DEFERRED COMPENSATION PLAN FOR EMPLOYEES OF THE TOWN OF SOUTHOLD

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

TABLE OF CONTENTS

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
Management's Discussion and Analysis
December 31, 2016 and 2015

The Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits provide information about the financial status of the Deferred Compensation Plan for Employees of the Town of Southold (the Plan). These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, revenue and expenses are recorded when earned or incurred regardless of when cash is received or paid.

The following management's discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide background and summary information for the Plan. This management's discussion and analysis should be read in conjunction with the financial statements, including notes, which begin on page 6.

Financial Highlights

Net assets available for benefits amounted to approximately $17,601,000 at December 31, 2016 compared to approximately $16,051,000 at December 31, 2015. The increase of approximately $1,550,000 (10%) during the year ended December 31, 2016 is primarily the result of appreciation in the fair value of invested assets and employee contributions of approximately $1,978,000 less benefits paid of approximately $428,000.

Contributions from participants excluding rollovers were approximately $830,000 in 2016 and approximately $732,000 in 2015, which was an increase of 13%. Rollover contributions for the year ended December 31, 2016 and 2015 were approximately $138,000 and $118,000 respectively, or an increase of 17%.

The Plan's loans to participants were approximately $309,000 in 2016 and approximately $254,000 in 2015. This increase of 22% is mainly due to additional loans to the participants of the Plan.

Summarized Financial Statement Information

	December 31, 2016	December 31, 2015
Net Assets available for benefits	$ 17,601,299	$ 16,051,683
Increase in net assets available for benefits	$ 1,549,616	$ 99,952

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
Management's Discussion and Analysis
December 31, 2016 and 2015

	Plan Additions		
	2016	2015	Percentage Change
Employee contributions	$ 830,123	$ 731,519	13%
Rollovers	138,205	117,659	17%
	968,328	849,178	14%
Appreciation in fair value of investments	998,775	188,512	430%
Interest income on notes receivable from participants	10,969	10,630	3%
	1,009,744	199,142	407%
Total additions to net assets	$ 1,978,072	$ 1,048,320	89%

	Plan Additions		
	2016	2015	Percentage Change
Benefits paid to participants and beneficiaries	$ 427,268	$ 947,293	(55%)
Administrative expenses	1,188	1,075	11%

	Average Rate of Return	
	2016	2015
Appreciation in fair value of investments	$ 998,775	$ 188,512
Average plan assets	16,826,491	16,001,707
Rate of return on average plan assets	5.9%	1.2%

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
Management's Discussion and Analysis
December 31, 2016 and 2015

Decisions and Conditions Expected to Have Significant Impact on the Plan's Future Financial Position

The annual maximum contributions during the year ended December 31, 2016 was $18,000 ($24,000 if the employee is age 50 or older).

Due to the demographics of the Town of Southold's ("the Town") employee base, the amount categorized as "employee contributions" should continue to increase in the foreseeable future as long as participants believe the market will continue to rise and the cost of consumer goods does not significantly decrease the participant's disposable income. Participants understand that the earlier they retire, the longer they will live in retirement and that they will need to supplement their New York State pension. As long as they can afford it (and the closer they get to retirement) they will continue to defer a portion of their current salary into the Plan.

The Plan's Third Party Administrator does offer investment advice or guidance to attract non-participants who have not enrolled because of their lack of expertise in investing, fear of investing in the wrong option, not familiar with asset allocation, etc. The Town is committed to explore options to reach out to non-participants or to educate participants on the importance of reaching their retirement goals.

It is hoped that the fee structure, as well as the Town's policy that allows retirees or terminated employees to stay in the Plan, will encourage former employees to remain in the Plan rather than rollout their account balance to another financial institution.

Request for Information

This financial report is designed to provide a general overview of the Plan's finances for all those included in the Plan. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

Accounting and Finance Department
Deferred Compensation Plan for Employees of the Town of Southold
Town Hall Annex
P.O. Box 1179
54375 Main Road
Southold, NY 11971

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Trustees
Town of Southold
Southold, New York

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Deferred Compensation Plan for Employees of the Town of Southold (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2016 and 2015 and the related statements of changes in net assets available for benefits for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA), the Plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Notes 3 and 4, which was certified by MassMutual Retirement Services, the Custodian of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the Plan Administrator that the Custodian holds the Plan's investment assets and executes investment transactions. The Plan Administrator has obtained a certification from the Custodian as of December 31, 2016 and 2015 and for the years then ended, that the information provided to the Plan administrator by the Custodian is complete and accurate.

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Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Form and Content in Compliance with DOL Rules and Regulations

The form and content of the information included in the financial statements other than that derived from the information certified by the Trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Albrecht, Viggiano, Zureck & Company, P.C.

Hauppauge, New York
June 7, 2017

DEFERRED COMPENSATION PLAN FOR EMPLOYEES OF THE TOWN OF SOUTHOLD

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2016 and 2015

	2016	2015
Assets		
Investments at fair value	$ 13,441,222	$ 12,423,451
Investment at contract value	3,850,598	3,374,620
Total Investments	17,291,820	15,798,071
Receivables:		
Notes receivable from participants	309,479	253,612
Total Receivables	309,479	253,612
Net Assets Available for Benefits	$ 17,601,299	$ 16,051,683

See accompanying notes to the financial statements.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2016 and 2015

	2016	2015
Additions:		
Investment income:		
Net appreciation in fair value of investments	$ 998,775	$ 188,512
Interest income on notes receivable from participants	10,969	10,630
Contributions:		
Participants	830,123	731,519
Rollovers	138,205	117,659
	968,328	849,178
Total Additions	1,978,072	1,048,320
Deductions:		
Benefits paid to participants and beneficiaries	427,268	947,293
Administrative expenses	1,188	1,075
Total Deductions	428,456	948,368
Net Increase	1,549,616	99,952
Net Assets Available for Benefits:		
Beginning of Year	16,051,683	15,951,731
End of Year	$ 17,601,299	$ 16,051,683

See accompanying notes to the financial statements.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Plan

The following description of the Deferred Compensation Plan for the Employees of the Town of Southold (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan available to substantially all of the employees of the Town of Southold ("the Town") upon employment. The Plan was created in accordance with Internal Revenue Code Section 457 of the Internal Revenue Code (IRC) and is subject to the provisions of the rules and regulations of the New York State Deferred Compensation Board (the "Board"), as amended, and permits the employees to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination of employment, retirement, death or unforeseeable financial emergency.

The Plan has entered into contract with the MassMutual Retirement Services ("the Administrator") to administer the Plan. The Administrator offers several investment options through various financial organizations, and maintains individual accounts for Plan participants.

All amounts deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries and alternate payees pursuant to the trust agreement.

Contributions

Each year, participants may contribute a minimum of $260 and up to 100% of eligible compensation, as defined by the Plan, not to exceed the maximum amount permitted under the Internal Revenue Code. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. An additional catch-up is allowed for previous missed contributions for participants who are within three years of retirement. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans (rollover). Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and a fixed annuity contract as investment options for participants. Contributions are subject to certain IRS limitations.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of the Plan earnings. Participant's accounts are charged with an allocation of administrative expenses that are paid by the Plan. Allocations are based on participant earnings or account balances, or specific participant transactions, as defined by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Plan (continued)

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon.

Notes Receivable from Participants

Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance. The notes are secured by the balance in the participant's account and bear interest at rates which are commensurate with local prevailing rates as determined quarterly by the Plan Administrator. Principal and interest is paid ratably through payroll deductions.

Payment of Benefits

On termination of service due to death, disability, or retirement, or for other reason, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or monthly, quarterly, semi-annually or annual installments over a certain period, as defined by the Plan. Participants are eligible for in-service withdrawals for unforeseeable emergencies subject to certain provisions of the IRC.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting and present the fiduciary net assets available for plan benefits and changes in fiduciary net assets for benefits.

Investment contracts held by a defined-contribution plan are required to be reported at fair value (except for fully benefit-responsive investment contracts, which are reported at contract value). Contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan.

Use 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 changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Investment Valuation and Income Recognition

The Plan's investments are recorded at fair value, (except for the fully benefit-responsive investment contract, which is reported at contract value). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Deferred Compensation Committee determines the Plan's valuation policies utilizing information provided by the investment advisors, administrative service agencies. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest Income is recorded on the accrual basis. Related fees are recorded as administrative expenses and expensed when incurred. No allowance for credit losses has been recorded as of December 31, 2016 and 2015. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Payment of Benefits

Benefits are recorded when paid.

Administrative Expenses

Expenses of maintaining the Plan are paid by the Plan, unless otherwise paid by the Town. Expenses that are paid by the Town are excluded from these financial statements. Fees related to the administration of notes receivable from participants are charged directly to the participant's account and are included in administrative expenses. Investment related expenses are included in net appreciation of fair value of investments.

Subsequent Events

Plan management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the U.S. Securities and Exchange Commission. The funds are required to publish their daily net asset value (NAV) and transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value:

	Assets at Fair Value (Level 1)	
	2016	2015
Mutual funds at fair value	$ 13,441,222	$ 12,423,451

There were no level 2 or level 3 assets held by the Plan at December 31, 2016 and 2015.

Note 4 – Fully Benefit-Responsive Guaranteed Investment Contract

The Plan has a fully benefit responsive investment contract with the MassMutual Retirement Services ("MassMutual"). MassMutual maintains the contributions in a general account that is comprised of guaranteed investment contracts (traditional "GICs") and separate account guaranteed investment contracts (separate account GICs). These contracts meet the fully benefit-responsive investment contract criteria and therefore are reported at contract value. Contract value is the relevant measure for fully benefit-responsive investment contracts because this is the amount received by participants if they were to initiate permitted transactions under the terms of the Plan. Contract value represents contributions made under each contract, plus earnings, less participant withdrawals, and administrative expenses.

The traditional investment contract held by the Plan is a guaranteed investment contract. The contract issuer is contractually obligated to repay the principal and interest at a specified interest rate that is guaranteed to the Plan. The crediting rate is based on a formula established by the contract issuer but may not be less than 2.5%. The crediting rate is reviewed on a quarterly basis for resetting. The contract cannot be terminated before the scheduled maturity date.

The Plan's ability to receive amounts due in accordance with fully benefit-responsive investment contracts is dependent on the third-party issuer's ability to meet its financial obligations. The issuer's ability to meet its contractual obligations may be affected by future economic and regulatory developments.

Certain events might limit the Plan's ability to transact at contract value with the contract issuer. These events may be different under each contract. Examples of such events include the following: (a) the Plan's failure to qualify under Section 457 of the IRC or the failure of the trust to be tax-exempt under Section 501(a) of the Internal Revenue, (b) premature termination of the contract, (c) Plan termination or merger, (d) changes to the Plan's prohibition on competing investment options, (e) bankruptcy of the Plan sponsor or other Plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that significantly affect the Plan's normal operations.

The Plan administrator does not believe that any events that would limit the Plan's ability to transact at contract value with Plan participants are probable of occurring.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 4 – Fully Benefit-Responsive Guaranteed Investment Contract (continued)

In addition, certain events allow the issuer to terminate the contracts with the Plan and settle at an amount different from contract value.

Those events may be different under each contract. Examples of such events include the following: (a) an uncured violation of the Plan's investment guidelines, (b) a breach of material obligation under the contract, (c) a material misrepresentation, (d) a material amendment to the agreements without the consent of the issuer.

Note 5 – Plan Termination

Although it has not expressed any intent to do so, the Board of Trustees has the right under the Plan to amend, suspend or terminate the Plan and any deferrals there under, the trust agreement and any investment fund, in whole or in part and for any reason and without consent of any employee, participant, beneficiary, or other person. In the event of Plan termination, all amounts deferred would be payable in accordance with Plan provisions.

Note 6 – Related Party Transactions

Certain Plan investments are managed by MassMutual. MassMutual is the Custodian and record keeper for the Plan and, therefore, these transactions qualify as party in interest transactions

Note 7 – Tax Status

The Plan is structured and follows a model deferred compensation plan, pre-approved by the Internal Revenue Service (IRS). The Internal Revenue Service has determined and informed the New York State Deferred Compensation Board by a letter dated September 15, 2011, that the Model Plan implemented by MassMutual is designed in accordance with applicable sections of the IRC.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more than likely would not be sustained upon examination by the applicable taxing authority. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Note 8 – Certification

Certain information related to investments and notes receivable from participants held at December 31, 2016 and 2015 and net appreciation in fair value of investments and interest income for the years then ended, disclosed in the accompanying financial statements, was obtained or derived from information supplied to the Plan administrator and certified as complete and accurate by MassMutual Retirement Services the Custodian of the Plan.

DEFERRED COMPENSATION PLAN
FOR EMPLOYEES OF THE
TOWN OF SOUTHOLD
NOTES TO FINANCIAL STATEMENTS

Note 9 – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

Note 10 – Investment Concentrations

At December 31, 2016, three of the investments held by the Plan, individually amounted to approximately 10% or more of the net assets available for benefits, and approximately $8,624,000 or 49% in the aggregate. At December 31, 2015, three of the investments held by the Plan, individually amounted to approximately 10% or more of the net assets available for benefits, and approximately $8,249,000 or 51% in the aggregate.