

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TOWN OF HIGHLANDS, NEW YORK

For the Year Ended December 31, 2014

Audited for:

Town Board

TOWN OF HIGHLANDS, NEW YORK

Audited By:

Vanacore, DeBenedictus, DiGiovanni &

Weddell, CPAs LLP

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TOWN OF HIGHLANDS, NEW YORK

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INDEPENDENT AUDITOR'S REPORT

The Town Board
Town of Highlands
254 Main Street
Highland Falls, New York 10928

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Highlands, New York, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Highlands, New York, as of December 31, 2014, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 8 and 40 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Highlands' basic financial statements. The accompanying combining statements and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2015 on our consideration of the Town of Highlands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Highlands' internal control over financial reporting and compliance.

Vanacore, DeBenedictus, DiGiovanni & Weddell, CPAs
Limited Liability Partnership

Newburgh, New York
August 21, 2015

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The accompanying management discussion and analysis of the Town of Highlands' financial performance has been prepared to provide an overview of the Town's financial activities for the fiscal year ended December 31, 2014. This discussion and analysis is only an introduction and should be read in conjunction with the Town's financial statements.

Requests For Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Supervisor's office at the Town of Highlands, 254 Main Street, Highland Falls, NY 10928.

Financial Highlights

- The assets of the Town of Highlands exceeded its liabilities at the close of the fiscal year by \$7,389,190.
- The government's total net position decreased by \$505,978 during 2014.
- During the year ended December 31, 2014, GASB standards regarding other post-employment benefits resulted in recording an additional liability and additional expenditures (employee benefits) in the amount of \$320,000, which decreased net assets for the current year by \$320,000.
- As of the close of the current fiscal year, the Town of Highlands' governmental funds reported combined ending fund balances of \$4,101,941, a decrease of \$448,066 in comparison with the prior year.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$1,274,814. Of this total, \$330,000 was assigned and \$944,814 was unassigned.

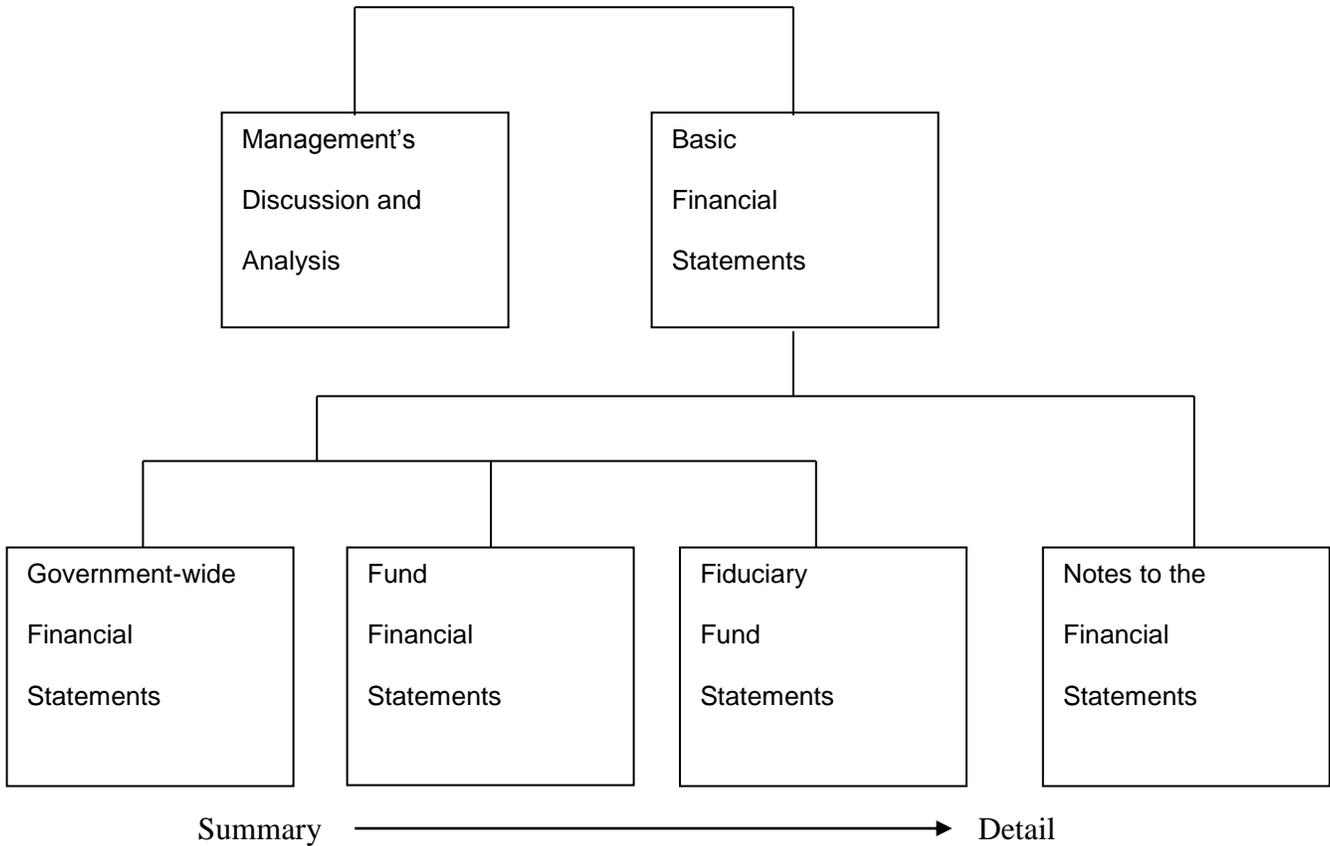
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Highlands' basic financial statements. The Town's basic financial statements consist of four components; 1) government-wide financial statements, 2) fund financial statements, 3) fiduciary fund statements and 4) notes to the financial statements. The basic financial statements present two different views of the Town's financial position through the use of government-wide statements and fund financial statements. Each view will be explained in more detail to follow in this narrative. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Highlands, New York.

**TOWN OF HIGHLANDS
 REQUIRED SUPPLEMENTARY INFORMATION
 MANAGEMENT’S DISCUSSION AND ANALYSIS**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town’s financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town’s government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental and fiduciary fund statements and 2) the budgetary comparison statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town’s finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town’s financial status as a whole.

The two government-wide statements report the Town’s net position and how it has changed. Net position is the difference between the Town’s total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. Measuring net position is one way to gauge the Town’s financial condition.

The government activities include most of the Town’s basic services such as public safety, water & sewer, road maintenance and administration. Property tax, sales tax, charges for services and State aid finance most of these activities.

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Highlands, like all other governmental entities in New York, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Highlands are classified in two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Fiduciary Funds – The Town acts in an agency capacity for assets that are ultimately transferred to others, such as guarantee and bid deposits. The Town also holds assets in an expendable trust fund to be used for cemetery maintenance and preservation. These funds are excluded from the government-wide financial statements because the Town cannot use these assets to finance operations.

The Town of Highlands adopts an annual budget for certain funds as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town of Highlands, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statements demonstrate how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual revenues, expenditures and ending balances; and 4) the variance between the final budget and actual revenues and expenditures.

Notes to the Financial Statements

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

**TOWN OF HIGHLANDS
 REQUIRED SUPPLEMENTARY INFORMATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TOWN OF HIGHLANDS' NET POSITION

	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 4,475,301	\$ 4,891,985
Capital Assets	6,448,343	6,367,898
Total Assets	<u>10,923,644</u>	<u>11,259,883</u>
Other Liabilities	337,605	323,227
Long-Term Liabilities	3,196,849	3,041,488
Total Liabilities	<u>3,534,454</u>	<u>3,364,715</u>
Net Position:		
Net Investment in Capital Assets	4,993,127	4,738,482
Restricted	1,889,339	2,147,067
Unrestricted	506,724	1,009,619
Total Net Position	<u>\$ 7,389,190</u>	<u>\$ 7,895,168</u>

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

TOWN OF HIGHLANDS' CHANGES IN NET POSITION

	2014	%	2013	%
Revenues:				
Program Revenues:				
Charges for Services	\$ 1,046,837	20.28%	\$ 1,074,004	16.55%
Operating and Capital Grants	393,139	7.62%	1,651,422	25.45%
General Revenues:				
Real Property Taxes	2,849,155	55.19%	2,858,638	44.05%
Real Property Tax Items	11,478	0.22%	4,939	0.08%
Non Property Taxes	788,095	15.27%	783,953	12.08%
Departmental Income	4,155	0.08%	10,157	0.16%
Use of Money and Property	17,815	0.35%	16,965	0.26%
Licenses and Permits	22,580	0.44%	15,768	0.24%
Gain of Disposal of Assets	14,815	0.29%	11,416	0.18%
Miscellaneous	14,479	0.28%	61,444	0.95%
Total Revenues	<u>5,162,548</u>	<u>100.02%</u>	<u>6,488,706</u>	<u>100.00%</u>
Expenses:				
General Government	841,076	14.84%	841,469	14.51%
Public Safety	890,347	15.71%	870,782	15.02%
Public Health	229,623	4.05%	234,132	4.04%
Transportation	508,131	8.96%	488,538	8.43%
Economic Assistance and Opportunity	17,101	0.30%	14,093	0.24%
Culture and Recreation	452,711	7.99%	454,091	7.83%
Home and Community Services	744,710	13.14%	943,994	16.28%
Water Utilities	229,923	4.06%	223,623	3.86%
Sewer Utilities	158,988	2.80%	97,861	1.69%
Interest on Debt	22,622	0.40%	13,967	0.24%
Employee Benefits	1,235,378	21.79%	1,275,319	21.99%
Depreciation	337,916	5.96%	340,474	5.87%
Total Expenses	<u>5,668,526</u>	<u>100.00%</u>	<u>5,798,343</u>	<u>100.00%</u>
Decrease in Net Assets	<u>\$ (505,978)</u>		<u>\$ (417,132)</u>	

**TOWN OF HIGHLANDS
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Town of Highlands Funds

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

Governmental Funds: The focus of the Town of Highlands' governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Such information is useful in assessing the Town of Highlands' financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Highlands. At the end of the current fiscal year, the unrestricted fund balance of the General Fund was \$1,274,814. As a measure of the General Fund's liquidity, it may be useful to compare the unrestricted fund balance to total fund expenditures. Unrestricted fund balance represents 33 percent of total General Fund expenditures.

At December 31, 2014, the governmental funds of the Town of Highlands reported a combined fund balance of \$4,101,941, a 10 percent decrease from last year. Included in this change in fund balance is a decrease in the General, Highway, Water, Sewer, Capital Projects, Lighting and Ambulance Funds.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the General Fund budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for its governmental activities as of December 31, 2014 totaled \$6,448,343 (net of accumulated depreciation). These assets include land, buildings and improvements, land improvements, machinery & equipment, roads & infrastructure and vehicles.

Debt: As of December 31, 2014, the Town of Highlands had total debt outstanding of \$1,455,216. The debt is backed by the full faith and credit of the Town. The Town's total debt decreased by \$174,200 during the 2014 fiscal year.

For more detailed information on capital assets and long-term debt, see the notes to the basic financial statements.

TOWN OF HIGHLANDS
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,704,486
Accounts Receivable	403,068
Due from Other Funds	5,436
Due from Other Governments	205,867
Prepaid Expenses	156,444
	<u>4,475,301</u>
Capital Assets, not being depreciated	712,464
Capital Assets, being depreciated - net	5,735,879
Total Capital Assets, net (Note V)	<u>6,448,343</u>
Total Assets	<u>10,923,644</u>
LIABILITIES	
Accounts Payable	114,628
Due to Other Governments	90,000
Accrued Expenditures	117,177
Capital Project Advance	15,800
Noncurrent Liabilities:	
Due and Payable Within One Year:	
Bonds Payable (Note VI)	179,700
Due and Payable More Than One Year:	
Bonds Payable (Note VI)	1,275,516
Compensated Absences (Note VI)	261,633
Other Postemployment Benefits (Note VI)	1,480,000
Total Liabilities	<u>3,534,454</u>
NET POSITION	
Net Investment in Capital Assets	4,993,127
Restricted	1,889,339
Unrestricted	506,724
Total Net Position	<u>\$ 7,389,190</u>

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>FUNCTIONS/PROGRAMS</u>					
Primary Government:					
Governmental Activities:					
General Government	\$ (1,204,715)	\$ 6,270	\$ 199,480	\$ -	\$ (998,965)
Public Safety	(1,045,288)	276,635	-	-	(768,653)
Public Health	(378,370)	124,564	-	-	(253,806)
Transportation	(856,179)	2,399	42,812	-	(810,968)
Economic Assistance and Opportunity	(17,101)	-	-	-	(17,101)
Culture and Recreation	(597,306)	24,173	-	-	(573,133)
Home and Community Services	(1,072,939)	50,113	16,820	134,027	(871,979)
Water Utilities	(237,478)	296,113	-	-	58,635
Sewer Utilities	(236,528)	266,570	-	-	30,042
Interest on Debt	(22,622)	-	-	-	(22,622)
Total Primary Government	\$ (5,668,526)	\$ 1,046,837	\$ 259,112	\$ 134,027	(4,228,550)
General Revenues:					
Real Property Taxes					2,849,155
Real Property Tax Items					11,478
Non Property Taxes					788,095
Departmental Income					4,155
Use of Money and Property					17,815
Licenses and Permits					22,580
Gain on Disposal of Assets					14,815
Miscellaneous					14,479
Total General Revenues					3,722,572
Change in Net Position					(505,978)
Net Position - Beginning					7,895,168
Net Position - Ending					\$ 7,389,190

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Highway	Water	Sewer	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 2,626,010	\$ 282,611	\$ (119,384)	\$ 478,899	\$ 226,779	\$ 209,571	\$ 3,704,486
Accounts Receivable	12,167	22,812	155,315	172,774	-	-	363,068
Due from Other Funds (Note IV)	5,436	-	-	-	-	-	5,436
Due from Other Governments	202,307	3,560	-	-	-	-	205,867
Prepaid Expenses	115,147	17,079	867	1,907	-	21,444	156,444
Total Assets	\$ 2,961,067	\$ 326,062	\$ 36,798	\$ 653,580	\$ 226,779	\$ 231,015	\$ 4,435,301
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 92,325	\$ 4,958	\$ 65	\$ 10,154	\$ 2,087	\$ 5,039	\$ 114,628
Due to Other Governments	-	-	-	-	90,000	-	90,000
Accrued Expenditures	94,605	8,324	451	2,808	-	6,744	112,932
Capital Projects Advance	-	-	-	-	15,800	-	15,800
Total Liabilities	186,930	13,282	516	12,962	107,887	11,783	333,360
Fund Balances:							
Nonspendable	115,147	17,079	867	1,907	-	21,444	156,444
Restricted	1,384,176	160,139	-	99,767	118,892	126,365	1,889,339
Assigned	-	139,589	35,415	538,944	-	71,704	785,652
Unassigned	1,274,814	(4,027)	-	-	-	(281)	1,270,506
Total Fund Balances	2,774,137	312,780	36,282	640,618	118,892	219,232	4,101,941
Total Liabilities and Fund Balances	\$ 2,961,067	\$ 326,062	\$ 36,798	\$ 653,580	\$ 226,779	\$ 231,015	\$ 4,435,301

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
RECONCILIATION OF THE TOTAL GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Total Governmental Funds	Long-Term Assets and Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
ASSETS				
Cash and Cash Equivalents	\$ 3,704,486	\$ -	\$ -	\$ 3,704,486
Accounts Receivable	363,068	40,000	-	403,068
Due from Other Funds	5,436	-	-	5,436
Due from Other Governments	205,867	-	-	205,867
Prepaid Expenses	156,444	-	-	156,444
Capital Assets, Net	-	6,448,343	-	6,448,343
Total Assets	\$ 4,435,301	\$ 6,488,343	\$ -	\$ 10,923,644
LIABILITIES AND FUND BALANCES/NET POSITION				
Accounts Payable	\$ 114,628	\$ -	\$ -	\$ 114,628
Due to Other Governments	90,000	-	-	90,000
Accrued Expenditures	112,932	4,245	-	117,177
Capital Project Advance	15,800	-	-	15,800
Bonds Payable	-	1,455,216	-	1,455,216
Compensated Absences Payable	-	261,633	-	261,633
Other Postemployment Benefits	-	1,480,000	-	1,480,000
Total Liabilities	333,360	3,201,094	-	3,534,454
Total Fund Balances/Net Position	4,101,941	3,287,249	-	7,389,190
Total Liabilities and Fund Balances/Net Position	\$ 4,435,301	\$ 6,488,343	\$ -	\$ 10,923,644

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General	Highway	Water	Sewer	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:							
Real Property Taxes	\$ 2,150,094	\$ 478,550	\$ -	\$ -	\$ -	\$ 220,511	\$ 2,849,155
Real Property Tax Items	11,478	-	-	-	-	-	11,478
Non Property Tax Items	788,095	-	-	-	-	-	788,095
Departmental Income	84,424	-	296,113	266,570	-	124,564	771,671
Intergovernmental Charges	4,257	-	-	-	-	-	4,257
Use of Money and Property	16,672	493	15	369	-	266	17,815
Licenses and Permits	45,797	-	-	245	-	-	46,042
Fines and Forfeitures	251,600	-	-	-	-	-	251,600
Sale of Property and Compensation for Loss	16,950	9,274	-	-	-	-	26,224
Miscellaneous	11,267	-	-	3,198	134,027	14	148,506
State and Federal Aid	216,300	22,812	-	-	-	-	239,112
Total Revenues	3,596,934	511,129	296,128	270,382	134,027	345,355	5,153,955
Expenditures:							
General Government	837,580	617	35	237	-	439	838,908
Public Safety	887,678	-	-	-	-	-	887,678
Public Health	27,939	-	-	-	-	200,953	228,892
Transportation	158,464	298,704	-	-	-	49,550	506,718
Economic Assistance and Opportunity	17,101	-	-	-	-	-	17,101
Culture and Recreation	451,860	-	-	-	-	-	451,860
Home and Community Services	667,285	-	229,877	158,680	76,050	-	1,131,892
Employee Benefits	678,404	115,010	4,745	8,836	-	108,383	915,378
Capital Outlay	90,909	119,977	-	20,842	193,222	4,818	429,768
Debt Service	-	-	93,836	99,990	-	-	193,826
Total Expenditures	3,817,220	534,308	328,493	288,585	269,272	364,143	5,602,021
Excess/(Deficiency) of Revenues Over Expenditures	(220,286)	(23,179)	(32,365)	(18,203)	(135,245)	(18,788)	(448,066)
Change in Fund Balances	(220,286)	(23,179)	(32,365)	(18,203)	(135,245)	(18,788)	(448,066)
Fund Balances - Beginning	2,994,423	335,959	68,647	658,821	254,137	238,020	4,550,007
Fund Balances - Ending	\$ 2,774,137	\$ 312,780	\$ 36,282	\$ 640,618	\$ 118,892	\$ 219,232	\$ 4,101,941

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Total Governmental Funds	Long-Term Revenue, Expenses	Capital Related Items	Long-Term Debt Transactions	Reclassifications and Eliminations	Statement of Net Assets Totals
Revenues:						
Real Property Taxes	\$ 2,849,155	\$ -	\$ -	\$ -	\$ -	\$ 2,849,155
Real Property Tax Items	11,478	-	-	-	-	11,478
Non Property Tax Items	788,095	-	-	-	-	788,095
Departmental Income	771,671	-	-	-	-	771,671
Intergovernmental Charges	4,257	-	-	-	-	4,257
Use of Money and Property	17,815	-	-	-	-	17,815
Licenses and Permits	46,042	-	-	-	-	46,042
Fines and Forfeitures	251,600	-	-	-	-	251,600
Sale of Property and Compensation for Loss	26,224	-	(11,407)	-	-	14,817
Miscellaneous	148,506	-	-	-	-	148,506
State and Federal Aid	239,112	20,000	-	-	-	259,112
Total Revenues	5,153,955	20,000	(11,407)	-	-	5,162,548
Expenditures:						
General Government	838,908	2,168	9,660	-	353,979	1,204,715
Public Safety	887,678	2,669	44,694	-	110,247	1,045,288
Public Health	228,892	731	29,487	-	119,260	378,370
Transportation	506,718	1,413	117,477	-	230,571	856,179
Economic Assistance and Opportunity	17,101	-	-	-	-	17,101
Culture and Recreation	451,860	851	5,654	-	138,941	597,306
Home and Community Services	1,131,892	1,375	103,734	-	(164,062)	1,072,939
Employee Benefits	915,378	320,000	-	-	(1,235,378)	-
Capital Outlay	429,768	-	(429,768)	-	-	-
Water Utilities	-	46	-	-	237,432	237,478
Sewer Utilities	-	308	27,210	-	209,010	236,528
Debt Service	193,826	2,996	-	(174,200)	-	22,622
Total Expenditures	5,602,021	332,557	(91,852)	(174,200)	-	5,668,526
Excess/(Deficiency) of Revenues						
Over Expenditures	(448,066)	(312,557)	80,445	174,200	-	(505,978)
Change in Fund Balances/Net Position	\$ (448,066)	\$ (312,557)	\$ 80,445	\$ 174,200	\$ -	\$ (505,978)

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2014

	Agency Fund	Expendable Trust Fund
ASSETS		
Cash	\$ 92,841	\$ 55,757
Investments	-	41,421
LOSAP Assets	167,726	-
Total Assets	260,567	97,178
LIABILITIES		
Due to Other Funds	5,436	-
Group Insurance	(18,145)	-
Guarantee and Bid Deposits	26,755	-
Balances Held in Agency Accounts	167,726	-
Other Liabilities - Parkland	78,795	-
Total Liabilities	260,567	-
NET POSITION		
Held in Trust for Cemetery Maintenance and Preservation	\$ -	\$ 97,178

See accompanying notes to basic financial statements.

TOWN OF HIGHLANDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014

	Expendable Trust Fund
<hr/>	
INVESTMENT EARNINGS:	
Interest	\$ 11,525
	<hr/>
Change in Net Position	11,525
Net Position Held in Trust - Beginning	85,653
	<hr/>
Net Position Held in Trust - Ending	\$ 97,178
	<hr/> <hr/>

See accompanying notes to basic financial statements.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Highlands, established in 1900, is governed by the Code of the Town of Highlands and other general laws of the State of New York (“the State”) and various local laws. The Town Board is the legislative body responsible for overall operations; the Town Supervisor serves as chief executive officer and as the fiscal officer.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The notes to the financial statements are an integral part of the statements and are intended to be read with them. As of December 31, 2014, the Town had no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Highway Fund* is used to account for financial resources to be used for upkeep of the roads within the Town's jurisdiction.

The *Water Fund* is used to account for financial resources to be used for operation and upkeep of the water district within the Town.

The *Sewer Fund* is used to account for financial resources to be used for operation and upkeep of the sewer facility within the Town.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities. The principal source of financing is from the sale of bonds or bond anticipation notes.

Additionally, the Town reports the following fund types:

Non-major funds:

- The *Lighting District Fund* is used to record operation and maintenance transactions related to the Town's lighting district. Revenues are derived from special district assessments.
- The *Ambulance Fund* is used to record operation and maintenance transactions related to the Town's ambulance district. Revenues are derived from ambulance district assessments.

Fiduciary Funds are used to report assets which are held in a trust or agency capacity for others and are, therefore, not available to support Town programs. The financial statements of the fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

E. Property Taxes

Town real property taxes are levied annually on January 1 and become a lien on that date. Taxes are collected during the period January 1 to January 31 at face value and from February 1 to May 31 with interest added. The Town Receiver of Taxes collects all real estate taxes for Town and County purposes. The Town Receiver distributes the collected tax money to the Town Supervisor prior to distributing the remaining balance collected to the County on June 1. The Town thereby is assured of 100% tax collection. Responsibility for the collection of unpaid taxes rests with the County. Uncollected tax liens are sold annually by the County.

F. Budgetary Data

The budget policies are as follows:

1. No later than October 5th, the budget officer submits a tentative budget to the Town Board for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and estimated revenue as the means of financing for all funds.
 - a. After public hearings are conducted to obtain taxpayers' comments, the governing body adopts the budget no later than November 20th.
 - b. All modifications of the budget must be approved by the Town Board; however, the Town Supervisor is authorized to transfer certain budgeted amounts within the departments.
2. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all funds. Encumbrances are reported as assignments of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

G. Cash and Investments

The Town of Highlands' investment policies are governed by State statutes. In addition, the Town of Highlands has its own written investment policy. The Town's monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The Supervisor is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal Government and New York State. Underlying securities must have market value of at least the cost of the repurchase agreement.

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material. All receivables are expected to be collected within the subsequent fiscal year.

I. Due To/From Other Funds

Amounts due to and due from within the same fund type have been eliminated in the Government-wide statements. See Note IV for a schedule detailing the interfund balances.

J. Inventories and Prepaid Items

Purchases of inventorable items are recorded as expenditures in the Government Funds at the time of purchase. Inventory-type items are considered immaterial and, consequently, are not provided in the Government-wide statements.

Prepaid items represent payments made by the Town for which benefits extend beyond year-end.

K. Capital Assets

Capital assets are reported at historical costs. The Town depreciates capital assets using the straight line method over the estimated useful lives of the assets. Capitalization thresholds and estimated lives of assets reported in the Government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	\$ 5,000	15 - 50 years
Machinery and Equipment	5,000	5 - 15 years
Vehicles	5,000	5 - 15 years
Land Improvements	25,000	15 - 25 years

L. Infrastructure

The Town includes long-lived improvements to roads, water and sewer systems as capital assets in the Government-wide statements. Infrastructure is reported at historical costs and is depreciated using the straight-line method over the estimated useful lives.

Under the implementation standards of GASB 34, the Town is considered a small government and, as such, is required only to recognize infrastructure on a prospective basis. Therefore, the Town has not retroactively reported any major general infrastructure assets prior to January 1, 2004.

Capitalization thresholds and estimated useful lives for infrastructure are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Roads and Infrastructure	\$ 25,000	20 - 40 years

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. Vested Employee Benefits

Employees accrue (earn) vacation leave based on the number of years employed, up to a maximum of 30 days per year. Upon separation from service, employees are paid for unused vacation time.

Employees accrue (earn) sick leave at the rate of 3.7 or 4 hours per pay period and may accumulate such credits up to a total of 180 days or an unlimited amount depending on the employee's classification. Employees who retire apply any unused sick leave to pay for individual cost employee health insurance benefits and may potentially have accumulated sick time credited to their service time in the New York State Retirement System.

A liability for accrued vacation and sick time is reflected in the Government-wide statements under the heading "Compensated Absences."

The Town's employees participate in the New York State Employees' Retirement System and New York State Police and Fire Retirement System.

In addition to providing pension benefits, the Town of Highlands provides health insurance coverage for retired employees. Substantially all of the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits are provided through an insurance company whose premiums are based on the benefits paid during the year for the Town of Highlands. The Town records its share of insurance premiums as an expenditure in the governmental funds during the year paid.

N. Unemployment Insurance

Town employees are covered by unemployment insurance. The Town has chosen to discharge its liability to the New York State Unemployment Insurance Fund by means of the benefit reimbursement method. This is a dollar-for-dollar reimbursement to the Unemployment Insurance Fund for the benefits paid to former employees and charged to the Town's account. The Town is exempt from federal unemployment insurance tax.

O. Deferred Compensation

The Town, through the New York State Retirement Systems, offers their employees a Deferred Compensation Plan ("the Plan") created in accordance with Internal Revenue Code Section 457. The Plan, which is available to all eligible participants, permits participants to defer a portion of their salary (up to the IRS limits) until future years. Amounts deferred under the Plan are not available to the employee until termination, retirement, death or unforeseeable emergency. The Town does not contribute to or administer the Plan.

P. Risk Retention

The Town assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

Q. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Town's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

R. Equity Classification

a. Government-wide Statements

Equity is classified as net position and displayed in three components:

- Net Investment in Capital Assets

Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- Restricted Net Position

Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

- Unrestricted Net Position

All remaining net position that does not meet the definition of “restricted” or “net investment in capital assets.”

b. Fund Financial Statements

The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The purpose of this accounting standard is to provide fund balance categories and classification that will be more easily understood by users of financial statements and consistently applied in fund balance reporting. This standard sets forth hierarchical fund balance classifications that are based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The following is a brief description of the five fund balance classifications:

Nonspendable:

Amounts that cannot be spent in the current period either because of their form or because they must be maintained intact. Prepaid expenses are nonspendable because, by definition, the money has already been spent.

Restricted:

Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments or through constitutional provisions or enabling legislation.

Committed:

Amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision making authority (the Town Board) before the end of the fiscal year. The same level of formal action is required to remove the constraint.

Assigned:

Amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision making authority or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

R. Equity Classification - Continued

Unassigned:

Represents the residual amount of fund balance in the general fund. In funds other than the general fund, this should only be used to report a deficit balance. The general fund unassigned fund balance at December 31, 2014 includes \$330,000 appropriated for the 2015 budget, representing \$195,000 from the General Town-Wide Fund and \$135,000 from the General Town-Outside Village Fund.

Restricted fund balances:

The Capital Projects Fund balance of \$118,892 is legally restricted as a result of funds borrowed to construct new water lines.

Various New York State statutes allow local governments to establish reserve funds for various purposes. Since the State regulates the establishment, funding and use of these reserves, the Town has classified the following reserve funds as restricted fund balances:

a. The General Town-Wide Fund includes reserve funds established for future repair, improvement and renovation projects and for vehicles. The balance at the end of 2014 was \$1,237,286.

b. The General Town-Outside Village Fund includes reserve funds established for the acquisition of police vehicles. The balance at the end of 2014 was \$146,890.

c. The Highway Town-Outside Village Fund includes reserve funds established for future road repairs. The balance at the end of 2014 was \$160,139.

d. The Sewer Fund includes reserve funds established for capital improvements. The balance at the end of 2014 was \$99,767.

e. The Ambulance Fund includes reserve funds established for future capital expenditures. The balance at the end of 2014 was \$126,365.

S. Interfund Transfers

The operations of the Town give rise to certain transactions between funds, including transfers to provide services and construct assets. The amounts reported on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for interfund transfers have been eliminated for the Statement of Activities. No fund transfers occurred during the year.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the government-wide statements, certain financial transactions are treated differently. The differences result primarily from the economic focus of the government-wide statements, compared with the current financial resources focus of the governmental funds.

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities:

Total fund balances of the Town's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the Governmental Fund Balance Sheet.

The basic financial statements contain a detailed reconciliation of the items creating the differences between fund balance reported in the Governmental Fund Statements and Net Position reported on the Statement of Net Position.

- (1) The costs of building and acquiring capital assets (land, infrastructure, buildings and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the Town as a whole, with their original costs capitalized and depreciation expensed annually over their useful lives.

Original Cost of Capital Assets	\$ 9,962,128
Accumulated Depreciation	<u>(3,513,785)</u>
Capital Assets, Net	<u><u>\$ 6,448,343</u></u>

- (2) Long-term receivables are reported in the Statement of Net Position, but not in the governmental funds, because they are not expected to be received in the current period. Balances at year-end were:

Dial-A-Bus Receivable	<u><u>\$ 40,000</u></u>
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- (3) Interest payable is recognized in the government-wide statements under full accrual accounting. No accrual is recognized in the governmental fund statements for interest that was not paid from current financial resources.

Interest Payable at December 31, 2014	<u><u>\$ 4,245</u></u>
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- (4) Long-term liabilities are reported in the Statement of Net Position, but not in the governmental funds, because they are not due and payable in the current period. Balances at year-end were:

Bonds and Installment Obligations Payable	\$ 1,455,216
Compensated Absences Payable	261,633
Other Postemployment Benefits	<u>1,480,000</u>
	<u><u>\$ 3,196,849</u></u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND GOVERNMENT-WIDE STATEMENTS - CONTINUED

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities:

Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities fall into one of three broad categories.

- Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.
- Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.
- Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements when paid, whereas interest payments are recorded in the Statement of Activities as incurred and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

The basic financial statements contain a detailed reconciliation of the items creating the differences between the change in fund balance reported in the governmental fund statements and the change in net position reported in the Statement of Activities.

Total Revenues and Other Funding Sources

Total revenues reported in governmental funds	\$ 5,153,955
Dial-A-Bus Federal Aid prior year receivable	(20,000)
Dial-A-Bus Federal Aid current year receivable	40,000
Proceeds from Sale of Vehicles	(26,224)
Gain from disposal of vehicles	14,817
Total revenues reported in the Statement of Activities	<u><u>\$ 5,162,548</u></u>

Total Expenditures/Expenses

Total expenditures reported in governmental funds	\$ 5,602,021
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In the Statement of Activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid.) This is the amount by which the liability for compensated absences increased during the year.

9,561

When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the year they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$429,768 exceeded depreciation expense of \$337,916 in the current year.

(91,852)

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

**II. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS
 AND GOVERNMENT-WIDE STATEMENTS - CONTINUED**

B. Explanation of Differences between Governmental Funds Operating Statement and the Statement of Activities –
 Continued

Total Expenditures/Expenses (Continued)

In the statement of activities, the expenses for other postemployment benefits are measured based on the actuarially determined annual required contribution (ARC) of the Town. In the governmental funds, however, these expenditures are measured by the amount of financial resources used (essentially the amounts paid). This is the amount by which the ARC exceeded the amount of financial resources used during the year. 320,000

Interest payable is recognized in the entity wide statements under full accrual accounting whereas it is recognized when paid in the governmental fund statements. This is the amount by which interest payable for the current year exceeded the interest payable for the prior year. 2,996

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position, and does not affect the Statement of Activities. (174,200)

Total expenditures reported in the Statement of Net Position \$ 5,668,526

III. CASH

The Town of Highlands’ investment policies are governed by State statutes, as previously described in these Notes. The depository bank places approved pledged securities for safekeeping and trust with the Town’s agent bank in an amount sufficient to protect Town funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) Insurance.

At December 31, 2014, the carrying amount of the Town’s deposits (cash, certificates of deposit and interest-bearing savings accounts) was \$3,853,084 and the bank balance was \$3,864,669. The Town’s deposits at December 31, 2014, and during the year then ended, were uncollateralized by \$114,775 and; therefore, not entirely covered by FDIC Insurance or by pledged collateral held by the Town’s agent bank in the Town’s name.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

IV. INTERFUND ACTIVITY

Interfund receivables and payables at December 31, 2014 were as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Town-Wide	\$ 5,436	\$ -
Trust & Agency	-	5,436
TOTAL	\$ 5,436	\$ 5,436

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

V. CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2014 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 712,464	\$ -	\$ -	\$ 712,464
Total capital assets, not being depreciated	<u>712,464</u>	<u>-</u>	<u>-</u>	<u>712,464</u>
Capital assets, being depreciated:				
Buildings and Improvements	3,628,413	193,222	-	3,821,635
Land Improvements	871,350	-	-	871,350
Machinery and Equipment	726,322	114,387	-	840,709
Roads and Infrastructure	2,053,999	22,812	-	2,076,811
Vehicles	1,610,232	99,347	(70,420)	1,639,159
Total capital assets being depreciated	<u>8,890,316</u>	<u>429,768</u>	<u>(70,420)</u>	<u>9,249,664</u>
Accumulated depreciation for:				
Buildings and Improvements	(842,656)	(73,844)	-	(916,500)
Land Improvements	(185,566)	(20,957)	-	(206,523)
Machinery and Equipment	(454,878)	(44,865)	-	(499,743)
Roads and Infrastructure	(534,071)	(73,807)	-	(607,878)
Vehicles	(1,217,711)	(124,443)	59,013	(1,283,141)
Total accumulated depreciation	<u>(3,234,882)</u>	<u>(337,916)</u>	<u>59,013</u>	<u>(3,513,785)</u>
Total capital assets, being depreciated, net	<u>5,655,434</u>	<u>91,852</u>	<u>(11,407)</u>	<u>5,735,879</u>
Governmental activities capital assets, net	<u>\$ 6,367,898</u>	<u>\$ 91,852</u>	<u>\$ (11,407)</u>	<u>\$ 6,448,343</u>

Depreciation expense was charged to functions/programs of the Town as follows:

Governmental Activities:	
General Government	\$ 9,660
Public Safety	44,694
Public Health	29,487
Transportation	117,477
Culture and Recreation	5,654
Home and Community Services	103,734
Sewer Utilities	<u>27,210</u>
Total Depreciation Expense	<u>\$ 337,916</u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

VI. LIABILITIES

A. Pension Plans

Plan Description

The Town of Highlands participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy

The Systems are noncontributory except for Tier III, IV, V and VI employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% to 6% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of member payroll and employer contributions, used in computing the contributions required to be made by employers to the pension accumulation fund. An Eligible Tier III or IV member with ten or more years of membership, or ten years credited service, will not be required to contribute to the Retirement System. Tier V and VI members must continue to contribute throughout their employment.

The Town of Highlands is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

Plan Year Ended March 31	ERS	PERS
2015	\$ 275,127	\$ 37,028
2014	\$ 240,890	\$ 91,506
2013	\$ 281,258	\$ 76,547

The Town contributions made to the Systems were equal to 100% of the contributions required for each year. Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

VI. LIABILITIES - CONTINUED

B. Short-Term Debt

State law requires that Bond Anticipation Notes (BANs) issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. As of December 31, 2014, the Town had no BANs outstanding.

C. Long-Term Debt

Bonds: The Town of Highlands borrows money in order to acquire land or equipment or construct buildings and for capital improvements. This borrowing enables the cost of these capital assets to be borne by the present and future taxpayers.

At December 31, 2014, the total principal indebtedness outstanding of the Town of Highlands aggregated \$1,455,216.

Interest on long-term debt paid during the year was:

Interest Paid	\$ 19,626
Less: Interest accrued - prior year	(1,249)
Plus: Interest accrued - current year	<u>4,245</u>
	<u><u>\$ 22,622</u></u>

Long-term liability balances and activity for the year are summarized below:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Issued/Earned</u>	<u>Redeemed/Paid</u>	<u>Ending Balance</u>
E.F.C. Bond - Water District #2	\$ 249,700	\$ -	\$ 29,200	\$ 220,500
E.F.C. SRF Bond - Water District #2	1,194,716	-	55,000	1,139,716
Sewer System Refunding Serial Bond	<u>185,000</u>	<u>-</u>	<u>90,000</u>	<u>95,000</u>
	<u>1,629,416</u>	<u>-</u>	<u>174,200</u>	<u>1,455,216</u>
Other liabilities:				
Compensated Absences	252,072	9,561	-	261,633
Other Postemployment Benefits	<u>1,160,000</u>	<u>340,000</u>	<u>20,000</u>	<u>1,480,000</u>
Total long-term liabilities	<u><u>\$ 3,041,488</u></u>	<u><u>\$ 349,561</u></u>	<u><u>\$ 194,200</u></u>	<u><u>\$ 3,196,849</u></u>

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

VI. LIABILITIES - CONTINUED

C. Long-Term Debt - Continued

Activity for compensated absences is shown at net due to the impracticality of determining these amounts separately. Payments of compensated absences are dependent upon future factors and, therefore, the timing of such payments cannot be determined. Compensated absences are reflected as a long-term liability in the Statement of Net Position.

The following is a summary of the maturity of long-term indebtedness:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 179,700	\$ 33,361	\$ 213,061
2016	80,016	28,118	108,134
2017	85,900	27,909	113,809
2018	86,500	27,507	114,007
2019-2023	378,100	125,433	503,533
2024-2028	305,000	91,793	396,793
2029-2033	340,000	39,218	379,218
	<hr/>		
Total	<u>\$ 1,455,216</u>	<u>\$ 373,339</u>	<u>\$ 1,828,555</u>

D. Other Postemployment Benefits

The Town provides post employment health insurance coverage to retired employees through a self-administered single employer plan in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the Town's contractual agreements.

The Town implemented GASB standards regarding Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension in the fiscal year ended December 31, 2009. This implementation 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 the cumulative difference between the actuarially required contributions and the actual contributions made.

The Town recognizes the cost of providing health insurance annually as expenditures in the General Fund in the fund financial statements as payments are made. For the year ended December 31, 2014, the Town recognized \$20,000 for its share of premiums for currently enrolled retirees.

The Town has obtained an actuarial valuation report as of December 31, 2014 which indicates that the total liability for other post employment benefits is \$2,780,000, of which \$1,480,000 is reflected in the Statement of Net Position.

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

VI. LIABILITIES – CONTINUED

D. Other Postemployment Benefits - Continued

Annual OPEB Cost and Net OPEB Obligation: The Town's annual other post employment benefit (OPEB) cost is calculated based on the actuarially determined annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan and the changes in the Town's net OPEB obligation:

Annual Required Contribution	\$ 360,000
Interest on Net OPEB Obligation	50,000
Adjustment to Annual Required Contribution	<u>(70,000)</u>
Annual OPEB Cost	340,000
Contributions Made	<u>(20,000)</u>
Increase in Net OPEB Obligation	320,000
Net OPEB Obligation - Beginning of Year	<u>1,160,000</u>
Net OPEB Obligation - End of Year	<u><u>\$ 1,480,000</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation End of Year
12/31/2014	\$ 340,000	5.9%	\$ 1,480,000
12/31/2013	\$ 310,000	6.5%	\$ 1,160,000
12/31/2012	\$ 285,000	8.8%	\$ 870,000

Funded Status and Funding Progress: As of December 31, 2014, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$2,780,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,780,000. 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.

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 benefit costs between the employer and plan members to that point. The actuarial funding method used is unit credit. 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.

The actuarial assumptions included 4.5% investment rate of return, net of administrative expense, on the employer's own investment, calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate for pre-65 and post-65 claims of 9.5% initially, reduced incrementally to an ultimate rate of 5% after 9 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2014 was 24 years.

VII. LENGTH OF SERVICE AWARD PROGRAM

The information contained in this note is based on information for the Town of Highlands Ambulance Service Award Program for the program year ended on December 31, 2014, which is the most recent program year for which complete information is available.

The Town of Highlands Ambulance established a defined benefit Service Award Program (referred to as a "LOSAP" - length of service award program - under Section 457(e)(11) of the Internal Revenue Code) effective January 1, 2002 for the active volunteer ambulance members of the Town of Highlands Ambulance. The program was established pursuant to Article 11-A of the New York State General Municipal Law. The program provides municipally-funded deferred compensation to volunteer ambulance members to facilitate the recruitment and retention of active volunteers. The Town of Highlands Ambulance is the sponsor of the program and the program administrator.

Under the program, participating volunteers begin to be paid a service award upon attainment of the program "entitlement age". The amount of the service award paid to a volunteer is based upon the number of years of service credit the volunteer earned under the program for performing active volunteer ambulance member activities.

Participation, Vesting and Service Credit

Active volunteer ambulance members who have reached the age of 18 and who have completed one (1) year of ambulance member service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with five (5) years of ambulance member service or upon attaining the program's entitlement age while an active volunteer. The program's entitlement age is age 65. An active volunteer ambulance member is credited with a year of ambulance service for each calendar year after the establishment of the program in which he or she has completed a year of credit service. A participant may also receive credit for five (5) years of active volunteer ambulance member service rendered prior to the establishment of the program as an active volunteer ambulance member of the Town of Highlands Ambulance.

Benefits

A participant's service award benefit is paid as a ten year certain and continuous monthly payment life annuity. The amount payable each month equals \$20 multiplied by the total number of years of service credit earned by the volunteer under the point system. The maximum number of years of service credit a participant may earn is 20 years under the program.

Currently, there are no other forms of payment of a volunteer's earned service award under the Program. Except in the case of death or total and permanent disablement, service awards commence to be paid when a participant attains the entitlement age. The program provides death and disability benefits equal to the greater of insurance face amount or present value of accrued benefit. The program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are "self insured" and are paid from the program trust fund.

For a complete explanation of the program, a copy of the Program Document is available from the Plan Sponsor.

**TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

VII. LENGTH OF SERVICE AWARD PROGRAM – CONTINUED

Fiduciary Investment and Control

After the end of each calendar year, the Ambulance Corp. prepares and certifies a census listing of names of all persons who were active volunteer members of the Ambulance Corp. during the year and indicates which volunteers earned their year of service credit. The certified list is delivered to the Board Members for review and approval.

The Board Members have retained Hometown Firefighter Services to assist in the administration of the program. The services provided by Hometown Firefighter Services are described in the following paragraphs.

Based on the certified calendar year volunteer ambulance member listings, Hometown Firefighter Services determines and certifies in writing to the Board Members the amount of the service award to be paid to a participant or to a participant's designated beneficiary. The person(s) authorized by the Board Members then authorizes, in writing, the custodian of the Town of Highlands Ambulance Service Award Program trust funds to pay the service award. No service award benefit payment is made without the written certification from Hometown Firefighter Services and the written directive from the authorized representative of the Board Members.

Hometown Firefighter Services bills the Town of Highlands Ambulance Corp. for the services it provides. Hometown Firefighter Services' invoices are authorized for payment by the Board Members in the same manner as any other invoice presented to the Ambulance Corp. for payment. Hometown Firefighter Services invoices are paid from the Ambulance Fund.

Article 11-A requires that program assets be held in trust for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. The Board Members created a Service Award Program Trust Fund through the adoption of a Trust Document, a copy of which is available from Hometown Firefighter Services.

Authority to invest the program assets is vested in the program trustee. Program assets are invested in accordance with a statutory prudent person rule and in accordance with the written investment policy statement adopted by the Board Members.

Program Financial Condition

Assets and Liabilities

Actuarial Present Value of Accrued Service Awards as of December 31, 2014	\$	348,112
Total Net Assets Available for Benefits as of December 31, 2014	\$	167,726

TOWN OF HIGHLANDS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

VII. LENGTH OF SERVICE AWARD PROGRAM – CONTINUED

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the sponsor's contribution is the "Unit Credit" Cost method. The assumptions used by the actuary to determine the sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return on program investments 5.50%

Tables used for:

Post Entitlement Age mortality:	1994 Group Annuity - Male
*Pre Entitlement Age mortality:	None
*Pre Entitlement Age disability:	None
*Pre Entitlement Age withdrawal:	None
*Pre Entitlement Age service credit accruals	100%

* For program cost calculation purposes, all pre-entitlement age active volunteer participants are assumed to survive to the entitlement age; remain active and earn a service credit each year; and, begin to be paid service awards upon attainment of the entitlement age.

The following information was compiled for 2014.

Receipts and Disbursements

Plan Net Position, January 1, 2014	\$ 139,618
Changes during the year:	
+ Plan Contributions	34,100
+ Investment Income Earned	7,774
- Plan Administration Fees	(2,466)
- Plan Benefit Withdrawals	(11,300)
	<hr/>
Plan Net Position, December 31, 2014	<u><u>\$ 167,726</u></u>

Contributions

Amount of contribution recommended by actuary:	\$ 44,373
Amount of actual contribution:	\$ 34,100

VIII. UNRESTRICTED BALANCES

As of December 31, 2014, the Town's unrestricted net position totaled \$506,724.

**TOWN OF HIGHLANDS
 NOTES TO BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

IX. LEASES

The Town leases two pieces of office equipment under operating leases expiring at various dates through July 2019. The total minimum rental commitment at December 31, 2014, under the leases mentioned above, is due as follows:

2015	\$	4,492
2016		3,322
2017		1,684
2018		1,684
2019		842
	\$	<u>12,024</u>

Rental expense included in the Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended December 31, 2014 related to the leases mentioned above was \$4,665.

X. CONTINGENCIES

Grant Funding

The Town has received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. Based on past audits, the Town administration believes disallowances, if any, will be immaterial.

Judgments and Claims

The Town is party to various legal proceedings which normally occur in governmental operations. In the opinion of the Town's management, any potential claims against the Town not covered by various insurance policies will not have a materially adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded as of December 31, 2014.

Certiorari Proceedings

Open tax certiorari cases, which claim excessive assessed values, exist with several taxpayers. Claims allowed, if any, will result in a refund of Town taxes previously collected by the Town. Any such refunds resulting from adverse settlements will be provided for when determinable.

XI. NEW ACCOUNTING PRINCIPLES

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Town will adopt GASB 68 in fiscal year 2015, as required.

XII. SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is August 21, 2015, which is the date on which the financial statements were available to be issued.



INDEPENDENT AUDITOR'S 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

The Town Board
Town of Highlands
254 Main Street
Highland Falls, New York 10928

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Highlands, New York as of and the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town of Highlands' basic financial statements, and have issued our report thereon dated August 21, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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 that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Highlands' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as 14-1.

Purpose of this Report

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

Vanacore, DeBenedictus, DiGiovanni & Weddell, CPAs
Limited Liability Partnership

Newburgh, New York
August 21, 2015

**TOWN OF HIGHLANDS
SCHEDULE OF FINDINGS
DECEMBER 31, 2014**

A. Internal Control Findings

None noted.

B. Compliance Findings

14-2 Collateralization

Condition: The Town's money maintained in Chase Bank was not properly collateralized.

Criteria: General Municipal Law of New York State requires that all cash balances in excess of FDIC coverage must be collateralized.

Cause: The Town did not review the monthly collateral statements provided by the bank.

Effect: Public money was not secured and the Town was not in compliance with General Municipal Law.

Recommendation: We recommend that the Town review the monthly collateral statements provided by the bank to ensure that coverage is adequate.

**TOWN OF HIGHLANDS
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**

	2014	Fiscal Year 2013	2012
Actuarial Valuation Date	1/1/2015	1/1/2014	1/1/2013
Plan Assets	Unfunded	Unfunded	Unfunded
Actuarial Accrued Liability	\$ 2,780,000	\$ 2,460,000	\$ 2,170,000
Unfunded Actuarial Liability	\$ 2,780,000	\$ 2,460,000	\$ 2,170,000
Funded Ratio	Not Applicable	Not Applicable	Not Applicable
Annual Covered Payroll	\$ 1,070,000	\$ 930,000	\$ 990,000
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	260.0%	264.5%	219.2%

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND - TOWN WIDE
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 2,145,629	\$ 2,145,629	\$ 2,145,629	\$ -
Real Property Tax Items	4,500	4,500	11,478	6,978
Non Property Tax Items	31,000	31,000	30,304	(696)
Departmental Income	94,650	99,431	80,269	(19,162)
Use of Money and Property	20,650	20,650	16,043	(4,607)
Licenses and Permits	25,000	25,000	45,797	20,797
Fines and Forfeitures	280,000	280,000	251,600	(28,400)
Sale of Property and Compensation for Loss	19,740	22,968	-	(22,968)
Miscellaneous	-	-	10,342	10,342
State and Federal Aid	211,000	211,000	216,300	5,300
Total Revenues	2,832,169	2,840,178	2,807,762	(32,416)
Expenditures:				
General Government	897,797	904,520	777,893	126,627
Public Safety	166,831	167,191	163,295	3,896
Transportation	164,529	166,227	158,464	7,763
Economic Assistance and Opportunity	18,000	18,000	17,101	899
Culture and Recreation	480,566	485,347	451,860	33,487
Home and Community Services	715,796	715,803	652,814	62,989
Employee Benefits	577,650	577,650	551,242	26,408
Capital Outlay	21,000	20,811	51,000	(30,189)
Total Expenditures	3,042,169	3,055,549	2,823,669	231,880
Excess/(Deficiency) of Revenues Over Expenditures	(210,000)	(215,371)	(15,907)	199,464
Net Change in Fund Balance	(210,000)	(215,371)	(15,907)	199,464
Fund Balances - Beginning	1,827,727	1,827,727	1,827,727	-
Fund Balances - Ending	\$ 1,617,727	\$ 1,612,356	\$ 1,811,820	\$ 199,464

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
GENERAL FUND - TOWN OUTSIDE VILLAGE
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 4,465	\$ 4,465	\$ 4,465	\$ -
Non-Property Tax Items	750,000	750,000	757,791	7,791
Departmental Income	9,600	9,600	4,155	(5,445)
Intergovernmental Charges	1,500	1,500	4,257	2,757
Use of Money and Property	1,000	1,000	629	(371)
Sale of Property and Compensation for Loss	-	-	16,950	16,950
Miscellaneous	-	-	925	925
Total Revenues	<u>766,565</u>	<u>766,565</u>	<u>789,172</u>	<u>22,607</u>
Expenditures:				
General Government	96,225	69,227	59,687	9,540
Public Safety	705,525	734,972	724,383	10,589
Public Health	27,826	27,940	27,939	1
Home and Community Services	23,189	23,189	14,471	8,718
Employee Benefits	181,800	179,350	127,162	52,188
Capital Outlay	7,000	9,200	39,909	(30,709)
Total Expenditures	<u>1,041,565</u>	<u>1,043,878</u>	<u>993,551</u>	<u>50,327</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>(275,000)</u>	<u>(277,313)</u>	<u>(204,379)</u>	<u>72,934</u>
Net Change in Fund Balance	(275,000)	(277,313)	(204,379)	72,934
Fund Balances - Beginning	1,166,696	1,166,696	1,166,696	-
Fund Balances - Ending	<u>\$ 891,696</u>	<u>\$ 889,383</u>	<u>\$ 962,317</u>	<u>\$ 72,934</u>

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
HIGHWAY FUND - TOWN WIDE
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 94,800	\$ 94,800	\$ 94,800	\$ -
Use of Money and Property	100	100	44	(56)
Sale of Property and Compensation for a Loss	-	3,774	9,274	5,500
Total Revenues	94,900	98,674	104,118	5,444
Expenditures:				
General Government	200	200	166	34
Transportation	84,000	152,537	92,473	60,064
Employee Benefits	10,700	11,632	11,425	207
Capital Outlay	-	-	97,165	(97,165)
Total Expenditures	94,900	164,369	201,229	(36,860)
Excess/(Deficiency) of Revenues Over Expenditures	-	(65,695)	(97,111)	(31,416)
Net Change in Fund Balance	-	(65,695)	(97,111)	(31,416)
Fund Balances - Beginning	95,491	95,491	95,491	-
Fund Balances - Ending	\$ 95,491	\$ 29,796	\$ (1,620)	\$ (31,416)

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
HIGHWAY FUND - TOWN OUTSIDE VILLAGE
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Real Property Taxes	\$ 383,750	\$ 383,750	\$ 383,750	\$ -
Use of Money and Property	350	350	449	99
State and Federal Aid	21,000	21,000	22,812	1,812
Total Revenues	405,100	405,100	407,011	1,911
Expenditures:				
General Government	500	500	451	49
Transportation	255,600	255,850	206,231	49,619
Employee Benefits	118,000	118,000	103,585	14,415
Capital Outlay	21,000	21,000	22,812	(1,812)
Total Expenditures	395,100	395,350	333,079	62,271
Excess/(Deficiency) of Revenues Over Expenditures	10,000	9,750	73,932	64,182
Net Change in Fund Balance	10,000	9,750	73,932	64,182
Fund Balances - Beginning	240,468	240,468	240,468	-
Fund Balances - Ending	\$ 250,468	\$ 250,218	\$ 314,400	\$ 64,182

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
WATER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Departmental Income	\$ 319,298	\$ 332,298	\$ 296,113	\$ (36,185)
Use of Money and Property	-	-	15	15
Total Revenues	<u>319,298</u>	<u>332,298</u>	<u>296,128</u>	<u>(36,170)</u>
Expenditures:				
General Government	45	37	35	2
Home and Community Services	249,538	252,521	229,877	22,644
Employee Benefits	5,775	5,142	4,745	397
Debt Service	73,940	74,598	93,836	(19,238)
Total Expenditures	<u>329,298</u>	<u>332,298</u>	<u>328,493</u>	<u>3,805</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>(10,000)</u>	<u>-</u>	<u>(32,365)</u>	<u>(32,365)</u>
Net Change in Fund Balance	(10,000)	-	(32,365)	(32,365)
Fund Balances - Beginning	68,647	68,647	68,647	-
Fund Balances - Ending	<u>\$ 58,647</u>	<u>\$ 68,647</u>	<u>\$ 36,282</u>	<u>\$ (32,365)</u>

TOWN OF HIGHLANDS
SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
SEWER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual Amounts GAAP Basis	Variance with Final Budget
	Original	Final		Positive/(Negative)
Revenues:				
Departmental Income	\$ 259,219	\$ 259,219	\$ 266,570	\$ 7,351
Use of Money and Property	-	-	369	369
License and Permits	-	-	245	245
Miscellaneous	-	1,800	3,198	1,398
Total Revenues	259,219	261,019	270,382	9,363
Expenditures:				
General Government	250	250	237	13
Home and Community Services	139,629	167,337	158,680	8,657
Employee Benefits	9,350	9,520	8,836	684
Capital Outlay	-	-	20,842	(20,842)
Debt Service	99,990	99,990	99,990	-
Total Expenditures	249,219	277,097	288,585	(11,488)
Excess/(Deficiency) of Revenues Over Expenditures	10,000	(16,078)	(18,203)	(2,125)
Net Change in Fund Balance	10,000	(16,078)	(18,203)	(2,125)
Fund Balances - Beginning	658,821	658,821	658,821	-
Fund Balances - Ending	\$ 668,821	\$ 642,743	\$ 640,618	\$ (2,125)

**TOWN OF HIGHLANDS
 COMBINING BALANCE SHEETS
 NON-MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2014**

	Lighting	Ambulance	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ (281)	\$ 209,852	\$ 209,571
Prepaid Expenses	-	21,444	21,444
Total Assets	<u>\$ (281)</u>	<u>\$ 231,296</u>	<u>\$ 231,015</u>
LIABILITIES			
Accounts Payable	\$ -	\$ 5,039	\$ 5,039
Accrued Expenditures	-	6,744	6,744
Total Liabilities	<u>-</u>	<u>11,783</u>	<u>11,783</u>
FUND BALANCES			
Nonspendable	-	21,444	21,444
Restricted	-	126,365	126,365
Assigned	-	71,704	71,704
Unassigned	(281)	-	(281)
Total Fund Balances	<u>(281)</u>	<u>219,513</u>	<u>219,232</u>
Total Liabilities and Fund Balances	<u>\$ (281)</u>	<u>\$ 231,296</u>	<u>\$ 231,015</u>

TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Lighting	Ambulance	Total Non-Major Governmental Funds
Revenues:			
Real Property Taxes	\$ 45,000	\$ 175,511	\$ 220,511
Departmental Income	-	124,564	124,564
Use of Money and Property	22	244	266
Miscellaneous	-	14	14
Total Revenues	<u>45,022</u>	<u>300,333</u>	<u>345,355</u>
Expenditures:			
General Government	-	439	439
Public Health	-	200,953	200,953
Transportation	49,550	-	49,550
Employee Benefits	-	108,383	108,383
Capital Outlay	-	4,818	4,818
Total Expenditures	<u>49,550</u>	<u>314,593</u>	<u>364,143</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>(4,528)</u>	<u>(14,260)</u>	<u>(18,788)</u>
Change in Fund Balances	(4,528)	(14,260)	(18,788)
Fund Balances - Beginning	4,247	233,773	238,020
Fund Balances - Ending	<u>\$ (281)</u>	<u>\$ 219,513</u>	<u>\$ 219,232</u>

**TOWN OF HIGHLANDS
COMBINING BALANCE SHEETS
GENERAL FUNDS
DECEMBER 31, 2014**

	General Fund (A)	General Fund (B)	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1,848,764	\$ 777,246	\$ 2,626,010
Accounts Receivable	10,085	2,082	12,167
Due from Other Funds	5,436	-	5,436
Due from Other Governments	-	202,307	202,307
Prepaid Expenses	91,108	24,039	115,147
Total Assets	<u>\$ 1,955,393</u>	<u>\$ 1,005,674</u>	<u>\$ 2,961,067</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 79,803	\$ 12,522	\$ 92,325
Accrued Expenditures	63,770	30,835	94,605
Total Liabilities	<u>143,573</u>	<u>43,357</u>	<u>186,930</u>
Fund Balances:			
Nonspendable	91,108	24,039	115,147
Restricted	1,237,286	146,890	1,384,176
Unassigned	483,426	791,388	1,274,814
Total Fund Balances	<u>1,811,820</u>	<u>962,317</u>	<u>2,774,137</u>
Total Liabilities and Fund Balances	<u>\$ 1,955,393</u>	<u>\$ 1,005,674</u>	<u>\$ 2,961,067</u>

**TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund (A)	General Fund (B)	Totals
Revenues:			
Real Property Taxes	\$ 2,145,629	\$ 4,465	\$ 2,150,094
Real Property Tax Items	11,478	-	11,478
Non Property Tax Items	30,304	757,791	788,095
Departmental Income	80,269	4,155	84,424
Intergovernmental Charges	-	4,257	4,257
Use of Money and Property	16,043	629	16,672
Licenses and Permits	45,797	-	45,797
Fines and Forfeitures	251,600	-	251,600
Sale of Property and Compensation for a Loss	-	16,950	16,950
Miscellaneous	10,342	925	11,267
State and Federal Aid	216,300	-	216,300
Total Revenues	2,807,762	789,172	3,596,934
Expenditures:			
General Government	777,893	59,687	837,580
Public Safety	163,295	724,383	887,678
Public Health	-	27,939	27,939
Transportation	158,464	-	158,464
Economic Assistance and Opportunity	17,101	-	17,101
Culture and Recreation	451,860	-	451,860
Home and Community Services	652,814	14,471	667,285
Employee Benefits	551,242	127,162	678,404
Capital Outlay	51,000	39,909	90,909
Total Expenditures	2,823,669	993,551	3,817,220
Excess/(Deficiency) of Revenues Over Expenditures	(15,907)	(204,379)	(220,286)
Change in Fund Balances	(15,907)	(204,379)	(220,286)
Fund Balances - Beginning	1,827,727	1,166,696	2,994,423
Fund Balances - Ending	\$ 1,811,820	\$ 962,317	\$ 2,774,137

**TOWN OF HIGHLANDS
COMBINING BALANCE SHEETS
HIGHWAY FUNDS
DECEMBER 31, 2014**

	Highway Fund (A)	Highway Fund (B)	Totals
ASSETS			
Cash and Cash Equivalents	\$ (5,521)	\$ 288,132	\$ 282,611
Accounts Receivable	-	22,812	22,812
Due from Other Governments	3,560	-	3,560
Prepaid Expenses	2,407	14,672	17,079
Total Assets	<u>\$ 446</u>	<u>\$ 325,616</u>	<u>\$ 326,062</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 542	\$ 4,416	\$ 4,958
Accrued Expenditures	1,524	6,800	8,324
Total Liabilities	<u>2,066</u>	<u>11,216</u>	<u>13,282</u>
Fund Balances:			
Nonspendable	2,407	14,672	17,079
Restricted	-	160,139	160,139
Assigned	-	139,589	139,589
Unassigned	(4,027)	-	(4,027)
Total Fund Balances	<u>(1,620)</u>	<u>314,400</u>	<u>312,780</u>
Total Liabilities and Fund Balances	<u>\$ 446</u>	<u>\$ 325,616</u>	<u>\$ 326,062</u>

**TOWN OF HIGHLANDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
HIGHWAY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Highway Fund (A)	Highway Fund (B)	Totals
Revenues:			
Real Property Taxes	\$ 94,800	\$ 383,750	\$ 478,550
Use of Money and Property	44	449	493
Sale of Property and Compensation for Loss	9,274	-	9,274
State and Federal Aid	-	22,812	22,812
Total Revenues	<u>104,118</u>	<u>407,011</u>	<u>511,129</u>
Expenditures:			
General Government	166	451	617
Transportation	92,473	206,231	298,704
Employee Benefits	11,425	103,585	115,010
Capital Outlay	97,165	22,812	119,977
Total Expenditures	<u>201,229</u>	<u>333,079</u>	<u>534,308</u>
Excess/(Deficiency) of Revenues Over Expenditures	<u>(97,111)</u>	<u>73,932</u>	<u>(23,179)</u>
Change in Fund Balances	(97,111)	73,932	(23,179)
Fund Balances - Beginning	95,491	240,468	335,959
Fund Balances - Ending	<u>\$ (1,620)</u>	<u>\$ 314,400</u>	<u>\$ 312,780</u>

**TOWN OF HIGHLANDS
SCHEDULE OF INDEBTEDNESS
DECEMBER 31, 2014**

	Original Date of Issue	Date of Final Maturity	Interest Rate	Outstanding Beginning of Fiscal Year	Issued During Fiscal Year	Paid During Fiscal Year	Outstanding End of Fiscal Year	Amount of Interest Paid During Fiscal Year	Amount of Interest Accrued at 12/31/2014	Due Within the Next Year
<u>SERIAL BONDS</u>										
E.F.C. SRF Bond - Water District #2	05/01/14	11/01/33	Various	\$1,194,716	\$ -	\$ 55,000	\$1,139,716	\$ 9,636	\$ 3,606	\$ 55,000
E.F.C. Bond - Water District #2	09/01/00	07/01/21	0.00%	249,700	-	29,200	220,500	-	-	29,700
Sewer System Refunding Serial Bond	03/15/96	11/15/15	5.33%	185,000	-	90,000	95,000	9,990	639	95,000
 TOTAL SERIAL BONDS				<u>\$1,629,416</u>	<u>\$ -</u>	<u>\$ 174,200</u>	<u>\$1,455,216</u>	<u>\$ 19,626</u>	<u>\$ 4,245</u>	<u>\$ 179,700</u>