligation

The Town participates in the New York State and Local Employees' Retirement System (the "Retirement System"). The Retirement System is noncontributory except for employees who joined the Retirement System after July 27, 1976 who contribute 3% of their salary for ten years.

Plan description. The ERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Comptroller of the State of New York pursuant to New York State Retirement and Social Security Law (NYSRSSL). ERS provides retirement, disability, and death benefits to plan members and their beneficiaries. NYSRSSL authorizes the Comptroller to adopt and amend rules and regulations for the administration of the Systems. The Systems issue a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained by writing to the New York State and Local Retirement Systems, Governor Alfred E. Smith, State Office Building, Albany, NY 12244.

Funding policy. The contribution requirement of the plan for employees varies based on date of employment and years of credited service. Prior to October 1, 2000, the Systems were non-contributory except for employees who joined the Systems after July 27, 1976 who were required to contribute three percent of their salary. Effective October 1, 2000, the Systems are non-contributory for employees who have been a member of the System for at least ten years or have ten years of credited service. The employees who have not been a member for ten years or do not have ten years of service contribute three percent of their salary. The three percent employee contribution discontinues when the employee reaches either the tenth anniversary or ten years of service credit, whichever occurs earlier. Under the authority of the NYSRSSL, the State Comptroller shall certify annually the rates, expressed as proportions of contributions, required to be made by employers to the pension accumulated fund. The Town's contributions to ERS for 2011, 2010, 2009, 2008, 2007 and 2006 were as follows:

2011	\$ 4,529,805
2010	3,320,900
2009	2,136,878
2008	2,349,779
2007	2,272,353
2006	2,711,002

The Retirement System contribution for 2011 consists of the following:

Regular pension and group term life insurance	4,490,077
Prior year adjustments	<u>39,728</u>
	<u>\$ 4,529,805</u>

Effective April 1, 1990, the Retirement System changed its actuarial funding method from the "aggregate cost method" to the "modified projected unit credit method." This change resulted in the recalculation of the liability for the period April 1, 1987 to March 31, 1989 and the recalculation of the minimum amortization payments required. Any excess amortization payments made in prior years are applied as a reduction of future payments. The change also resulted in generally lower contribution levels and created negative contribution rates in the years since the change. The credits resulting from the negative rates and the credits resulting from the recalculated amortization liability are recorded as retirement system credits under Other Financing Sources

Further disclosures concerning the Town's obligations regarding the Retirement System are not made because the information is not maintained by the Retirement System on an individual government basis. Furthermore, amounts of unfunded vested benefits applicable to Town employees covered by the Retirement System are not available. Additional detailed information regarding the Retirement System is presented in the March 31, 2011 annual financial report of the Retirement System.

6. Inter-Fund Balances

The composition of inter-fund balances as of December 31, 2011 is as follows:

<u>Fund</u>	<u>Amount Receivable</u>	<u>Amount Payable</u>
Major Funds:		
General	\$ 23,742	\$ 667,249
Highway	306	-
Refuse & Garbage District	647,043	-
Capital Projects	-	-
Non-major Funds:		
Town Outside Village	7,862	735
Highway	-	-
Risk Retention	-	-
Community Development	13,079	22,000
Lighting Districts	-	-
Ambulance Districts	-	-
Total Governmental Funds	<u>\$ 692,032</u>	<u>\$ 689,984</u>
Fiduciary Funds:		
Park Fund	\$ -	\$ -
Trust and Agency	-	1,768
Total Fiduciary Funds	<u>-</u>	<u>1,768</u>
Business type activities:		
Paul J. Fitzpatrick Country Club	-	-
Water Districts	1	281
Total Business type activities	<u>1</u>	<u>281</u>
Grand Total	<u>\$ 692,033</u>	<u>\$ 692,033</u>

7. Bonds Payable

2003 Advanced Refunding Loss

On April 1, 2003, the Town issued \$10,205,000 Refunding Serial Bonds to refund \$9,870,000 outstanding principal balance of the Refunding Serial Bonds, Series 199, which were originally issued in the amount of \$24,990,000. The Refunded Bonds were to mature in years 2006 through 2010. The Refunded Bonds were issued to refund in advance of their maturities the outstanding principal amounts of its General Obligation Bonds, Series 1990A, which were originally issued in the amount of \$26,000,000 to finance the construction of improvements to and a limited expansion of Cell 6 at the Town Landfill.

2010 Advanced Refunding

On April 29, 2010, the Town issued \$3,745,000 of Refunding Serial Bonds; the proceeds were used to refund the outstanding balance from the 1999 Public Improvement Serial Bonds of \$1,740,000 and 2001 Public Improvement Serial Bonds of \$2,125,000. The 2010 Refunding Serial Bonds have a maturity of 2010-2016.

7. Bonds Payable (Cont'd)

Sources and Uses of Bond Proceeds

Sources:

Par Amount of Bond	\$ 3,745,000
Premium on Bond	300,358
Total Sources	<u>\$ 4,045,358</u>

Uses:

Escrow Deposit	\$ 3,980,391
Bond Insurance Premium	48,751
Underwriter's fee	16,216
Total Uses	<u>\$ 4,045,358</u>

Deferred gain on advanced refunding:

Total reissued debt including bond premiums was greater than the refunded debt by \$180,358. The difference is being amortized over six years.

Book Value of New Debt	\$ 4,045,358
Book Value of Old Debt	<u>3,865,000</u>
Deferred charge on advanced refunding	<u>\$ 180,358</u>

The current year amortization of advanced refunding was \$30,060 and accumulated amortization at December 31, 2011 was \$60,120. The current year amortization of bond premium is \$50,060 and accumulated amortization at December 31, 2011 is \$100,120.

Summary of Changes in Bonded Debt

- a. The following is a summary of changes in bonded debt (\$14,529,593 Governmental Funds and \$295,407 Business Type Activities) for the year ended December 31, 2011:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance at January 1, 2011</u>	<u>Net Additions (Reductions)</u>	<u>Balance at December 31, 2011</u>
Various general-purpose Serial bonds	6/15/14	3.125-3.75%	\$ 725,000	\$ (175,000)	\$ 550,000
Public improvements Serial bonds	6/12-12/18	2.5-4.0	2,175,000	(475,000)	1,700,000
Water districts serial Bonds	11/18	5.9-7.75	155,000	(15,000)	140,000
Public improvements Serial bonds – general Purpose	12/01/15	3.5-3.75	800,000	(150,000)	650,000
Public improvements Serial bonds	12/15/15	4.0-4.25	1,375,000	(250,000)	1,125,000
Public improvements Serial bonds – general Purpose	6/15/16	4.0	2,925,000	(475,000)	2,450,000
Public improvements Serial bonds	9/15/29	2.0-3.25	3,456,000	(146,000)	3,310,000
Refunding bond Various	6/15/16	2.0-5.0	3,155,000	(530,000)	2,625,000
Public improvements Serial bonds	10/15/21	1.0-3.25	-	<u>2,275,000</u>	<u>2,275,000</u>
			<u>\$ 14,766,000</u>	<u>\$ 59,000</u>	<u>\$ 14,825,000</u>

7. Bonds Payable (Cont'd)

b. Maturities of long-term indebtedness principal and interest at December 31, 2011 are as follows:

(i) Principal payments

<u>Years Ending December 31,</u>	<u>General Long Term Debt Total</u>
2012	\$ 2,485,000
2013	2,255,000
2014	2,320,000
2015	2,190,000
Thereafter	<u>5,575,000</u>
	<u>\$ 14,825,000</u>

(ii) Interest payments

As of December 31, 2011, the amount required in future budgets through the year ending 2029 for the payment of interest on long-term debt amounts to \$2,356,388.

c. General information

As required under the Constitution of the State of New York, the Town has pledged its full faith and credit for the payment of the principal and the interest on the bonds listed above. At December 31, 2011, the Town's debt limit was approximately \$1,453,455,912.

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Town to place a final cover on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at these sites. Closure and postclosure costs will be paid only after the sites have stopped accepting waste. In accordance with GASB Statement 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the Town has accrued for the closure and postclosure care costs associated with the two landfills of the Town. One of these landfills ("Cells 1-5") has stopped accepting waste as of November 10, 1990, and the other ("Cell 6"), cell stopped accepting waste as of December 31, 1997. The accrual adjusted annually, is based on what it would cost to perform the closure and postclosure care in future years. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The landfill post closure costs incurred for cells 1-5 approximated \$177,574 for the year ended December 31, 2011. The remaining estimated post closure costs for Cells 1-5 approximates \$2,982,000.

In September 2010, the capping of cell 6 was completed and accepted by the New York State Department of Environmental Conservation certification. The remaining estimated postclosure costs for Cell 6 approximates \$7,271,863. The Town has met all the financial assurance ratio criteria required by 40 CFR 258.74 for the year ended December 31, 2011. Actual costs were \$358,429.

9. **Commitments and Contingencies**

a. **Risk Retention**

In common with other municipalities, the Town receives numerous notices of claim. In order to cover possible losses resulting from such claims, the Town obtains insurance for general and auto liability coverage and workers' compensation. These policies are administered by independent companies, which furnish claims review and processing effective in prior years. The General Long-Term Debt Account Group at December 31, 2011 includes the estimated liability reserve of approximately \$1,177,662 arising from the self-insurance workers compensation program.

b. **Tax certioraris**

At December 31, 2011, there were numerous taxpayers' claims pending for the redetermination of assessed valuations (certiorari proceedings) for assessments through 2010. In essence, petitioners complain that their assessed valuations are improper in that they represent overvaluations and unequal treatment. Under the Suffolk County Tax Act, any adjustments to petitioners' assessments for prior years are paid by Suffolk County in subsequent years, through an adjustment of Suffolk County's tax rate for Town residents in these subsequent years. Reductions in petitioners' assessments will reduce the available property base upon which future tax levies are made.

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

c. **Litigation**

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

d. **Lease commitments**

The Town leases office equipment under operating leases for various departments. Under the terms of the leases expiring 2011 – 2014:

Minimum rental commitments for the term of the leases are as follows:

<u>Years ending</u> <u>December 31,</u>	
2012	\$ 133,187
2013	112,958
2014	20,344
2015	<u>2,021</u>
	\$ <u>268,510</u>

Rent expenditures on these leases aggregated \$139,279 for 2011.

e. **Municipal cooperation agreement**

In December 1989, the Town entered into a Municipal Cooperation Agreement with the Town of Huntington in order to address the solid waste disposal concerns of both towns. The agreement provides for the use of the Town landfill by the Town of Huntington during the construction of a resource recovery facility in Huntington, which would be shared by both towns. The agreement calls for the Town of Huntington to pay the Town certain charges for use of the landfill. A portion of such charges will offset the debt service payments required on \$26,000,000 of serial bonds issued by the Town in 1990 for the purpose of expanding the landfill. These bonds were refunded in April 1993 for \$24,990,000 and in April 2003 for \$10,205,000.

In January of 2003, the outstanding balance was refunded for \$10,205,000. Charges are based on the percentage of total solid waste disposed of by each Town. The Town of Smithtown Debt Services is responsible for 37.1% and the Town of Huntington is responsible for 62.9%.

9. Commitments and Contingencies (Cont'd)

f. Resource recovery facility

In 1989, the Town entered into an agreement with the Town of Huntington to construct a resource recovery facility. The facility was financed by \$176,000,000 of bonds issued by the Environmental Facilities Corporation. These bonds were refunded on July 29, 1999 by the issuance of \$136,045,000 of Suffolk County Industrial Development Agency bonds. The Town's portion of the debt service payments was approximately 37.1% for 2011 and is adjusted each year. Such debt service payments are part of the Town's monthly resource recovery facility charges and are included in the expenditures of the General Fund and the Refuse and Garbage District Fund. Total resource recovery facility charges approximated \$6,067,843 for 2011, which includes debt service, and operating expenses, net of electricity revenues generated by the facility and marketed excess capacity fees.

1) Reserves

The Town adjusted reserves for various claims and judgments and for changes in estimates for future landfill costs.

10. Budget and Actual Comparison

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Major General and Special Revenue Refuse & Garbage, Highway Repair & Maintenance and Capital 2000 Funds presents comparisons of the legally adopted budget (see Note (1d)) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with GAAP, a reconciliation of differences in the excess (deficiency) of revenues over expenditures and other financing sources (uses) for the year ended December 31, 2011 is presented as other supplementary information.

11. Other Post-Employment Benefits

In the government-wide financial statements, the cost of post employment healthcare benefits, like the cost of pension benefits, generally should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB 45, during the year ended December 31, 2008, the Town recognizes the cost of post employment healthcare in the year when the employee services are received; reports the accumulated liability from prior years and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description:

The Town provides continuation of medical and Medicare part B benefits to eligible retirees. The benefits are provided through fully insured plans that are sponsored by NYSHIP. Employees are required to reach age 55 and have a minimum of 10 or 15 years of service to qualify for OPEB. The Town contributes towards the cost of eligible spouses during the retiree's lifetime. The Town will pay 90% to 100% of the cost of the benefits depending on the employee group. The Town pays 100% of the cost for Medicare Part B for employees and their spouses that are eligible for this benefit.

Upon the retiree's death the surviving spouse may continue receiving benefits that are subsidized by making a contribution of 25%. NYSHIP regulations require the Town to continue payment of the Medicare Part B reimbursement for survivors that remain in the plan.

The Town implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits other than Pensions, in the year ended December 31, 2008. This required the Town to calculate and record a net other post-employment benefit obligation at year end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

11. Other Post-Employment Benefits (Continued)

Plan Description (Cont'd):

Currently, 253 retired employees receive health benefits from the Town.

The Town recognizes the cost of providing health insurance annually as expenditures in various funds in its financial statements as payments are made. For the year ended December 31, 2011, the Town recognized \$3,619,572 for its share of insurance premiums for currently enrolled retirees.

The Town has obtained an actuarial valuation report as of January 1, 2010 which indicates that the total liability for other post-employment benefits is \$153,376,237 (\$55,582,472 related to retirees and \$97,793,765 related to current employees).

The Town's annual other post-employment benefit (OPEB) cost (expense) for its plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years.

Annual Other Post-Employment Benefits Cost and Net Obligation:

The Town's annual other post-employment benefits cost, the amount actually paid and changes to the Town's net other post-employment benefits obligation to the Plan for the year ended December 31, 2011 are as follows:

	<u>Total</u>	<u>Town</u>	<u>Component Units</u>
Annual required contribution (ARC)	\$13,387,486	\$ 13,124,912	\$262,574
Interest on net other			
Post-employment benefits obligation	1,024,448	999,101	25,347
Adjustment to ARC	<u>(1,452,337)</u>	<u>(1,416,402)</u>	<u>(35,935)</u>
Annual OPEB cost (expense)	\$12,959,597	\$ 12,707,611	\$251,986
Less: contribution made	<u>3,619,572</u>	<u>3,619,572</u>	<u>-</u>
Increase in OPEB obligation	9,340,025	9,088,039	251,986
Net OPEB obligation-beginning of year	<u>25,611,209</u>	<u>24,977,522</u>	<u>633,687</u>
Net OPEB obligation-end of year	<u>\$34,951,234</u>	<u>\$ 34,065,561</u>	<u>\$885,673</u>

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

	<u>Annual OPEB Cost Paid</u>	<u>Percentage of Annual OPEB Cost</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 10,767,380	26.8%	\$ 7,879,016
December 31, 2009	11,348,565	26.8%	15,908,383
December 31, 2010	12,645,658	23.3%	25,611,209
December 31, 2011	12,959,597	27.9%	34,951,234

11. Other Post-Employment Benefits (Continued)

Funded Status and Funding Progress:

As of January 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$153,376,237 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$153,376,237. The covered payroll (annual payroll of active employees covered by the plan) was \$34,212,003, and the ratio of the UAL to the covered payroll was 448.31%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of 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 volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In January 1, 2010 the actuarial valuation, the Projected Unit Credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 13.32% initially, reduced to 9.00% in the next year, and then reduced by 1.00% decrements to an ultimate rate of 5.00% after 5 years. The UAAL is being amortized on an open basis. The remaining amortization period at December 31, 2011 was 26 years.

Funding Policy:

The number of participants as of January 1, 2010, the effective date of the biannual other postemployment benefits (OPEB) valuation, are as follows. There have been no significant changes in the number or type of coverage since that date.

	<u>Total</u>	<u>Town</u>	Component <u>Units</u>
Active employees	465	454	11
Retirees	258	255	3
Spouses of retired employees	<u>161</u>	<u>160</u>	<u>1</u>
Total	<u>884</u>	<u>869</u>	<u>15</u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

Notes to Required Supplementary Information

In order to show the legal level of budgetary compliance for the General and certain Special Revenue Funds, individual statements of revenues, expenditures and changes in fund balance – budget and actual, are being presented.

Budgets for the General and certain Special Revenue Funds are legally adopted for each fiscal year. The budgets are adopted on a basis of accounting consistent with GAAP, except that appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior years.

TOWN OF SMITHTOWN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>		
	<u>Budget</u> <u>(As Amended)</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES:			
Real property taxes	\$ 19,584,307	\$ 19,584,307	\$ -
Other real property tax items (IDA and other)	371,500	365,637	(5,863)
Non-property tax items (Franchise fees)	2,005,000	2,224,696	219,696
Departmental income	9,413,000	9,249,668	(163,332)
Intergovernmental charges	1,140,142	400,037	(740,105)
Use of money and property	160,400	169,826	9,426
Licenses and permits	131,100	110,847	(20,253)
Fines and forfeitures	171,000	215,312	44,312
Sale of property	456,273	1,192,252	735,979
State aid	5,432,600	4,962,993	(469,607)
Federal aid	165,000	137,356	(27,644)
Miscellaneous local sources	50,925	29,980	(20,945)
Interfund transfers	-	-	-
Appropriated prior year's fund balance	3,301,633	-	(3,301,633)
TOTAL REVENUES	<u>42,382,880</u>	<u>38,642,911</u>	<u>(3,739,969)</u>
EXPENDITURES:			
General government support	10,653,037	10,056,825	596,212
Public safety	2,819,761	2,666,888	152,873
Transportation	905,352	887,723	17,629
Economic assistance and opportunity	10,000	4,652	5,348
Culture and recreation	6,389,191	5,911,136	478,055
Home and community services	8,066,961	7,490,773	576,188
Health	1,007,724	866,364	141,360
Employee benefits	3,703,067	3,630,265	72,802
Debt service:			
Principal	1,856,192	1,856,192	-
Interest	378,532	378,532	-
TOTAL EXPENDITURES	<u>35,789,817</u>	<u>33,749,350</u>	<u>2,040,467</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,593,063</u>	<u>4,893,561</u>	<u>(1,699,502)</u>
OTHER FINANCING (USES) SOURCES:			
Operating transfers (out) in	(6,593,063)	(6,593,063)	-
TOTAL OTHER FINANCING (USES) SOURCES	<u>(6,593,063)</u>	<u>(6,593,063)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>(1,699,502)</u>	<u>\$ (1,699,502)</u>
FUND BALANCE AT BEGINNING OF YEAR		<u>18,320,344</u>	
FUND BALANCE AT END OF YEAR		<u>\$ 16,620,842</u>	

**TOWN OF SMITHTOWN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR HIGHWAY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	<u>Highway Repair & Maintenance</u>		
	<u>Budget (As Amended)</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
REVENUES:			
Real property taxes	\$ 19,997,503	\$ 19,997,503	\$ -
Other real property tax items (IDA and other)	175,000	195,954	20,954
Non-property tax items (Franchise fees)	-	-	-
Departmental income	-	-	-
Intergovernmental charges	72,473	75,006	2,533
Use of money and property	45,000	57,525	12,525
Licenses and permits	-	-	-
Fines and forfeitures	-	-	-
Sale of property	-	1,363	1,363
State aid	737,000	666,513	(70,487)
Federal aid	-	-	-
Miscellaneous local sources	713,200	795,563	82,363
Interfund transfers	-	-	-
Appropriated prior year's fund balance	901,071	-	(901,071)
TOTAL REVENUES	<u>22,641,247</u>	<u>21,789,427</u>	<u>(851,820)</u>
EXPENDITURES:			
General government support	-	-	-
Public safety	-	-	-
Transportation	17,316,661	16,784,502	532,159
Economic assistance and opportunity	-	-	-
Culture and recreation	-	-	-
Home and community services	-	-	-
Health	-	-	-
Employee benefits	1,727,253	1,727,253	-
Debt service:			
Principal	101,500	101,500	-
Interest	6,433	6,432	1
TOTAL EXPENDITURES	<u>19,151,847</u>	<u>18,619,687</u>	<u>532,160</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,489,400</u>	<u>3,169,740</u>	<u>(319,660)</u>
OTHER FINANCING (USES) SOURCES:			
Operating transfers (out) in	(3,489,400)	(3,489,400)	-
TOTAL OTHER FINANCING (USES) SOURCES	<u>(3,489,400)</u>	<u>(3,489,400)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>(319,660)</u>	<u>\$ (319,660)</u>
FUND BALANCE AT BEGINNING OF YEAR		<u>3,649,951</u>	
FUND BALANCE AT END OF YEAR		<u>\$ 3,330,291</u>	

TOWN OF SMITHTOWN
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
MAJOR SPECIAL REVENUE
YEAR ENDED DECEMBER 31, 2011

	Refuse & Garbage		
	Budget (As Amended)	Actual	Favorable (Unfavorable)
REVENUES:			
Real property taxes	\$ -	\$ -	\$ -
Other real property tax items (IDA and other)	-	-	-
Non-property tax items (Franchise fees)	-	-	-
Departmental income	10,311,500	10,319,209	7,709
Intergovernmental charges	425,000	427,785	2,785
Use of money and property	60,000	42,663	(17,337)
Licenses and permits	-	-	-
Fines and forfeitures	-	-	-
Sale of property	-	-	-
State aid	15,000	12,780	(2,220)
Federal aid	-	-	-
Miscellaneous local sources	-	-	-
Interfund transfers	-	-	-
Appropriated prior year's fund balance	527,600	-	(527,600)
TOTAL REVENUES	11,339,100	10,802,437	(536,663)
EXPENDITURES:			
General government support	-	-	-
Public safety	-	-	-
Transportation	-	-	-
Economic assistance and opportunity	-	-	-
Culture and recreation	-	-	-
Home and community services	11,339,100	9,928,822	1,410,278
Health	-	-	-
Employee benefits	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	11,339,100	9,928,822	1,410,278
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	873,615	873,615
OTHER FINANCING (USES) SOURCES:			
Operating transfers (out) in	-	-	-
TOTAL OTHER FINANCING (USES) SOURCES	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	873,615	\$ 873,615
FUND BALANCE AT BEGINNING OF YEAR		3,336,803	
FUND BALANCE AT END OF YEAR		\$ 4,210,418	

TOWN OF SMITHTOWN
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
MAJOR CAPITAL PROJECTS FUND
YEAR ENDED DECEMBER 31, 2011

	<u>Capital Projects</u>		
	<u>Budget</u> <u>(As Amended)</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
REVENUES:			
Real property taxes	\$ -	\$ -	\$ -
Other real property tax items (IDA and other)	-	-	-
Non-property tax items (Franchise fees)	-	-	-
Departmental income	-	-	-
Intergovernmental charges	-	-	-
Use of money and property	103,078	103,078	-
Licenses and permits	-	-	-
Serail bonds	-	-	-
Sale of property	-	-	-
State aid	655,359	155,359	(500,000)
Federal aid	1,242,862	409,381	(833,481)
Miscellaneous local sources	614,970	550,885	(64,085)
Interfund transfers	76,421	76,421	-
Appropriated prior year's fund balance	5,441,460	-	(5,441,460)
TOTAL REVENUES	<u>8,134,150</u>	<u>1,295,124</u>	<u>(6,839,026)</u>
EXPENDITURES:			
General government support	2,913,784	942,627	1,971,157
Public safety	1,125,324	591,776	533,548
Transportation	2,712,429	499,547	2,212,882
Economic assistance and opportunity	-	-	-
Culture and recreation	1,211,198	640,681	570,517
Home and community services	2,338,503	628,209	1,710,294
Health	-	-	-
Employee benefits	-	-	-
Debt service:			
Principal	63,626	-	63,626
Interest	118,749	110,047	8,702
TOTAL EXPENDITURES	<u>10,483,613</u>	<u>3,412,887</u>	<u>7,070,726</u>
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	<u>(2,349,463)</u>	<u>(2,117,763)</u>	<u>231,700</u>
OTHER FINANCING (USES) SOURCES:			
Operating transfers (out) in	74,463	74,463	-
Proceeds from bond debt	2,275,000	2,275,000	-
TOTAL OTHER FINANCING (USES) SOURCES	<u>2,349,463</u>	<u>2,349,463</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING			
SOURCES OVER EXPENDITURES AND OTHER			
FINANCING USES	<u>\$ -</u>	<u>231,700</u>	<u>\$ 231,700</u>
FUND BALANCE AT BEGINNING OF YEAR		<u>5,441,461</u>	
FUND BALANCE AT END OF YEAR		<u>\$ 5,673,161</u>	

OTHER SUPPLEMENTARY INFORMATION

Independent Auditors' Report

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

Our audit of the Town of Smithtown, New York, as of December 31, 2011, and for the year then ended was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fuoco Group, LLP

Hauppauge, New York
September 10, 2012

**TOWN OF SMITHTOWN
 COMBINING BALANCE SHEET - COMMUNITY DEVELOPMENT FUNDS
 DECEMBER 31, 2011**

	Community Development Block Grant Program	Section 8 Voucher Program
<u>ASSETS</u>		
Cash and cash equivalents	\$ 65,496	\$ 300,973
Restricted cash - FSS escrow	-	27,019
Accounts receivable	-	2,377
Due from other governments	45,252	-
Due from other funds	13,079	-
Prepaid expenses	3,669	108,340
TOTAL ASSETS	\$ 127,496	\$ 438,709
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES:		
Accounts payable	\$ 82,996	\$ 3,690
Accrued liabilities	4,305	635
Due to other funds	22,000	-
Deferred revenue	-	-
Due in more than one year	-	-
Other Liabilities - FSS Escrow	-	27,019
TOTAL LIABILITIES	109,301	31,344
FUND BALANCES:		
Nonspendable Fund Balance	3,669	108,340
Restricted Fund Balance	14,526	299,025
TOTAL FUND BALANCES	18,195	407,365
TOTAL LIABILITIES AND FUND BALANCES	\$ 127,496	\$ 438,709

**TOWN OF SMITHTOWN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - COMMUNITY DEVELOPMENT FUNDS
 YEAR ENDED DECEMBER 31, 2011**

	Community Development Block Grant Program	Section 8 Voucher Program
REVENUES:		
Use of Property and Money (interest)	\$ 21	\$ 473
Miscellaneous Local Sources (Other)	75	10,490
Interfund Revenue	17,784	
Federal aid	287,081	1,339,648
TOTAL REVENUES	304,961	1,350,611
EXPENDITURES:		
Home and community services	263,432	1,506,562
Employee benefits	22,146	-
TOTAL EXPENDITURES	285,578	1,506,562
EXCESS OF REVENUES OVER EXPENDITURES	19,383	(155,951)
OTHER FINANCING USES:		
Operating transfers out	(21,340)	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(1,957)	(155,951)
FUND BALANCES AT BEGINNING OF YEAR	20,152	563,316
FUND BALANCES AT END OF YEAR	\$ 18,195	\$ 407,365

II. SINGLE AUDIT REPORTS SECTION

TOWN OF SMITHTOWN
SINGLE AUDIT REPORTS
YEAR ENDED DECEMBER 31, 2011

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

Independent Auditor's Report

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

We have audited the basic financial statements of the Town of Smithtown as of and for the year ended December 31, 2011 and have issued our report thereon dated September 10, 2012. 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.

Internal Control over Financial Reporting

Management of the Town of Smithtown is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Smithtown's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Smithtown's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Smithtown's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Honorable Supervisor, others within the entity, and the Town Board and is not intended to be and should not be used by anyone other than these specified parties.

Hauppauge, New York
September 10, 2012

Fuoco Group, LLP



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

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

Compliance

We have audited the compliance of the Town of Smithtown with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Town of Smithtown's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management. Our responsibility is to express an opinion on the Town of Smithtown's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Smithtown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Smithtown's compliance with those requirements.

In our opinion, the Town of Smithtown complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

The management of Town of Smithtown is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Smithtown's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Smithtown's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of, management, Honorable Supervisor, others within the entity, the Town Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hauppauge, New York
September 10, 2012

Fuoco Group, LLP

**TOWN OF SMITHTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>U. S. Department of Housing and Urban Development</u>		
Passed through Suffolk County, New York: Community Development Block Grant	14.218	\$ 295,468
Community Development Recovery Grant	14.253	33,248
Section 8 Housing Choice Vouchers	14.871	<u>1,506,562</u>
Total U.S. Department of Housing and Urban Development		<u>1,835,278</u>
<u>U.S. Department of Transportation</u>		
Highway Planning and Construction	20.205	200
Highway Planning and Construction	20.205	10,755
Highway Planning and Construction	20.205	<u>75,878</u>
Total U.S. Department of Transportation		<u>86,833</u>
<u>U.S. Department of Energy</u>		
U.S. Department of Energy	81.128	62,733
U.S. Department of Energy	81.128	<u>32,722</u>
Total U.S. Department of Health and Human Services		<u>95,455</u>
<u>U.S. Department of Health and Human Services</u>		
Passed through Suffolk County Office for the Aging: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	38,299
Passed through Suffolk County Office for the Aging: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.053	14,899
Passed through Suffolk County Office for the Aging: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.959	<u>277,524</u>
Total U.S. Department of Health and Human Services		<u>330,722</u>
<u>U.S. Department of Homeland Security</u>		
Department of Homeland Security	97.056	340,872
Passed through Suffolk County, New York: Department of Homeland Security Operation S.H.I.E.L.D.	97.056	<u>2,480</u>
Total U.S. Department of Homeland Security		<u>343,352</u>
Total federal awards		<u>\$ 2,691,640</u>

The accompanying note is an integral part of this schedule

**TOWN OF SMITHTOWN
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011**

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Smithtown, New York, and is presented on the modified accrual basis of accounting, whereby expenditures are recorded on the accrual basis, except for the following:

- Disbursements for inventory-type items are considered expenditures at the time of purchase.
- Prepaid expenses, which normally are not recorded.
- Principal and interest on long-term debt which are recorded when due.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

**TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2011**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified
 Internal control over financial reporting:
 Material weakness (es) identified? _____ Yes X No
 Reportable condition(s) identified
 not considered to be material weaknesses? _____ Yes X No
 Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:
 Material weakness (es) identified? _____ Yes X No
 Reportable condition(s) identified
 Not considered to be material weaknesses? _____ Yes X None reported

Type of auditors' report issued on compliance
 For major programs: Unqualified
 Any audit findings disclosed that are required to
 be reported in accordance with Circular A-133,
 Section .510(a)? _____ Yes X No

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.253	United States Department of Housing and Urban Development
14.871	United States Department of Housing and Urban Development
20.205	United States Department of Transportation
81.128	United States Department of Energy
97.056	United States Department of Homeland Security

Dollar threshold used to distinguish between Type A
 and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

**TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011**

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no financial statement findings for the current year.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Not applicable - there were no current year findings.

SECTION IV - SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS

Not applicable - there were no prior year findings.