

TOWN OF SOUTHAMPTON
NEW YORK STATE
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2008
TOGETHER WITH AUDITORS' REPORTS

TOWN OF SOUTHAMPTON
TABLE OF CONTENTS

| | |
|---|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion And Analysis | 3-14 |
| Financial Statements: | |
| Government-Wide Financial Statements - | |
| Statement Of Net Assets | 15 |
| Statement Of Activities And Change In Net Assets | 16 |
| Fund Financial Statements - | |
| Balance Sheet - Governmental Funds | 17 |
| Reconciliation Of The Governmental Funds Balance Sheet | |
| To The Statement of Net Assets | 18 |
| Fund Financial Statements - | |
| Statement Of Revenues, Expenditures, And | |
| Changes In Fund Equity (Deficit) - Governmental Funds | 19 |
| Reconciliation Of The Governmental Funds Statement of Revenues, Expenditures | |
| And Changes In Fund Equity (Deficit) To The Statement of Activities | 20 |
| Fund Financial Statements - | |
| Statement Of Net Assets - Proprietary Funds | 21 |
| Statement Of Revenues, Expenses, And Changes In Fund Net Assets - Proprietary Funds | 22 |
| Statement Of Cash Flows - Proprietary Funds | 23 |
| Fund Financial Statements - | |
| Statement Of Fiduciary Assets And Liabilities - Fiduciary Funds | 24 |
| Notes To Financial Statements | 25-52 |

SUPPLEMENTAL
SCHEDULE

| | |
|---|---------|
| Supplemental Information: | |
| General Fund - | |
| Schedule Of Revenues, Expenditures And Changes | |
| In Fund Balance - Budget And Actual | 1 |
| | 53 |
| Town Outside Village Fund - | |
| Schedule Of Revenues, Expenditures And Changes | |
| In Fund Balance - Budget And Actual | 2 |
| | 54 |
| Highway Fund - | |
| Schedule Of Revenues, Expenditures And Changes | |
| In Fund Deficit - Budget And Actual | 3 |
| | 55 |
| Police District - | |
| Schedule Of Revenues, Expenditures And Changes | |
| In Fund Deficit - Budget And Actual | 4 |
| | 56 |
| Schedule Of Cash Receipts And Disbursements - Justice Court | 5 |
| | 57 |
| Schedule Of Employer Contributions - Service Award Program | 6 |
| | 58 |
| Schedule Of Funding Progress - Service Award Program | 7 |
| | 59 |
| Schedule Of Funding Progress For The Retiree Health Plan | 8 |
| | 60 |
| Schedule Of Expenditures Of Federal Awards | 9 |
| | 61 |
| Notes To Schedule Of Expenditures Of Federal Awards | 62 |

TOWN OF SOUTHAMPTON
TABLE OF CONTENTS (continued)

| | |
|---|-------|
| Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> | 63-64 |
| Independent Auditors' Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133..... | 65-66 |
| Schedule Of Findings And Questioned Costs | 67-68 |
| Summary Schedule Of Prior Audit Findings | 69-70 |



INDEPENDENT AUDITORS' REPORT

To the Honorable Supervisor and Town Board of the
Town of Southampton:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Southampton (the "Town"), as of and for the year ended December 31, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As more fully disclosed in Note 1 to the financial statements, the Town has not completed a forensic investigation of the Capital Projects Fund for the fiscal years 2003 through 2007, and we were unable to apply sufficient alternative procedures to determine the effects, if any, on the Town's opening fund balances in the General Fund and Capital Projects Fund and the opening net assets in the Enterprise Funds.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to apply sufficient procedures related to the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Southampton as of December 31, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2009, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Nawrocki Smith LLP

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Southampton's basic financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Town of Southampton. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the matter discussed in the fourth paragraph, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Melville, New York
December 22, 2009

Nawrocki Smith LLP

TOWN OF SOUTHAMPTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008

The following is a discussion and analysis of the Town of Southampton's (the "Town") financial performance for the year ended December 31, 2008. This section is a summary of the Town's financial activities based on currently known facts, decisions and conditions. It is also based on both the Town-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the Town's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The Town's total net assets, as reflected in the Town-wide financial statements, increased by \$12,555,385 or 2.1%. This increase is primarily due to increased real property taxes and local revenue sources being collected, offset by the recognition of other post-employment benefits of \$9,041,618 in accordance with Governmental Accounting Standards Board ("GASB") Statement 45.
- The Town's expenses for the year, as reflected in the Town-wide financial statements, totaled \$110,455,524. Of this amount, \$53,271,560 was offset by program charges for services and operating grants. General revenues of \$69,739,349 amounted to 56.7% of total revenues.
- The General Fund's total fund balance, as reflected in the fund financial statements, was \$10,575,234, which is a decrease of \$3,897,288 or 26.9% as compared to the prior year (see pages 17 and 19).

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *Town-wide financial statements* that provide both *short-term* and *long-term* information about the Town's *overall* financial status (see pages 15 and 16).
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Town, reporting the Town's operations in *more detail* than the Town-wide statements (see pages 17 through 23).
 - The *governmental funds statements* tell how basic services were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary funds statements* provide both short-term and long-term information for the Town's business-type activities with the primary revenue sources being charges for services.
 - *Fiduciary funds statements* provide information about the financial relationships in which the Town acts solely as a *trustee* or *agent* for the benefit of others (see page 24).

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of certain actual results (General Fund, Town Outside Village Fund, Highway Fund and Police District) with the Town's budget for the year.

Reporting the Town as a Whole

The analysis of the Town as a whole begins on page 15. One of the most important questions asked about the Town's finances should be, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statements of Activities, we divide the Town into three types:

- *Governmental activities* - Most of the Town's basic services are reported here, including police, fire, public works, parks departments and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- *Business-type activities* - The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's waste management, building and zoning, golf course and beach facilities are reported here.
- *Component Unit* - The component unit is a legally separate organization for which the Town either financially accountable, or the nature and relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town includes one discretely presented component unit (Town of Southampton Housing Authority) as a separate column on the Town-wide statements. Complete financial statements of the component units can be obtained from their administrative office. (See Note 2)

Reporting the Town's Most Significant Funds

Fund financial statements present financial information in the traditional governmental accounting format, with an emphasis on the most significant funds. Our analysis of the Town's major funds begins on page 17. Some funds are required to be established by State law and by bond covenants. However, the Town establishes many other funds to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (grants received from the U.S. Department of Housing and Urban Development). The Town's three kinds of funds – governmental, proprietary and fiduciary – use different accounting approaches.

- *Governmental Funds* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation following each of the governmental fund financial statements (pages 18 and 20).

- *Proprietary Funds* - When the Town charges customers for the services it provides – whether to outside customers or to other units of the Town – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The Town’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the Town-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.
- *Fiduciary Funds* - Fiduciary funds are used to account for resources that are earmarked for the benefit of other parties, and are not reflected on the Town-wide financial statements because those funds are not available to support the Town’s activities.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Financial Highlights:

Net assets

The Town’s total assets on December 31, 2008 were \$803.0 million, an increase of \$44.7 million over the prior year. Total liabilities were \$177.3 million, an increase of approximately \$32.1 million from the prior year. The result is a net asset balance of \$625.7 million, an increase of \$12.6 million over the prior year. Of the Town’s net assets, \$613.7 million was invested in capital assets, net of related debt, while \$3.2 million was restricted. Unrestricted net assets were \$8.8 million on December 31, 2008.

- Negative working capital of \$2.1 million due to the Community Preservation Fund (“CPF”) purchasing property with short-term borrowings which was converted to long-term borrowing in 2009 as well as a reduction of certain receivable balances due to timing of payments.
- Investment in capital assets of \$735.6 million (compared to \$665.2 million in 2007) increased primarily due to \$70 million in CPF purchases and \$16 million in ongoing capital projects offset by \$17 million in depreciation charges.
- Net assets of \$625.7 million (compared to \$614.6 million in 2007) increased primarily due to capital asset purchases and bond payments.

The Town’s bonded indebtedness was \$96.0 million which is included in liabilities.

Change in Net Assets

The Town’s program revenues for the year ended December 31, 2008 were \$53.3 million, a decrease of \$18.7 million from 2007 which is primarily related to a decrease in CPF revenue collected and decreased interest rates on idle monies offset by increases in real property taxes and local sources. General revenues decreased by \$2.5 million from last year to \$69.7 million. Total combined revenues for 2008 were \$123.0 million, a decrease of \$21.2 million from 2007. Expenses for the year ended December 31, 2008 were \$110.5 million an increase of \$6.4 million which is primarily related to the initial recognition of a \$9.0 million other post-employment benefit obligation, resulting in a change in net assets for the year ended December 31, 2008 in the amount of \$12.5 million.

The Town’s combined net assets increased from a year ago, rising from \$614.6 million to \$625.7 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town’s governmental and business-type activities.

Table 1:

Condensed Statement of Net Assets
Governmental and Business-type Activities - Primary Government
As of December 31,

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|----------------|--------------------------|---------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Current and other assets | \$ 58,406,144 | \$ 87,985,571 | \$ 8,688,276 | \$ 5,127,777 | \$ 67,094,420 | \$ 93,113,348 |
| Non-current assets | 712,957,566 | 643,921,216 | 22,944,846 | 21,257,384 | 735,902,412 | 665,178,600 |
| Total assets | \$ 771,363,710 | \$ 731,906,787 | \$ 31,633,122 | \$ 26,385,161 | \$ 802,996,832 | \$ 758,291,948 |
| Liabilities | | | | | | |
| Current liabilities | \$ 61,039,496 | \$ 32,182,231 | \$ 8,114,158 | \$ 811,418 | \$ 69,153,654 | \$ 32,993,649 |
| Long-term liabilities | 100,843,462 | 103,079,159 | 7,276,828 | 7,600,627 | 108,120,290 | 110,679,786 |
| Total liabilities | \$ 161,882,958 | \$ 135,261,390 | \$ 15,390,986 | \$ 8,412,045 | \$ 177,273,944 | \$ 143,673,435 |
| Net assets | | | | | | |
| Invested in capital assets, net of related debt | \$ 598,031,530 | \$ 548,126,307 | \$ 15,705,306 | \$ 14,908,073 | \$ 613,736,836 | \$ 563,034,380 |
| Restricted | 2,000,000 | 42,881,535 | 1,217,763 | - | 3,217,763 | 42,881,535 |
| Unrestricted | 9,449,222 | 5,637,555 | (680,933) | 3,065,043 | 8,768,289 | 8,702,598 |
| Total net assets | \$ 609,480,752 | \$ 596,645,397 | \$ 16,242,136 | \$ 17,973,116 | \$ 625,722,888 | \$ 614,618,513 |

Table 2:

Condensed Statement of Activities and Changes in Net Assets
Governmental and Business-type Activities - Primary Government
As of December 31,

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|-------------------------|---------------|--------------------------|--------------|---------------|---------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Program revenues: | | | | | | |
| Charges for services | \$ 3,272,015 | \$ 4,014,004 | \$ 7,485,850 | \$ 8,294,555 | \$ 10,757,865 | \$ 12,308,559 |
| Operating grants and contributions | 42,334,202 | 59,483,982 | 117,642 | 54,020 | 42,451,844 | 59,538,002 |
| Capital grants and contributions | 61,851 | 150,164 | - | - | 61,851 | 150,164 |
| Total program revenues | 45,668,068 | 63,648,150 | 7,603,492 | 8,348,575 | 53,271,560 | 71,996,725 |
| General revenues: | | | | | | |
| Real property taxes | 53,161,189 | 50,764,207 | - | - | 53,161,189 | 50,764,207 |
| Other real property tax items | 446,647 | 440,318 | - | - | 446,647 | 440,318 |
| Non-property tax items | 1,010,521 | 894,303 | - | - | 1,010,521 | 894,303 |
| Interest earnings | 2,116,151 | 4,036,759 | 88,371 | 174,779 | 2,204,522 | 4,211,538 |
| Local government assistance - County | - | 1,501,061 | - | - | - | 1,501,061 |
| State aid - unrestricted | 11,108,990 | 12,276,742 | - | - | 11,108,990 | 12,276,742 |
| Other | 1,807,480 | 2,117,575 | - | - | 1,807,480 | 2,117,575 |
| Total general revenues | 69,650,978 | 72,030,965 | 88,371 | 174,779 | 69,739,349 | 72,205,744 |
| Total revenues | 115,319,046 | 135,679,115 | 7,691,863 | 8,523,354 | 123,010,909 | 144,202,469 |
| Program expenses: | | | | | | |
| General government support | 22,212,560 | 21,613,601 | - | - | 22,212,560 | 21,613,601 |
| Public safety | 27,954,384 | 26,068,407 | - | - | 27,954,384 | 26,068,407 |
| Health | 2,112,910 | 1,884,709 | - | - | 2,112,910 | 1,884,709 |
| Transportation | 22,949,170 | 20,775,342 | - | - | 22,949,170 | 20,775,342 |
| Economic assistance and opportunity | 2,699,959 | 2,138,101 | - | - | 2,699,959 | 2,138,101 |
| Culture and recreation | 7,850,068 | 6,704,058 | - | - | 7,850,068 | 6,704,058 |
| Home and community services | 12,843,426 | 13,468,932 | - | - | 12,843,426 | 13,468,932 |
| Interest on debt | 3,641,720 | 3,555,930 | 293,167 | - | 3,934,887 | 3,555,930 |
| Beaches and marinas | - | - | 1,515,342 | 1,546,966 | 1,515,342 | 1,546,966 |
| Waste management | - | - | 2,093,351 | 2,342,016 | 2,093,351 | 2,342,016 |
| Building and zoning | - | - | 3,587,303 | 3,328,637 | 3,587,303 | 3,328,637 |
| Golf course | - | - | 702,164 | 647,353 | 702,164 | 647,353 |
| Total expenses | 102,264,197 | 96,209,080 | 8,191,327 | 7,864,972 | 110,455,524 | 104,074,052 |
| Excess (deficiency) before interfund transfers | 13,054,849 | 39,470,035 | (499,464) | 658,382 | 12,555,385 | 40,128,417 |
| Interfund transfers | 1,213,366 | 701,446 | (1,213,366) | (701,446) | - | - |
| Change in net assets | \$ 14,268,215 | \$ 40,171,481 | \$ (1,712,830) | \$ (43,064) | \$ 12,555,385 | \$ 40,128,417 |

Governmental Activities

Revenues for the Town’s governmental activities decreased by 15.0 percent (\$20.4 million) while total expenses increased by 6.3 percent (\$6.1 million). The majority of the decrease in revenue is due to a \$17.1 million decrease in operating grants and contributions.

The cost of all governmental activities this year was \$102.3 million. However, as shown in the Statement of Activities on page 16, the amount that taxpayers ultimately financed for these activities through Town taxes was only \$53.2 million, because some of the cost was paid by those who directly benefited from the programs (\$3.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$42.3 million).

Table 3 presents the cost of the Town’s governmental activities as well as the net cost of services (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town’s taxpayers by each of these functions.

Table 3:

Net Costs of Services
Governmental Activities
For the years ended December 31,

| | Total Cost of Services | | Program Revenues | | Net (Cost) of Services | |
|-------------------------------------|------------------------|----------------------|----------------------|----------------------|------------------------|------------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| General government support | \$ 22,212,560 | \$ 21,613,601 | \$ 37,172,471 | \$ 55,307,450 | \$ 14,959,911 | \$ 33,693,849 |
| Public Safety | 27,954,384 | 26,068,407 | 407,618 | 491,299 | (27,546,766) | (25,577,108) |
| Health | 2,112,910 | 1,884,709 | - | - | (2,112,910) | (1,884,709) |
| Transportation | 22,949,170 | 20,775,342 | 765,068 | 647,442 | (22,184,102) | (20,127,900) |
| Economic assistance and opportunity | 2,699,959 | 2,138,101 | 1,314,354 | 318,756 | (1,385,605) | (1,819,345) |
| Culture and recreation | 7,850,068 | 6,704,058 | 479,131 | 616,820 | (7,370,937) | (6,087,238) |
| Home and community services | 12,843,426 | 13,468,932 | 5,529,426 | 6,266,383 | (7,314,000) | (7,202,549) |
| Interest on debt | 3,641,720 | 3,555,930 | - | - | (3,641,720) | (3,555,930) |
| | <u>\$ 102,264,197</u> | <u>\$ 96,209,080</u> | <u>\$ 45,668,068</u> | <u>\$ 63,648,150</u> | <u>\$ (56,596,129)</u> | <u>\$ (32,560,930)</u> |

The overall net cost of services increased over 2007 by \$6.1 million. The majority of the increase in cost of services was due to the recognition of approximately \$9.0 million of other post-employment benefit obligations.

Table 4: Sources of Revenues for Fiscal Year 2008 – Governmental Activities

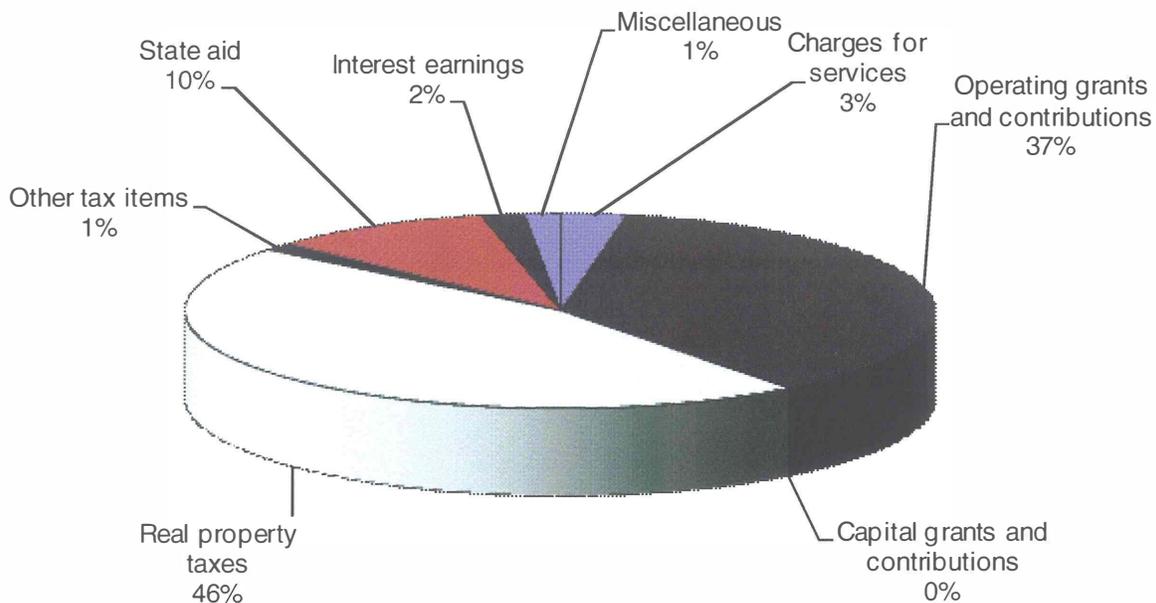
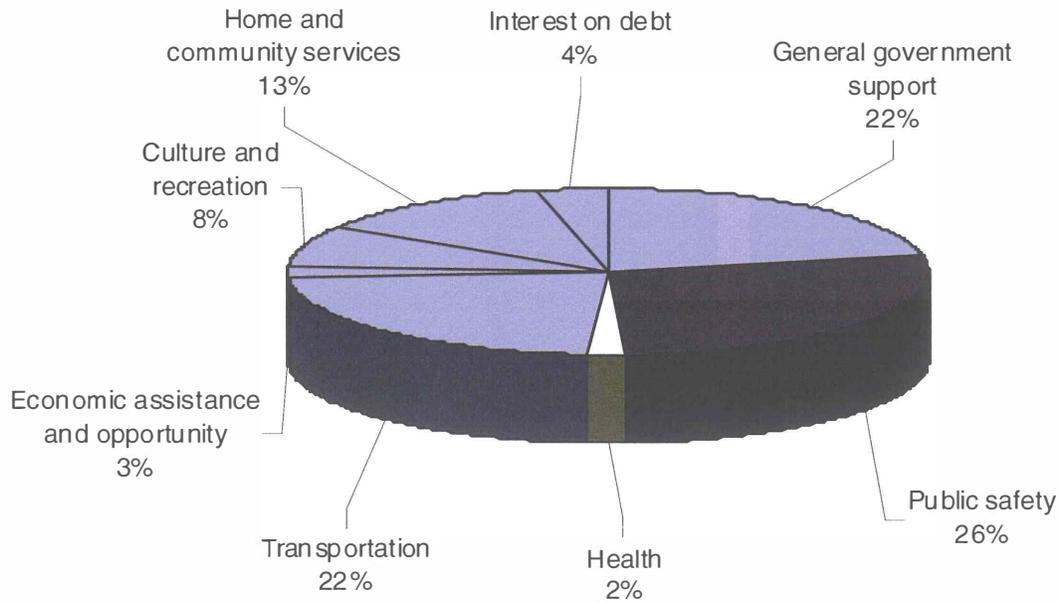


Table 5: Expenses for Fiscal Year 2008 – Governmental Activities



Business-Type Activities

The Town's total operating revenues from business-type activities decreased by 9.8 percent (\$0.8 million) over 2007. Some significant year-end financial data relating to these entities are highlighted as follows:

- Operating revenue in the Beaches and Marinas Fund totaled \$1.4 million in 2008. Increase in operating revenue from the previous year is attributable to increased beach parking fees at the beaches and gasoline sales at the marinas. The fund overall had a decrease in net assets of approximately \$0.7 million due to increased salary and depreciation expense.
- Operating revenue in the Waste Management Fund totaled \$2.1 million in 2008. Charges for waste management services provided to certain governmental funds were the main cause of increased revenues. The fund overall had a decrease in net assets of approximately \$0.8 million. The operating revenues for the current year were not sufficient to cover operating expenditures. However, the Town will be raising disposal fees and a review and update of the Town's Solid Waste Management Plan is proposed for the upcoming year.
- Operating revenue in the Building and Zoning Fund totaled \$3.3 million in 2008. Increase in operating revenue from the previous year is attributable to increased building permit fees. The fund overall had a decrease in net assets of approximately \$0.2 million.
- The Golf Course continues to be in range with continued growth in revenue to cover increased operation expenses. The increase in the net asset contributions, are to build up total net assets and cash for future capital improvement reserves. This will insure sufficient cash flow to meet annual operations and capital debt service from operations even during a poor season that can result from simply bad weather conditions.

Table 6: Sources of Revenues for Fiscal Year 2008 – Business-Type Activities

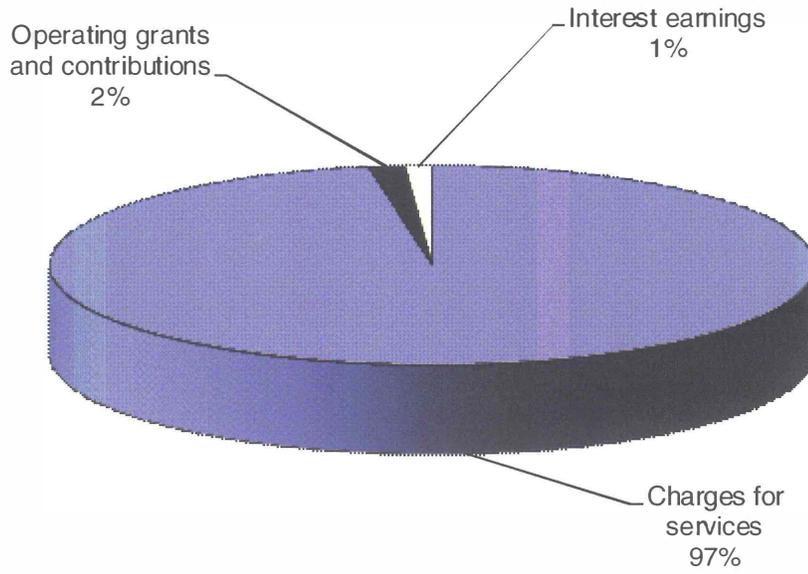
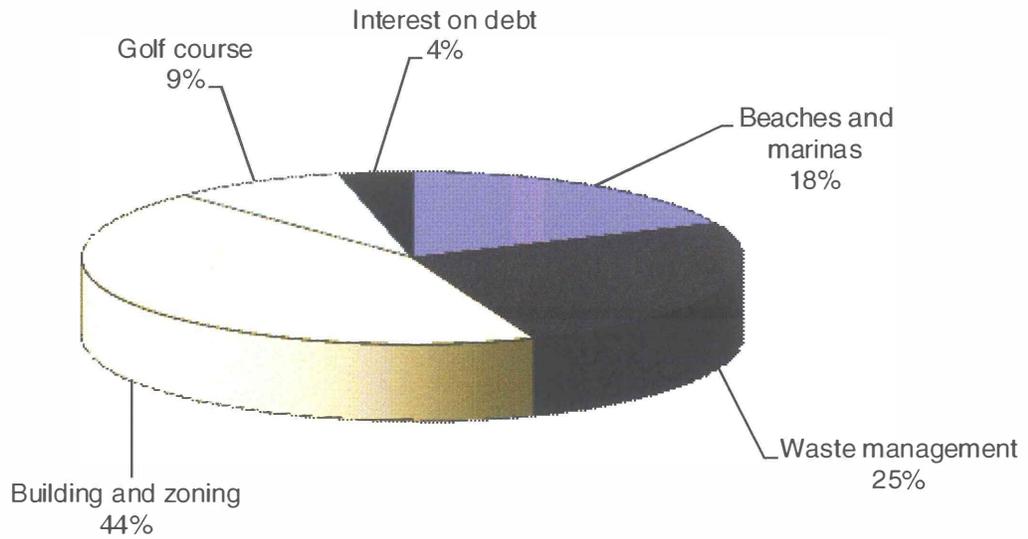


Table 7: Expenses for Fiscal Year 2008 – Business-Type Activities



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

General Fund assets decreased by 9.5 percent and liabilities increased by 90.6 percent primarily related to an increase in current year short-term borrowings and an increase in deferred revenue relating to the collection of 2009 real property taxes. Fund balance declined by 26.9 percent which is reflected in a lower undesignated fund balance of \$2.6 million.

In the General Fund, the overall fund balance decreased approximately \$3.9 million. The decrease was mainly attributable to the \$4.0 million decrease in state aid revenue, increase in employee benefit expenses, legal fees and transfers out to the Capital Projects Fund.

The Police Fund operated in an excess of approximately \$1.3 million in 2008. The 5.7% increase in revenue was partially offset by an increase in salaries and employee benefits expenses. This increase is greater than anticipated, and the combination of lower costs and larger tax increases has been implemented and will continue until the deficit fund balance is erased.

The Capital Projects Fund assets decreased by 36%. Total liabilities were level.

The Capital Projects Fund had a decrease in fund balance of \$6.3 million. This is due to the timing of when revenues are recorded from the issuance of long-term debt, and when the expenditures for the related projects are incurred. The deficit fund balance will be eliminated once the Town converts short-term borrowings to long-term.

In the Community Preservation and Park Districts, the fund balance decreased approximately \$44.8 million. Overall revenues decreased by \$21.0 million from 2007, with the majority of the decrease pertaining to decreased Community Preservation revenue which is generated by certain sales of real estate in the Town. Although revenues decreased, the overall decrease in fund balance was due to purchases of \$70.0 million in open space land with Community Preservation Funds financed with short-term bond anticipation notes. As of December 31, 2008 the Community Preservation and Park Districts had an overall fund deficit that was eliminated in January 2009 when the Town issued permanent financing for these land acquisitions.

The Debt Service Fund has a total deficit fund balance of \$0.1 million due to the timing of reimbursement by the Enterprise Funds for debt payments. The Town plans to discontinue use of this Fund in the upcoming year.

The Fire Protection Districts Funds have a total deficit fund balance of \$0.2 million as a result from unanticipated increases in electric costs. The Town anticipates eliminating this deficit through increases in subsequent year budget appropriations, which will result in increased tax assessment for the Fire Protection Districts.

The Water Districts Funds have a total deficit fund balance of \$0.2 million as a result from unanticipated increases in utility costs. The Town anticipates on eliminating this deficit through increases in subsequent year budget appropriations, which will result in increased tax assessment for the Water Districts.

BUDGETARY HIGHLIGHTS

Variances for the General Fund

The Town's General Fund Balance is a healthy \$10.6 million. However, there is more work to be done to address structural deficits in various operating funds. Substantial deficits in the Police Fund, Capital Projects Fund, Fire Protection Districts, Water Districts and Waste Management Enterprise Fund currently exist and the Town is now taking steps to reduce reliance on the General Fund surplus to offset their operating deficits.

Addressing the manner in which tax rates were reduced by application of General Fund surplus is a top priority in the upcoming budget process. Ensuring that budgeted appropriations in the Town's adopted operating budget are not exceeded is also an objective.

With tough economic times being faced by many people, a more cost efficient budget will be proposed for 2009, with potential re-organization measures to streamline operations. In addition, the Town will embark on multi-year budget projections for its operating budgets as well as develop more financially prudent procedures for the development and implementation of its five year capital budget program.

The General Fund's final revenue budget amounts did not significantly change from the Board's original anticipated budget. Overall revenues were under final budget amounts by \$0.5 million. This deficiency is the result of lower than budgeted interest earnings.

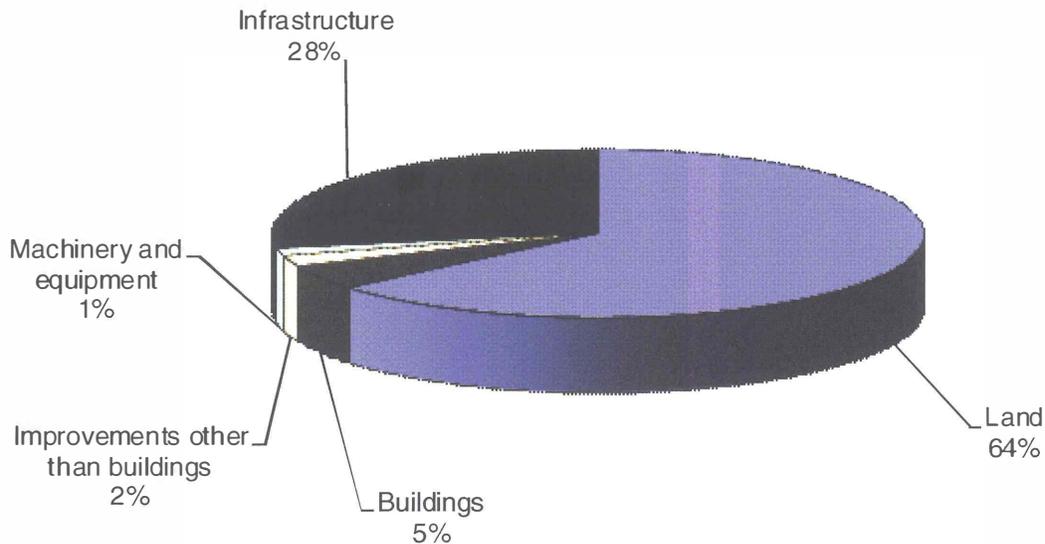
The General Fund's final expenditures and other financing uses budget increased \$5.9 million from the Board's original anticipated budget. The majority of this increase from the original budget was due to increases in general government support and transfers out to other funds. Overall transfers out were increased approximately \$5.1 million due to increased authorizations for capital projects to be funded through General Fund appropriations. Overall, the final budget for expenditures and other financing uses were under the actual expenditures and encumbrances by \$3.3 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the Town had \$735.9 million invested in a broad range of capital assets, including beaches, land, police equipment, buildings, park facilities, roads, bridges and water infrastructure (See Table 10). Since the inception of the Community Preservation Fund in 1999, the Town of Southampton has acquired preserved land valued at approximately \$370.0 million of the Town's total \$458.0 million of land. The details of capital assets are shown in Note 7 to the financial statements.

Table 9: Investment in Capital Assets for Fiscal Year 2008



The Town implemented a ten year Capital Plan in 2005, which projects the long range planning of capital projects, along with the source of financing for those projects. In 2009, the Town has revised the Capital Plan to five years.

During the 2009 fiscal year, the Town conducted an internal evaluation of ongoing capital projects within its Capital Projects Fund. As a result of their internal evaluation, the Town Board voted to contract a forensic accounting firm to conduct a forensic investigation of all capital projects from 2003 to 2007 occurring within the Capital Projects Fund. This evaluation is still ongoing and the results of it will be considered in the 2009 fiscal year.

Table 10:
Capital Assets
As of December 31,

| <u>Governmental Activities:</u> | <u>2008</u> | <u>2007</u> |
|-----------------------------------|---------------------------------|---------------------------------|
| Land | \$ 457,985,484 | \$ 388,018,709 |
| Buildings | 37,752,207 | 29,569,426 |
| Improvements other than buildings | 13,757,510 | 11,231,093 |
| Machinery and equipment | 22,547,189 | 20,552,477 |
| Infrastructure | | |
| Bridges | 970,110 | 953,673 |
| Landfill | 9,412,515 | 9,352,543 |
| Roads, curbs and sidewalks | 335,736,834 | 333,570,803 |
| Lighting system | 1,349,791 | 1,349,791 |
| Bulkheads, piers and boardwalks | 9,053,731 | 8,998,343 |
| Water and sewer mains | 8,712,169 | 7,926,842 |
| | <u>897,277,540</u> | <u>811,523,700</u> |
| Total capital assets | | |
| Less accumulated depreciation | <u>184,587,425</u> | <u>167,602,484</u> |
| | <u>\$ 712,690,115</u> | <u>\$ 643,921,216</u> |
| | <u>Total net capital assets</u> | <u>Total net capital assets</u> |
| | <u>\$ 712,690,115</u> | <u>\$ 643,921,216</u> |
| | <u>2008</u> | <u>2007</u> |
| <u>Business-type Activities:</u> | | |
| Land | \$ 11,012,803 | \$ 11,012,803 |
| Buildings | 4,980,379 | 4,979,186 |
| Improvements other than buildings | 7,233,132 | 5,033,436 |
| Machinery and equipment | <u>2,537,532</u> | <u>2,495,678</u> |
| | <u>25,763,846</u> | <u>23,521,103</u> |
| Total capital assets | | |
| Less accumulated depreciation | <u>2,819,000</u> | <u>2,263,719</u> |
| | <u>\$ 22,944,846</u> | <u>\$ 21,257,384</u> |
| | <u>Total net capital assets</u> | <u>Total net capital assets</u> |
| | <u>\$ 22,944,846</u> | <u>\$ 21,257,384</u> |

The Town's fiscal year 2009 capital budget includes the continuation of funding for a community and aquatic center, pool, and road reconstruction, also with about a dozen new smaller projects such as software upgrades, historic preservation, park upgrades, Town Hall repairs and various heavy equipment purchases.

Debt Administration

During 2005, the Town of Southampton adopted a debt management policy, which limits the Town's debt service funded by taxpayers to not more than 15% of operating expenditures. For 2008, the Town's total debt service was approximately \$14.0 million, of which \$8.2 million was paid by the 2% CPF transfer tax and highway road assessments, resulting in taxpayer supported debt service of just over \$5.8 million. The Town utilizes a Debt Service Fund, which receives operating transfers from governmental funds and separately accounts for Town-wide debt payments.

The Town of Southampton currently has total outstanding bonded indebtedness was \$96.0 million at year-end 2008. No new debt was issued in 2008.

The Town recognized a \$9.0 million obligation for other post-employment benefits in accordance with GASB Statement No. 45.

Note 9 to the financial statements shows the details of the Town's long-term liabilities.

Union Contracts

The Town of Southampton has approximately 550 full-time, year-round employees, which including part-time and summer seasonal employees can increase to over 1,100. The Police Benevolent Association (the "PBA") represents 102 employees under contract, which expired on December 31, 2008. The Civil Service Employee Association (the "CSEA") represents approximately 310 employees under contract which expired on December 31, 2008. The remaining are administrative or non-union employees.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Budget Procedures

The Town's elected and appointed officials considered many factors when setting the fiscal-year 2008 budget, tax rates and fees to be charged for the business-type activities. In 2003, the Town Board mandated a 5% cap on any increases in the Town tax rate in any given year. The Tax Stabilization Reserve was adopted by the Town Board mandating that 10% of the annual budget be reserved from fund balance to be used to reduce the tax rate. The Town Board voted to appropriate \$2.3 million of unreserved surplus to balance the 2009 budget. Although the mortgage tax revenues collected continue to exceed expectations, the Town of Southampton has continued to budget its revenues conservatively.

Tax Collection

Property taxes for the Town, together with the County, fire and school district taxes are collected by the Town Tax Receiver on a single tax bill. The taxes are due and payable in two equal payments on December 1 and May 10, but may be paid without penalty by January 10 and May 31, respectively. Penalties on unpaid taxes are 1% per month from the day such taxes are due and payable and 10% after May 31.

| <u>As of May 31,</u> | <u>Total Tax Levy</u> | <u>To Town Supervisor</u> | <u>To County Treasurer</u> | <u>Uncollected Returned</u> |
|--------------------------|---------------------------|-------------------------------|--------------------------------|---------------------------------|
| 2008 | \$ 263,554,592 | \$ 248,575,719 | \$ 14,978,873 | \$ 11,749,256 |
| 2007 | 247,855,948 | 234,400,547 | 13,455,401 | 10,285,056 |
| 2006 | 236,598,166 | 225,544,264 | 11,053,092 | 9,471,212 |
| 2005 | 222,742,020 | 211,398,147 | 11,343,873 | 8,767,202 |
| 2004 | 203,640,297 | 192,769,021 | 10,871,276 | 10,113,736 |
| 2003 | 190,384,764 | 180,574,224 | 9,810,540 | 1,475,167 |

The Town Receiver distributes the collected money to the Town, fire and school districts prior to distributing the balance collected to the County. Uncollected amounts are not segregated by the Receiver and any deficiency in tax collection is the County's liability. The Town is thereby assured of full tax collection.

Business-Type Activities

As for the Town's business-type activities, it is expected that the 2009 results will improve based on these recent rate decisions:

- The Beach and Marinas Enterprise Fund did not do as well as expected in 2008, however, rate changes will be considered to include the amortization of the bonds issued to make the capital improvements in addition to offsetting the costs of operations.
- The Building and Zoning Enterprise Fund expects to report a profit from operations in 2009, although, it experienced a decline in revenues resulting from the softening of the real estate market. After adding new fees for engineering services, along with the substantial reserves carried forward from the prior year's profits, the Town feels confident that it will be able to continue supporting the level of services expected by our residents.

- The Poxabogue Golf Course continues to experience consistent profitability from operations since its inception. The Town of Southampton and The Town of East Hampton have agreed to a capital improvement plan that will enable them to expand services. The capital improvements scheduled to be phased in over several years will be financed through bonds paid off with the profits realized from operations.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Comptroller's Office at Town of Southampton, 116 Hampton Road, Southampton, NY 11968 (631) 283-6000.

TOWN OF SOUTHAMPTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

| ASSETS | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|-----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 27,681,582 | \$ 3,712,267 | \$ 31,393,849 | \$ 80,461 |
| Cash - restricted | 8,380,612 | - | 8,380,612 | 139,062 |
| Accounts receivable, net | 1,023,823 | 21,233 | 1,045,056 | 28,405 |
| State and federal aid receivables | 6,698,417 | - | 6,698,417 | - |
| Internal balances | 6,207,435 | 40,245 | 6,247,680 | - |
| Due from fiduciary funds | 4,224,028 | 4,710,323 | 8,934,351 | - |
| Due from other governments | 1,651,012 | - | 1,651,012 | - |
| Prepaid charges | 2,518,610 | 184,151 | 2,702,761 | 4,867 |
| Inventory of material and supplies | - | 20,057 | 20,057 | - |
| Other assets | 20,625 | - | 20,625 | - |
| Total current assets | <u>58,406,144</u> | <u>8,688,276</u> | <u>67,094,420</u> | <u>252,795</u> |
| Non-current assets: | | | | |
| Deferred charges, net of accumulated amortization | 267,451 | - | 267,451 | 28,682 |
| Non-depreciable capital assets | 457,985,484 | 11,012,803 | 468,998,287 | 620,500 |
| Depreciable capital assets, net of depreciation | 254,704,631 | 11,932,043 | 266,636,674 | 2,513,359 |
| Total non-current assets | <u>712,957,566</u> | <u>22,944,846</u> | <u>735,902,412</u> | <u>3,162,541</u> |
| Total assets | <u>\$ 771,363,710</u> | <u>\$ 31,633,122</u> | <u>\$ 802,996,832</u> | <u>\$ 3,415,336</u> |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 4,141,271 | \$ 167,880 | \$ 4,309,151 | \$ 19,210 |
| Accrued liabilities | 765,367 | - | 765,367 | 4,764 |
| Accrued interest payable | 1,033,729 | 61,561 | 1,095,290 | 2,301 |
| Bond anticipation notes payable | 25,865,000 | - | 25,865,000 | - |
| Internal balances | 40,245 | 6,207,435 | 6,247,680 | - |
| Due to fiduciary funds | 6,144,099 | 1,138,673 | 7,282,772 | - |
| Due to other governments | 17,983 | - | 17,983 | - |
| Deferred revenue | 12,030,301 | 19,849 | 12,050,150 | 14,315 |
| Non-current liabilities due within one year - | | | | |
| General obligation bonds payable | 10,065,749 | 518,760 | 10,584,509 | - |
| Special assessment bonds | | | | |
| with governmental commitment | 82,500 | - | 82,500 | - |
| Due to Employees' Retirement System | 24,530 | - | 24,530 | - |
| Compensated absences | 500,000 | - | 500,000 | - |
| Claims and judgments payable | 150,000 | - | 150,000 | - |
| Estimated liability for landfill closure | | | | |
| and postclosure care costs | 178,722 | - | 178,722 | - |
| Mortgage payable | - | - | - | 33,436 |
| Total current liabilities | <u>61,039,496</u> | <u>8,114,158</u> | <u>69,153,654</u> | <u>74,026</u> |
| Non-current liabilities: | | | | |
| General obligation bonds payable | 78,330,436 | 6,720,780 | 85,051,216 | - |
| Special assessment bonds | | | | |
| with governmental commitment | 314,900 | - | 314,900 | - |
| Due to Employees' Retirement System | 5,486 | - | 5,486 | - |
| Compensated absences | 9,162,723 | 556,048 | 9,718,771 | - |
| Claims and judgments payable | 413,852 | - | 413,852 | - |
| Other post-employment benefits | 9,041,618 | - | 9,041,618 | - |
| Estimated liability for landfill closure | | | | |
| and postclosure care costs | 3,574,447 | - | 3,574,447 | - |
| Mortgage payable | - | - | - | 3,000,745 |
| Total non-current liabilities | <u>100,843,462</u> | <u>7,276,828</u> | <u>108,120,290</u> | <u>3,000,745</u> |
| Total liabilities | <u>161,882,958</u> | <u>15,390,986</u> | <u>177,273,944</u> | <u>3,074,771</u> |
| NET ASSETS | | | | |
| Investment in capital assets, net of related debt | 598,031,530 | 15,705,306 | 613,736,836 | - |
| Restricted: | | | | |
| Home and community services | 2,000,000 | - | 2,000,000 | 340,565 |
| Tax stabilization | - | 1,217,763 | 1,217,763 | - |
| Unrestricted | 9,449,222 | (680,933) | 8,768,289 | - |
| Total net assets | <u>609,480,752</u> | <u>16,242,136</u> | <u>625,722,888</u> | <u>340,565</u> |
| Total liabilities and net assets | <u>\$ 771,363,710</u> | <u>\$ 31,633,122</u> | <u>\$ 802,996,832</u> | <u>\$ 3,415,336</u> |

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF SOUTHAMPTON
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | Program Revenues | | | | Net (Expense) Revenue and Change in Net Assets | | | Component Unit |
|--|------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|----------------|----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total | |
| | | | | | Governmental Activities | Business-type Activities | | |
| FUNCTIONS AND PROGRAMS: | | | | | | | | |
| PRIMARY GOVERNMENT | | | | | | | | |
| Government activities: | | | | | | | | |
| General government support | \$ 22,212,560 | \$ 1,047,045 | \$ 36,125,426 | \$ - | \$ 14,959,911 | \$ - | \$ 14,959,911 | \$ - |
| Public safety | 27,954,384 | 327,202 | 80,416 | - | (27,546,766) | - | (27,546,766) | - |
| Health | 2,112,910 | - | - | - | (2,112,910) | - | (2,112,910) | - |
| Transportation | 22,949,170 | - | 703,217 | 61,851 | (22,184,102) | - | (22,184,102) | - |
| Economic assistance and opportunity | 2,699,959 | - | 1,314,354 | - | (1,385,605) | - | (1,385,605) | - |
| Culture and recreation | 7,850,068 | 98,160 | 380,971 | - | (7,370,937) | - | (7,370,937) | - |
| Home and community services | 12,843,426 | 1,799,608 | 3,729,818 | - | (7,314,000) | - | (7,314,000) | - |
| Interest on debt | 3,641,720 | - | - | - | (3,641,720) | - | (3,641,720) | - |
| Total governmental activities | 102,264,197 | 3,272,015 | 42,334,202 | 61,851 | (56,596,129) | - | (56,596,129) | - |
| Business-type activities: | | | | | | | | |
| Beaches and marinas | 1,515,342 | 1,363,697 | - | - | - | (151,645) | (151,645) | - |
| Waste management | 2,093,351 | 1,965,197 | 115,917 | - | - | (12,237) | (12,237) | - |
| Building and zoning | 3,587,303 | 3,348,958 | 646 | - | - | (237,699) | (237,699) | - |
| Golf course | 702,164 | 807,998 | 1,079 | - | - | 106,913 | 106,913 | - |
| Interest on debt | 293,167 | - | - | - | - | (293,167) | (293,167) | - |
| Total business-type activities | 8,191,327 | 7,485,850 | 117,642 | - | - | (587,835) | (587,835) | - |
| Total primary government | \$ 110,455,524 | \$ 10,757,865 | \$ 42,451,844 | \$ 61,851 | (56,596,129) | (587,835) | (57,183,964) | - |
| COMPONENT UNIT | | | | | | | | |
| Home and community services | \$ 513,708 | \$ 150,057 | \$ 330,260 | \$ - | | | | (33,391) |
| General revenues - | | | | | | | | |
| Real property taxes | | | | | 53,161,189 | - | 53,161,189 | - |
| Other real property tax items | | | | | 446,647 | - | 446,647 | - |
| Non-property tax items | | | | | 1,010,521 | - | 1,010,521 | - |
| Interest earnings | | | | | 2,116,151 | 88,371 | 2,204,522 | 3,386 |
| State aid - unrestricted | | | | | 11,108,990 | - | 11,108,990 | - |
| Other | | | | | 1,807,480 | - | 1,807,480 | 291,762 |
| Transfers | | | | | 1,213,366 | (1,213,366) | - | - |
| Total general revenues | | | | | 70,864,344 | (1,124,995) | 69,739,349 | 295,148 |
| Change in net assets | | | | | 14,268,215 | (1,712,830) | 12,555,385 | 261,757 |
| Total net assets, beginning of year, as restated | | | | | 595,212,537 | 17,954,966 | 613,167,503 | 78,808 |
| Total net assets, end of year | | | | | \$ 609,480,752 | \$ 16,242,136 | \$ 625,722,888 | \$ 340,565 |

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF SOUTHAMPTON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

| | MAJOR GOVERNMENTAL FUNDS | | | | | Non-major Governmental Funds | Totals |
|--|--------------------------|---------------------|----------------------|--|-------------------|------------------------------------|----------------------|
| | General | Police District | Capital Projects | Community Preservation and Park Districts | Debt Service | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 8,795,705 | \$ 310,764 | \$ 8,935,988 | \$ 128,983 | \$ (171,111) | \$ 9,681,253 | \$ 27,681,582 |
| Cash - restricted | - | - | - | 8,365,009 | - | 15,603 | 8,380,612 |
| Accounts receivable, net | 504,940 | 149,534 | - | 800 | - | 368,549 | 1,023,823 |
| State and federal aid receivables | 4,038,847 | 1,684,997 | 202,159 | - | - | 772,414 | 6,698,417 |
| Due from enterprise funds | 3,000,000 | - | 3,207,435 | - | - | - | 6,207,435 |
| Due from fiduciary funds | - | 3,884,465 | - | 194,160 | - | 145,403 | 4,224,028 |
| Due from other funds | 2,199,698 | - | 330,549 | 277,843 | 977,401 | 1,200,329 | 4,985,820 |
| Due from other governments | 3,065 | - | - | 1,647,947 | - | - | 1,651,012 |
| Prepaid charges | 600,165 | 672,398 | 1,580 | 12,197 | - | 262,735 | 1,549,075 |
| Other assets | - | - | - | - | 20,625 | - | 20,625 |
| Total assets | \$ 19,142,420 | \$ 6,702,158 | \$ 12,677,711 | \$ 10,626,939 | \$ 826,915 | \$ 12,446,286 | \$ 62,422,429 |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 914,883 | \$ 217,180 | \$ 2,318,050 | \$ 39,926 | \$ 3,702 | \$ 647,530 | \$ 4,141,271 |
| Accrued liabilities | 18,829 | 44,995 | 594,941 | 75 | - | 106,527 | 765,367 |
| Bond anticipation notes payable | - | - | 10,865,000 | 15,000,000 | - | - | 25,865,000 |
| Due to enterprise funds | 40,245 | - | - | - | - | - | 40,245 |
| Due to fiduciary funds | 2,071,808 | - | 2,400,287 | - | 880,604 | 791,400 | 6,144,099 |
| Due to other funds | 149,207 | 4,494,206 | - | - | - | 342,407 | 4,985,820 |
| Due to other governments | 17,097 | - | - | - | - | 886 | 17,983 |
| Deferred revenue | 5,355,117 | 4,672,477 | 3,963 | 105,989 | 16,445 | 4,161,917 | 14,315,908 |
| Total liabilities | 8,567,186 | 9,428,858 | 16,182,241 | 15,145,990 | 900,751 | 6,050,667 | 56,275,693 |
| FUND EQUITY (DEFICIT) | | | | | | | |
| Fund balance - reserved: | | | | | | | |
| Encumbrances | 119,520 | - | - | 176,212 | - | 118,439 | 414,171 |
| Tax stabilization | 3,476,964 | - | - | - | - | 883,777 | 4,360,741 |
| Community preservation | - | - | - | (4,695,263) | - | - | (4,695,263) |
| Fund balance (deficit) - unreserved: | | | | | | | |
| Designated for - | | | | | | | |
| Subsequent year's budget | 2,341,936 | - | - | - | - | 746,207 | 3,088,143 |
| Affordable housing | 2,000,000 | - | - | - | - | - | 2,000,000 |
| Undesignated | 2,636,814 | (2,726,700) | (3,504,530) | - | (73,836) | 4,647,196 | 978,944 |
| Total fund equity (deficit) | 10,575,234 | (2,726,700) | (3,504,530) | (4,519,051) | (73,836) | 6,395,619 | 6,146,736 |
| Total liabilities and fund equity (deficit) | \$ 19,142,420 | \$ 6,702,158 | \$ 12,677,711 | \$ 10,626,939 | \$ 826,915 | \$ 12,446,286 | \$ 62,422,429 |

The accompanying notes to financial statements are an
integral part of this statement.

TOWN OF SOUTHAMPTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008

Total Fund Equity - Governmental Funds \$ 6,146,736

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets less accumulated depreciation are included in the Statement of Net Assets:

| | | |
|----------------------------------|----------------------|-------------|
| Capital assets - non-depreciable | \$ 457,985,484 | |
| Capital assets - depreciable | 439,292,056 | |
| Accumulated depreciation | <u>(184,587,425)</u> | 712,690,115 |

Long-term liabilities applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets:

| | | |
|---|--------------------|---------------|
| General obligation bonds payable, inclusive of premiums | (88,396,185) | |
| Special assessment bonds with governmental commitment | (397,400) | |
| Due to Employees' Retirement System | (30,016) | |
| Compensated absences | (9,662,723) | |
| Claims and judgments payable | (563,852) | |
| Other post-employment benefits | (9,041,618) | |
| Estimated liability for landfill closure and postclosure care costs | <u>(3,753,169)</u> | (111,844,963) |

Prepaid items included in the Statement of Net Assets. 969,535

Deferred charges included in the Statement of Net Assets. 267,451

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 2,285,607

Interest and accounts payable applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets. (1,033,729)

Net Assets - Governmental Activities \$ 609,480,752

The accompanying notes to financial statements are an integral part of this statement.

**TOWN OF SOUTHAMPTON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY (DEFICIT) - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | MAJOR GOVERNMENTAL FUNDS | | | | | | Non-major Governmental Funds | Totals |
|--|--------------------------|--------------------|---------------------|--|-------------------|--------------------|------------------------------------|--------|
| | General | Police District | Capital Projects | Community Preservation and Park Districts | Debt Service | | | |
| REVENUES | | | | | | | | |
| Real property taxes | \$ 19,183,481 | \$ 18,215,226 | \$ - | \$ 333,000 | \$ - | \$ 15,429,482 | \$ 53,161,189 | |
| Other real property tax items | 274,837 | 68,952 | - | 791 | 88 | 101,979 | 446,647 | |
| Non-property tax items | 1,010,521 | - | - | - | - | - | 1,010,521 | |
| Special assessments | - | - | - | - | 8,039 | - | 8,039 | |
| Departmental income | 241,148 | 235,016 | - | - | - | 2,140,780 | 2,616,944 | |
| Intergovernmental charges | 12,129 | - | - | - | - | 634,903 | 647,032 | |
| Use of money and property | 533,927 | 101,760 | 284,716 | 719,057 | 13,253 | 463,438 | 2,116,151 | |
| Licenses and permits | 109,541 | - | - | - | - | - | 109,541 | |
| Fines and forfeitures | 1,668,459 | - | - | - | - | - | 1,668,459 | |
| Sale of property and compensation for loss | 28,875 | 500 | - | - | - | 105 | 29,480 | |
| Miscellaneous local sources | 380,971 | 34,393 | 2,176,666 | 33,948,760 | - | 1,340,937 | 37,881,727 | |
| State aid | 9,021,196 | 1,647,723 | 61,851 | - | - | 676,634 | 11,407,404 | |
| Federal aid | 440,071 | 46,023 | - | - | - | 3,729,818 | 4,215,912 | |
| Total revenues | 32,905,156 | 20,349,593 | 2,523,233 | 35,001,608 | 21,380 | 24,518,076 | 115,319,046 | |
| EXPENDITURES | | | | | | | | |
| General government support | 13,940,519 | - | - | 72,324,295 | - | 31,585 | 86,296,399 | |
| Public safety | 2,601,219 | 13,584,411 | - | - | - | 2,523,452 | 18,709,082 | |
| Health | 26,749 | - | - | - | - | 2,083,951 | 2,110,700 | |
| Transportation | 494,183 | - | - | - | - | 6,187,065 | 6,681,248 | |
| Economic assistance and opportunity | 1,834,219 | - | - | - | - | 2,400 | 1,836,619 | |
| Culture and recreation | 4,321,927 | - | - | 331,215 | - | 578,265 | 5,231,407 | |
| Home and community services | 1,354,634 | - | - | - | - | 7,490,432 | 8,845,066 | |
| Employee benefits | 5,711,665 | 5,319,097 | - | 119,930 | - | 2,420,071 | 13,570,763 | |
| Capital outlay | - | - | 16,079,789 | - | - | - | 16,079,789 | |
| Debt service - | | | | | | | | |
| Principal | - | - | - | 44,200 | 9,836,940 | 110,800 | 9,991,940 | |
| Interest | - | - | - | 35,412 | 3,594,914 | 49,079 | 3,679,405 | |
| Total expenditures | 30,285,115 | 18,903,508 | 16,079,789 | 72,855,052 | 13,431,854 | 21,477,100 | 173,032,418 | |
| Excess (deficiency) of revenues over (under) expenditures | 2,620,041 | 1,446,085 | (13,556,556) | (37,853,444) | (13,410,474) | 3,040,976 | (57,713,372) | |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Interfund transfers in | 1,553,209 | 5,135 | 4,726,654 | 1,229,634 | 14,803,269 | 673,648 | 22,991,549 | |
| Interfund transfers out | (8,070,538) | (103,043) | (185,400) | (8,192,440) | (582,143) | (4,644,619) | (21,778,183) | |
| Debt proceeds | - | - | 2,721,000 | - | (2,721,000) | - | - | |
| Total other financing sources (uses) | (6,517,329) | (97,908) | 7,262,254 | (6,962,806) | 11,500,126 | (3,970,971) | 1,213,366 | |
| Changes in fund equity (deficit) | (3,897,288) | 1,348,177 | (6,294,302) | (44,816,250) | (1,910,348) | (929,995) | (56,500,006) | |
| Fund equity (deficit), beginning of year, as restated | 14,472,522 | (4,074,877) | 2,789,772 | 40,297,199 | 1,836,512 | 7,325,614 | 62,646,742 | |
| Fund equity (deficit), end of year | \$ 10,575,234 | \$ (2,726,700) | \$ (3,504,530) | \$ (4,519,051) | \$ (73,836) | \$ 6,395,619 | \$ 6,146,736 | |

The accompanying notes to financial statements are an
integral part of this statement.

TOWN OF SOUTHAMPTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND EQUITY (DEFICIT) TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2008

Changes in fund equity (deficit) \$ (56,500,006)

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

| | | |
|----------------------|---------------------|------------|
| Capital outlay | \$ 85,753,840 | |
| Depreciation expense | <u>(16,984,941)</u> | 68,768,899 |

Other assets not available to pay for current period expenditures and, therefore, are deferred in the funds. 17,011

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

| | | |
|---|-----------------|-----------|
| Repayment of bond principal | 9,968,300 | |
| Repayment of special assessment bonds | 69,200 | |
| Due to Employees' Retirement System | 47,671 | |
| Compensated absences | 468,148 | |
| Claims and judgments payable | 150,086 | |
| Other post-employment benefits | (9,041,618) | |
| Estimated liability for landfill closure and postclosure care costs | 435,501 | |
| Accrued interest costs | <u>(24,886)</u> | 2,072,402 |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. (90,091)

Change in net assets of governmental activities \$ 14,268,215

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF SOUTHAMPTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

| | <u>MAJOR BUSINESS-TYPE ACTIVITIES</u> | | | <u>NON-MAJOR BUSINESS-TYPE ACTIVITIES</u> | <u>Total Proprietary Funds</u> |
|---|---------------------------------------|-----------------------------|--------------------------------|---|------------------------------------|
| | <u>Beaches and Marinas</u> | <u>Waste Management</u> | <u>Building and Zoning</u> | <u>Golf Course</u> | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ (245,164) | \$ (274,605) | \$ 3,651,080 | \$ 580,956 | \$ 3,712,267 |
| Accounts receivable, net | - | 287 | 20,946 | - | 21,233 |
| Due from fiduciary funds | 4,699,704 | - | - | 10,619 | 4,710,323 |
| Due from governmental funds | - | - | 40,245 | - | 40,245 |
| Prepaid expenses | 19,029 | 29,611 | 135,511 | - | 184,151 |
| Inventory of materials and supplies | - | 20,057 | - | - | 20,057 |
| Total current assets | <u>4,473,569</u> | <u>(224,650)</u> | <u>3,847,782</u> | <u>591,575</u> | <u>8,688,276</u> |
| Non-current assets: | | | | | |
| Non-depreciable capital assets | 8,892,403 | 2,120,400 | - | - | 11,012,803 |
| Depreciable capital assets, net of depreciation | 6,640,575 | 4,602,374 | 181,113 | 507,981 | 11,932,043 |
| Total non-current assets | <u>15,532,978</u> | <u>6,722,774</u> | <u>181,113</u> | <u>507,981</u> | <u>22,944,846</u> |
| Total assets | <u>\$ 20,006,547</u> | <u>\$ 6,498,124</u> | <u>\$ 4,028,895</u> | <u>\$ 1,099,556</u> | <u>\$ 31,633,122</u> |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 5,578 | \$ 93,078 | \$ 59,496 | \$ 9,728 | \$ 167,880 |
| Accrued interest payable | 37,324 | 24,237 | - | - | 61,561 |
| Due to fiduciary funds | - | 1,123,640 | 15,033 | - | 1,138,673 |
| Due to governmental funds | 4,100,582 | 1,960,624 | - | 146,229 | 6,207,435 |
| Deferred revenues | - | - | 19,849 | - | 19,849 |
| Non-current liabilities due within one year - General obligation bonds payable | 379,160 | 139,600 | - | - | 518,760 |
| Total current liabilities | <u>4,522,644</u> | <u>3,341,179</u> | <u>94,378</u> | <u>155,957</u> | <u>8,114,158</u> |
| Non-current liabilities: | | | | | |
| General obligation bonds payable | 4,606,380 | 2,114,400 | - | - | 6,720,780 |
| Compensated absences | 20,824 | 175,059 | 360,165 | - | 556,048 |
| Total non-current liabilities | <u>4,627,204</u> | <u>2,289,459</u> | <u>360,165</u> | <u>-</u> | <u>7,276,828</u> |
| Total liabilities | <u>9,149,848</u> | <u>5,630,638</u> | <u>454,543</u> | <u>155,957</u> | <u>15,390,986</u> |
| NET ASSETS | | | | | |
| Investment in capital assets, net of related debt | 10,547,438 | 4,468,774 | 181,113 | 507,981 | 15,705,306 |
| Restricted for tax stabilization | - | - | 1,217,763 | - | 1,217,763 |
| Unrestricted | 309,261 | (3,601,288) | 2,175,476 | 435,618 | (680,933) |
| Total net assets | <u>10,856,699</u> | <u>867,486</u> | <u>3,574,352</u> | <u>943,599</u> | <u>16,242,136</u> |
| Total liabilities and net assets | <u>\$ 20,006,547</u> | <u>\$ 6,498,124</u> | <u>\$ 4,028,895</u> | <u>\$ 1,099,556</u> | <u>\$ 31,633,122</u> |

The accompanying notes to financial statements are an
integral part of this statement.

TOWN OF SOUTHAMPTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

| | MAJOR BUSINESS-TYPE ACTIVITIES | | | NON-MAJOR BUSINESS-TYPE ACTIVITIES | Total Proprietary Funds |
|---|---------------------------------------|-----------------------------|--------------------------------|---|------------------------------------|
| | Beaches and Marinas | Waste Management | Building and Zoning | Golf Course | |
| Operating revenues: | | | | | |
| Charges for services | \$ 1,363,697 | \$ 1,965,197 | \$ 3,348,958 | \$ 807,998 | \$ 7,485,850 |
| Other | - | 115,917 | 646 | 1,079 | 117,642 |
| Total operating revenues | <u>1,363,697</u> | <u>2,081,114</u> | <u>3,349,604</u> | <u>809,077</u> | <u>7,603,492</u> |
| Operating expenses: | | | | | |
| Beaches and marinas | 1,147,463 | - | - | - | 1,147,463 |
| Waste management | - | 1,740,588 | - | - | 1,740,588 |
| Building and zoning | - | - | 2,594,776 | - | 2,594,776 |
| Golf course | - | - | - | 688,744 | 688,744 |
| Depreciation | 274,116 | 228,913 | 38,832 | 13,420 | 555,281 |
| Employee benefits | 93,763 | 123,850 | 953,695 | - | 1,171,308 |
| Total operating expenses | <u>1,515,342</u> | <u>2,093,351</u> | <u>3,587,303</u> | <u>702,164</u> | <u>7,898,160</u> |
| Operating income (loss) | <u>(151,645)</u> | <u>(12,237)</u> | <u>(237,699)</u> | <u>106,913</u> | <u>(294,668)</u> |
| Non-operating revenues (expenses): | | | | | |
| Interest on investment | 12,690 | 2,928 | 71,747 | 1,006 | 88,371 |
| Interest on debt | (200,237) | (92,930) | - | - | (293,167) |
| Total non-operating revenues (expenses) | <u>(187,547)</u> | <u>(90,002)</u> | <u>71,747</u> | <u>1,006</u> | <u>(204,796)</u> |
| Income (loss) before transfers | (339,192) | (102,239) | (165,952) | 107,919 | (499,464) |
| Transfers in | - | 187,000 | - | - | 187,000 |
| Transfers out | (362,977) | (930,389) | (50,000) | (57,000) | (1,400,366) |
| Change in net assets | (702,169) | (845,628) | (215,952) | 50,919 | (1,712,830) |
| Total net assets, beginning of year, as restated | <u>11,558,868</u> | <u>1,713,114</u> | <u>3,790,304</u> | <u>892,680</u> | <u>17,954,966</u> |
| Total net assets, end of year | <u>\$ 10,856,699</u> | <u>\$ 867,486</u> | <u>\$ 3,574,352</u> | <u>\$ 943,599</u> | <u>\$ 16,242,136</u> |

The accompanying notes to financial statements are an
integral part of this statement.

TOWN OF SOUTHAMPTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2008

| | MAJOR BUSINESS-TYPE ACTIVITIES | | | NON-MAJOR BUSINESS-TYPE ACTIVITIES | Total Proprietary Funds |
|---|--------------------------------|---------------------|------------------------|--|----------------------------|
| | Beaches and Marinas | Waste Management | Building and Zoning | Golf Course | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Revenue collected: | | | | | |
| Cash receipts from customers | \$ 1,363,697 | \$ 2,040,676 | \$ 3,330,052 | \$ 809,077 | \$ 7,543,502 |
| Other operating cash receipts | - | 115,917 | - | - | 115,917 |
| Payments for expenses: | | | | | |
| Cash payments to other suppliers of goods or services | (1,218,034) | 1,735 | (2,722,640) | (625,113) | (4,564,052) |
| Cash payments to employees for services and related expenses | (13,763) | (123,850) | (953,695) | - | (1,091,308) |
| Net cash provided (used) by operating activities | 131,900 | 2,034,478 | (346,283) | 183,964 | 2,004,059 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfer from other funds | - | 187,000 | - | - | 187,000 |
| Transfer to other funds | (362,977) | (930,389) | (50,000) | (57,000) | (1,400,366) |
| Net cash used by noncapital financing activities | (362,977) | (743,389) | (50,000) | (57,000) | (1,213,366) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Purchases of capital assets | (202,621) | (1,979,647) | - | (60,475) | (2,242,743) |
| Principal paid on capital debt | (247,460) | (61,000) | - | - | (308,460) |
| Interest paid on capital debt | (200,237) | (92,930) | - | - | (293,167) |
| Net cash used by capital and related financing activities | (650,318) | (2,133,577) | - | (60,475) | (2,844,370) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest and earnings received | 12,690 | 2,928 | 71,747 | 1,006 | 88,371 |
| Net cash provided by investing activities | 12,690 | 2,928 | 71,747 | 1,006 | 88,371 |
| Net increase (decrease) in cash and cash equivalents | (868,705) | (839,560) | (324,536) | 67,495 | (1,965,306) |
| Cash and cash equivalents, beginning of year | 623,541 | 564,955 | 3,975,616 | 513,461 | 5,677,573 |
| Cash and cash equivalents, end of year | \$ (245,164) | \$ (274,605) | \$ 3,651,080 | \$ 580,956 | \$ 3,712,267 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | | |
| Operating income (loss) | \$ (151,645) | \$ (12,237) | \$ (237,699) | \$ 106,913 | \$ (294,668) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation expense | 274,116 | 228,913 | 38,832 | 13,420 | 555,281 |
| Accounts receivable | - | 75,479 | (19,552) | - | 55,927 |
| Due from fiduciary funds | (4,699,704) | - | - | (10,619) | (4,710,323) |
| Due from governmental funds | 3,055,000 | 2,755,303 | (40,245) | - | 5,770,058 |
| Due from other funds | - | 43,527 | - | - | 43,527 |
| Prepaid expenses | (5,346) | (13,276) | (100,891) | - | (119,513) |
| Accounts payable and accrued liabilities | (12,124) | (137,897) | (132,368) | 9,728 | (272,661) |
| Due to fiduciary funds | - | 1,123,640 | 15,033 | - | 1,138,673 |
| Due to governmental funds | 1,703,650 | (2,082,692) | - | 64,522 | (314,520) |
| Due to other funds | (43,527) | - | - | - | (43,527) |
| Deferred revenues | - | - | 19,849 | - | 19,849 |
| Compensated absences | 11,480 | 53,718 | 110,758 | - | 175,956 |
| Net cash provided (used) by operating activities | \$ 131,900 | \$ 2,034,478 | \$ (346,283) | \$ 183,964 | \$ 2,004,059 |

The accompanying notes to financial statements are an integral part of this statement.

TOWN OF SOUTHAMPTON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2008

| | | Agency Funds |
|-------------------------------------|----|-------------------------|
| ASSETS | | |
| Cash | \$ | 63,294,087 |
| Due from enterprise funds | | 1,138,673 |
| Due from governmental funds | | 6,144,099 |
| Service award program assets | | 704,502 |
| Total assets | \$ | <u>71,281,361</u> |
| LIABILITIES | | |
| Consolidated payroll | \$ | 4,718 |
| Due to enterprise funds | | 4,710,323 |
| Due to governmental funds | | 4,224,028 |
| Due to school districts | | 37,975,802 |
| Due to the Law Enforcement Services | | 6,333 |
| Bail liability | | 408,689 |
| Service award program liabilities | | 704,502 |
| Other agency liabilities | | 23,246,966 |
| Total liabilities | \$ | <u>71,281,361</u> |

The accompanying notes to financial statements are an
integral part of this statement.

TOWN OF SOUTHAMPTON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. BACKGROUND AND CURRENT CONSIDERATIONS

The Town of Southampton (the "Town"), was established in 1801 and is governed by Town Law and other general laws of the State of New York and various local laws. The Town Board is the legislative body responsible for overall operations. The Town Board consists of the Supervisor who is elected for a term of two years and four council members who are elected for terms of four years. The Town Board appoints the Town Attorney, Comptroller and the Commissioner of Public Works whose terms are fixed by Town Law. The Town Clerk, the Superintendent of Highways and Receiver of Taxes are elected and both serve for four years. The Town provides a full range of municipal services, including public safety, transportation, home and community services, public works and road maintenance, recreation and parks, and general and administrative services.

During the 2009 fiscal year, the Town conducted an internal evaluation of ongoing capital projects within its Capital Projects Fund. As a result of their internal evaluation, the Town Board voted to contract a forensic accounting firm to conduct a forensic investigation of all capital projects from 2003 to 2007 occurring within the Capital Projects Fund. The forensic investigation is currently in process and preliminary findings indicate there may be unrecorded Town Board Resolutions authorizing the transfer of monies from various Funds of the Town to the Capital Projects Fund, unissued capital project debt and overexpended capital projects. However, as of December 22, 2009, the forensic investigation is not yet complete and the adjustments, if any, to the opening fund balances of the General Fund and Capital Projects Fund and net assets of the Enterprise Funds have not been determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The more significant of the government's accounting policies are described below.

A. Reporting entity

The financial reporting entity consists of: (a) the primary government, which is the Town of Southampton; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units.

The decision to include a potential component unit in the Town of Southampton reporting entity is based on several criteria set forth in GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement 39, Component Units, including legal standing, dependency and financial accountability. Based on the application of these criteria, a summary of certain entities considered in determining the Town of Southampton's reporting entity is discussed below.

The Trustees of the Freeholders and Commonalty of the Town of Southampton (the "Trustees") are independently elected and are responsible for the receipt, maintenance and safety of legally specified property. Operations are supported by user fee revenues established by the Trustees and derived from the issuance of building, mooring and boat ramp permits, as well as budgeted appropriations from the Town. The Town approves the hiring of employees and records the compensation of most employees as well as, all of the capital projects of the Trustees on the books of the Town. The Trustees is accounted for as a blended component unit of the Town and is reported as a special revenue fund in the non-major governmental funds. Complete financial statements of the Trustees can be obtained from their administrative office: The Trustees of the Freeholders and Commonalty of the Town of Southampton, 116 Hampton Road, Southampton, N.Y. 11968.

The Town of Southampton Housing Authority (the "Authority"), is a limited profit entity that provides housing for low income residents of the Town of Southampton. The Authority is governed by its Board of Directors, which is comprised of five members appointed by the Town of Southampton. Long-term debt that is backed by the full faith and credit of the Town, and other fiscal matters result in a fiscal interdependency with the Town. Accordingly, the Town of Southampton Housing Authority has been determined to be a component unit of the Town and is presented discretely in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. Complete financial statements of the component unit can be obtained from their administrative offices: Town of Southampton Housing Authority, 116 Hampton Road, Southampton, NY 11968.

Within the geographic boundaries of the Town are seven incorporated villages, 21 hamlets, 13 school districts, and nine fire districts. These entities are excluded from the Town's financial statements because their operations are controlled by officials elected by their respective constituencies and the Town has no fiscal responsibilities to them and cannot influence their operations.

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an ongoing financial interest or (b) an on-going financial responsibility. The Town participates in the following joint venture:

The Town of Southampton and the Town of East Hampton entered into an inter-municipal agreement to purchase and operate a public golf course, driving range, and related facilities, known as the Poxabogue Golf Course. The Towns share equal and undivided ownership of the Golf Course and share equally all profits or losses of operating and maintaining the Golf Course. The Poxabogue Golf Course is presented as a non-major fund in the proprietary fund financial statements. Complete financial statements for the Town of East Hampton can be obtained from the Town of East Hampton, 159 Pantigo Road, East Hampton, NY 11937.

B. Basis of presentation

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

1. Government-wide statements

The government-wide financial statements report information on the Town as a whole, as well as the discretely presented component unit, excluding fiduciary activities.

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations have been made to prevent distortion of the direct costs and program revenues reported. Sales and purchases of goods and services for a price approximating their external value are not eliminated between the funds in the government-wide financial statements.

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

2. Fund statements

The fund statements provide information about the Town's funds, including proprietary and fiduciary funds. Separate statements for each fund category (governmental, proprietary and fiduciary) are presented. The emphasis is on the major funds in the fund financial statements. Non-major funds are summarized into a single column.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The various funds are presented by type in the fund financial statements. Accordingly, the Town maintains the following fund types:

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

The Town reports the following major governmental funds:

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

Police District: is used to account for financial resources for police purposes.

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

Community Preservation and Park Districts: is used to account for financial resources for land acquisition and park purposes.

Debt Service Fund: is used to account for the accumulation of resources for the payment of debt principal, interest, and related costs.

Additionally, the Town reports the following non-major funds:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds include the following:

Town Outside Village Fund: is used for financial resources for certain services provided to the area of the Town located outside of Incorporated Villages.

Special Grants Fund: is used to account for federal aid for the Community Development Block Grant and Housing and Urban Development Grant.

Special Revenue Fund: is used to account for financial resources for special purposes.

Highway Fund: is used to account for financial resources for highway purposes.

Trustees of the Freeholders and Commonalty: is used to account for financial resources for the preservation and protection of the waterways.

Public Safety Communications: is used to account for financial resources for the operation of the E-911 communication facility.

Education Governmental Channel: is used to account for financial resources to provide a forum for editorial and public discourse on educational issues as well as government relations and police and emergency services.

Special District Funds - are used to account for taxes or other revenues, which are raised or received to provide special services to areas that encompass less than the whole Town. The Special District Funds consist of a number of separate districts, which are administered by the Town Board as follows:

Fire Protection Districts:

| | |
|------------------|-------|
| North End Quogue | Noyac |
| Baypoint | |

Lighting Districts:

| | |
|-------------|---------------|
| Eastport | Flanders |
| Westhampton | Quogue |
| East Quogue | Hampton Bays |
| Riverside | Bridgehampton |
| Water Mill | |

Parking Districts:

| | |
|--------------|---------------|
| Hampton Bays | Bridgehampton |
|--------------|---------------|

Water Districts:

| | |
|----------|--------------|
| Flanders | Hampton Bays |
|----------|--------------|

Ambulance Districts:

| | |
|--------------|-------------|
| Westhampton | Northampton |
| Hampton Bays | Southampton |

Coastal Erosion

3. Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows for each major proprietary fund and the non-major fund.

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

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Beaches and Marinas, Waste Management, Building and Zoning Funds and Golf Course are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

The Town applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

The Town reports the following major proprietary funds:

Enterprise Funds: used to account for the following operations:

Beaches and Marinas: used to account for operations related to the Town's beaches and marinas.

Waste Management: used to account for operations related to the Town's refuse.

Building and Zoning: used to account for building and zoning operations.

Additionally, the Town reports the following non-major proprietary fund:

Golf Course: used to account for operations related to Poxabogue Golf Course.

4. Fiduciary Funds:

The fiduciary funds are used to account for the assets held by the Town in a trustee capacity or as agency for individuals, private organizations, and their governments. These activities are not included in the government-wide financial statements, because their resources do not belong to the Town, and are not available to be used.

The Town reports the following fiduciary funds:

Agency Fund: is for money (and/or property) received and held in the capacity of trustee, custodian or agent. The Town's fiduciary funds include agency funds as follows:

Town Agency Fund: accounts for consolidated payroll, amounts due to/from other governments, service award programs and other agency liabilities.

Town Receiver of Taxes Agency Fund: accounts for amounts due to other governments for general and school taxes collected.

Town Clerk Agency Fund: accounts for amounts due to other governments for license and permit fees.

Justice Court Agency Fund: accounts for amounts due to other governments and bail liability.

5. Discretely Presented Component Unit

The Town of Southampton Housing Authority is governed by its Board of Directors, which is comprised of five members appointed by the Town of Southampton. Long-term debt that is backed by the full faith and credit of the Town, and other fiscal matters result in a fiscal interdependency with the Town. Accordingly the Town of Southampton Housing Authority has been determined to be a discretely presented component unit.

C. Measurement focus and basis of accounting

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

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

In the fund financial statements, governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (measurable and available to finance current operations). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The Town considers all revenues available if they are collected within 60 days after the year end. Revenues susceptible to accrual include mortgage tax, franchise fees, charges for services, intergovernmental revenues and operating transfers. Permits, fees, and other similar revenues are not susceptible to accrual because generally they are not measurable until they are received in cash. In those instances where expenditures are the prime factor in determining eligibility for state and federal grants, revenues are recognized when the expenditure is incurred. In the Capital Projects Fund, long-term debt is recognized as revenue upon receipt of the proceeds. Expenditures are recorded on the accrual basis except that (a) expenditures for prepaid expenses are recognized when incurred, (b) principal and interest on indebtedness are recognized as expenditures when due and (c) compensated absences, such as vacation and sick leave, which vest or accumulate, are charged as expenditures when paid.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded for budgetary control purposes in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Appropriations for all governmental funds except the Capital Projects Fund lapse at year-end. However, encumbrances reserved against fund balances are re-appropriated in the ensuing year. Encumbrances are reported as reservations 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.

D. Property taxes

In Suffolk County, the assessment and lien of real property for taxation is done by the County Department of Assessment. The County assessment rolls are used for the levy of real property taxes by the Town and the school districts, as well as by the County and by special districts of the County and the Town.

The Town of Southampton Receiver of Taxes (“Receiver”) collects all real property taxes for the Town, Suffolk County, Town special districts and school districts located within the Town of Southampton as a single bill. Town and County taxes are levied on December 1st, and are due in two equal installments, payable without penalty on January 10th and May 31st, respectively. Penalties are imposed thereafter at the rate of 1% per month from January 10th until May 31st, after which taxes are payable to the County Treasurer. The Receiver collects all taxes based on this single bill and distributes the proceeds to the Town Supervisor prior to distributing the remaining balance collected to the County. Responsibility for the collection of unpaid taxes rests with the County and, accordingly, the Town is assured of 100% collection of real property taxes.

E. Interfund transactions

Interfund transactions have been eliminated from the government-wide financial statements. In the funds statements, interfund transactions include:

1. Interfund revenues

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

2. Transfers

Transfers represent payments to the Debt Service and Capital Projects Funds from the other funds for their appropriate share of the debt service or capital project costs.

F. 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported 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.

G. Cash and investments

Cash consists of funds deposited in demand accounts, time deposit accounts and certificates of deposit with maturities of less than three months.

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

H. Receivables

Receivables include amounts due from federal, state and other governments or entities for services provided by the Town. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred.

I. Inventory – materials and supplies

Inventory in the proprietary funds is valued at cost, using weighted average cost method. Inventory in these funds is accounted for under the consumption method.

J. Prepays

Prepays in the government-wide statements represent retirement benefits and insurance that will benefit a future period.

K. Restricted assets

Certain assets of the Water District and Community Preservation and Park Districts are classified as restricted assets because their use is restricted by contractual agreements and regulations.

L. Capital assets

Capital assets purchased or acquired with an original cost of \$10,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|-----------------------------------|-------------|
| Buildings | 25-50 years |
| Improvements other than buildings | 20 years |
| Machinery and equipment | 5-30 years |
| Infrastructure - | |
| Bridges | 50 years |
| Landfill | 30 years |
| Roads, curbs and sidewalks | 20-30 years |
| Lighting system | 15 years |
| Bulkheads, piers and boardwalks | 10-30 years |
| Water and sewer mains | 65 years |

Infrastructure assets, consisting of certain improvements other than buildings including, bridges, easements, roads, curbs, sidewalks, lighting systems, bulkheads, piers, boardwalks, drainage, water mains, and sewer systems are capitalized along with other capital assets.

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

M. Premiums on debt issuance

Premiums related to the issuance of long-term debt are amortized on a straight-line basis over the life of the issue and are presented as part of general obligation bonds payable.

N. Deferred charges

Discounts and expenses related to the issuance of long-term debt and the loss on the early retirement of refunded debt are amortized on a straight-line basis over the life of the issue, and are presented net of accumulated amortization.

O. Deferred revenues

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the Town receives resources before it has legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the Town has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

P. Long-term obligations

The liabilities for long-term obligations consisting of general obligation bonds, due to Employees' Retirement System, compensated absences, claims and judgments, other post-employment benefits and liability for landfill closure and postclosure costs are recognized in the government-wide financial statements.

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

Q. Compensated absences

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

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

R. Equity classifications

Government-wide financial statements

In the government-wide financial statements there are three classes of net assets:

Invested in capital assets, net of related debt: consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

Restricted net assets: reports net assets when constraints placed on the assets are either externally imposed by creditors (such through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets: reports all other net assets that do not meet the definition of the above two classifications and are deemed to be available for general use by the Town.

Fund financial statements

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Portions of fund equity are segregated for future use and therefore not available for future appropriation or expenditure. Amounts reserved for encumbrances, bond retirement, tax stabilization and community preservation represent portions of fund equity, which are required to be segregated in accordance with state or local law or GAAP. Designations of fund balances in governmental funds indicate the utilization of these resources in the subsequent year's budget or tentative plans for future use.

3. **EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUNDS FINANCIAL STATEMENTS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

A. Total fund balances of governmental funds vs. net assets of governmental activities

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

B. Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) vs. Statement of Activities

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) and the Statement of Activities fall into one of the four broad categories. The categories are shown below:

1. Long-term revenue/expense differences

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.

2. Capital related differences

Capital related differences include the difference between proceeds from the sale of capital assets reported on governmental fund financial 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 financial statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-term debt transaction differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund financial statements, 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 Assets.

4. Reclassifications and eliminations

Reclassifications and eliminations arise because the Statement of Activities reports program revenues (either charges for services or operating grants) net of their direct expenses. All other revenues are categorized as general revenues. Certain expenses have been reclassified so that all identifiable program expenses are accounted for within their proper program, such as the allocation of employee benefits and depreciation expense. Governmental funds account for all revenues and expenses based on their function.

4. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary data

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

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

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

6. Budgets for the General Fund, certain Special Revenue Funds and the Debt Service Fund are legally adopted for each year. The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations are made. The Capital Projects and Special Grant Funds are budgeted on a project or grant basis. The Special Fund and the Trustees of the Freeholders and Commonalty do not have annually adopted budgets.

B. Fund balances

Designation of fund balance

Portions of the unreserved balances at December 31, 2008 were designated for the subsequent year's operating budgets and affordable housing as follows:

| Fund | Total Fund Balance Unreserved | Fund Balance Unreserved Designated | Fund Balance Unreserved Undesignated |
|------------------------------|-------------------------------------|--|--|
| Major governmental funds: | | | |
| General Fund | \$ 6,978,750 | \$ 4,341,936 | \$ 2,636,814 |
| Non-major funds: | | | |
| Town Outside Village | 195,163 | 700,000 | (504,837) |
| Public Safety Communications | 46,207 | 46,207 | - |
| Proprietary funds: | | | |
| Building and Zoning | 3,393,239 | 1,217,763 | 2,175,476 |

Fund deficits

Individual funds with total fund deficits as of December 31, 2008 were as follows:

| | Fund Deficit Unreserved and Undesignated | Total Fund Balance (Deficit) |
|---|--|------------------------------------|
| Police District | \$ (2,726,700) | \$ (2,726,700) |
| Capital Projects | (3,504,530) | (3,504,530) |
| Community Preservation and Park Districts | (4,695,263) | (4,519,051) |
| Debt Service | (73,836) | (73,836) |
| Fire Protection Districts | (182,035) | (182,035) |
| Water Districts | (159,055) | (159,055) |

The Police District Fund deficit resulted from under-budgeting contractual salary increases and use of anticipated surplus funds that were not realized over the course of several years. The Town anticipates eliminating this deficit through increases in subsequent year budget appropriations, which will result in increased tax assessment for the Police District.

The Capital Projects Fund deficit resulted from the temporary financing of capital projects with short-term bond anticipation notes. This deficit will be eliminated in the future when the Town issues permanent financing for these projects.

The Community Preservation and Park District Fund deficit resulted from temporary financing of land acquisitions with short-term bond anticipation notes. This deficit was eliminated in January 2009 when the Town issued permanent financing for these land acquisitions.

The Debt Service Fund deficit resulted from other governmental funds not repaying the Debt Service Fund at the end of the year. This deficit will be eliminated in the upcoming year as the Town has decided to discontinue use of a Debt Service Fund.

The Fire Protection Districts Funds deficit resulted from unanticipated increases in electric costs. The Town anticipates eliminating this deficit through increases in subsequent year budget appropriations, which will result in increased tax assessment for the Fire Protection Districts.

The Water Districts Funds deficit resulted from unanticipated increases in utility costs. The Town anticipates eliminating this deficit through increases in subsequent year budget appropriations, which will result in increased tax assessment for the Water Districts.

Bond covenants

The Town may not have complied with restrictions on certain bond covenants due to the possibility the Town may have expended bond monies on projects that were not covered in the bond issuance. The Town's bond counsel is unable to determine the potential impact relating to this possible noncompliance until the forensic investigation, as more fully discussed in Note 1, is completed.

5. CASH AND CASH EQUIVALENTS – CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS

Cash consists of funds deposited in demand accounts, time deposit accounts and certificates of deposit with maturities of less than three months.

The Town's investments are governed by a formal investment policy. The Town's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Town is authorized to use certificates of deposit, N.O.W., super N.O.W. accounts and money market deposit accounts.

It is the Town's policy to require collateral held in the name of the Town for demand deposits, money market deposits and certificates of deposit for all deposits 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.

Custodial Credit Risk - Deposits/Investments - Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

GASB Statement No. 40, Deposit and Investment Risk Disclosures, directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

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

At December 31, 2008, the Town's book balances were \$103,276,616. The Town's bank deposit balances were \$107,551,931, of which \$3,181,699 was covered by the Federal Deposit Insurance Corporation, \$91,494,428 was covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name and \$12,512,069 was collateralized with securities held by the pledging financial institution, or its trust, in the name of the Town.

At December 31, 2008, the Town's component unit's book balances were \$80,461. The Town's component unit's bank deposit balances were \$82,965, of which, the entire balance was covered by Federal Deposit Insurance Corporation.

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

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

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

As of December 31, 2008, the Town of Southampton did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances for the primary government at December 31, 2008 represent primarily the payment of operating expenditures that will be reimbursed subsequent to year end and are stated as follows:

| | <u>Amount Receivable</u> | <u>Amount Payable</u> |
|---|------------------------------|---------------------------|
| Major Governmental Funds: | | |
| General Fund | \$ 5,199,698 | \$ 2,261,260 |
| Police District Fund | 3,884,465 | 4,494,206 |
| Capital Projects Fund | 3,537,984 | 2,400,287 |
| Community Preservation and Park Districts Fund | 472,003 | - |
| Debt Service Fund | 977,401 | 880,604 |
| Non-Major Governmental Funds | 1,345,732 | 1,133,807 |
| Major Business-Type Funds: | | |
| Beaches and Marinas | 4,699,704 | 4,100,582 |
| Waste Management | - | 3,084,264 |
| Building and Zoning | 40,245 | 15,033 |
| Non-Major Business-Type Funds | 10,619 | 146,229 |
| Agency Funds | <u>7,282,772</u> | <u>8,934,351</u> |
| | <u>\$ 27,450,623</u> | <u>\$ 27,450,623</u> |

Interfund transfer balances for the primary government at December 31, 2008 represent primarily the payment of operating and capital expenditures in addition to general obligation bond and bond anticipation note principal and interest and are stated as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|---|-------------------------|--------------------------|
| Major Governmental Funds: | | |
| General Fund | \$ 1,553,209 | \$ 8,070,538 |
| Police District Fund | 5,135 | 103,043 |
| Capital Projects Fund | 4,726,654 | 185,400 |
| Community Preservation and Park Districts Fund | 1,229,634 | 8,192,440 |
| Debt Service Fund | 14,803,269 | 582,143 |
| Non-Major Governmental Funds | 673,646 | 4,644,617 |
| Major Business-Type Funds: | | |
| Beaches and Marinas | - | 362,977 |
| Waste Management | 187,000 | 930,389 |
| Building and Zoning | - | 50,000 |
| Non-Major Business-Type Funds | <u>-</u> | <u>57,000</u> |
| | <u>\$ 23,178,547</u> | <u>\$ 23,178,547</u> |

7. CAPITAL ASSETS

Governmental Funds capital asset balances and activity for the year ended December 31, 2008 were as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 388,018,709 | \$ 69,966,775 | \$ - | \$ 457,985,484 |
| Total | <u>\$ 388,018,709</u> | <u>\$ 69,966,775</u> | <u>\$ -</u> | <u>457,985,484</u> |
| Depreciable capital assets: | | | | |
| Buildings | \$ 29,569,426 | \$ 8,182,781 | \$ - | 37,752,207 |
| Improvements other than buildings | 11,231,093 | 2,526,417 | - | 13,757,510 |
| Machinery and equipment | 20,552,477 | 1,994,712 | - | 22,547,189 |
| Infrastructure - | | | | |
| Bridges | 953,673 | 16,437 | - | 970,110 |
| Landfill | 9,352,543 | 59,972 | - | 9,412,515 |
| Roads, curbs and sidewalks | 333,570,803 | 2,166,031 | - | 335,736,834 |
| Lighting system | 1,349,791 | - | - | 1,349,791 |
| Bulkheads, piers and boardwalks | 8,998,343 | 55,388 | - | 9,053,731 |
| Water and sewer mains | <u>7,926,842</u> | <u>785,327</u> | <u>-</u> | <u>8,712,169</u> |
| Total depreciable capital assets | <u>\$ 423,504,991</u> | <u>\$ 15,787,065</u> | <u>\$ -</u> | <u>439,292,056</u> |
| Less accumulated depreciation: | | | | |
| Buildings | \$ 6,200,523 | \$ 584,436 | \$ - | 6,784,959 |
| Improvements other than buildings | 4,657,905 | 431,117 | - | 5,089,022 |
| Machinery and equipment | 10,616,116 | 2,037,350 | - | 12,653,466 |
| Infrastructure - | | | | |
| Bridges | 118,672 | 19,073 | - | 137,745 |
| Landfill | 4,026,611 | 311,751 | - | 4,338,362 |
| Roads, curbs and sidewalks | 133,963,153 | 13,199,978 | - | 147,163,131 |
| Lighting system | 1,216,990 | 25,588 | - | 1,242,578 |
| Bulkheads, piers and boardwalks | 4,121,729 | 251,347 | - | 4,373,076 |
| Water and sewer mains | <u>2,680,785</u> | <u>124,301</u> | <u>-</u> | <u>2,805,086</u> |
| Total accumulated depreciation | <u>\$ 167,602,484</u> | <u>\$ 16,984,941</u> | <u>\$ -</u> | <u>184,587,425</u> |
| Total depreciable capital assets, net | | | | <u>254,704,631</u> |
| Total capital assets, net | | | | <u>\$ 712,690,115</u> |
| Depreciation expense was charged to governmental functions as follows: | | | | |
| General government support | | | | \$ 1,124,831 |
| Public safety | | | | 756,002 |
| Transportation | | | | 14,014,073 |
| Economic assistance and opportunity | | | | 89,960 |
| Culture and recreation | | | | 247,700 |
| Home and community services | | | | <u>752,375</u> |
| Total governmental activities depreciation expense | | | | <u>\$ 16,984,941</u> |

Enterprise Funds capital asset balances and activity for the year ended December 31, 2008 were as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|---------------------|-------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 11,012,803 | \$ - | \$ - | \$ 11,012,803 |
| Total | <u>\$ 11,012,803</u> | <u>\$ -</u> | <u>\$ -</u> | <u>11,012,803</u> |
| Depreciable capital assets: | | | | |
| Buildings | \$ 4,979,186 | \$ 1,193 | \$ - | 4,980,379 |
| Improvements other than buildings | 5,033,436 | 2,199,696 | - | 7,233,132 |
| Machinery and equipment | 2,495,678 | 41,854 | - | 2,537,532 |
| Total depreciable capital assets | <u>\$ 12,508,300</u> | <u>\$ 2,242,743</u> | <u>\$ -</u> | <u>14,751,043</u> |
| Less accumulated depreciation: | | | | |
| Buildings | \$ 743,934 | \$ 100,028 | \$ - | 843,962 |
| Improvements other than buildings | 187,692 | 250,051 | - | 437,743 |
| Machinery and equipment | 1,332,093 | 205,202 | - | 1,537,295 |
| Total accumulated depreciation | <u>\$ 2,263,719</u> | <u>\$ 555,281</u> | <u>\$ -</u> | <u>2,819,000</u> |
| Total depreciable capital assets, net | | | | <u>11,932,043</u> |
| Total capital assets, net | | | | <u>\$ 22,944,846</u> |
| Depreciation expense was charged to enterprise functions as follows: | | | | |
| Beaches and marinas | | | | \$ 274,116 |
| Waste management | | | | 228,913 |
| Building and zoning | | | | 38,832 |
| Golf course | | | | <u>13,420</u> |
| Total enterprise funds depreciation expense | | | | <u>\$ 555,281</u> |

The Town of Southampton evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Town's policy is to record an impairment loss in the period when the Town determines that the carrying amount of the asset will not be recoverable. At December 31, 2008, the Town has not recorded any such impairment losses.

Discretely presented component unit's capital asset balances and activity for the year ended December 31, 2008 were as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---------------------------------------|----------------------|-------------------|-------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 620,500 | \$ - | \$ - | \$ 620,500 |
| Total | <u>\$ 620,500</u> | <u>\$ -</u> | <u>\$ -</u> | <u>620,500</u> |
| Depreciable capital assets: | | | | |
| Buildings | \$ 2,441,796 | \$ - | \$ - | 2,441,796 |
| Site improvements | - | 248,786 | - | 248,786 |
| Equipment | 13,850 | 24,517 | - | 38,367 |
| Total depreciable capital assets | <u>\$ 2,455,646</u> | <u>\$ 273,303</u> | <u>\$ -</u> | <u>2,728,949</u> |

| | | | | |
|--|----------------|---------------|----------|---------------------|
| Less accumulated depreciation: | | | | |
| Buildings | \$ 144,876 | \$ 61,045 | \$ - | \$ 205,921 |
| Site improvements | - | 2,208 | - | 2,208 |
| Equipment | 1,979 | 5,482 | - | 7,461 |
| | <u>146,854</u> | <u>68,735</u> | <u>-</u> | <u>215,590</u> |
| Total accumulated depreciation | \$ 146,854 | \$ 68,735 | \$ - | 215,590 |
| Total depreciable capital assets, net | | | | <u>2,513,359</u> |
| Total capital assets, net | | | | <u>\$ 3,133,859</u> |
| Depreciation expense was charged as follows: | | | | |
| Home and community services | | | | <u>\$ 68,735</u> |

8. SHORT-TERM DEBT

Bond anticipation notes (BANs) are used as a temporary means of financing capital expenditures in the Capital Projects Fund and land acquisitions in the Community Preservation and Park Districts Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. Liabilities for BANs are generally accounted for in the Capital Projects Fund and Community Preservation and Park Districts Fund. BANs are expected to be paid from the proceeds of future bond issues after renewal of these notes. These BANs bear interest at various rates from 1.75% to 2.99% and are due at various dates through 2009.

A summary of changes in BANS for the primary government for the year ended December 31, 2008 is as follows:

| | Beginning Balance | Increases | Reductions | Ending Balance |
|-------------------------|----------------------|----------------------|---------------------|----------------------|
| Bond Anticipation Notes | <u>\$ 8,891,000</u> | <u>\$ 19,695,000</u> | <u>\$ 2,721,000</u> | <u>\$ 25,865,000</u> |

9. LONG-TERM DEBT OBLIGATIONS

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

| | Beginning Balance | Increases | Reductions | Ending Balance | Amounts Due Within One Year | Non-Current Liabilities |
|--|-----------------------|---------------------|----------------------|-----------------------|-----------------------------------|----------------------------|
| Governmental activities: | | | | | | |
| General obligation bonds | \$ 98,220,400 | \$ - | \$ 9,968,300 | \$ 88,252,100 | \$ 10,048,740 | \$ 78,203,360 |
| Plus premiums on issuance | 161,096 | - | 17,011 | 144,085 | 17,009 | 127,076 |
| Total general obligation bonds | 98,381,496 | - | 9,985,311 | 88,396,185 | 10,065,749 | 78,330,436 |
| Special assessment bonds | | | | | | |
| with governmental commitment | 466,600 | - | 69,200 | 397,400 | 82,500 | 314,900 |
| Due to Employees' Retirement System | 77,687 | - | 47,671 | 30,016 | 24,530 | 5,486 |
| Compensated absences | 10,130,871 | 452,126 | 920,274 | 9,662,723 | 500,000 | 9,162,723 |
| Claims and judgments payable | 713,938 | - | 150,086 | 563,852 | 150,000 | 413,852 |
| Other post-employment benefits | - | 9,041,618 | - | 9,041,618 | - | 9,041,618 |
| Estimated liability for landfill closure and postclosure care costs | 4,188,670 | - | 435,501 | 3,753,169 | 178,722 | 3,574,447 |
| Total governmental activities | <u>\$ 113,959,262</u> | <u>\$ 9,493,744</u> | <u>\$ 11,608,043</u> | <u>\$ 111,844,963</u> | <u>\$ 11,001,501</u> | <u>\$ 100,843,462</u> |
| Business-type activities: | | | | | | |
| General obligation bonds | \$ 7,548,000 | \$ - | \$ 308,460 | \$ 7,239,540 | \$ 518,760 | \$ 6,720,780 |
| Compensated absences | 380,092 | 383,789 | 207,813 | 556,068 | - | 556,068 |
| Total business-type activities | <u>\$ 7,928,092</u> | <u>\$ 383,789</u> | <u>\$ 516,273</u> | <u>\$ 7,795,608</u> | <u>\$ 518,760</u> | <u>\$ 7,276,848</u> |
| Discretely presented component unit: | | | | | | |
| Mortgage payable | <u>\$ 3,065,711</u> | <u>\$ -</u> | <u>\$ 31,530</u> | <u>\$ 3,034,181</u> | <u>\$ 33,436</u> | <u>\$ 3,000,745</u> |

General obligation bonds - The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are backed by the full faith and credit of the Town, bear interest at various rates from 1.825% to 7.350% and have maturity dates in 2009 through 2025.

The following is a summary of maturing debt service requirements:

Primary governmental activities:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|----------------------|-----------------------|
| Year ended December 31, | | | |
| 2009 | \$ 10,048,740 | \$ 3,079,581 | \$ 13,128,321 |
| 2010 | 10,050,980 | 2,769,247 | 12,820,227 |
| 2011 | 7,838,880 | 2,468,727 | 10,307,607 |
| 2012 | 7,879,680 | 2,200,361 | 10,080,041 |
| 2013 | 6,679,780 | 1,925,420 | 8,605,200 |
| 2014-2018 | 31,904,500 | 6,064,895 | 37,969,395 |
| 2019-2023 | 13,699,540 | 1,108,772 | 14,808,312 |
| 2024-2025 | 150,000 | 6,187 | 156,187 |
| | <u>\$ 88,252,100</u> | <u>\$ 19,623,190</u> | <u>\$ 107,875,290</u> |

Primary business-type activities:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|---------------------|
| Year ended December 31, | | | |
| 2009 | \$ 518,760 | \$ 281,401 | \$ 800,161 |
| 2010 | 532,420 | 263,194 | 795,614 |
| 2011 | 537,020 | 244,173 | 781,193 |
| 2012 | 551,220 | 224,540 | 775,760 |
| 2013 | 565,720 | 203,907 | 769,627 |
| 2014-2018 | 2,867,300 | 683,036 | 3,550,336 |
| 2019-2022 | 1,667,100 | 152,624 | 1,819,724 |
| | <u>\$ 7,239,540</u> | <u>\$ 2,052,875</u> | <u>\$ 9,292,415</u> |

Special assessment bonds - The Town also has \$397,400 of special assessment debt outstanding to provide funds for road improvements. These bonds will be repaid from amounts levied against the property owners benefited by these improvements. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources are received. The bonds have interest rates ranging from 3.00% to 4.75% and are payable over the next 12 years.

The following is a summary of maturing debt service requirements:

Primary governmental activities:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|-------------------|------------------|-------------------|
| Year ended December 31, | | | |
| 2009 | \$ 82,500 | \$ 15,883 | \$ 98,383 |
| 2010 | 56,600 | 12,834 | 69,434 |
| 2011 | 44,100 | 10,433 | 54,533 |
| 2012 | 44,100 | 8,613 | 52,713 |
| 2013 | 44,500 | 6,775 | 51,275 |
| 2014-2018 | 108,200 | 14,196 | 122,396 |
| 2019-2020 | 17,400 | 1,044 | 18,444 |
| | <u>\$ 397,400</u> | <u>\$ 69,778</u> | <u>\$ 467,178</u> |

Other long-term debt - Liabilities for claims and judgments, other post-employment benefits and landfill closure and postclosure costs are liquidated through future budgetary appropriations in the General Fund. The liabilities for compensated absences and due to Employees' Retirement System are liquidated through future budgetary appropriation in the funds that gave rise to liability, with the majority being liquidated through the General and Police Funds.

Mortgage payable - The Housing Authority received a mortgage through Bridgehampton National Bank for \$1,800,000 (30 years) which is secured by the apartment complex, payable in monthly installments of \$10,792 and guaranteed by the Town of Southampton. Interest is calculated at 6.00% and the mortgage matures on August 23, 2035. The outstanding balance as of December 31, 2008 is \$1,720,871.

The Housing Authority assumed and adjusted the existing mortgage through the USDA in the amount of \$1,332,038 which is secured by the apartment complex and payable in monthly installments of \$6,407. Interest is calculated at 5.38% with a subsidy credit of \$3,581 and the mortgage balloons in 2035 with approximately \$941,039 remaining. The outstanding balance as of December 31, 2008 is \$1,313,310.

The following is a summary of maturing debt service requirements:

Primary governmental activities:

| Year ended December 31, | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|---------------------|
| 2009 | \$ 33,436 | \$ 129,975 | \$ 163,411 |
| 2010 | 35,456 | 127,955 | 163,411 |
| 2011 | 37,598 | 125,813 | 163,411 |
| 2012 | 39,869 | 123,542 | 163,411 |
| 2013 | 42,278 | 121,133 | 163,411 |
| 2014-2018 | 252,955 | 564,099 | 817,054 |
| 2019-2023 | 339,254 | 477,801 | 817,055 |
| 2024-2028 | 455,059 | 361,995 | 817,054 |
| 2029-2033 | 610,482 | 206,573 | 817,055 |
| 2034-2035 | 1,187,794 | 25,598 | 1,213,392 |
| | <u>\$ 3,034,181</u> | <u>\$ 2,264,484</u> | <u>\$ 5,298,665</u> |

10. PENSION PLANS

The Town of Southampton participates in the New York State and Local Employees' Retirement System (NYSERS) and the New York State Local Police and Fire Retirement System (NYSPFRS) (collectively the "Systems"). These are cost-sharing, multiple-employer public employee retirement systems. The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

The NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law ("NYSRSSL") governs obligations of employers and employees to contribute, and benefits to employees. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and who have less than ten years of membership and less than ten years of credited service with a retirement system under the provisions of article fourteen or fifteen of the NYSRSSL, who contribute 3% of their salary. Prior to October 1, 2000, all employees who joined the System after July 27, 1976 were required to contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Town is required to contribute at a rate determined actuarially by the Systems. The Town contributions made to the Systems were equal to 100% of the contributions required for each year and also include additional contributions to fund various early retirement incentives made available to the Town employees. The credits and miscellaneous adjustments represent modifications made by the ERS and PFRS for prior year's contributions. Required contributions for the current and two preceding years were:

| Year Ended | ERS | | | PFRS | | |
|------------|-------------------------------|-----------------------------|--|------------------------------|--|---------------|
| | Annual Required Contributions | Incentive/Rate Amortization | Reconciliation and Miscellaneous Adjustments | Annual Required Contribution | Reconciliation and Miscellaneous Adjustments | Total Payment |
| 2008 | \$ 2,000,852 | \$ - | \$ 48,351 | \$ 1,735,897 | \$ (81,779) | \$ 3,703,321 |
| 2007 | \$ 2,027,861 | \$ 26,364 | \$ (12,394) | \$ 1,789,581 | \$ (56,266) | \$ 3,775,146 |
| 2006 | \$ 2,128,189 | \$ 26,364 | \$ (41,021) | \$ 1,835,690 | \$ 147,570 | \$ 4,096,792 |

The State Legislature allows local governments to amortize certain contribution costs. The cost of the amortization is billed and paid over five year period and includes an interest rate of 8.00%. The total principal payments payable by the Town are as follows:

| Year ended December 31, | |
|----------------------------|------------------|
| 2009 | \$ 24,530 |
| 2010 | 5,486 |
| | <u>\$ 30,016</u> |

11. LENGTH OF SERVICE AWARD PROGRAM ("LOSAP OR PROGRAM")

Program Description

The Town of Southampton sponsors four Volunteer Ambulance Workers Service Award Programs (the "Plans"): Westhampton War Memorial Ambulance Corp, Flanders Northampton Ambulance Corp, Hampton Bays Ambulance Corp and Southampton Volunteer Ambulance Corp. All plans are single-employer defined benefit plans covering the Town's volunteer ambulance workers.

Funding Policy

The Plans are established under New York State Law Section 565-B, A7635-B, Article 11AAA. The Plans are non-contributory. The Town is required to contribute the total amount sufficient to cover the normal cost of the plans.

Participation, vesting and service credit

Any volunteer ambulance worker who completed five years of service and attains age 65 is eligible for normal retirement benefits. Participants acquire a nonforfeitable right to a service award after being credited with 5 years of ambulatory service or upon attaining the program's entitlement age. In general, an active volunteer ambulance worker is credited with a year of ambulatory service for each calendar year after the establishment of the program in which he or she accumulates fifty points. Points are granted for the performance of certain activities in accordance with a system established by the sponsor on the basis of a statutory list of activities and point values. A participant may also receive credit for 5 years of service rendered prior to the establishment of the program.

Benefits

A participant's benefit under the program is the actuarial equivalent of a monthly payment for life equal to \$20 multiplied by the person's total number of years of ambulatory service. The number of years of ambulatory service used to compute the benefit cannot exceed forty. Except in the case of disability or death, benefits are payable when a participant reaches entitlement age. The program provides statutorily mandated death and disability benefits.

Fiduciary investment and control

Service credit is determined by the governing board of the sponsor, based on information certified to the governing board by each ambulance company having members who participate in the program. Each ambulance company must maintain all required records on forms prescribed by the governing board.

The Plans are administered by Penflex, Inc. with all provisions and amendments subject to approval of the Town Board. An annual actuarial valuation report for the plans can be obtained from the Town of Southampton Comptroller's Office. None of the pension plans issue separate audited reports on the pension plans. The designated program administrator's functions include Installation Assistance including: Specimen Adoption Agreement; Specimen Master Plan; Insurance Applications; Participant Enrollment Forms; Explanation of Benefits; Benefit Certificates and Administrative Assistance: Reminder letter to sponsor with Census for current anniversary date provided annually; Participant's benefit calculation at the time of termination or retirement for verification by the Plan Sponsor; Member Census and Premium Analysis Report provided annually; Valuation and recommended deposit provided annually; Summary of required contribution; Actuarial review; and Recommended Program enhancement as appropriate. Disbursements of program assets for the payment of benefits or administrative expenses must be approved. The following is an explanation of the process for approving disbursements:

A. Payment of benefits

1. Entitlement benefits

Penflex, Inc. prepares and submits to the Sponsor a Verification of Benefits Statement and an Annuity Enrollment Form for participants active at entitlement age and for vested participants upon termination from the Program. Following review for accuracy, the Sponsor signs and returns the paperwork to Penflex, Inc. authorizing Penflex, Inc. to disburse entitlement benefits.

2. Death benefits

Upon notification from the Sponsor of a participant death, Penflex prepares a Verification of Benefits Statement and a Lump Sum Death Benefit Form. Following review for accuracy, the Sponsor signs and returns the paperwork accompanied by a death certificate to Penflex, Inc. authorizing Penflex, Inc. to disburse a death benefit.

3. Disability benefits

Upon notification from the Sponsor of a participant total and permanent disability, Penflex, Inc. prepares a Verification of Benefits Statement, a Physician Statement Form and a Lump Sum Disability Benefit Form. Following review for accuracy, the Sponsor signs and returns the paperwork authorizing Penflex, Inc. to disburse a disability benefit.

B. Payment of administrative expenses

Per the executed Service Fee Agreement, the Sponsor agrees to payment as contracted.

Program assets are required to be held in trust by LOSAP legislation, for the exclusive purpose of providing benefits to participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the program. Program assets are held in compliance with GML Article 11A 217(j).

Authority to invest program assets is vested in the Glen Falls Bank and Trust Company. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule.

The Sponsor is required to retain an actuary to determine the amount of the Sponsor's contributions to the plan. The actuary retained by the Sponsor for this purpose is Penflex, Inc. Portions of the following information are derived from a report prepared by the actuary dated June 16, 2009.

Plan contributions

Pension contributions are determined based on an annual actuarial calculation. The required contribution for the Plans consists of two components. The first component is the annual prior service cost which equals the level annual payment required to fund over the prior service funding period and the portion of the current participants' projected benefits at entitlement age which is based on the service credit ambulance workers earned before the effective date of the Service Award Program. The second component is the "normal cost," which is equal to the level annual payment required to fund the portion of the current participants' projected benefits based on their service credit earned after the effective date of the Service Award program. Based upon accepted actuarial methods and the assumptions used, it has been determined that the contributions for the Westhampton War Memorial Ambulance Corporation of \$51,822, the Flanders Northampton Volunteer Ambulance Corporation of \$76,287, the Hampton Bays Volunteer Ambulance Corporation of \$54,081 and the Southampton Volunteer Ambulance Corporation of \$47,707 for the year ended December 31, 2008 was sufficient to satisfy current and future service award obligations upon eligibility for retirement.

Program financial condition

Westhampton War Memorial Ambulance Corporation -

| | |
|--|-------------------|
| Actuarial present value of vested benefits | <u>\$ 131,877</u> |
| Net assets available for benefit | <u>\$ 165,021</u> |

Flanders Northampton Volunteer Ambulance Corporation -

| | |
|--|-------------------|
| Actuarial present value of vested benefits | <u>\$ 18,851</u> |
| Net assets available for benefit | <u>\$ 197,098</u> |

Hampton Bays Volunteer Ambulance Corporation -

| | |
|--|-------------------|
| Actuarial present value of vested benefits | <u>\$ 98,720</u> |
| Net assets available for benefit | <u>\$ 185,894</u> |

Southampton Volunteer Ambulance Corporation -

| | |
|--|-------------------|
| Actuarial present value of vested benefits | <u>\$ 88,711</u> |
| Net assets available for benefit | <u>\$ 156,489</u> |

Receipts and disbursements

Westhampton War Memorial Ambulance Corporation -

| | |
|---------------------------------------|-------------------|
| Program net assets, beginning of year | \$ 184,756 |
| Changes during the year: | |
| Plan contributions | \$ 47,526 |
| Investment income earned | (63,629) |
| Trustee fees | (1,068) |
| Administrative fees | <u>(2,564)</u> |
| | (19,735) |
| Program net assets, end of year | <u>\$ 165,021</u> |

Contributions -

Amount of sponsor's contribution recommended by actuary \$ 51,822

Amount of sponsor's actual contribution \$ 47,526

Flanders Northampton Volunteer Ambulance Corporation -

Program net assets, beginning of year \$ 215,998

Changes during the year:

| | | |
|--------------------------|----------------|-----------------|
| Plan contributions | \$ 60,710 | |
| Investment income earned | (75,749) | |
| Trustee fees | (1,261) | |
| Administrative fees | <u>(2,600)</u> | <u>(18,900)</u> |

Program net assets, end of year \$ 197,098

Contributions -

Amount of sponsor's contribution recommended by actuary \$ 76,287

Amount of sponsor's actual contribution \$ 60,710

Hampton Bays Volunteer Ambulance Corporation -

Program net assets, beginning of year \$ 197,746

Changes during the year:

| | | |
|--------------------------|----------------|-----------------|
| Plan contributions | \$ 62,042 | |
| Investment income earned | (70,057) | |
| Trustee fees | (1,093) | |
| Administrative fees | <u>(2,744)</u> | <u>(11,852)</u> |

Program net assets, end of year \$ 185,894

Contributions -

Amount of sponsor's contribution recommended by actuary \$ 54,081

Amount of sponsor's actual contribution \$ 62,042

Southampton Volunteer Ambulance Corporation -

Program net assets, beginning of year \$ 176,662

Changes during the year:

| | | |
|--------------------------|----------------|-----------------|
| Plan contributions | \$ 43,094 | |
| Investment income earned | (59,705) | |
| Trustee fees | (962) | |
| Administrative fees | <u>(2,600)</u> | <u>(20,173)</u> |

Program net assets, end of year \$ 156,489

Contributions -

Amount of sponsor's contribution recommended by actuary \$ 47,707

Amount of sponsor's actual contribution \$ 43,094

Funding methodology and actuarial assumptions

Westhampton War Memorial Ambulance Corporation -

| | |
|--------------------------------------|--|
| Valuation Date | December 31, 2008 |
| Actuarial Cost Method | Attained Age Normal Frozen Initial Liability Cost Method |
| Amortization Method | Level Dollar, open |
| Pre-Entitlement age mortality table | None assumed |
| Post-entitlement age mortality table | 50/50 blend 1994 US Uninsured Pensioner Mortality |
| Remaining Amortization Period | -0- Years |
| Asset Valuation Method | Fair Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 6.5% |

Flanders Northampton Volunteer Ambulance Corporation -

| | |
|--------------------------------------|--|
| Valuation Date | December 31, 2008 |
| Actuarial Cost Method | Attained Age Normal Frozen Initial Liability Cost Method |
| Amortization Method | Level Dollar, open |
| Pre-Entitlement age mortality table | None assumed |
| Post-entitlement age mortality table | 50/50 blend 1994 US Uninsured Pensioner Mortality |
| Remaining Amortization Period | -0- Years |
| Asset Valuation Method | Fair Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 6.5% |

Hampton Bays Volunteer Ambulance Corporation -

| | |
|--------------------------------------|--|
| Valuation Date | December 31, 2008 |
| Actuarial Cost Method | Attained Age Normal Frozen Initial Liability Cost Method |
| Amortization Method | Level Dollar, open |
| Pre-Entitlement age mortality table | None assumed |
| Post-entitlement age mortality table | 50/50 blend 1994 US Uninsured Pensioner Mortality |
| Remaining Amortization Period | -0- Years |
| Asset Valuation Method | Fair Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 6.5% |

Southampton Volunteer Ambulance Corporation -

| | |
|--------------------------------------|--|
| Valuation Date | December 31, 2008 |
| Actuarial Cost Method | Attained Age Normal Frozen Initial Liability Cost Method |
| Amortization Method | Level Dollar, open |
| Pre-Entitlement age mortality table | None assumed |
| Post-entitlement age mortality table | 50/50 blend 1994 US Uninsured Pensioner Mortality |
| Remaining Amortization Period | -0- Years |
| Asset Valuation Method | Fair Market Value |
| Actuarial Assumptions: | |
| Investment Rate of Return | 6.5% |

12. POST-EMPLOYMENT BENEFITS

Plan description and annual OPEB cost

The Town provides post-employment (health insurance, life insurance etc.) coverage to retired employees and their survivors 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 Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions, in the year ended December 31, 2008. This required the Town to calculate and record a net other post-employment benefit obligation at year-end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

Currently, 253 retired employees receive health benefits from the Town. Retirees contribute 0% to 20% for coverage depending on position held, date of hire, years of service, and fiscal year of retirement.

The Town recognizes the cost of providing health insurance annually as expenditures in the applicable funds of the funds financial statements as payments are made. For the year ended December 31, 2008, the Town recognized \$2,272,750 for its share of insurance premiums for currently enrolled retirees.

The Town has obtained an actuarial valuation report as of January 1, 2008 which indicates that the total liability for other post-employment benefits is \$136,666,500 (\$62,207,100 related to retirees and \$74,459,400 related to employees).

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

| | <u>For the Year Ended December 31, 2009</u> |
|---|---|
| Annual required contribution | \$ 10,879,200 |
| Interest on net OPEB obligation | <u>435,168</u> |
| Annual OPEB cost | 11,314,368 |
| Contributions made | <u>2,272,750</u> |
| Increase in net OPEB obligation | 9,041,618 |
| Net OPEB obligation – beginning of year | <u>-</u> |
| Net OPEB obligation – end of year | <u>\$ 9,041,618</u> |

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

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|---|--------------------------------|
| 12/31/08 | \$11,314,368 | 20.1% | \$9,041,618 |

Funded status and funding progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$136,666,500 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$136,666,500. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

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

In the January 1, 2008 actuarial valuation, the projected unit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10.5% initially, reduced by decrements to an ultimate rate of 5% after 6 years. Both rates included a 5.5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was 29 years.

13. COMPENSATED ABSENCES

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

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the statements of net assets. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2008 the value of the accumulated vacation time and sick leave for governmental and business-type activities was \$10,218,771.

14. COMMITMENTS AND CONTINGENCIES

A. Risk management

The Town has adopted GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues. The Statement establishes standards for risk financing and insurance-related activities. Liabilities for unpaid claims are accrued when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

In common with other municipalities, the Town receives numerous notices of claims. The Town carries base general liability insurance coverage of \$1,000,000 per occurrence with a \$2,000,000 annual aggregate. The Town carries an umbrella policy which provides additional insurance coverage of \$10,000,000 per occurrence with a \$20,000,000 annual aggregate. Although the eventual outcome of these claims cannot presently be determined, the Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position.

The Town is completely covered for workers' compensation insurance and disability insurance.

There have been no significant reductions in insurance coverage as compared to the prior year, and there were no settlements in excess of insurance coverage over the last three years.

The Town estimates general liability reserves by consulting with legal counsel and past experience with similar claims. The Town has not purchased any annuity contracts with regard to its general liability claims. The schedule below presents the changes in claims liabilities for the past two years and includes an estimate of claims that have been incurred but not yet reported.

| | <u>General Liability</u> | |
|---|--------------------------|-------------------|
| | <u>2008</u> | <u>2007</u> |
| Unpaid claims and claim adjustment expenditures at the beginning of the year | \$ 713,938 | \$ 1,061,000 |
| Incurred claims and claim adjustment Expenditures: | | |
| Provision for insured events of the current year and increases in provision for insured events of prior years | - | 53,678 |
| Total incurred claims and adjustment expenditures | - | 53,678 |
| Payments: | | |
| Claims and claim adjustment expenditures attributable to insured events of the current and prior years | 150,086 | 400,740 |
| Total payments | 150,086 | 400,740 |
| Total unpaid claims and claim adjustment expenditures at the end of the year | <u>\$ 563,852</u> | <u>\$ 713,938</u> |

B. Litigation

The Town is a defendant in various lawsuits. Based on the opinion of outside counsel, the Town has a meritorious defense in these suits, although the outcome is uncertain. The Town has determined that resolution of these matters will not have a material adverse effect on the financial condition of the Town.

The Shinnecock Tribe has brought an action against the Town of Southampton. Although the Town has been advised that they have a meritorious defense and expect to prevail, at this point the outcome is uncertain. The action has been dismissed in its entirety; however the courts determination is the subject of a motion for reconsideration and likely will be the subject of an appeal by the Shinnecock Tribe.

C. Landfill closure and post-closure care costs

State and federal laws and regulations require the Town to place a final cover on landfill sites and to perform certain maintenance and monitoring activities at landfill sites for at least thirty years after closure. The North Sea Landfill site stopped receiving waste in 1995. As of December 31, 2008, the Town has recorded a liability of \$3,753,169, which represents the provision to be made in future budgets for unfunded postclosure landfill monitoring and maintenance costs. Actual costs may vary due to inflation or deflation, changes in technology or changes in regulations or applicable laws.

D. Government grants

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. Based on prior years' experience, the Town's administration believes disallowances, if any, would be immaterial.

E. Lease commitments and leased assets

Operating leases

The Town is committed under a noncancelable operating lease for the Hampton Bays Town Center. Total rental expenditures on the lease for the year ended December 31, 2008 totaled approximately \$299,000.

Future minimum operating lease commitments are as follows:

| <u>Year ended December 31,</u> | |
|------------------------------------|---------------------|
| 2009 | \$ 310,500 |
| 2010 | 310,500 |
| 2011 | 310,500 |
| 2012 | 310,500 |
| 2013 | 336,375 |
| 2014-2018 | 1,775,672 |
| 2019-2023 | <u>1,702,899</u> |
| | <u>\$ 5,056,946</u> |

15. 2% TRANSFER TAX

In November 1998, the voters of the Town of Southampton approved a referendum for a 2% Transfer Tax, which became effective on April 1, 1999. The transfer tax receipts are recorded in the Community Preservation and Park Districts Fund, and are used for the purchase and/or preservation of agricultural land, open space, parks or historic preservation sites. The tax applies to sales of vacant land worth \$100,000 or more or sales of improved land worth \$250,000 or more. Conveyance of real property for open space, parks or historic preservation purposes are exempt from this tax.

At December 31, 2008, and for the four previous years, the Town has the following 2% transfer tax revenue and expenses associated with environmental or historic preservation purposes of:

| <u>Year ended December 31,</u> | <u>Revenues</u> | <u>Expenses</u> |
|------------------------------------|-----------------|-----------------|
| 2008 | \$ 33,948,760 | \$ 80,636,665 |
| 2007 | 53,987,196 | 68,385,613 |
| 2006 | 51,297,562 | 38,125,582 |
| 2005 | 51,607,369 | 36,018,887 |
| 2004 | 42,935,382 | 28,713,345 |

16. CONDENSED FINANCIAL STATEMENTS FOR THE DISCRETELY PRESENTED COMPONENT UNIT

The following represents condensed financial statements for the Town of Southampton Housing Authority, a discretely presented component unit, as of and for the year ended December 31, 2008:

Condensed Statement of Net Assets:

| | <u>Assets and Other Debits</u> | | | <u>Liabilities</u> | | |
|--|--------------------------------|--|------------------------------|-------------------------------|---|----------------------|
| | Current <u>Assets</u> | Capital Assets Net of <u>Depreciation</u> | Non-current <u>Assets</u> | Current <u>Liabilities</u> | Bonds and Other Long-Term <u>Liabilities</u> | Net <u>Assets</u> |
| Town of Southampton Housing Authority | \$ 252,795 | \$ 3,133,859 | \$ 28,682 | \$ 74,026 | \$ 3,000,745 | \$ 340,565 |

Condensed Statement of Activities:

| | Program | | | Other | Change | Net Assets |
|--|------------|------------|--------------|-----------|------------|------------|
| | Expenses | Revenue | Net Revenues | | | |
| Town of Southampton Housing Authority | \$ 513,708 | \$ 480,317 | \$ (33,391) | \$295,148 | \$ 261,757 | \$ 340,565 |

17. SUBSEQUENT EVENTS

The Town has evaluated subsequent events occurring after the Statement of Net Assets through the date of December 22, 2009 which is the date the financial statements were available to be issued.

18. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

GASB has issued Statement 52, Land and Other Real Estate Held as Investment by Endowments, which establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The Town is currently studying the statement and plans on adoption if and when required, which will be for the December 31, 2009 financial statements.

GASB has issued Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Town is currently studying the statement and plans on adoption if and when required, which will be for the December 31, 2011 financial statements.

GASB has issued Statement 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which will improve financial reporting by codifying all generally accepted accounting principles for state and local governments so that they derive from a single source. The Town is currently studying the statement and plans on adoption if and when required, which will be for the December 31, 2009 financial statements.

GASB has issued Statement 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, which will improve financial reporting by codifying all generally accepted accounting principles for state and local governments so that they derive from a single source. The Town is currently studying the statement and plans on adoption if and when required, which will be for the December 31, 2009 financial statements.

19. PRIOR PERIOD ADJUSTMENTS

Governmental Funds fund balance, Enterprise Funds net assets and Governmental Activities net assets have been restated as of January 1, 2008, to give effect to the following:

| | Governmental Funds Fund Balance | Enterprise Funds Net Assets | Town-wide Net Assets |
|--|------------------------------------|--------------------------------|-------------------------|
| Balance as of January 1, 2008, as reported | \$ 64,079,602 | \$ 17,973,116 | \$ 596,645,397 |
| Add (less): reallocation of certain health costs | 44,052 | (44,052) | 44,052 |
| Add: write-off of unsupportable accounts payable | 398,263 | 25,482 | 398,263 |
| Less: recognition of prior year liability | (1,875,175) | 420 | (1,875,175) |
| Balance as of January 1, 2008, as restated | \$ 62,646,742 | \$ 17,954,966 | \$ 595,212,537 |

The effect of the restatement on the change in net assets for fiscal 2007 is not reasonably determinable.

TOWN OF SOUTHAMPTON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Actual</u> | <u>Year-end Encumbrances</u> | <u>Variances Favorable (Unfavorable)</u> |
|---|----------------------------|---------------------------|----------------------|----------------------------------|--|
| REVENUES | | | | | |
| Real property taxes | \$ 19,253,211 | \$ 19,178,211 | \$ 19,183,481 | | \$ 5,270 |
| Other real property tax items | 555,000 | 555,000 | 274,837 | | (280,163) |
| Non-property tax items | 825,000 | 859,250 | 1,010,521 | | 151,271 |
| Departmental income | 483,624 | 463,624 | 241,148 | | (222,476) |
| Intergovernmental charges | 41,000 | 41,000 | 12,129 | | (28,871) |
| Use of money and property | 1,018,800 | 1,044,346 | 533,927 | | (510,419) |
| Licenses and permits | 103,000 | 103,000 | 109,541 | | 6,541 |
| Fines and forfeitures | 1,300,000 | 1,300,000 | 1,668,459 | | 368,459 |
| Sale of property and compensation for loss | 16,000 | 16,000 | 28,875 | | 12,875 |
| Miscellaneous local sources | 474,500 | 478,500 | 380,971 | | (97,529) |
| State aid | 9,295,649 | 9,339,421 | 9,021,196 | | (318,225) |
| Total revenues | <u>33,365,784</u> | <u>33,378,352</u> | <u>32,905,156</u> | | <u>(473,196)</u> |
| EXPENDITURES | | | | | |
| General government support | 12,941,658 | 13,952,540 | 13,940,519 | \$ 111,946 | (99,925) |
| Public safety | 2,779,911 | 2,808,854 | 2,601,219 | - | 207,635 |
| Health | 30,250 | 29,250 | 26,749 | - | 2,501 |
| Transportation | 499,752 | 521,483 | 494,183 | 7,574 | 19,726 |
| Economic assistance and opportunity | 1,813,326 | 1,914,049 | 1,834,219 | - | 79,830 |
| Culture and recreation | 4,393,325 | 4,463,881 | 4,321,927 | - | 141,954 |
| Home and community services | 911,316 | 1,563,907 | 1,354,634 | - | 209,273 |
| Employee benefits | 6,172,279 | 5,903,016 | 5,711,665 | - | 191,351 |
| Total expenditures | <u>29,541,817</u> | <u>31,156,980</u> | <u>30,285,115</u> | <u>119,520</u> | <u>752,345</u> |
| Excess of revenues over expenditures | 3,823,967 | 2,221,372 | 2,620,041 | (119,520) | 279,149 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | 851,496 | 1,553,209 | - | 701,713 |
| Transfers out | (5,559,908) | (10,668,898) | (8,070,538) | - | 2,598,360 |
| Total other financing sources (uses) | <u>(5,559,908)</u> | <u>(9,817,402)</u> | <u>(6,517,329)</u> | <u>-</u> | <u>3,300,073</u> |
| Changes in fund equity | (1,735,941) | (7,596,030) | (3,897,288) | <u>\$ (119,520)</u> | <u>\$ 3,579,222</u> |
| Fund equity, beginning of year, as restated | <u>14,472,522</u> | <u>14,472,522</u> | <u>14,472,522</u> | | |
| Fund equity, end of year | <u>\$ 12,736,581</u> | <u>\$ 6,876,492</u> | <u>\$ 10,575,234</u> | | |

The accompanying notes to financial statements should
be read in conjunction with this schedule.

TOWN OF SOUTHAMPTON
TOWN OUTSIDE VILLAGE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Year-end Encumbrances</u> | <u>Variances Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|-------------------|----------------------------------|--|
| REVENUES | | | | | |
| Real property taxes | \$ 291,914 | \$ 290,314 | \$ 290,314 | | \$ - |
| Other real property tax items | - | - | 1,059 | | 1,059 |
| Use of money and property | 75,000 | 75,000 | 19,541 | | (55,459) |
| Total revenues | <u>366,914</u> | <u>365,314</u> | <u>310,914</u> | | <u>(54,400)</u> |
| EXPENDITURES | | | | | |
| Public safety | 583,616 | 340,126 | 339,717 | \$ 111,531 | (111,122) |
| Home and community services | 762,071 | 740,915 | 733,647 | - | 7,268 |
| Employee benefits | 271,227 | 223,217 | 169,291 | - | 53,926 |
| Total expenditures | <u>1,616,914</u> | <u>1,304,258</u> | <u>1,242,655</u> | <u>111,531</u> | <u>(49,928)</u> |
| Excess (deficiency) of revenues over (under) expenditures | (1,250,000) | (938,944) | (931,741) | (111,531) | (104,328) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | 884,946 | 1,934 | - | (883,012) |
| Transfers out | - | (251,200) | (3,341) | - | 247,859 |
| Total other financing sources (uses) | <u>-</u> | <u>633,746</u> | <u>(1,407)</u> | <u>-</u> | <u>(635,153)</u> |
| Changes in fund equity | (1,250,000) | (305,198) | (933,148) | <u>\$ (111,531)</u> | <u>\$ (739,481)</u> |
| Fund equity, beginning of year, as restated | <u>1,775,902</u> | <u>1,775,902</u> | <u>1,775,902</u> | | |
| Fund equity, end of year | <u>\$ 525,902</u> | <u>\$ 1,470,704</u> | <u>\$ 842,754</u> | | |

The accompanying notes to financial statements should be read in conjunction with this schedule.

**TOWN OF SOUTHAMPTON
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY (DEFICIT)
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Year-end Encumbrances</u> | <u>Variances Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|--------------------|----------------------------------|--|
| REVENUES | | | | | |
| Real property taxes | \$ 7,833,202 | \$ 7,833,202 | \$ 7,832,960 | | \$ (242) |
| Other real property tax items | 30,000 | 30,000 | 32,001 | | 2,001 |
| Intergovernmental charges | 634,903 | 634,903 | 634,903 | | - |
| Use of money and property | 70,000 | 70,000 | 52,755 | | (17,245) |
| Miscellaneous local sources | 508,500 | 482,074 | 45,299 | | (436,775) |
| State aid | 560,000 | 655,373 | 657,918 | | 2,545 |
| Total revenues | <u>9,636,605</u> | <u>9,705,552</u> | <u>9,255,836</u> | | <u>(449,716)</u> |
| EXPENDITURES | | | | | |
| Transportation | 5,796,147 | 5,711,040 | 5,749,302 | \$ - | (38,262) |
| Employee benefits | 1,824,022 | 1,824,022 | 1,229,940 | - | 594,082 |
| Total expenditures | <u>7,620,169</u> | <u>7,535,062</u> | <u>6,979,242</u> | <u>-</u> | <u>555,820</u> |
| Excess of revenues over expenditures | 2,016,436 | 2,170,490 | 2,276,594 | - | 106,104 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 250,000 | 355,000 | 351,127 | - | (3,873) |
| Transfers out | (1,816,435) | (1,957,549) | (2,144,529) | - | (186,980) |
| Total other financing sources (uses) | <u>(1,566,435)</u> | <u>(1,602,549)</u> | <u>(1,793,402)</u> | <u>-</u> | <u>(190,853)</u> |
| Changes in fund equity | 450,001 | 567,941 | 483,192 | <u>\$ -</u> | <u>\$ (84,749)</u> |
| Fund equity (deficit), beginning of year | <u>(505,794)</u> | <u>(505,794)</u> | <u>(505,794)</u> | | |
| Fund equity (deficit), end of year | <u>\$ (55,793)</u> | <u>\$ 62,147</u> | <u>\$ (22,602)</u> | | |

The accompanying notes to financial statements should
be read in conjunction with this schedule.

TOWN OF SOUTHAMPTON
POLICE DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY (DEFICIT)
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2008

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Actual</u> | <u>Year-end Encumbrances</u> | <u>Variances Favorable (Unfavorable)</u> |
|--|----------------------------|---------------------------|-----------------------|----------------------------------|--|
| REVENUES | | | | | |
| Real property taxes | \$ 18,215,226 | \$ 18,215,226 | \$ 18,215,226 | | \$ - |
| Other real property tax items | 50,000 | 50,000 | 68,952 | | 18,952 |
| Departmental income | 159,000 | 254,000 | 235,016 | | (18,984) |
| Use of money and property | 205,000 | 205,000 | 101,760 | | (103,240) |
| Sale of property and compensation for loss | - | - | 500 | | 500 |
| Miscellaneous local sources | 25,000 | 25,000 | 34,393 | | 9,393 |
| State aid | 1,847,723 | 1,847,723 | 1,647,723 | | (200,000) |
| Federal aid | 37,000 | 37,000 | 46,023 | | 9,023 |
| Total revenues | <u>20,538,949</u> | <u>20,633,949</u> | <u>20,349,593</u> | | <u>(284,356)</u> |
| EXPENDITURES | | | | | |
| Public safety | 14,595,656 | 14,575,927 | 13,584,411 | \$ - | 991,516 |
| Employee benefits | 5,873,923 | 5,977,547 | 5,319,097 | - | 658,450 |
| Total expenditures | <u>20,469,579</u> | <u>20,553,474</u> | <u>18,903,508</u> | <u>-</u> | <u>1,649,966</u> |
| Excess of revenues over expenditures | 69,370 | 80,475 | 1,446,085 | | 1,365,610 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | - | - | 5,135 | - | 5,135 |
| Transfers out | (69,370) | (69,370) | (103,043) | - | (33,673) |
| Total other financing sources (uses) | <u>(69,370)</u> | <u>(69,370)</u> | <u>(97,908)</u> | <u>-</u> | <u>(28,538)</u> |
| Changes in fund equity | - | 11,105 | 1,348,177 | <u>\$ -</u> | <u>\$ 1,337,072</u> |
| Fund equity (deficit), beginning of year, as restated | <u>(4,074,877)</u> | <u>(4,074,877)</u> | <u>(4,074,877)</u> | | |
| Fund equity (deficit), end of year | <u>\$ (4,074,877)</u> | <u>\$ (4,063,772)</u> | <u>\$ (2,726,700)</u> | | |

The accompanying notes to financial statements should
be read in conjunction with this schedule.

**TOWN OF SOUTHAMPTON
JUSTICE COURT
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Town Justices</u> | | | | | | | <u>Combined</u> |
|---|---------------------------|--------------------------------|---------------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|-------------------|
| | <u>Justice DeMayo</u> | <u>Justice Kooperstein</u> | <u>Justice Wilson</u> | <u>Justice Burke</u> | <u>Bail Accounts</u> | <u>Special Accounts</u> | <u>Parking Accounts</u> | |
| Cash balance, beginning of year | \$ 55,322 | \$ 31,995 | \$ 63,367 | \$ - | \$ 498,189 | \$ 4,242 | \$ 6,347 | \$ 659,462 |
| Collections: | | | | | | | | |
| Traffic, criminal fines, civil and surcharge | 593,966 | 580,668 | 686,173 | 656,624 | - | - | - | 2,517,431 |
| Parking fines | 74,810 | 93,575 | 116,930 | 86,810 | - | - | 44,017 | 416,142 |
| Bail | - | - | - | - | 587,567 | - | - | 587,567 |
| Miscellaneous | - | - | - | - | - | 2,363 | 416 | 2,779 |
| Total collections | <u>668,776</u> | <u>674,243</u> | <u>803,103</u> | <u>743,434</u> | <u>587,567</u> | <u>2,363</u> | <u>44,433</u> | <u>3,523,919</u> |
| Disbursements: | | | | | | | | |
| Town of Southampton | 687,033 | 672,199 | 804,690 | 692,421 | - | - | - | 2,856,343 |
| Return of bail and other | - | - | - | - | 677,067 | - | - | 677,067 |
| Miscellaneous | - | - | - | - | - | 1,705 | 3,625 | 5,330 |
| Total disbursements | <u>687,033</u> | <u>672,199</u> | <u>804,690</u> | <u>692,421</u> | <u>677,067</u> | <u>1,705</u> | <u>3,625</u> | <u>3,538,740</u> |
| Cash balance, end of year | <u>\$ 37,065</u> | <u>\$ 34,039</u> | <u>\$ 61,780</u> | <u>\$ 51,013</u> | <u>\$ 408,689</u> | <u>\$ 4,900</u> | <u>\$ 47,155</u> | <u>\$ 644,641</u> |

The accompanying notes to financial statements should
be read in conjunction with this schedule.

**SUPPLEMENTAL
SCHEDULE 6**

TOWN OF SOUTHAMPTON
SCHEDULE OF EMPLOYER CONTRIBUTIONS - SERVICE AWARD PROGRAM
DECEMBER 31, 2008

Westhampton War Memorial Ambulance Corp:

| <u>Year Ended Dec. 31</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> |
|-----------------------------------|---|--------------------------------|-----------------------------------|
| 2008 | \$ 51,822 | \$ 47,526 | 91.71% |

Flanders Northampton Volunteer Ambulance Corp:

| <u>Year Ended Dec. 31</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> |
|-----------------------------------|---|--------------------------------|-----------------------------------|
| 2008 | \$ 76,287 | \$ 60,710 | 79.58% |

Hampton Bays Volunteer Ambulance Corp:

| <u>Year Ended Dec. 31</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> |
|-----------------------------------|---|--------------------------------|-----------------------------------|
| 2008 | \$ 54,081 | \$ 62,042 | 114.72% |

Southampton Volunteer Ambulance Corp:

| <u>Year Ended Dec. 31</u> | <u>Annual Required Contribution</u> | <u>Actual Contribution</u> | <u>Percentage Contributed</u> |
|-----------------------------------|---|--------------------------------|-----------------------------------|
| 2008 | \$ 47,707 | \$ 43,094 | 90.33% |

The accompanying notes to financial statements should
be read in conjunction with this schedule.

TOWN OF SOUTHAMPTON
SCHEDULE OF FUNDING PROGRESS - SERVICE AWARD PROGRAM
DECEMBER 31, 2008

Westhampton War Memorial Ambulance Corp:

| Actuarial Valuation Date Dec. 31 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Overfunded) Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll [(b-a)/c] |
|-------------------------------------|----------------------------------|--|---|-----------------------|------------------------|---|
| 2008 | \$ 165,021 | \$ 362,085 | \$ 197,064 | 45.58% | N/A* | N/A* |

Flanders Northampton Volunteer Ambulance Corp:

| Actuarial Valuation Date Dec. 31 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Overfunded) Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll [(b-a)/c] |
|-------------------------------------|----------------------------------|--|---|-----------------------|------------------------|---|
| 2008 | \$ 197,098 | \$ 406,926 | \$ 209,828 | 48.44% | N/A* | N/A* |

Hampton Bays Volunteer Ambulance Corp:

| Actuarial Valuation Date Dec. 31 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Overfunded) Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll [(b-a)/c] |
|-------------------------------------|----------------------------------|--|---|-----------------------|------------------------|---|
| 2008 | \$ 185,894 | \$ 295,963 | \$ 110,069 | 62.81% | N/A* | N/A* |

Southampton Volunteer Ambulance Corp:

| Actuarial Valuation Date Dec. 31 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Overfunded) Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll [(b-a)/c] |
|-------------------------------------|----------------------------------|--|---|-----------------------|------------------------|---|
| 2008 | \$ 156,489 | \$ 262,111 | \$ 105,622 | 59.70% | N/A* | N/A* |

* There is no covered payroll due to the fact that this is a volunteer ambulance corp. Benefits are determined based off service credits earned. The amount of the monthly retirement income payable to a volunteer ambulance worker eligible for normal retirement benefits is equal to \$20 multiplied by the total years of service, which is not to exceed 40 years.

** Prior to 2007 all plans were defined contribution plans.

TOWN OF SOUTHAMPTON
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED DECEMBER 31, 2008

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)- Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|-----------------------------|---|
| 01/01/08 | \$ - | \$ 136,666,500 | \$ 136,666,500 | 0.00% | \$ 38,900,127 | 351.33% |

The accompanying notes to financial statements should be
read in conjunction with this schedule.

TOWN OF SOUTHAMPTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Total Federal Expenditures |
|---|------------------------------------|---|
| <u>U.S. Department of Housing and Urban Development</u> | | |
| Section 8 Housing Vouchers Program | 14.871 | \$ 3,435,318 |
| Passed - through Suffolk County Community Development Block Grant | 14.218 | 294,500 |
| <u>U.S. Department of Health and Human Services</u> | | |
| Passed - through Suffolk County Administration on Aging: Special Programs for the Aging - Title III Part C - Nutrition | 93.045 | 383,839 |
| Adult Day Care | 93.052 | 3,731 |
| Nutrition Services Incentive Program | 93.053 | 36,948 |
| <u>U.S. Department of Transportation</u> | | |
| Passed - through Office of the New York State Comptroller Highway Planning and Construction | 20.205 | 3,053 |
| “STEP” Unsafe Driving | 20.600 | 21,896 |
| Buckle Up New York | 20.600 | 19,696 |
| <u>U.S. Department of Justice</u> | | |
| Passed - through Office of the New York State Comptroller Byrne Grant | 16.579 | 12,500 |
| Bulletproof Vest Partnership | 16.607 | <u>4,431</u> |
| TOTAL FEDERAL EXPENDITURES | | \$ <u>4,215,912</u> |

TOWN OF SOUTHAMPTON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs administered by the Town of Southampton (the "Town"), an entity as defined in Note 1 to the Town's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

3. Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the federal financial reports used as the source for the data presented.

4. Matching Costs

Matching costs (i.e. the Town's share of certain program costs) are not included in the reported expenditures.

5. Major Program Determination

The Town has determined that all Federal programs with expenditures of \$300,000 or more are Type A Programs for purposes of determining Major Programs.



Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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

To the Honorable Supervisor and Town Board of
the Town of Southampton:

We have audited the financial statements of the Town of Southampton (the "Town") as of and for the year ended December 31, 2008, and have issued our report thereon dated December 22, 2009 which was qualified due to our inability to apply sufficient procedures to the Town's opening fund balances in the General Fund and Capital Projects Fund and the opening net assets in the Enterprise Funds. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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

Nawrocki Smith LLP

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Town of Southampton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in section B of the accompanying schedule of findings and questioned costs as items 08-01 and 08-02.

We noted certain other matters that we reported to management of the Town of Southampton in a separate letter dated December 22, 2009.

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

Melville, New York
December 22, 2009

A handwritten signature in black ink that reads "Nawrocki Smith LLP". The signature is written in a cursive, flowing style.



Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Supervisor and Town Board of
the Town of Southampton:

Compliance

We have audited the compliance of the Town of Southampton with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The Town of Southampton's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Town of Southampton's management. Our responsibility is to express an opinion on the Town of Southampton's compliance based on our audit.

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

In our opinion, the Town of Southampton complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

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

Nawrocki Smith LLP

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

We noted certain other matters that we reported to management of the Town of Southampton in a separate letter dated December 22, 2009.

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

Melville, New York
December 22, 2009

A handwritten signature in cursive script that reads "Nawrocki Smith LLP".

TOWN OF SOUTHAMPTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements.
3. Two instances of noncompliance were disclosed during the audit.
4. No significant deficiencies or material weaknesses were disclosed during the audit of the major federal award program.
5. The auditors' report on compliance for the major federal awards program for the Town of Southampton expresses an unqualified opinion.
6. No audit findings relative to the major federal award program that are required to be reported in accordance with section 510(a) of OMB Circular A-133, were disclosed during the audit.
7. The program tested as a major program included:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--|
| 14.871 | <u>U.S. Department of Housing and Urban Development - Section 8 Housing Vouchers Program</u> |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Auditee was determined not to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

08-01 The Town may have expended bond monies on projects that were not covered in the bond issuance.

Condition: The Town may not have complied with restrictions on bond covenants.

Criteria: The bond agreement states that no monies shall be expended for any other purpose than what was intended and communicated within the official statement.

Effect: The Town may not have complied with bond covenants.

Cause: The Town may have used bond monies from capital projects to pay expenses for certain other capital projects.

Recommendation: The Town should implement policies and procedures to monitor capital project spending on a project/borrowing basis.

Response: The Town has contracted a forensic accounting firm to perform a forensic investigation of the Capital Projects Fund and assist the Town in evaluating the current status of its capital projects.

08-02 The submission of the annual audited financial statements to the Single Audit Clearinghouse did not occur until subsequent to the filing deadline.

Condition: The Town did not fulfill its annual reporting requirement to the Single Audit Clearinghouse in accordance with the requisite due date.

Criteria: OMB Circular A-133 requires that the Town submit its annual audited financial statements within nine months after fiscal year end.

Effect: The Town did not fulfill its federal audit reporting requirement as of the required submission date.

Cause: Information necessary to close the books and records was not available, therefore, the annual audited financial statements were not prepared on a timely basis.

Recommendation: The Town should implement procedures to ensure sufficient time to comply with OMB Circular A-133 reporting requirements.

Response: The Town is in agreement with this finding and will ensure policies and procedures are in effect to comply with all OMB Circular A-133 requirements in the future.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported.

TOWN OF SOUTHAMPTON
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008

Findings - Financial Statement Audit

07-01 Recommendation – It was recommended that bank reconciliations include all reconciling items and are prepared on a monthly basis for all cash accounts maintained by the Town, as well as tie into the general ledger as of month-end, and all necessary entries should be posted.

Status - We noted this recommendation was implemented.

07-02 Recommendation - It was recommended that monthly collateral reports should be prepared and closely monitored by the Comptroller's Office to ensure all accounts are being correctly collateralized according to the Town's investment policy and General Municipal Law.

Status - We noted this recommendation was implemented.

07-03 Recommendation - It was recommended the Town should establish policies to ensure that interfund loans are repaid by the close of the year in which the advances were made.

Status - We noted this recommendation is in the process of being implemented.

07-04 Recommendation - It was recommended that capital assets should be monitored closely and be updated monthly for additions and deletions

Status - We noted this recommendation was implemented.

07-05 Recommendation - It was recommended that the Town should ensure that expenditures are being coded to the proper accounts.

Status - We noted this recommendation was implemented.

07-06 Recommendation - It was recommended that closing schedules should be prepared diligently, checked to the general ledger and be reviewed by management.

Status - We noted this recommendation was implemented.

07-07 Recommendation - It was recommended that purchases should follow protocols established following the guidelines set by NYS Municipal Law and the Town's policies and procedures.

Status - We noted this recommendation is in the process of being implemented.

Findings And Questioned Costs - Major Federal Award Programs Audit

07-08 Recommendation - It was recommended that the Town ensure that employees entrusted to management and administrative positions over Federal awards program (Section 8 Housing Program) have the necessary knowledge and expertise to perform these job functions adequately. The Town should require extensive training for employees in these positions.

Status - We noted this recommendation was implemented.

07-09 Recommendation - It was recommended that federal funds be segregated from other Town cash and be deposited in non-interest bearing accounts.

Status - We noted this recommendation was implemented.

07-10 Recommendation - It was recommended to improve the procedures for annual re-examinations of participants within the Section 8 housing program regarding utility reimbursements.

Status - We noted this recommendation was implemented.

07-11 Recommendation - It was recommended to improve the procedures regarding inspections that failed relating to residences that receive HAP payments under the Section 8 housing program.

Status - We noted this recommendation was implemented.

07-12 Recommendation - It was recommended that the Town allocate payroll expenses in accordance with time records of the actual time spent on each of the federal programs and allocate the correct amounts monthly.

Status - We noted this recommendation was implemented.

07-13 Recommendation - It was recommended that the Town prepare and submit the reimbursements in a timely manner in order to receive the money to operate the program efficiently.

Status - We noted this recommendation was implemented.