

**TOWN OF SOUTHAMPTON**  
**NEW YORK STATE**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**  
**AS OF DECEMBER 31, 2011**  
**TOGETHER WITH AUDITOR'S REPORTS**

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**NEW YORK STATE**  
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**TOWN OF SOUTHAMPTON**  
**TABLE OF CONTENTS**

	<u>PAGE</u>
Independent Auditor's Report.....	1-2
Management's Discussion And Analysis.....	3-14
Financial Statements:	
Government-Wide Financial Statements -	
Statement Of Net Position.....	15
Statement Of Activities And Change In Net Position.....	16
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	17
Reconciliation Of The Governmental Funds Balance Sheet To The Statement of Net Position.....	18
Fund Financial Statements -	
Statement Of Revenues, Expenditures And Changes In Fund Balance - Governmental Funds.....	19
Reconciliation Of The Governmental Funds Statement of Revenues, Expenditures And Changes In Fund Balance To The Statement of Activities.....	20
Fund Financial Statements -	
Statement Of Net Position - Proprietary Funds.....	21
Statement Of Revenues, Expenses And Changes In Net Position - 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.....	25-59
<b>SUPPLEMENTAL SCHEDULE</b>	
Supplemental Information:	
Schedule Of Revenues, Expenditures And Changes In Fund Balance - Budget And Actual	
General Fund 1.....	60
Police District Fund 2.....	61
Town Outside Village Fund 3.....	62
Highway Fund 4.....	63
Schedule Of Cash Receipts And Disbursements - Justice Court 5.....	64
Schedule Of Employer Contributions - Service Award Program 6.....	65
Schedule Of Funding Progress - Service Award Program 7.....	66
Schedule Of Funding Progress For Retiree Health Plan 8.....	67
Single Audit:	
Schedule Of Expenditures Of Federal Awards 9.....	68
Notes To Schedule Of Expenditures Of Federal Awards.....	69
Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	70-71
Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133.....	72-73
Schedule Of Findings And Questioned Costs.....	74

Summary Schedule Of Prior Audit Findings .....		75
Other Supplemental Information:		
Non-Major Governmental Funds -		
Combining Balance Sheet	10 .....	76
Combining Statement of Revenues, Expenditures And Changes In Fund Balance (Deficit)	11 .....	77

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Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S 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 units, 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, 2011, 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.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Southampton, as of December 31, 2011, 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 April 24, 2012, 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 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

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Southampton's financial statements as a whole. 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 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 financial statements. The supplemental information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Melville, New York  
April 24, 2012



**TOWN OF SOUTHAMPTON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

The following is a discussion and analysis of the Town of Southampton's (the "Town") financial performance for the year ended December 31, 2011. 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 AND BUDGETARY HIGHLIGHTS**

- The Town experienced a 2011 Total Governmental Operating Funds surplus of \$2.7 million, compared to the Total Governmental Operating Funds surplus of \$5.4 million in 2010 (excluding legal settlement proceeds of \$1.4 million). Total Fund Balance for the Operating Funds at the end of 2011 was \$27.7 million, a decrease of 0.2% over the prior year restated fund balance. Total Unassigned Operating Fund Balance at the end of 2011 was \$5.1 million, or 18.3% of Total Operating Fund Balance. The General Fund represents \$4.6 million, or 91.3%, of the total Unassigned Operating Fund Balance.
- All Major Operating Funds and Special Revenue Funds had a positive Fund Balance at the end of 2011. Two Special District Funds contained a Fund Balance Deficit (total deficit is \$81,441 compared to an overall surplus of \$3.1 million in Special Districts).
- The Community Preservation Fund had a positive change in fund balance of \$4.4 million, leading to total fund balance at the end of 2011 of \$53.1 million. The Town's Capital Fund had a surplus of \$5.4 million after the issuance of long-term serial bonds in the amount of \$13.9 million, which greatly impacted the year-end surplus and left a 2011 fund balance of approximately \$5.8 million.
- Total 2011 Debt Service for the Town's Operating Funds was \$8.7 million, or 9.8% of Total Operating Revenues. The Community Preservation Fund Debt Service was \$6.1 million in 2011, and it ended the year with a Debt Service Reserve of \$9.8 million.
- Total 2011 Revenues for the Town's Operating Funds was \$89.3 million, of which \$61.7 million or 69.0% was from Property Taxes. Comparatively, in 2010, Total Operating Revenues were \$91.9 million, of which 67.8% were from Property Taxes. Year over year, Total Operating Revenues decreased 2.7%. In 2011, Federal and State Aid comprised 50.7% of total Non-Property Tax Operating Revenues.
- Total 2011 Expenditures for the Town's Operating Funds were \$86.7 million, an increase of \$1.9 million over the year 2010. Excluding Debt Service and Special Grant Funds (Housing and Urban Development "HUD" and Community Development Block Grant "CDBG"), Total Town Expenditures were \$112.8 million, of which \$57.6 million, or 51.1%, were employee related Compensation and Benefits. Total Employee Benefit Costs increased 16.9% between 2011 and 2010.
- The General Fund's total fund balance, as reflected in the fund financial statements, is \$12,949,132, which is a decrease of \$1,056,551 or 7.5% as compared to the prior year (see pages 17 and 19). This was related to net interfund transfer expense of \$2,161,578 and a net operating gain of \$999,178.
- The General Fund's total revenues, including net financing sources, were unfavorable to the 2011 Adopted Budget by \$2,495,730, or 7.1%. Total expenditures were favorable to the 2011 Adopted Budget by \$1,439,179, or 4.1%, due to lower than anticipated expenditures related to General Governmental Support (see page 60).

- The Police District Fund's fund balance, as reflected in the financial statements, was \$1,242,437, which is an improvement of \$1,007,606, or 429.1%, over the prior year's fund balance. The improvement reflects the achievement of the planned deficit reduction in the 2011 Operating Budget, as well as favorable operating revenues to the 2011 Adopted Budget of \$691,737, due to higher than anticipated departmental income and miscellaneous sources. Operating expenditures were favorable to the 2011 Adopted Budget by \$303,523, or 1.4%, due to lower than anticipated expenditures related to public safety and employee benefits (see page 61).
- The Town Outside Village Fund's total fund balance, as reflected in the financial statements, was \$538,903, which is a decline of \$679,635, or 55.8% over the prior year's fund balance. The Town appropriated \$1,079,963 of fund balance to balance the current year's budget, however, by only using \$679,635 of fund balance, the Town Outside Village Fund actually had a positive budget variance of \$400,328 (see page 62).
- The Highway Fund's total fund balance, as reflected in the financial statements, was \$1,810,109, which is an improvement of \$327,358 over the prior year's fund balance. Real property taxes increased over 2010 by \$559,353, and due to vacancies in the highway department, employee compensation and benefits were under the adopted budget by \$110,340. These were offset by the forgiveness of a preexisting interfund loan of \$407,179 (see page 63).
- The Town's total net position, as reflected in the *Government-wide* (the "Town-wide") financial statements, increased by \$3,219,601 or 0.5% (down from 2010's increase of \$13,583,829 or 2.2%). This increase is primarily due to increases in Community Preservation and state aid revenues offset by decreased real property taxes and local revenue sources being collected in addition to increases in employee benefit categories. The total net position will continue to decline each year due to the annual recognition of post-employment benefits in accordance with GASB Statement 45.
- The Town's expenses for the year, as reflected in the *Government-wide* (the "Town-wide") financial statements, totaled \$133,612,603. Of this amount, \$60,215,882 (which includes \$39,647,490 of Community Preservation revenues) was offset by program charges for services and operating and capital grants. General revenues of \$76,616,322 amounted to 56.0% of total revenues (see page 16).
- The notes related to prior period adjustments resulting in *restated* fund balances can be found on page 59.

### **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 supplemental information. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *Government-wide financial statements* (the "Town-wide") 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 *Government-wide* (the "Town-wide") financial statements.
  - The *governmental fund financial statements* tell how basic services were financed in the *short-term* as well as what remains for future spending (see pages 17 - 20).
  - *Proprietary fund financial statements* provide both short-term and long-term information on the Town's business-type activities with the primary revenue sources being charges for services (see pages 21 - 23).
  - *Fiduciary fund financial 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 supplemental information that further explains and supports the financial statements with a comparison of certain actual results (General Fund, Police District Fund, Town Outside Village Fund and Highway Fund) 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 current year's activities?" The Statement of Net Position 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 position and changes in them. You can think of the Town's net position – the difference between assets, deferred outflows, liabilities and deferred inflows – as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other 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 Position and the Statement of Activities, we divide the Town into three categories:

- *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, golf course and beach facilities are reported here.
- *Component Unit* - The component unit is a legally separate organization for which the Town is 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 financial statements. Complete financial statements of the component unit 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 financial 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 Position 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 Position 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 financial 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 position

The Town's total assets (including deferred outflows) on December 31, 2011 were \$852.8 million, an increase of \$19.3 million over the prior year. Total liabilities (including deferred inflows) were \$217.5 million, an increase of approximately \$16.1 million from the prior year. The result is a net position of \$635.3 million, an increase of \$3.2 million over the prior year. Of the Town's net position, \$617.6 million were invested in capital assets, net of related debt. Restricted net position was \$70.0 million and unrestricted net position was a deficit of \$(52.3) million on December 31, 2011.

- Positive working capital of \$73.2 million was due to a decrease in bond anticipation notes payable of \$7.1 million, decrease in accounts payable of \$2.2 million and a decrease in the amount due to the employees' retirement system of \$3.1 million.
- Investment in capital assets of \$617.6 million (compared to \$595.9 million in 2010) increased primarily due to ongoing bond principal payments, reduction of bond principal payable as a result of bond refunding and ongoing capital projects purchases offset by depreciation charges.
- The Town's bonded indebtedness was \$138.3 million which is included in liabilities of which \$60.7 million is related to purchases of land by the Community Preservation Fund. The Town also had outstanding installment purchase debt of \$13.8 which related to purchases of land by the Community Preservation Fund.

#### Change in Net Position

The Town's program revenues for the year ended December 31, 2011 were \$60.2 million, an increase of \$5.5 million from 2010, which is primarily related to an increase in CPF revenue collected. General revenues decreased by \$1.1 million from last year to \$76.6 million primarily related to decreases in collection of revenues from local sources. Total combined revenues for 2011 were \$136.8 million, an increase of \$4.4 million from 2010. Expenses for the year ended December 31, 2011 were \$133.6 million reflecting an increase of \$14.8 million which is primarily related to increases in the Community Preservation Fund's land purchases. This resulted in a change in net assets for the year ended December 31, 2011 in the amount of \$3.2 million.

The Town's combined net position increased from a year ago from \$632.1 million to \$635.3 million. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Town's governmental and business-type activities.

Reference is made to Note 18 of the financial statements with respect to certain restatements made to prior year balances.

**Table 1:**

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

	Governmental Activities		Business-type Activities		Totals	
	2011	2010 (As Restated)	2011	2010 (As Restated)	2011	2010 (As Restated)
<b>Assets:</b>						
Current and other assets	\$ 95,075,999	\$ 94,244,427	\$ 1,629,238	\$ 794,795	\$ 96,705,237	\$ 95,039,222
Capital assets	733,146,478	715,149,856	22,744,195	23,039,199	755,890,673	738,189,055
Total assets	828,222,477	809,394,283	24,373,433	23,833,994	852,595,910	833,228,277
Deferred outflows	216,424	233,433	-	-	216,424	233,433
Total assets and deferred outflows	<u>\$828,438,901</u>	<u>\$809,627,716</u>	<u>\$ 24,373,433</u>	<u>\$ 23,833,994</u>	<u>\$852,812,334</u>	<u>\$833,461,710</u>
<b>Liabilities:</b>						
Current liabilities	\$ 22,390,540	\$ 27,815,955	\$ 1,102,162	\$ 4,751,885	\$ 23,492,702	\$ 32,567,840
Long-term liabilities	185,227,168	159,802,777	7,695,165	8,093,059	192,922,333	167,895,836
Total liabilities	207,617,708	187,618,732	8,797,327	12,844,944	216,415,035	200,463,676
Deferred inflows	1,097,594	917,708	7,227	7,449	1,104,821	925,157
Total liabilities and deferred inflows	<u>\$208,715,302</u>	<u>\$188,536,440</u>	<u>\$ 8,804,554</u>	<u>\$ 12,852,393</u>	<u>\$217,519,856</u>	<u>\$201,388,833</u>
<b>Net position:</b>						
Net investment in capital assets	\$603,043,978	\$581,511,256	\$ 14,506,695	\$ 14,385,599	\$617,550,673	\$595,896,855
Restricted	74,783,204	55,806,221	-	-	74,783,204	55,806,221
Unrestricted	(58,103,583)	(16,226,201)	1,062,184	(3,403,998)	(57,041,399)	(19,630,199)
Total net position	<u>\$619,723,599</u>	<u>\$621,091,276</u>	<u>\$ 15,568,879</u>	<u>\$ 10,981,601</u>	<u>\$635,292,478</u>	<u>\$632,072,877</u>

**Table 2:**

Condensed Statement of Activities and Change in Net Position  
 Governmental and Business-type Activities - Primary Government  
 For the years ended December 31,

	Governmental Activities		Business-type Activities		Totals	
	2011	2010 (As Restated)	2011	2010 (As Restated)	2011	2010 (As Restated)
<b>Program revenues:</b>						
Charges for services	\$ 8,470,395	\$ 7,906,365	\$ 4,452,240	\$ 4,390,685	\$ 12,922,635	\$ 12,297,050
Operating grants and contributions	46,193,967	42,090,351	53,642	54,563	46,247,609	42,144,914
Capital grants and contributions	1,045,638	235,547	-	-	1,045,638	235,547
Total program revenues	55,710,000	50,232,263	4,505,882	4,445,248	60,215,882	54,677,511
<b>General revenues:</b>						
Real property taxes	61,685,290	62,263,733	1,333,287	492,017	63,018,577	62,755,750
Other real property tax items	569,203	536,037	-	-	569,203	536,037
Non-property tax items	1,424,315	1,350,747	-	-	1,424,315	1,350,747
Interest earnings	687,758	720,489	2,256	3,200	690,014	723,689
State aid - unrestricted	8,193,369	8,053,994	-	-	8,193,369	8,053,994
Other	2,720,844	4,295,472	-	-	2,720,844	4,295,472
Total general revenues	75,280,779	77,220,472	1,335,543	495,217	76,616,322	77,715,689
Total revenues	<u>130,990,779</u>	<u>127,452,735</u>	<u>5,841,425</u>	<u>4,940,465</u>	<u>136,832,204</u>	<u>132,393,200</u>
<b>Program expenses:</b>						
General governmental support	26,940,594	25,074,740	-	-	26,940,594	25,074,740
Public safety	39,135,250	31,543,786	-	-	39,135,250	31,543,786
Health	2,606,820	2,471,220	-	-	2,606,820	2,471,220
Transportation	25,946,066	23,815,305	-	-	25,946,066	23,815,305
Economic assistance and opportunity	4,493,983	3,126,172	-	-	4,493,983	3,126,172
Culture and recreation	8,779,126	7,438,142	-	-	8,779,126	7,438,142
Home and community services	16,478,801	15,196,972	-	-	16,478,801	15,196,972
Interest on debt	4,331,456	5,265,610	308,632	280,637	4,640,088	5,546,247
Beaches and marinas	-	-	1,628,477	1,591,250	1,628,477	1,591,250
Waste management	-	-	2,334,084	2,354,890	2,334,084	2,354,890
Golf course	-	-	629,314	650,647	629,314	650,647
Total expenses	128,712,096	113,931,947	4,900,507	4,877,424	133,612,603	118,809,371
Excess before interfund transfers	2,278,683	13,520,788	940,918	63,041	3,219,601	13,583,829
Interfund transfers	(3,646,360)	(427,733)	3,646,360	427,733	-	-
Change in net position	<u>\$ (1,367,677)</u>	<u>\$ 13,093,055</u>	<u>\$ 4,587,278</u>	<u>\$ 490,774</u>	<u>\$ 3,219,601</u>	<u>\$ 13,583,829</u>

Governmental Activities

Revenues for the Town's governmental activities increased by 2.8% (\$3.5 million) while total expenses increased by 13.0% (\$14.8 million). The majority of the increase in revenue is due to an increase in operating grants and an increase in real property taxes.

The cost of all governmental activities this year was \$128.7 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 \$61.7 million, because some of the cost was paid by those who directly benefited from the programs (\$8.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$47.2 million).

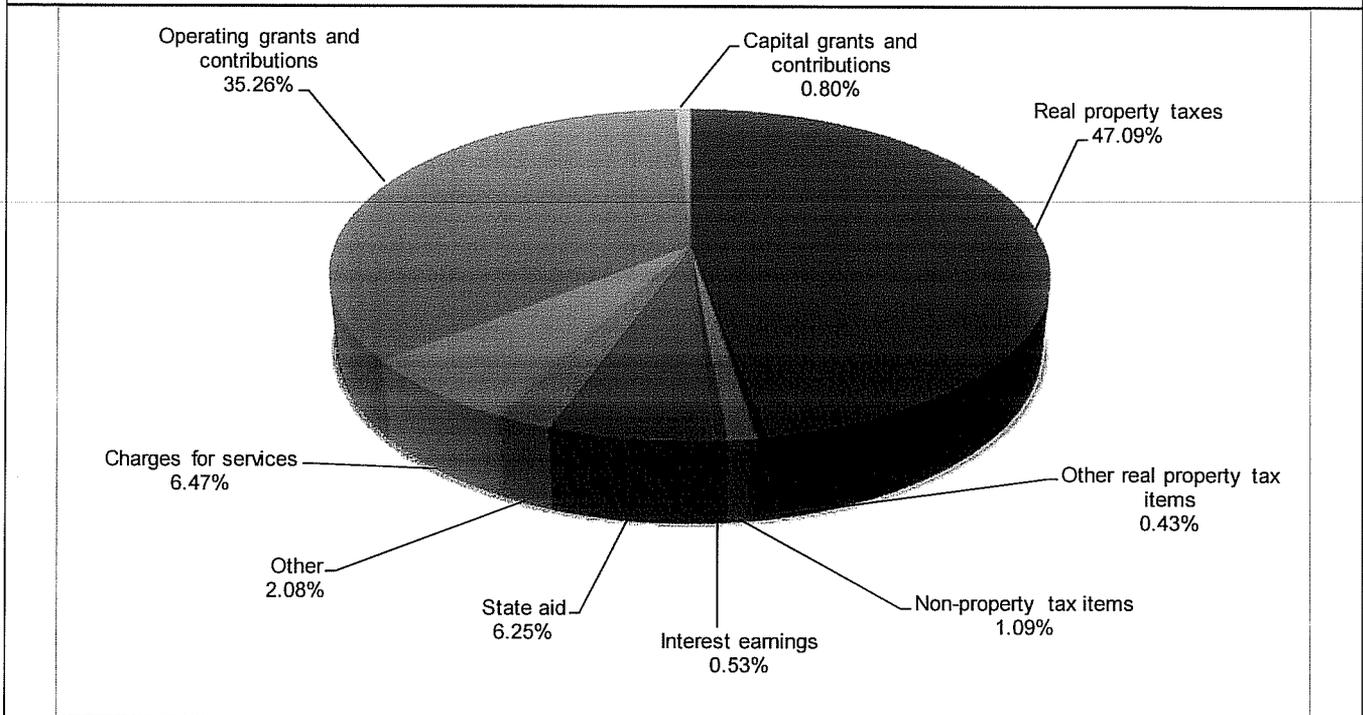
Table 3 presents the cost of the Town's governmental activities as well as the net cost of services (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions (see page 16).

**Table 3:**  
Net Costs of Services  
Governmental Activities  
For the years ended December 31,

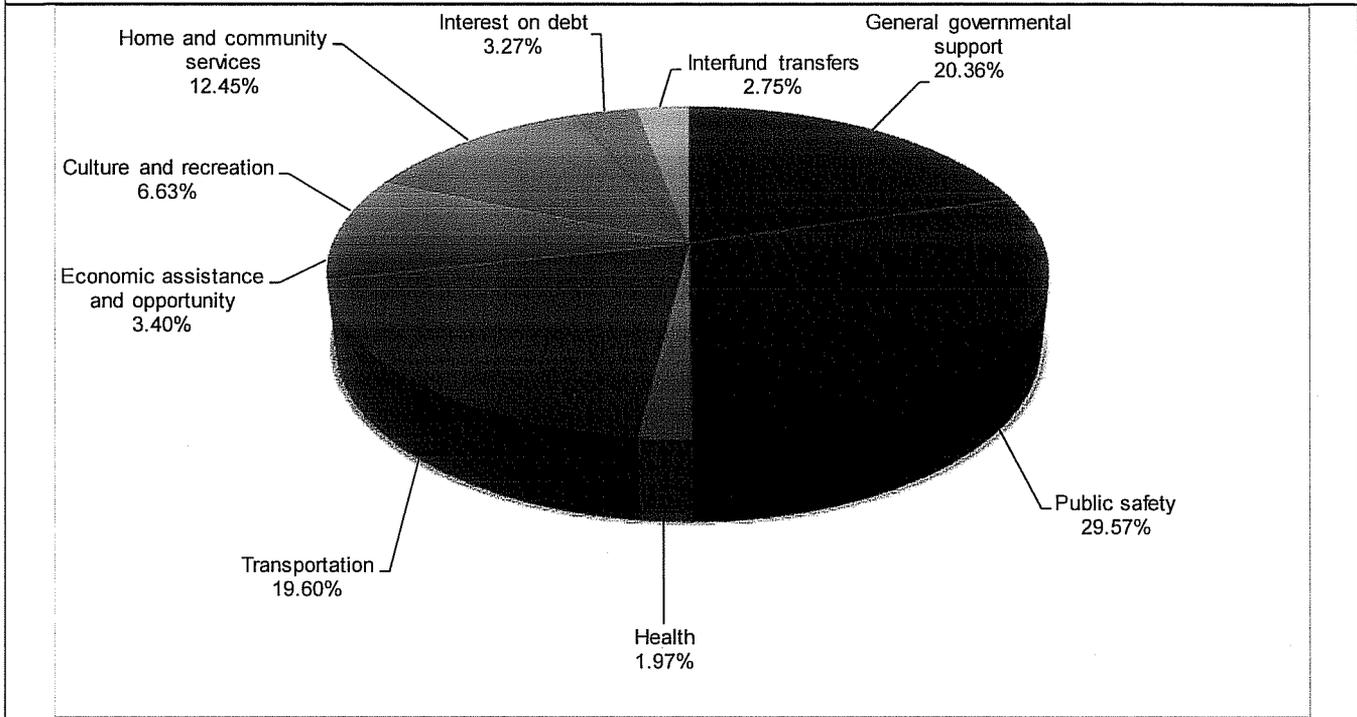
	Total Cost of Services		Program Revenues		Net (Cost) of Services	
	2011	2010 (As restated)	2011	2010 (As restated)	2011	2010 (As restated)
General governmental support	\$ 26,940,594	\$ 25,074,740	\$ 41,060,824	\$ 35,900,998	\$ 14,120,230	\$ 10,826,258
Public safety	39,135,250	31,543,786	656,434	338,106	(38,478,816)	(31,205,680)
Health	2,606,820	2,471,220	-	-	(2,606,820)	(2,471,220)
Transportation	25,946,066	23,815,305	2,895,825	1,858,308	(23,050,241)	(21,956,997)
Economic assistance and opportunity	4,493,983	3,126,172	414,229	1,053,827	(4,079,754)	(2,072,345)
Culture and recreation	8,779,126	7,438,142	794,286	927,422	(7,984,840)	(6,510,720)
Home and community services	16,478,801	15,196,972	9,888,402	10,153,602	(6,590,399)	(5,043,370)
Interest on debt	4,331,456	5,265,610	-	-	(4,331,456)	(5,265,610)
	<u>\$128,712,096</u>	<u>\$113,931,947</u>	<u>\$ 55,710,000</u>	<u>\$ 50,232,263</u>	<u>\$ (73,002,096)</u>	<u>\$ (63,699,684)</u>

The overall net cost of services increased over 2010 by \$9.3 million. The majority of the increase in cost of services was due to costs related to public safety increase.

**Table 4: Sources of Revenues for Fiscal Year 2011 – Governmental Activities**



**Table 5: Expenses for Fiscal Year 2011 – Governmental Activities**

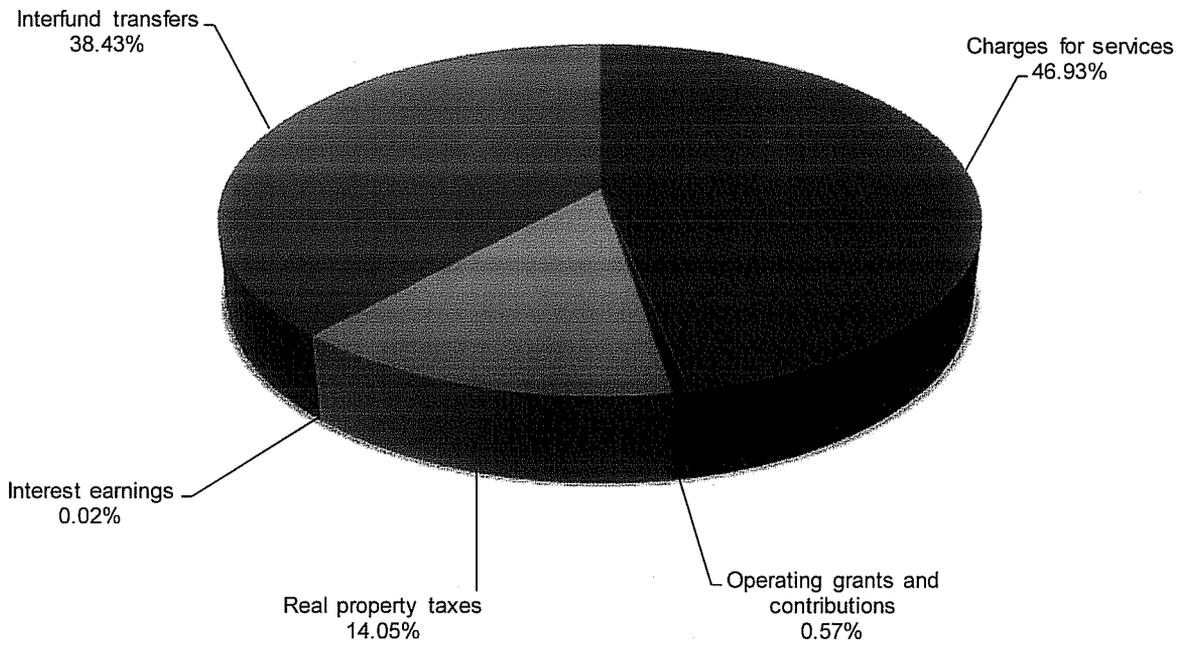


### Business-Type Activities

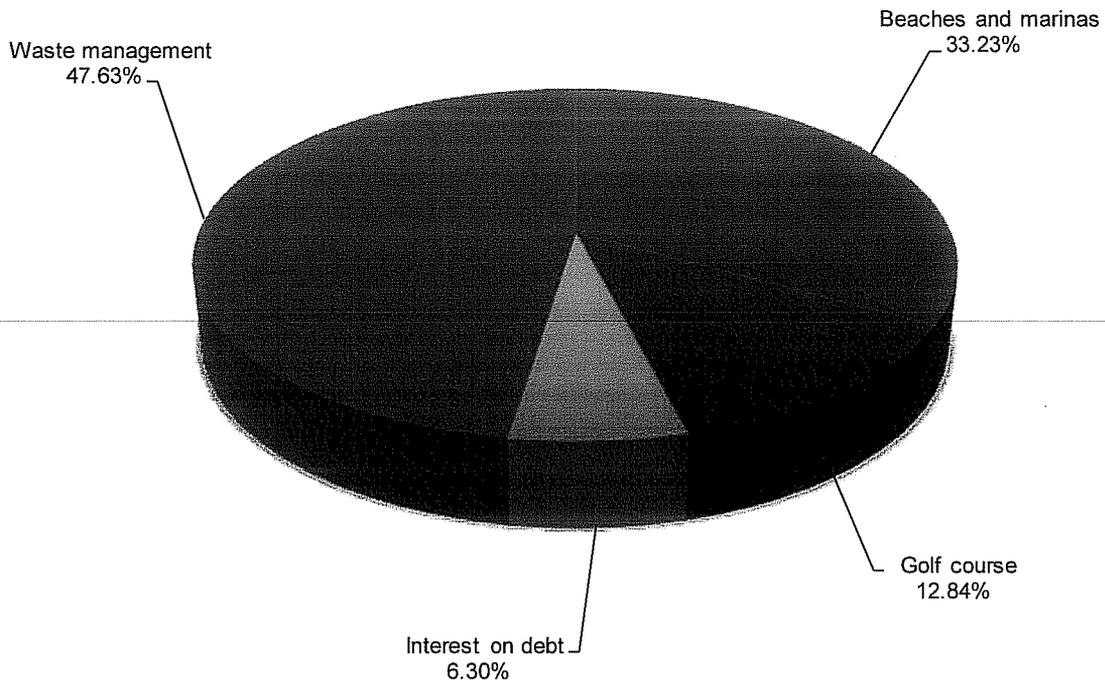
The Town's total operating revenues from business-type activities increased by 18.2 percent (\$0.9 million) over 2010 (as restated). Some significant year-end financial data relating to these entities are highlighted as follows:

- Operating revenue in the Beaches and Marinas Fund totaled \$2.0 million in 2011. Operating revenue increased by approximately \$0.2 million, and can be primarily attributable to increased beach parking fees and planned increases in real property taxes to cover the debt services on improvements within the fund. The fund had an increase in net position of approximately \$1.2 million, due to the receipt of interfund transfers from the General Fund of approximately \$1.0 million. The transfers were made to supplement the Beaches and Marinas Fund's operating revenues for the cost of the fund's indebtedness associated with maintaining its capital assets.
- Operating revenue in the Waste Management Fund totaled \$3.2 million in 2011. Operating revenue increased by approximately \$0.7 million, and can be primarily attributable to planned increases in real property taxes in order to eliminate the fund's opening fund deficit of \$1.3 million. The fund had an increase in net position of approximately \$3.4 million, thereby, eliminating the fund deficit and creating a positive net position of approximately \$2.1 million. The fund also had interfund transfers of approximately \$2.7 million that were made to supplement the Waste Management Fund's operating revenues for the cost of the fund's indebtedness associated with maintaining its capital assets (\$2.2 million) and the Highway Fund forgave an interfund receivable from the Waste Management Fund (\$0.4 million).
- The Golf Course experienced an increase in operating revenues and a decrease in operating expenses, however, the fund still yielded a net loss of approximately \$10,000. In the previous year, the fund received an interfund transfer of \$159,060 to cover its operating loss of \$103,042, however, there was no such interfund transfer for the current year. Better management of expenses eliminated the need for the fund to receive an interfund transfer to cover operating losses.

**Table 6: Sources of Revenues for Fiscal Year 2011 – Business-Type Activities**



**Table 7: Expenses for Fiscal Year 2011 – Business-Type Activities**



## FINANCIAL ANALYSIS OF CERTAIN TOWN GOVERNMENTAL FUNDS

### Governmental Funds

General Fund assets decreased by 14.8%, primarily related to a decrease in State and federal aid receivables. Liabilities decreased by 56.6%, primarily related to a decrease of \$1.0 million in the amount due to ERS and \$0.4 million in accrued liabilities. Fund balance decreased by \$1.1 million, or 7.5%, after a net \$2.1 million transfer of money to other funds.

The General Fund has an unassigned fund balance of \$4.6 million, which represents 13.7% of annual operating general fund expenditures, in addition to a tax stabilization reserve of \$5.2 million.

The Police District Fund operated with an excess of approximately \$1.0 million in 2011. Revenues and expenditures were comparable to 2010, when there also was an excess in the Police District Fund of approximately \$1.1 million.

The Capital Projects Fund had an increase in fund balance of \$5.4 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. Proceeds from the issuance of debt were \$13,862,000 in 2011.

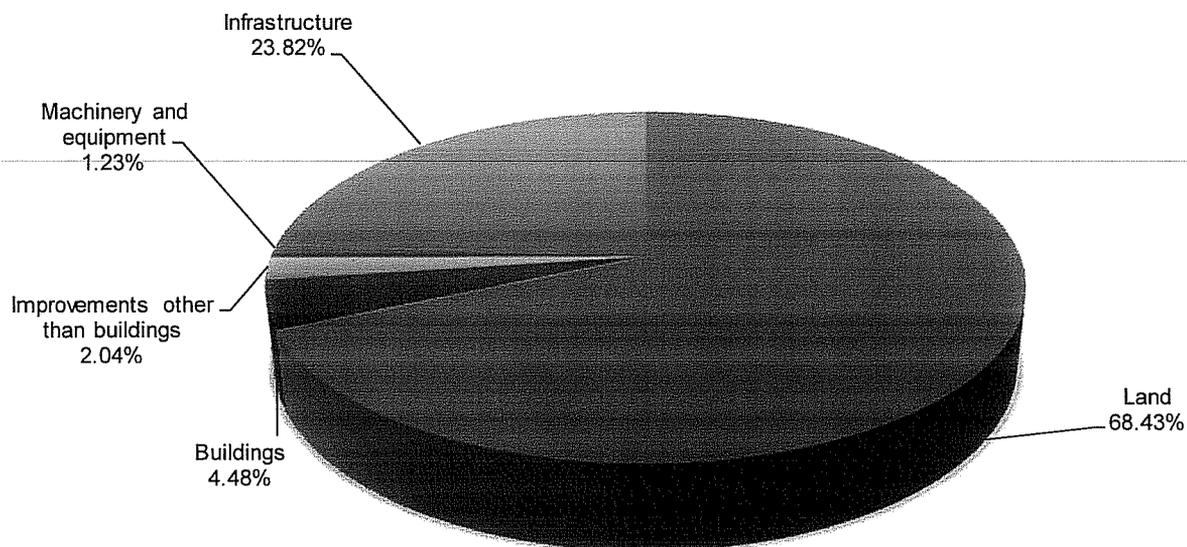
In the Community Preservation Fund, the fund balance increased approximately \$4.5 million, mostly related to the increase in transfer tax receipts. Overall, expenditures increased by \$15.5 million from 2010, mostly related to an increase in land purchases of \$17.4 million and a decrease in debt service payments of \$1.8 million.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, the Town had \$755.9 million invested in a broad range of capital assets, including beaches, land, police equipment, buildings, park facilities, roads, bridges and water infrastructure (See Table 9). Since the inception of the Community Preservation Fund in 1999, the Town of Southampton has acquired preserved land valued at approximately \$413.4 million of the Town's total \$517.2 million of land. The details of capital assets are shown in Note 7 to the financial statements.

**Table 8: Net Investment in Capital Assets for Fiscal Year 2011**



**Table 9:**  
**Capital Assets**  
 As of December 31,

<u>Governmental Activities:</u>	2011	2010 (As restated)
Land	\$ 505,894,209	\$ 480,217,567
Buildings	39,497,877	37,631,530
Improvements other than buildings	15,132,781	14,509,678
Machinery and equipment	27,250,824	25,262,931
Infrastructure -		
Bridges	1,296,471	1,216,896
Landfill	9,412,515	9,412,515
Roads, curbs and sidewalks	349,277,957	345,313,282
Lighting system	1,349,791	1,349,791
Bulkheads, piers and boardwalks	10,150,580	9,354,536
Water and sewer mains	11,407,906	10,249,217
Total capital assets	970,670,911	934,517,943
Less accumulated depreciation	237,524,433	219,368,087
Total net capital assets	<u>\$ 733,146,478</u>	<u>\$ 715,149,856</u>
 <u>Business-type Activities:</u>		
Land	\$ 11,287,063	\$ 11,287,063
Buildings	4,422,433	4,422,433
Improvements other than buildings	8,720,332	8,710,155
Machinery and equipment	2,812,424	2,394,416
Total capital assets	27,242,252	26,814,067
Less accumulated depreciation	4,498,057	3,774,868
Total net capital assets	<u>\$ 22,744,195</u>	<u>\$ 23,039,199</u>

The Town's fiscal year 2011 capital budget includes the continuation of funding for infrastructure improvements. Over half the Town's \$18.9 million capital spending plan in 2011, \$7.6 million was dedicated to the reconstruction of roads, bridges, and drainage improvement projects. The Town also continued several projects to improve the Town's buildings and parks initiated projects aimed at enhancing efficiency through technology improvements in software and hardware.

#### Debt Administration

The Town's debt management policy limits the Town's debt service funded by taxpayers to not more than 15% of operating expenditures, excluding the Community Preservation Fund. For 2011, the Town's total debt service was approximately \$14.8 million, of which \$6.1 million was paid by the Community Preservation Fund, resulting in taxpayer supported debt service of approximately \$8.7 million. Debt service in 2011, excluding CPF, was 10.1% of operating expenditures.

The Town of Southampton current outstanding bonded indebtedness was \$138.3 million at year-end 2011, of which \$60.7 million was related to the Community Preservation Fund land purchases, \$43.6 million for various General Fund capital assets, \$28.7 million related to highway improvements and \$5.3 million for the Hampton Bays Water District.

There was one serial bond issuance during 2011, an original issuance of approximately \$14.2 million. There was one installment purchase debt obligation issuance during 2011, an original issuance of approximately \$19.6 million. As of December 31, 2011, there were no short-term bond anticipation notes outstanding.

The Town has accrued a \$38.0 million obligation for other post-employment benefits in accordance with GASB Statement No. 45 on the Town-wide financial statements. Note 9 to the financial statements shows the details of the Town's long-term liabilities.

### Union Contracts

The Town provides services through approximately 16 elected officials, 470 full time employees and approximately 135 part time employees. The Town also employs approximately 300 part time seasonal employees. The Town also has 44 appointed Board members. The Civil Service Employee Association (the CSEA) represents approximately 285 employees under a contract which expires on December 31, 2013. The Police Benevolent Association (the PBA) represents approximately 73 employees under a contract which expires on December 31, 2012. The Superior Officers Association (the SOA) represents approximately 16 employees under a contract which expires on December 31, 2013. The Chief of Police is a non-union employee.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

### Budget Procedures

The Town's elected officials considered many factors when setting the fiscal-year 2011 budget, tax rates and fees to be charged for the business-type activities. The 2011 Adopted Operating Budget was primarily structurally balanced and the only funds with appropriated fund balance were the Town Outside Village Fund (\$1,079,963) and Water Districts Fund (\$150,000). In 2003, the Town Board mandated a 5% cap on any increases in the Town tax rate in any given year. Beginning in 2012, New York State mandated a 2% cap on any increases in the Town tax rate in any given year.

In the midst of one of the worst economic recessions in decades affecting our taxpayers, a more cost efficient budget was adopted for 2011, which sought to minimize the property tax increases. The Town Board appropriated approximately \$1.1 million to balance the 2011 Adopted Operating Budget. The 2012 Operating Budget was projected to meet the proposed 2% Tax Levy cap proposed by the New York State Governor, and appropriated approximately \$0.7 million to balance the 2012 Adopted Operating Budget.

See page 3 for discussion regarding significant budget variances and see pages 60 through 63 for budget versus actual comparisons.

### 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 become a lien on December 1, and are payable in two equal payments 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>
2011	\$ 313,966,597	\$ 297,658,185	\$ 16,308,412	\$ 16,347,606
2010	303,357,256	286,374,105	16,983,151	15,576,863
2009	285,515,366	269,892,478	15,622,888	13,851,451
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	236,597,356	225,544,264	11,053,092	9,471,212

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 2012 results will continue to improve based on these rate decisions:

- The Beach and Marinas Enterprise Fund performed better than 2010, with property taxes continuing to be collected and allocated to pay for debt service and higher than anticipated beach parking receipts. It is expected that property taxes will continue to be required to further subsidize the debt service payments.
- The Waste Management Enterprise Fund eliminated its net deficit of \$1.3 million at the end of 2011, and ended up with a net position of \$2.1 million. The fund was reimbursed for its historical asset costs which resulted in the eradication of the deficit. Also, the 2012 budget continued the practice of raising property taxes to pay for the debt service, and to charge other Town tax districts for services.
- As of December 31, 2011 the Poxabogue Golf Course was jointly owned with the Town of East Hampton. Revenues increased in 2011 due to the opening of a new restaurant. During 2012, the Town Board approved the Town's purchase of the portion of the Golf Course that was owned by the Town of East Hampton for approximately \$2.2 million.

#### **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 POSITION**  
**DECEMBER 31, 2011**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 8,389,709	\$ 804,654	\$ 9,194,363	\$ 127,936
Restricted cash	71,470,936	-	71,470,936	235,640
Accounts receivable, net	3,131,537	37,220	3,168,757	85,778
State and federal aid receivables	2,390,006	-	2,390,006	-
Due from fiduciary funds	3,441,325	699,883	4,141,208	-
Due from other governments	3,404,483	-	3,404,483	-
Prepaid expenses	2,848,003	67,424	2,915,427	28,052
Inventory of materials and supplies	-	20,057	20,057	-
Other assets	-	-	-	17,313
Total current assets	<u>95,075,999</u>	<u>1,629,238</u>	<u>96,705,237</u>	<u>494,719</u>
Capital assets:				
Non-depreciable capital assets	505,894,209	11,287,063	517,181,272	717,573
Depreciable capital assets, net	<u>227,252,269</u>	<u>11,457,132</u>	<u>238,709,401</u>	<u>2,434,423</u>
Total capital assets	<u>733,146,478</u>	<u>22,744,195</u>	<u>755,890,673</u>	<u>3,151,996</u>
Total assets	<u>828,222,477</u>	<u>24,373,433</u>	<u>852,595,910</u>	<u>3,646,715</u>
<b>DEFERRED OUTFLOWS</b>				
Deferred bond issue charges	216,424	-	216,424	23,077
Total deferred outflows	<u>216,424</u>	<u>-</u>	<u>216,424</u>	<u>23,077</u>
Total assets and deferred outflows	<u>\$ 828,438,901</u>	<u>\$ 24,373,433</u>	<u>\$ 852,812,334</u>	<u>\$ 3,669,792</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,840,506	\$ 86,705	\$ 1,927,211	\$ 32,675
Accrued liabilities	386,768	-	386,768	15,553
Accrued interest payable	1,425,813	76,303	1,502,116	-
Due to employees' retirement system	117,381	-	117,381	-
Due to fiduciary funds	3,590,752	54,686	3,645,438	-
Due to other governments	57,346	228,168	285,514	-
Non-current liabilities due within one year:				
General obligation bonds payable	11,035,880	656,300	11,692,180	6,500
Special assessment bonds with governmental commitment	32,820	-	32,820	-
Bond issue premium	86,509	-	86,509	-
Compensated absences	88,179	-	88,179	-
Installment purchase debt payable	3,500,000	-	3,500,000	-
Estimated liability for landfill closure and post-closure care costs	228,586	-	228,586	-
Mortgages payable	-	-	-	39,871
Total current liabilities	<u>22,390,540</u>	<u>1,102,162</u>	<u>23,492,702</u>	<u>94,599</u>
Noncurrent liabilities:				
General obligation bonds payable	118,864,589	7,581,200	126,445,789	103,500
Special assessment bonds with governmental commitment	169,211	-	169,211	-
Bond issue premium	632,049	-	632,049	-
Compensated absences	10,634,269	113,965	10,748,234	-
Installment purchase debt payable	10,072,700	-	10,072,700	-
Judgments and claims payable	1,700,000	-	1,700,000	-
Other post-employment benefits	38,001,772	-	38,001,772	-
Due to employees' retirement system	1,267,836	-	1,267,836	-
Estimated liability for landfill closure and post-closure care costs	3,884,742	-	3,884,742	-
Mortgages payable	-	-	-	2,887,821
Total noncurrent liabilities	<u>185,227,168</u>	<u>7,695,165</u>	<u>192,922,333</u>	<u>2,991,321</u>
Total liabilities	<u>207,617,708</u>	<u>8,797,327</u>	<u>216,415,035</u>	<u>3,085,920</u>
<b>DEFERRED INFLOWS</b>				
Deferred rents and other inflows	-	-	-	15,573
Deferred fees for services	-	7,227	7,227	-
Deferred property taxes	1,097,594	-	1,097,594	-
Total deferred inflows	<u>1,097,594</u>	<u>7,227</u>	<u>1,104,821</u>	<u>15,573</u>
<b>NET POSITION</b>				
Net investment in capital assets	603,043,978	14,506,695	617,550,673	227,636
Restricted	74,783,204	-	74,783,204	234,493
Unrestricted	<u>(58,103,583)</u>	<u>1,062,184</u>	<u>(57,041,399)</u>	<u>106,170</u>
Total net position	<u>619,723,599</u>	<u>15,568,879</u>	<u>635,292,478</u>	<u>568,299</u>
Total liabilities, deferred inflows and net position	<u>\$ 828,438,901</u>	<u>\$ 24,373,433</u>	<u>\$ 852,812,334</u>	<u>\$ 3,669,792</u>

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

**TOWN OF SOUTHAMPTON**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Revenues			Net Expenses and Change in Net Position			Component Unit
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Functions and programs:</b>							
<b>Primary Government -</b>							
<b>Governmental activities:</b>							
General governmental support	\$ 26,940,594	\$ 1,410,236	\$ -	\$ 14,120,230	\$ -	\$ 14,120,230	
Public safety	39,135,250	395,909	-	(38,478,816)	-	(38,478,816)	
Health	2,606,820	-	-	(2,606,820)	-	(2,606,820)	
Transportation	25,946,066	874,274	1,045,638	(23,050,241)	-	(23,050,241)	
Economic assistance and opportunity	4,493,983	-	-	(4,079,754)	-	(4,079,754)	
Culture and recreation	8,779,126	51,209	-	(7,984,840)	-	(7,984,840)	
Home and community services	16,478,801	5,738,767	-	(6,590,399)	-	(6,590,399)	
Interest on debt	4,331,456	-	-	(4,331,456)	-	(4,331,456)	
<b>Total governmental activities</b>	<b>128,712,096</b>	<b>8,470,395</b>	<b>1,045,638</b>	<b>(73,002,096)</b>	<b>-</b>	<b>(73,002,096)</b>	
<b>Business-type activities:</b>							
Beaches and marinas	1,628,477	1,702,160	-	-	79,389	79,389	
Waste management	2,334,084	2,131,435	-	-	(155,291)	(155,291)	
Golf course	629,314	618,645	-	-	(10,091)	(10,091)	
Interest on debt	308,632	-	-	-	(308,632)	(308,632)	
<b>Total business-type activities</b>	<b>4,900,507</b>	<b>4,452,240</b>	<b>-</b>	<b>-</b>	<b>(394,625)</b>	<b>(394,625)</b>	
<b>Total primary government</b>	<b>\$ 133,612,603</b>	<b>\$ 12,922,635</b>	<b>\$ 1,045,638</b>	<b>(73,002,096)</b>	<b>(394,625)</b>	<b>(73,396,721)</b>	
<b>Component Unit -</b>							
Economic assistance and opportunity	\$ 798,153	\$ 136,749	\$ -				\$ (290,351)
<b>General revenues:</b>							
Real property taxes				61,685,290	1,333,287	63,018,577	-
Other real property tax items				569,203	-	569,203	-
Non-property tax items				1,424,315	-	1,424,315	-
Interest earnings				687,758	2,256	690,014	2,134
State aid - unrestricted				8,193,369	-	8,193,369	-
Other				2,720,844	-	2,720,844	197,726
Transfers				(3,646,360)	3,646,360	-	-
<b>Total general revenues</b>				<b>71,634,419</b>	<b>4,981,903</b>	<b>76,616,322</b>	<b>199,860</b>
Change in net position				(1,367,677)	4,587,278	3,219,601	(90,491)
Total net position, beginning of year, as restated (see Note 18)				621,091,276	10,981,601	632,072,877	658,790
<b>Total net position, end of year</b>				<b>\$ 619,723,599</b>	<b>\$ 15,568,879</b>	<b>\$ 635,292,478</b>	<b>\$ 568,299</b>

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

**TOWN OF SOUTHAMPTON**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	MAJOR FUNDS							MAJOR FUNDS			
	General Fund	Police District Fund	Town Outside Village Fund	Highway Fund	Public Safety Communications	Non-Major Governmental Funds	Total Operating Funds	Capital Projects Fund	Community Preservation Fund	Total Governmental Funds	
<b>ASSETS</b>											
Cash and cash equivalents	\$ 2,555,647	\$ -	\$ 171,227	\$ 679,086	\$ 553,723	\$ 2,615,980	\$ 6,575,663	\$ 1,814,046	\$ -	\$ 8,389,709	
Restricted cash	6,529,348	338,738	372,918	824,189	164,408	7,623,097	15,852,698	5,770,340	49,847,898	71,470,936	
Accounts receivable, net	668,396	233,167	-	2,204	8,105	755,888	1,668,760	10,560	-	1,679,320	
State and federal aid receivables	119,854	1,946,035	-	255,367	-	-	2,321,256	68,750	-	2,390,006	
Due from fiduciary funds	2,765,417	-	2,700	1,350	1,469	670,389	3,441,325	-	-	3,441,325	
Due from other governments	50,016	-	-	-	-	-	50,016	13,532	3,340,935	3,404,483	
Prepaid expenses	1,318,259	859,562	156,488	383,051	64,203	61,267	2,842,830	2,902	2,271	2,848,003	
<b>Total assets</b>	<b>\$ 14,007,937</b>	<b>\$ 3,377,502</b>	<b>\$ 703,333</b>	<b>\$ 2,145,247</b>	<b>\$ 791,908</b>	<b>\$ 11,726,621</b>	<b>\$ 32,752,548</b>	<b>\$ 7,680,130</b>	<b>\$ 53,191,104</b>	<b>\$ 93,623,782</b>	
<b>LIABILITIES</b>											
Accounts payable	\$ 583,980	\$ 66,491	\$ 5,659	\$ 74,170	\$ 5,574	\$ 568,904	\$ 1,304,778	\$ 476,659	\$ 59,069	\$ 1,840,506	
Accrued liabilities	107,635	38,102	61,387	73,515	641	20,768	302,048	84,720	-	386,768	
Due to fiduciary funds	-	1,730,884	7,047	-	-	507,312	2,245,243	1,345,509	-	3,590,752	
Due to other governments	34,125	-	-	-	-	23,221	57,346	-	-	57,346	
<b>Total liabilities</b>	<b>725,740</b>	<b>1,835,477</b>	<b>74,093</b>	<b>147,685</b>	<b>6,215</b>	<b>1,120,205</b>	<b>3,909,415</b>	<b>1,906,888</b>	<b>59,069</b>	<b>5,875,372</b>	
<b>DEFERRED INFLOWS</b>											
Deferred property taxes	333,065	299,588	90,337	187,453	33,069	154,082	1,097,594	-	-	1,097,594	
<b>Total deferred inflows</b>	<b>333,065</b>	<b>299,588</b>	<b>90,337</b>	<b>187,453</b>	<b>33,069</b>	<b>154,082</b>	<b>1,097,594</b>	<b>-</b>	<b>-</b>	<b>1,097,594</b>	
<b>FUND BALANCE</b>											
Fund balance:											
Nonspendable	1,318,259	859,562	156,488	389,051	64,203	61,267	2,842,830	2,902	2,271	2,848,003	
Restricted	6,529,348	369,140	372,918	824,189	164,408	7,623,097	15,883,100	5,770,340	53,129,764	74,783,204	
Assigned	465,926	13,735	9,497	602,869	1,357	2,849,411	3,942,795	-	-	3,942,795	
Unassigned	4,635,599	-	-	-	522,656	(81,441)	5,076,814	-	-	5,076,814	
<b>Total fund balance</b>	<b>12,949,132</b>	<b>1,242,437</b>	<b>538,903</b>	<b>1,810,109</b>	<b>752,624</b>	<b>10,452,334</b>	<b>27,745,539</b>	<b>5,773,242</b>	<b>53,132,035</b>	<b>86,650,816</b>	
<b>Total liabilities, deferred inflows and fund balance</b>	<b>\$ 14,007,937</b>	<b>\$ 3,377,502</b>	<b>\$ 703,333</b>	<b>\$ 2,145,247</b>	<b>\$ 791,908</b>	<b>\$ 11,726,621</b>	<b>\$ 32,752,548</b>	<b>\$ 7,680,130</b>	<b>\$ 53,191,104</b>	<b>\$ 93,623,782</b>	

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 POSITION**  
**DECEMBER 31, 2011**

Total Fund Balance - Governmental Funds \$ 86,650,816

Amounts reported for governmental activities in the Statement of Net Position are different due to the following:

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

Capital assets:		
Non-depreciable	\$ 505,894,209	
Depreciable	464,776,702	
Accumulated depreciation	<u>(237,524,433)</u>	733,146,478

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 governmental fund financial statements. However, these liabilities are included in the Statement of Net Position:

General obligation bonds payable, inclusive of premiums	(130,619,027)	
Special assessment bonds with governmental commitment	(202,031)	
Installment purchase debt payable	(13,572,700)	
Due to Employees' Retirement System	(1,385,217)	
Compensated absences	(10,722,448)	
Judgments and claims payable	(1,700,000)	
Other post-employment benefits	(38,001,772)	
Estimated liability for landfill closure and post-closure care costs	<u>(4,113,328)</u>	(200,316,523)

Deferred charges included in the Statement of Net Position. 216,424

Revenue that was not accrued on the governmental fund financial statements because it does not meet the availability criteria under the modified accrual basis of accounting is included in the Statement of Net Position. 1,452,217

Interest payable applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the governmental fund financial statements. However, these liabilities are included in the Statement of Net Position. (1,425,813)

Net Position - Governmental Activities \$ 619,723,599

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

**TOWN OF SOUTHAMPTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	MAJOR FUNDS							MAJOR FUNDS		
	General Fund	Police District Fund	Town Outside Village Fund	Highway Fund	Public Safety Communications	Non-Major Governmental Funds	Total Operating Funds	Capital Projects Fund	Community Preservation Fund	Total Governmental Funds
<b>REVENUES</b>										
Real property taxes	\$ 22,983,270	\$ 18,814,396	\$ 907,561	\$ 10,770,010	\$ 2,162,205	\$ 6,047,848	\$ 61,685,290	\$ -	\$ -	\$ 61,685,290
Other real property tax items	201,668	145,486	9,237	82,298	14,762	115,752	569,203	-	-	569,203
Non-property tax items	1,424,315	-	-	-	-	-	1,424,315	-	39,218,452	40,642,767
Special assessments	51,209	-	-	-	-	-	51,209	-	-	51,209
Departmental income	671,802	395,909	3,073,386	-	-	2,551,849	6,692,946	-	-	6,692,946
Intergovernmental charges	119,989	-	-	754,285	-	312,844	874,274	113,532	-	987,806
Use of money and property	34,163	9,907	4,692	9,529	2,741	-	373,876	21,821	292,061	687,758
Licenses and permits	283,346	62,999	-	-	-	-	346,345	-	-	346,345
Fines and forfeitures	1,784,553	-	-	-	-	-	1,784,553	-	-	1,784,553
Sale of property and compensation for loss	31,969	2,027	-	876	-	-	34,872	-	-	34,872
Miscellaneous local sources	648,654	135,900	1,291	281,821	94,423	320,659	1,482,748	3,099	6,343	1,492,190
State aid	6,249,172	2,266,408	-	684,530	-	87,446	9,307,556	1,039,388	422,694	10,769,638
Federal aid	341,735	91,667	-	9,562	-	4,276,935	4,719,899	6,250	-	4,726,149
<b>Total revenues</b>	<b>34,825,845</b>	<b>21,944,659</b>	<b>3,996,167</b>	<b>12,592,911</b>	<b>2,274,131</b>	<b>13,713,333</b>	<b>89,347,086</b>	<b>1,164,090</b>	<b>39,999,550</b>	<b>130,470,726</b>
<b>EXPENDITURES</b>										
General governmental support	12,088,942	-	-	-	-	300,105	12,389,047	-	28,798,982	41,188,029
Public safety	2,117,152	14,104,920	86,937	-	1,435,312	783,317	18,527,638	-	-	18,527,638
Health	-	-	-	-	-	2,606,820	2,606,820	-	-	2,606,820
Transportation	-	-	-	6,648,842	-	438,430	7,087,272	-	-	7,087,272
Economic assistance and opportunity	2,692,197	-	-	-	-	555	2,692,752	-	-	2,692,752
Culture and recreation	3,594,108	-	-	-	-	646,930	4,241,038	-	-	4,241,038
Home and community services	581,913	-	3,062,910	-	-	6,745,261	10,390,064	-	-	10,390,064
Employee benefits	7,671,505	6,822,336	1,410,494	2,771,944	567,487	756,263	20,000,029	-	122,206	20,122,235
Capital outlay	-	-	-	-	-	-	-	9,695,990	-	9,695,990
Debt service -										
Principal	4,036,956	18,700	-	1,957,389	-	676,780	6,669,825	-	3,860,000	10,549,825
Interest	1,043,894	3,483	2,388	725,014	-	271,661	2,046,440	-	2,228,038	4,274,478
<b>Total expenditures</b>	<b>33,826,667</b>	<b>20,949,439</b>	<b>4,562,729</b>	<b>12,103,189</b>	<b>2,002,799</b>	<b>13,226,122</b>	<b>86,670,945</b>	<b>9,695,990</b>	<b>35,009,226</b>	<b>131,376,161</b>
Excess (deficiency) of revenues over (under) expenditures	999,178	995,260	(566,562)	489,722	271,332	487,211	2,676,141	(8,511,900)	4,930,324	(905,435)
<b>OTHER FINANCING SOURCES (USES)</b>										
Bond anticipation notes redeemed from appropriations	-	-	-	-	-	-	-	143,925	-	143,925
Proceeds from issuance of debt	-	-	-	-	-	-	-	13,862,000	-	13,862,000
Premium on debt issuance	105,849	12,346	9,497	243,552	1,357	3,527	376,128	-	-	376,128
Interfund transfers in	1,105,804	-	7,393	8,263	4,670	97,773	1,223,903	930,059	266,858	2,422,820
Interfund transfers out	(3,267,382)	-	(129,963)	(414,179)	-	(515,272)	(4,326,796)	(965,525)	(756,859)	(6,065,180)
<b>Total other financing sources (uses)</b>	<b>(2,055,729)</b>	<b>12,346</b>	<b>(113,073)</b>	<b>(162,364)</b>	<b>6,027</b>	<b>(413,972)</b>	<b>(2,726,765)</b>	<b>13,950,459</b>	<b>(488,001)</b>	<b>10,735,693</b>
Changes in fund balance	(1,056,551)	1,007,606	(679,635)	327,358	277,359	73,239	(50,624)	5,438,559	4,442,323	9,830,258
Fund balance, beginning of year, as restated (see Note 18)	14,005,683	234,631	1,218,538	1,482,751	475,265	10,379,095	27,796,163	334,683	48,689,712	76,820,558
<b>Fund balance, end of year</b>	<b>\$ 12,949,132</b>	<b>\$ 1,242,437</b>	<b>\$ 538,903</b>	<b>\$ 1,810,109</b>	<b>\$ 752,624</b>	<b>\$ 10,452,334</b>	<b>\$ 27,745,539</b>	<b>\$ 5,773,242</b>	<b>\$ 53,132,035</b>	<b>\$ 86,650,816</b>

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 BALANCE TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balance - governmental funds		\$ 9,830,258
<p>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:</p>		
Capital outlay	\$ 36,152,968	
Depreciation expense	<u>(18,156,346)</u>	17,996,622
<p>Other assets not available to pay for current period expenditures and, therefore, are deferred in the Statement of Net Position.</p>		
		210,359
<p>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 position.</p>		
Issuance of bonds	(13,862,000)	
Premiums on issuance of bond	86,509	
Repayment of bond principal	10,361,293	
Repayment of special assessment bonds	44,607	
Issuance of installment purchase debt	(19,572,700)	
Repayment of installment purchase debt	<u>6,000,000</u>	(16,942,291)
<p>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:</p>		
Other post-employment benefits	(10,259,707)	
Employees' retirement system	(1,220,565)	
Compensated absences	(736,537)	
Judgments and claims payable	108,500	
Estimated liability for landfill closure and post-closure care costs	(297,338)	
Accrued interest costs	<u>(56,978)</u>	<u>(12,462,625)</u>
Net change in net position - governmental activities		<u>\$ (1,367,677)</u>

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

**TOWN OF SOUTHAMPTON**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2011**

	MAJOR BUSINESS-TYPE ACTIVITIES		NON-MAJOR BUSINESS-TYPE ACTIVITIES	Total Proprietary Funds
	Beaches and Marinas	Waste Management	Golf Course	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 91,986	\$ 253,857	\$ 458,811	\$ 804,654
Accounts receivable, net	-	35,993	1,227	37,220
Due from fiduciary funds	76,196	623,687	-	699,883
Prepaid expenses	20,151	47,273	-	67,424
Inventory of materials and supplies	-	20,057	-	20,057
<b>Total current assets</b>	<b>188,333</b>	<b>980,867</b>	<b>460,038</b>	<b>1,629,238</b>
Non-current assets:				
Non-depreciable capital assets	8,024,789	169,100	3,093,174	11,287,063
Depreciable capital assets, net of depreciation	5,572,428	5,460,534	424,170	11,457,132
<b>Total non-current assets</b>	<b>13,597,217</b>	<b>5,629,634</b>	<b>3,517,344</b>	<b>22,744,195</b>
<b>Total assets</b>	<b>\$ 13,785,550</b>	<b>\$ 6,610,501</b>	<b>\$ 3,977,382</b>	<b>\$ 24,373,433</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 22,235	\$ 60,768	\$ 3,702	\$ 86,705
Accrued interest payable	33,498	42,805	-	76,303
Bond anticipation notes payable	-	-	-	-
Due to employees' retirement system	-	-	-	-
Due to fiduciary funds	54,686	-	-	54,686
Due to other governments	-	-	228,168	228,168
Non-current liabilities due within one year - General obligation bonds payable	393,600	262,700	-	656,300
<b>Total current liabilities</b>	<b>504,019</b>	<b>366,273</b>	<b>231,870</b>	<b>1,102,162</b>
Non-current liabilities:				
General obligation bonds payable	3,480,000	4,101,200	-	7,581,200
Compensated absences	27,229	86,736	-	113,965
<b>Total non-current liabilities</b>	<b>3,507,229</b>	<b>4,187,936</b>	<b>-</b>	<b>7,695,165</b>
<b>Total liabilities</b>	<b>4,011,248</b>	<b>4,554,209</b>	<b>231,870</b>	<b>8,797,327</b>
<b>Deferred Inflows</b>				
Deferred fees for services	2,802	4,425	-	7,227
<b>Total deferred inflows</b>	<b>2,802</b>	<b>4,425</b>	<b>-</b>	<b>7,227</b>
<b>Net Position</b>				
Net investment in capital assets	9,723,617	1,265,734	3,517,344	14,506,695
Unrestricted	47,883	786,133	228,168	1,062,184
<b>Total net position</b>	<b>9,771,500</b>	<b>2,051,867</b>	<b>3,745,512</b>	<b>15,568,879</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 13,785,550</b>	<b>\$ 6,610,501</b>	<b>\$ 3,977,382</b>	<b>\$ 24,373,433</b>

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

**TOWN OF SOUTHAMPTON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	MAJOR BUSINESS-TYPE ACTIVITIES		NON-MAJOR BUSINESS-TYPE ACTIVITIES	Total Proprietary Funds
	Beaches and Marinas	Waste Management	Golf Course	
<b>Operating revenues:</b>				
Real property taxes	\$ 333,066	\$ 1,000,221	\$ -	\$ 1,333,287
Charges for services	1,702,160	2,131,435	618,645	4,452,240
Other	5,706	47,358	578	53,642
Total operating revenues	2,040,932	3,179,014	619,223	5,839,169
<b>Operating expenses:</b>				
Beaches and marinas	1,149,974	-	-	1,149,974
Waste management	-	1,475,008	-	1,475,008
Golf course	-	-	611,341	611,341
Depreciation	286,975	418,241	17,973	723,189
Employee benefits	191,528	440,835	-	632,363
Total operating expenses	1,628,477	2,334,084	629,314	4,591,875
Operating income (loss)	412,455	844,930	(10,091)	1,247,294
<b>Non-operating revenues (expenses):</b>				
Interfund transfers in	1,004,949	2,651,411	-	3,656,360
Interfund transfers out	(10,000)	-	-	(10,000)
Interest income	1,390	584	282	2,256
Interest on debt	(164,020)	(144,612)	-	(308,632)
Total non-operating revenues (expenses)	832,319	2,507,383	282	3,339,984
Change in net position	1,244,774	3,352,313	(9,809)	4,587,278
Total net position, beginning of year, as restated (see Note 18)	8,526,726	(1,300,446)	3,755,321	10,981,601
Total net position, end of year	\$ 9,771,500	\$ 2,051,867	\$ 3,745,512	\$ 15,568,879

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

**TOWN OF SOUTHAMPTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	MAJOR BUSINESS-TYPE ACTIVITIES		NON-MAJOR BUSINESS-TYPE ACTIVITIES	Total Proprietary Funds
	Beaches and Marinas	Waste Management		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Revenue collected:				
Real property taxes	\$ 333,066	\$ 1,000,221	\$ -	\$ 1,333,287
Cash receipts from customers	1,701,331	2,120,270	617,418	4,439,019
Other operating cash receipts	5,706	47,358	578	53,642
Payments for expenses:				
Cash payments to other suppliers of goods or services	(1,167,593)	(1,509,574)	(633,956)	(3,311,123)
Cash payments to employees for services and related expenses	(228,438)	(535,203)	-	(763,641)
Other operating cash payments	(1,201,113)	(2,935,295)	(49,338)	(4,185,746)
Net cash used by operating activities	(557,041)	(1,812,223)	(65,298)	(2,434,562)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Purchase of capital assets	(10,177)	(418,008)	-	(428,185)
Proceeds from issuance of bond	73,000	225,000	-	298,000
Principal paid on bond anticipation note	(80,000)	-	-	(80,000)
Principal paid on capital debt	(379,700)	(254,400)	-	(634,100)
Interest paid on capital debt	(161,430)	(138,507)	-	(299,937)
Interfund transfer	994,949	2,651,411	-	3,646,360
Net cash provided by financing activities	436,642	2,065,496	-	2,502,138
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest and earnings received	1,390	584	282	2,256
Net cash provided by investing activities	1,390	584	282	2,256
Net increase (decrease) in cash and cash equivalents	(119,009)	253,857	(65,016)	69,832
Cash and cash equivalents, beginning of year	210,995	-	523,827	734,822
Cash and cash equivalents, end of year	\$ 91,986	\$ 253,857	\$ 458,811	\$ 804,654
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 412,455	\$ 844,930	\$ (10,091)	\$ 1,247,294
Adjustments to reconcile operating income (loss) to net cash used by operating activities:				
Depreciation expense	286,975	418,241	17,973	723,189
Accounts receivable	-	(11,772)	(1,227)	(12,999)
Due from fiduciary funds	(76,196)	(623,687)	-	(699,883)
Prepaid expenses	(18,763)	(32,966)	-	(51,729)
Accounts payable and accrued liabilities	1,144	(1,600)	(22,615)	(23,071)
Due to employees' retirement system	(36,057)	(55,617)	-	(91,684)
Due to fiduciary funds	(1,124,917)	(2,311,608)	-	(3,436,525)
Due to other governments	-	-	(49,338)	(49,338)
Deferred revenues	(829)	607	-	(222)
Compensated absences	(843)	(38,751)	-	(39,594)
Net cash used by operating activities	(557,041)	(1,812,223)	(65,298)	(2,434,562)

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, 2011**

<b>ASSETS</b>	<b>Agency Funds</b>
Cash	\$ 67,364,377
Accounts receivable, net	74,707
Due from proprietary funds	54,686
Due from governmental funds	3,590,752
Service award program assets	1,368,806
Total assets	\$ 72,453,328
<b>LIABILITIES</b>	
Due to proprietary funds	\$ 699,883
Due to governmental funds	3,441,325
Due to school districts	32,597,997
Due to Law Enforcement Services	22,603
Due to Justices	180,482
Bail liability	421,189
Service award program liabilities	1,368,806
Other agency liabilities	33,721,043
Total liabilities	\$ 72,453,328

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, 2011**

**1. BACKGROUND**

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 serve for four years. The Town Board appoints various department heads.

The Town provides a full range of municipal services, including police and justice court, home and community services, public works and road maintenance, recreation and parks, and general and administrative services.

The accompanying financial statements include all funds of the Town for which the elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. All such entities of the Town have been included in this report.

**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 Town 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.

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, 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") 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 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 it is legally separate from the primary government. Complete financial statements of the Authority can be obtained from their administrative offices: Town of Southampton Housing Authority, 57 Springville Road, Hampton Bays, NY 11946.

B. Excluded from the reporting entity

Within the geographic boundaries of the Town are 7 incorporated villages, 13 school districts and 9 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.

The Town does not exercise oversight responsibility over these entities and their financial statements are not part of the Town's combined financial statements.

C. Undivided interest

An "undivided interest" (also known as a joint operation) is an arrangement that resembles a joint venture but no entity or organization is created by the participants. An undivided interest is an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest. Implied in that definition is that each participant is also liable for specific, identifiable obligations (if any) of the operation. Because an undivided interest is not a legal entity, borrowing to finance its operations often is done individually by each participant. The Town participates in the following undivided interest:

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.

D. 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).

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1. Government-wide financial statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the primary government and its component units. These statements include the financial activities of the overall government except for fiduciary activities. Eliminations of internal activity have been made in these statements. The primary government is reported separately from the legally separate component unit for which the primary government is financially accountable. All of the activities of the Town as primary government are governmental activities.

In the government-wide Statement of Net Position, 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 position is reported in three parts - net investment in capital assets, restricted and unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functional categories (public safety, transportation, home and community services, etc.), which are otherwise supported by general government revenues (property taxes, 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 revenues (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.

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

## 2. Fund financial statements

The fund financial statements are similar to the financial statements presented in the previous model. 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. Governmental funds are further classified as major or 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 Fund: is used to account for financial resources for police purposes.

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

Highway Fund: is used to account for revenues and expenditures for highway purposes.

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

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

Community Preservation Fund: is used to account for financial resources for land acquisition and preservation purposes (current legislation provides for this fund through the 2030 fiscal year).

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:

Special Grant Fund: is used to account for the revenues and expenditures related to federal aid for the Community Development Block Grant Program and the Section 8 Housing Choice Vouchers Program.

Special Fund: is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

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	
Public Parking Districts:	
Hampton Bays	Bridgehampton
Water Districts:	
Flanders	Hampton Bays
Ambulance Districts:	
Westhampton	Northampton
Hampton Bays	Southampton
Coastal Erosion	
Parks Districts	

### 3. Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position 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 Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position.

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 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 provisions of the Accounting Standards Codification of the Financial Accounting Standards Board and interpretations 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.

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.

E. 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 Suffolk County local assistance at year end on behalf of the Town, 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 assigned 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.

F. Property taxes

In Suffolk County ("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 1<sup>st</sup>, and are due in two equal installments, payable without penalty on January 10<sup>th</sup> and May 31<sup>st</sup> respectively; after which taxes are payable to the County Treasurer. Penalties are imposed thereafter at the rate of 1% per month from January 10<sup>th</sup> until May 31<sup>st</sup>. The Receiver collects all taxes based on this single bill and distributes the proceeds to the Town Supervisor prior to distributing the remaining taxes collected to the County. Responsibility for the collection of unpaid taxes rests with the County and, accordingly, the Town is assured 100% collection of real property taxes.

#### G. Interfund transactions

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

##### 1. Interfund revenues

Interfund revenues represent amounts charged for services or facilities provided by one fund to another fund. The amounts paid by the fund receiving the benefits of the service or facilities are reflected as an expenditure of the fund receiving the service.

##### 2. Transfers

Interfund transfers represent payments to/from other funds for reimbursement of costs paid by one fund for another fund or funding for capital projects.

#### H. 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.

#### I. Cash and cash equivalents/investments

Cash consists of funds deposited in demand accounts, time deposit accounts and certificates of deposit with maturities of less than three months from the date acquired by the Town.

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.

#### J. Receivables

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

#### K. Inventory - materials and supplies

Inventory in the proprietary funds is valued at cost using the first-in, first-out method.

#### L. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. Prepaid expenses in the Statement of Net Position represent amounts paid in advance for employee retirement benefits and insurance.

#### M. Restricted assets

Certain assets are classified as restricted assets because their use is restricted by contractual agreements and regulations.

N. 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	25 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

O. 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. Premiums considered to be immaterial are not amortized. In the fund financial statements, premiums are recognized during the current period as other financing sources.

P. Deferred charges (outflows)

Discounts and expenses related to the issuance of long-term debt and any loss on the early retirement of refunded debt are amortized on a straight-line basis over the life of the later issue, and are presented net of accumulated amortization, in the government-wide financial statements. Bond issuance costs considered to be immaterial are not amortized. In the fund financial statements, bond issuance costs are recognized during the current period as expenditures.

Q. Deferred inflows

Deferred inflows are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred inflows 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 inflows is removed and revenues are recorded.

R. Interfund receivables and payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions, as well as short-term interfund loans are classified as "due to and from other funds". Long-term interfund loans (non-current portion) are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

S. Long-term obligations

The liabilities for long-term obligations consisting of general obligation bonds payable, special assessment bonds payable, installment purchase debt payable, amounts due to Employees' Retirement System, compensated absences, judgments and claims, other post-employment benefits and liability for landfill closure and post-closure care 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 when paid.

T. Compensated absences (accumulated unpaid vacation, sick pay and other employee benefits)

Town employees receive accumulated earned but unused vacation and sick pay benefits pursuant to labor contracts or Town policies. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave at various rates subject to certain maximum limitations.

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and non-current obligations in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, only the compensated absence liability payable from expendable available financial resources is incurred. The amount that is expected to be liquidated with expendable available financial resources is reported as expenditures and a liability in the fund financial statement and the respective fund that will pay it.

U. Notes payable

Tax anticipation notes and revenue anticipation notes are generally recorded as fund liabilities in the fund receiving the proceeds. Bond anticipation notes are classified as fund liabilities in the funds receiving the proceeds unless all legal steps have been taken to refinance the notes and the intent is supported by an ability to consummate refinancing the short-term note on a long-term basis at which time they are recorded as other financing sources, bond anticipation notes redeemed from appropriations, in the fund financial statements. In the government-wide Statement of Net Position they are recorded as a liability.

V. Equity classifications:

Government-wide financial statements

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

Net investment in capital assets: 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: consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted: reports all other net position 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, there are five classifications of fund balance:

1. Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes prepaid expenses recorded in the Town's various funds in the amount of \$2,848,003.
2. Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Town has established the following restricted fund balances:

Debt Service

According to General Municipal Law §6-l, the Debt Service reserve must be established for the purpose of retiring the outstanding debt service payments on the general obligation bonds used to originally purchase the property. The funding of the reserve is from the proceeds of the sale of property or capital improvement.

A summary of the activity in the debt service reserve for the year ended December 31, 2011 is as follows:

Balance - beginning	\$ 5,635,147
Board approved transfer of fund balance	6,053,192
Liquidation of reserve for debt service payments	<u>(68,016)</u>
Balance - ending	<u>\$ 11,620,323</u>

#### Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the Major Funds, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

#### Tax Stabilization

According to General Municipal Law §6-l and Town Law, the Tax Stabilization Reserve was established for the purposes of providing a degree of stability and to weather fluctuations in revenues and expenditures without severely impacting property tax rates. The monies in the reserve may be expended only pursuant to an appropriation for purposes authorized by the Town Supervisor and the adoption of a resolution appropriating the recommended amount by at least two-thirds of the voting strength of the Town Board.

#### Capital

Capital projects funds are used to account for and report financial resources that are restricted for capital outlays, including the acquisition or construction of capital facilities and other capital assets, and accordingly the Town has reflected its fund balance as such. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

#### Community Preservation Fund

The Town established a Community Preservation Fund (the "CPF") in accordance with Town Law Section 64-d and 64-e and Local Law Section 139 for the purpose of protecting and preserving open and undeveloped lands in the Town of Southampton, including wetlands, woodlands, agricultural lands, shore lands, and other natural resources of the Town, for the purpose of protecting historic place and properties within the Town and for the purpose of providing the Town's visitors and residents with outdoor recreational opportunities. Funding of this reserve is primarily from revenues collected from the two percent real estate transfer tax imposed by the Town pursuant to Article 31-D of New York State Tax Law. In accordance with Local Law Section 139, financial activities for the Community Preservation Fund are maintained in a separate bank account. The Town currently accounts for the financial activity of the Community Preservation Fund as a major governmental fund. In accordance with the purpose of this fund, not more than ten percent of the fund shall be utilized for management and stewardship activities. Upon completion of the Community Preservation Project Plan, any remaining funds will be applied to reduce any bonded indebtedness or other obligations occurred.

Restricted fund balance includes the following:

Major Governmental Funds:	
General Fund -	
Tax Stabilization	\$ 5,166,580
Debt Service	1,362,768
Police District Fund -	
Tax Stabilization	356,794
Debt Service	12,346
Town Outside Village Fund -	
Tax Stabilization	361,739
Debt Service	11,179
Highway Fund -	
Tax Stabilization	572,374
Debt Service	251,815
Public Safety Communications -	
Tax Stabilization	158,382
Debt Service	6,026
Capital Projects Fund	5,770,340
Community Preservation Fund -	
Debt Service	9,815,518
Community Preservation Operations	43,314,246
Non-Major Governmental Funds:	
Debt Service	160,671
Restricted for grants	1,455,075
Restricted for specific revenue sources	5,267,297
Restricted for preservation and protection of the waterways	740,054
	<u>\$ 74,783,204</u>

3. Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, i.e., the Town Board. The Town has no committed fund balances as of December 31, 2011.
4. Assigned - Includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for tax stabilization arrangements.

Assigned fund balance includes the following:

Major Governmental Funds:	
General Fund -	
Designated for subsequent year's expenditures	\$ 443,356
Encumbrances	22,570
Police District Fund -	
Designated for subsequent year's expenditures	12,346
Encumbrances	1,389
Town Outside Village Fund -	
Designated for subsequent year's expenditures	9,497
Highway Fund -	
Designated for subsequent year's expenditures	243,552
Designated for special purpose	359,317
Public Safety Communications -	
Designated for subsequent year's expenditures	1,357
Non-Major Governmental Funds:	
Designated for subsequent year's expenditures	25,358
Designated for special purpose	2,824,053
	<u>\$ 3,942,795</u>

5. Unassigned - Includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the Town.

Order of use of fund balance

The Town's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

**3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND 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 position of governmental activities

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

B. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three 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 Position.

#### **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 20<sup>th</sup>, each department, office or district submits to the Supervisor 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 30<sup>th</sup>, the Supervisor 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 5<sup>th</sup>, 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 20<sup>th</sup>, the Town Board meets to adopt the budget now known as the "adopted budget".
5. Formal budgetary integration is employed during the year as a management control device for the General Fund and certain Special Revenue Funds. The Town Board adopts the budget and establishes legal level of control of the budget at the object level of expenditures. The object level identifies expenditures by the article purchased or service obtained in order to carry out a function. Appropriations are adopted at the object level. All budgetary amendments and transfers of appropriation require Town Board approval. Appropriations for all governmental funds except the Capital Projects Fund lapse at year-end. In order to show the full legal level of budgetary compliance for the General Fund and certain Special Revenue Funds, detailed individual statements of revenues, expenditures and changes in fund equity – budget and actual, are presented as supplemental schedules in this report.
6. Budgets for the General Fund and certain Special Revenue Funds 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 may be made. The Capital Projects Fund and Special Grant Funds are budgeted on a project or grant basis. The Special Revenue 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 assigned fund balances at December 31, 2011 were designated for the subsequent year's operating budgets as follows:

<u>Fund</u>	<u>Total Fund Balance</u>	<u>Fund Balance Designated For Subsequent Year</u>
Major governmental funds:		
General Fund	\$ 465,926	\$ 443,356
Police District Fund	13,735	12,346
Town Outside Village Fund	9,497	9,497
Highway Fund	602,869	243,552
Public Safety Communications	1,357	1,357
Non-Major governmental funds:		
Special Fund	5,267,930	-
Trustees of the Freeholders and Commonalty	740,054	-
Lighting Districts	412,604	-
Public Parking Districts	96,609	-
Water Districts	1,897,710	25,358
Ambulance Districts	238,010	-
Parks Districts	265,112	-

Fund deficits

Individual funds with total fund deficits as of December 31, 2011 were as follows:

	<u>Fund Deficit Unassigned Undesignated</u>	<u>Total Fund Balance (Deficit)</u>
Fire Protection Districts	\$ (59,421)	\$ (59,421)
Coastal Erosion	(22,020)	(22,020)

The Fire Protection Districts' deficit resulted from unanticipated increases in electric costs over the years. The Town anticipates eliminating this deficit, in the upcoming year, through increases in subsequent year budget appropriations which will result in increased tax assessment for the Fire Protection Districts. During the current year, the net deficit was reduced from \$(135,305) to its current balance of \$(59,421).

The Coastal Erosion fund deficit resulted from the Town's participation in a beach and dune restoration project within the Bridgehampton Erosion Control District (the "District"). The Town will develop a deficit reduction plan in the upcoming year.

**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, 2011, the Town's book balances were \$140,029,678. The Town's bank deposit balances were \$154,770,419, of which \$11,158,448 was covered by the Federal Deposit Insurance Corporation, \$126,458,737 was covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name and \$25,654,070 was collateralized with securities held by the pledging financial institution, or its trust, in the name of the Town.

At December 31, 2011, the Town's component units' bank balances were entirely covered by the 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, 2011, the Town did not have any investments subject to credit risk, interest-rate risk, concentration of credit risk, or custodial credit risk.

## **6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivable and payable balances for the primary government at December 31, 2011 represent primarily the payment of operating expenditures that will be reimbursed subsequent to year end and are stated as follows:

	Amount Receivable	Amount Payable
Major Governmental Funds:		
General Fund	\$ 2,765,417	\$ -
Police District Fund	-	1,730,884
Town Outside Village Fund	2,700	7,047
Highway Fund	1,350	-
Public Safety Communications	1,469	-
Capital Projects Fund	-	1,345,509
Non-Major Governmental Funds	670,389	507,312
Major Business-Type Funds:		
Beaches and Marinas	76,196	54,686
Waste Management	623,687	-
Agency Funds	3,645,438	4,141,208
	<u>\$ 7,786,646</u>	<u>\$ 7,786,646</u>

Interfund transfer balances for the primary government at December 31, 2011 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:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 1,105,804	\$ 3,267,382
Town Outside Village Fund	7,393	129,963
Highway Fund	8,263	414,179
Public Safety Communications	4,670	-
Capital Projects Fund	930,059	985,525
Community Preservation Fund	268,858	756,859
Non-Major Governmental Funds	97,773	515,272
Major Business-Type Funds:		
Beaches and Marinas	1,004,949	10,000
Waste Management	2,651,411	-
	<u>\$ 6,079,180</u>	<u>\$ 6,079,180</u>

## 7. CAPITAL ASSETS

Governmental funds capital asset balances and activity for the year ended December 31, 2011 were as follows:

	Beginning Balance	Additions	Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 480,217,567	\$ 25,676,642	\$ -	\$ 505,894,209
Total	<u>\$ 480,217,567</u>	<u>\$ 25,676,642</u>	<u>\$ -</u>	<u>505,894,209</u>
Depreciable capital assets:				
Buildings	\$ 37,631,530	\$ 1,866,347	\$ -	39,497,877
Improvements other than buildings	14,509,678	623,103	-	15,132,781
Machinery and equipment	25,262,931	1,987,893	-	27,250,824
Infrastructure -				
Bridges	1,216,896	79,575	-	1,296,471
Landfill	9,412,515	-	-	9,412,515
Roads, curbs and sidewalks	345,313,282	3,964,675	-	349,277,957
Lighting system	1,349,791	-	-	1,349,791
Bulkheads, piers and boardwalks	9,354,536	796,044	-	10,150,580
Water and sewer mains	10,249,217	1,158,689	-	11,407,906
Total depreciable capital assets	<u>\$ 454,300,376</u>	<u>\$ 10,476,326</u>	<u>\$ -</u>	<u>464,776,702</u>
Less accumulated depreciation:				
Buildings	\$ 8,265,145	\$ 764,924	\$ -	9,030,069
Improvements other than buildings	6,180,437	555,424	-	6,735,861
Machinery and equipment	16,603,792	2,349,580	-	18,953,372
Infrastructure -				
Bridges	184,201	34,220	-	218,421
Landfill	4,961,864	313,750	-	5,275,614
Roads, curbs and sidewalks	173,895,779	13,640,398	-	187,536,177
Lighting system	1,293,754	15,296	-	1,309,050
Bulkheads, piers and boardwalks	4,885,733	267,787	-	5,153,520
Water and sewer mains	3,097,382	214,967	-	3,312,349
Total accumulated depreciation	<u>\$ 219,368,087</u>	<u>\$ 18,156,346</u>	<u>\$ -</u>	<u>237,524,433</u>
Total depreciable capital assets, net				<u>227,252,269</u>
Total capital assets, net				<u>\$ 733,146,478</u>
Depreciation expense was charged to governmental functions as follows:				
General governmental support				\$ 1,366,922
Public safety				709,986
Transportation				14,834,375
Economic assistance				74,157
Culture and recreation				327,167
Home and community				843,739
Total governmental activities depreciation expense				<u>\$ 18,156,346</u>

Enterprise Funds capital asset balances and activity for the year ended December 31, 2011 were as follows:

	Beginning Balance	Additions	Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 11,287,063	\$ -	\$ -	\$ 11,287,063
Total	<u>\$ 11,287,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>11,287,063</u>
Depreciable capital assets:				
Buildings	\$ 4,422,433	\$ -	\$ -	4,422,433
Improvements other than buildings	8,710,155	10,177	-	8,720,332
Machinery and equipment	2,394,416	418,008	-	2,812,424
Total depreciable capital assets	<u>\$ 15,527,004</u>	<u>\$ 428,185</u>	<u>\$ -</u>	<u>15,955,189</u>
Less accumulated depreciation:				
Buildings	\$ 961,867	\$ 91,435	\$ -	1,053,302
Improvements other than buildings	1,233,390	435,564	-	1,668,954
Machinery and equipment	1,579,611	196,190	-	1,775,801
Total accumulated depreciation	<u>\$ 3,774,868</u>	<u>\$ 723,189</u>	<u>\$ -</u>	<u>4,498,057</u>
Total depreciable capital assets, net				<u>11,457,132</u>
Total capital assets, net				<u>\$ 22,744,195</u>
Depreciation expense was charged to enterprise functions as follows:				
Waste management				\$ 418,240
Beaches and marinas				286,975
Golf course				17,974
Total enterprise funds depreciation expense				<u>\$ 723,189</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, 2011, 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, 2011 were as follows:

	Beginning Balance	Additions	Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 683,700	\$ -	\$ -	\$ 683,700
Construction-in-progress	27,116	6,757	-	33,873
Total	<u>\$ 710,816</u>	<u>\$ 6,757</u>	<u>\$ -</u>	<u>717,573</u>
Depreciable capital assets:				
Buildings	\$ 2,502,196	\$ -	\$ (66,400)	2,435,796
Equipment	163,866	1,800	-	165,666
Building improvements	269,879	52,741	-	322,620
Total depreciable capital assets	<u>\$ 2,935,941</u>	<u>\$ 54,541</u>	<u>\$ (66,400)</u>	<u>2,924,082</u>
Less accumulated depreciation:				
Buildings	\$ 331,430	\$ 63,646	\$ (2,490)	392,586
Equipment	36,372	24,127	-	60,499
Building improvements	19,192	17,382	-	36,574
Total accumulated depreciation	<u>\$ 386,994</u>	<u>\$ 105,155</u>	<u>\$ (2,490)</u>	<u>489,659</u>
Total depreciable capital assets, net				<u>2,434,423</u>
Total capital assets, net				<u>\$ 3,151,996</u>
Depreciation expense was charged as follows:				
Home and community services				<u>\$ 105,155</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 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 Fund. BANs were paid from the proceeds of bond issuance after renewal of these notes.

A summary of changes in short-term debt for the Town for the year ended December 31, 2011 is as follows:

	Beginning Balance	Increases	Reductions	Ending Balance
Bond anticipation notes	<u>\$ 7,072,200</u>	<u>\$ -</u>	<u>\$ 7,072,200</u>	<u>\$ -</u>

Interest on short-term debt for the year was composed of:

Interest paid	\$ 47,712
Less interest accrued in the prior year	-
Plus interest accrued in the current year	-
Total expense	<u>\$ 47,712</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
<b>Governmental activities:</b>						
General obligation serial bonds	\$ 126,399,762	\$ 13,862,000	\$ 10,361,293	\$ 129,900,469	\$ 11,035,880	\$ 118,864,589
Plus premiums on issuance	805,067	-	86,509	718,558	86,509	632,049
Total general obligation bonds	127,204,829	13,862,000	10,447,802	130,619,027	11,122,389	119,496,638
<b>Special assessment bonds</b>						
with governmental commitment	246,638	-	44,607	202,031	32,820	169,211
Installment purchase debt payable	-	19,572,700	6,000,000	13,572,700	3,500,000	10,072,700
Due to Employees' Retirement System	164,652	1,233,654	13,089	1,385,217	117,381	1,267,836
Compensated absences	9,985,911	1,215,596	479,059	10,722,448	88,179	10,634,269
Judgments and claims payable	1,808,500	150,115	258,615	1,700,000	-	1,700,000
Other post-employment benefits	27,742,065	13,518,683	3,258,976	38,001,772	-	38,001,772
Estimated liability for landfill closure and post-closure care costs	3,815,990	541,674	244,336	4,113,328	228,586	3,884,742
Total governmental activities	\$ 170,968,585	\$ 50,094,422	\$ 20,746,484	\$ 200,316,523	\$ 15,089,355	\$ 185,227,168
<b>Business-type activities:</b>						
General obligation serial bonds	\$ 8,573,600	\$ 298,000	\$ 634,100	\$ 8,237,500	\$ 656,300	\$ 7,581,200
Compensated absences	153,559	-	39,594	113,965	-	113,965
Total business-type activities	\$ 8,727,159	\$ 298,000	\$ 673,694	\$ 8,351,465	\$ 656,300	\$ 7,695,165
<b>Discretely presented component unit:</b>						
Mortgages payable	\$ 2,965,290	\$ -	\$ 37,598	\$ 2,927,692	\$ 39,871	\$ 2,887,821
General obligation serial bonds	110,000	-	-	110,000	6,500	103,500
Total discretely presented component unit	\$ 3,075,290	\$ -	\$ 37,598	\$ 3,037,692	\$ 46,371	\$ 2,991,321

**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 1.031% to 6.450% and have maturity dates in 2011 through 2030.

On May 1, 2010, the Town issued \$9,430,000 in serial bonds with an interest rate of 2.00% increasing to 5.00% to advance refund its outstanding 1997 Serial Bonds of \$875,000, 1998 Serial Bonds of \$750,000, 1999 Serial Bonds of \$650,000, 2000 Serial Bonds of \$1,250,000, 2001 Serial Bonds of \$1,425,000 and 2002 Serial Bonds of \$5,175,000. The net proceeds of which \$10,392,961 (after payment of \$107,608 in underwriting fees, insurance and other issuance costs) was used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the Town's financial statements. The bonds were called on September 29, 2010. The economic gain on the transaction (the difference between the present values of the debt service payments on the old and new debt) was approximately \$977,698.

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

Primary governmental activities

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 2011
NYS EFC bonds	6/1/1995	5/15/2015	3.700% - 5.550%	\$ 160,000
NYS EFC bonds	7/1/1997	6/15/2017	3.750% - 5.350%	210,000
NYS EFC bonds	3/13/2003	4/15/2020	1.031% - 4.551%	465,000
Public improvement serial bonds	11/1/2003	10/1/2023	2.750% - 4.500%	5,613,100
NYS EFC bonds	3/4/2004	3/4/2020	1.056% - 4.235%	8,415,000
Open space preservation serial bonds	4/15/2004	4/15/2020	3.750% - 4.375%	11,600,000
Public improvement serial bonds	11/1/2004	11/1/2024	3.125% - 4.125%	10,601,100
Refunding serial bonds	2/24/2005	5/1/2016	3.000% - 5.000%	1,850,000
Public improvement serial bonds	2/1/2006	12/1/2020	3.250% - 4.000%	3,564,200
Public improvement serial bonds	9/15/2007	9/15/2022	3.875% - 4.125%	8,623,000
Open space preservation serial bonds	1/15/2009	1/15/2030	3.000% - 4.375%	18,500,000
Open space preservation serial bonds	4/1/2009	4/1/2030	3.000% - 4.500%	18,500,000
Refunding serial bonds	5/1/2010	5/1/2022	2.000% - 5.000%	8,585,069
Public improvement serial bonds	8/12/2010	8/12/2029	2.000% - 3.250%	19,352,000
Public improvement serial bonds	4/28/2011	4/15/2022	2.000% - 4.000%	13,862,000
				<u>\$ 129,900,469</u>

Primary business-type activities

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 2011
Public improvement serial bonds	11/1/2003	10/1/2023	2.750% - 4.500%	\$ 486,900
Public improvement serial bonds	11/1/2004	11/1/2024	3.125% - 4.125%	123,900
Public improvement serial bonds	2/1/2006	12/1/2020	3.250% - 4.000%	2,008,700
Public improvement serial bonds	9/15/2007	9/15/2022	3.875% - 4.375%	3,002,000
Public improvement serial bonds	8/12/2010	8/12/2029	2.000% - 3.250%	2,318,000
Public improvement serial bonds	4/28/2011	4/15/2022	2.000% - 4.000%	298,000
				<u>\$ 8,237,500</u>

Special assessment bonds

Description of Issue	Issue Date	Final Maturity	Interest Rate	Outstanding at 2011
Public improvement serial bonds	2/1/2006	12/1/2020	3.250% - 4.000%	\$ 77,100
Refunding serial bonds	5/1/2010	5/1/2016	2.000% - 5.000%	124,931
				<u>\$ 202,031</u>

The following is a summary of maturing debt service requirements:

Primary governmental activities

Year ended December 31,	Principal	Interest	Total
2012	\$ 11,035,880	\$ 4,572,121	\$ 15,608,001
2013	11,432,200	4,018,999	15,451,199
2014	11,820,695	3,674,898	15,495,593
2015	11,344,801	3,305,787	14,650,588
2016	10,684,593	2,942,908	13,627,501
2017-2021	42,243,900	9,653,211	51,897,111
2022-2026	18,183,400	3,745,669	21,929,069
2027-2030	10,155,000	935,622	11,090,622
	<u>\$ 126,900,469</u>	<u>\$ 32,849,215</u>	<u>\$ 159,749,684</u>

Interest on primary governmental activities long-term debt for the year was composed of:

Interest paid	\$ 4,226,767
Less interest accrued in the prior year	(1,368,835)
Plus interest accrued in the current year	<u>1,425,813</u>
Total expense	<u>\$ 4,283,745</u>

Primary business-type activities:

Year ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 656,300	\$ 271,576	\$ 927,876
2013	693,300	244,208	937,508
2014	687,700	215,929	903,629
2015	696,000	194,670	890,670
2016	721,300	174,752	896,052
2017-2021	3,231,300	481,328	3,712,628
2022-2026	1,106,600	99,675	1,206,275
2027-2030	<u>445,000</u>	<u>21,441</u>	<u>466,441</u>
	<u>\$ 8,237,500</u>	<u>\$ 1,703,579</u>	<u>\$ 9,941,079</u>

Special assessment bonds - The Town also has \$202,031 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 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 2.00% to 5.00% and are payable over the next 10 years.

The following is a summary of maturing debt service requirements:

Year ended December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 32,820	\$ 12,157	\$ 44,977
2013	44,500	10,941	55,441
2014	31,605	7,017	38,622
2015	29,199	5,585	34,784
2016	29,107	4,840	33,947
2017-2020	<u>34,800</u>	<u>3,480</u>	<u>38,280</u>
	<u>\$ 202,031</u>	<u>\$ 44,020</u>	<u>\$ 246,051</u>

Installment purchase obligation - During 2011, the Town entered into a \$19,572,000 installment purchase obligation to finance the cost of acquisition of certain permanent interest in land through the Community Preservation Fund. The outstanding balance of the obligation as of December 31, 2011 is \$13,572,700. Costs associated with the obligation totaled \$19,572,700.

Terms of the obligation include an initial principal payment of \$6,000,000, with annual principal installments of \$3,500,000 due on October 1, 2012 through 2014, and a final principal payment of \$3,072,700 on October 1, 2015. The installment purchase obligation is non-interest bearing. If in the event, any installment of principal is not paid by the due date it shall bear interest from such date at a rate of 5% per annum to the date of payment. Terms of the installment purchase obligation do not allow for prepayment of the obligation.

Other long-term debt - Liabilities for claims and judgments, other post-employment benefits and landfill closure and post-closure care 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 the liability, with the majority being liquidated through the General Fund and Police Districts Fund.

Mortgages payable - The Housing Authority received a mortgage through Bridgehampton National Bank for \$1,800,000 (30 years) which is secured by an 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, 2011 is \$1,634,822.

The Housing Authority assumed and adjusted the existing mortgage through the United States Department of Agriculture and Rural Development in the amount of \$1,332,038 which is secured by an apartment complex and payable in monthly installments off \$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, 2011 is \$1,292,870.

The following is a summary of maturing debt service requirements:

Year ended December 31,	Principal	Interest	Total
2012	\$ 39,871	\$ 123,540	\$ 163,411
2013	42,279	121,132	163,411
2014	44,834	118,577	163,411
2015	47,543	115,868	163,411
2016	50,417	112,994	163,411
2017-2021	301,665	515,390	817,055
2022-2026	404,616	412,439	817,055
2027-2031	542,780	274,275	817,055
2032-2036	1,453,687	86,526	1,540,213
	<u>\$ 2,927,692</u>	<u>\$ 1,880,741</u>	<u>\$ 4,808,433</u>

Bond payable - In June 2010, the Housing Authority issued \$110,000 of general obligation bonds at an interest rate of 3.55%. The proceeds will be used to reconstruct, furnish and equip a single family low income rental housing project located at 203 Ludlum Avenue in the Town of Southampton. The outstanding balance as of December 31, 2011 is \$110,000.

The following is a summary of maturing debt service requirements:

Year ended December 31,	Principal	Interest	Total
2012	\$ 6,500	\$ 3,905	\$ 10,405
2013	6,500	3,674	10,174
2014	10,000	3,444	13,444
2015	10,000	3,089	13,089
2016	10,000	2,734	12,734
2017-2020	67,000	6,213	73,213
	<u>\$ 110,000</u>	<u>\$ 23,059</u>	<u>\$ 133,059</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, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for custody and control of their funds.

The Systems are noncontributory for the employee, except for those who joined the Systems after July 27, 1976, who contribute 3% of their salary and after ten years are no longer required to contribute. Prior to October 1, 2000, all employees who joined the System after July 27, 1976 were required to contribute 3% of their salary. Effective January 1, 2010, new employees joining the System will contribute 3.5% of their salary and will contribute for their entire career. 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 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 NYSERS and NYSPFRS for prior year's contributions. Required contributions for the current and two preceding years were:

Year Ended	NYSERS			NYSPFRS			Total Payment
	Annual Required Contribution	Incentive/Rate Amortization	Reconciliation and Miscellaneous Adjustments	Annual Required Contribution	Incentive/Rate Amortization	Reconciliation and Miscellaneous Adjustments	
2011	\$ 3,496,931	\$ 797,438	\$ (1,376,854)	\$ 2,431,653	\$ 436,216	\$ (763,025)	\$ 5,022,359
2010	2,743,049	164,654	(282,667)	1,931,364	-	(188,141)	4,368,259
2009	1,859,470	-	(4,910)	1,758,638	-	7,344	3,620,542

The State Legislature allows local governments to amortize certain contribution costs. The cost of the amortization is billed and paid over a ten year period and includes an interest rate of 5.00%. As of December 31, 2011 the total principal payments payable by the Town are as follows:

Year ended December 31,	
2012	\$ 117,381
2013	122,022
2014	126,849
2015	131,868
2016	137,088
2017-2021	<u>750,009</u>
	<u>\$ 1,385,217</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 completes 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 accumulated 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 programs 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. to disburse entitlement benefits.

2. Death benefits

Upon notification from the Sponsor of a participant death, Penflex, Inc. 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 reports prepared by the actuary dated August 8 and 11, 2011.

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 \$58,535, the Flanders Northampton Volunteer Ambulance Corporation of \$63,238, the Hampton Bays Volunteer Ambulance Corporation of \$59,169 and the Southampton Volunteer Ambulance Corporation of \$41,019 for the year ended December 31, 2010 were sufficient to satisfy current and future service award obligations upon eligibility for retirement.

Program financial condition (As of December 31, 2010)

Westhampton War Memorial Ambulance Corporation -

Actuarial present value of vested benefits	<u>\$ 481,804</u>
Net assets available for benefit	<u>\$ 333,233</u>

Flanders Northampton Volunteer Ambulance Corporation -

Actuarial present value of vested benefits	<u>\$ 468,900</u>
Net assets available for benefit	<u>\$ 372,924</u>

Hampton Bays Volunteer Ambulance Corporation -

Actuarial present value of vested benefits	<u>\$ 391,923</u>
Net assets available for benefit	<u>\$ 361,607</u>

Southampton Volunteer Ambulance Corporation

Actuarial present value of vested benefits	<u>\$ 333,679</u>
Net assets available for benefit	<u>\$ 301,044</u>

Receipts and disbursements (For the year ended December 31, 2010)

Westhampton War Memorial Ambulance Corporation -

Program net assets, beginning of year		\$ 251,076
Changes during the year:		
Plan contributions	\$ 57,192	
Investment income earned	28,806	
Trustee fees	(1,265)	
Administrative fees	(2,576)	
	<u>82,157</u>	
Program net assets, end of year		<u>\$ 333,233</u>
Contributions -		
Amount of sponsor's contribution recommended by actuary		<u>\$ 58,535</u>
Amount of sponsor's actual contribution		<u>\$ 57,192</u>

Flanders Northampton Volunteer Ambulance Corporation -

Program net assets, beginning of year		\$	274,960
Changes during the year:			
Plan contributions	\$	71,750	
Investment income earned		31,810	
Benefits paid		(1,303)	
Trustee fees		(1,383)	
Administrative fees		(2,910)	
			<u>97,964</u>
Program net assets, end of year		\$	<u>372,924</u>
Contributions -			
Amount of sponsor's contribution recommended by actuary		\$	<u>63,238</u>
Amount of sponsor's actual contribution		\$	<u>71,750</u>

Hampton Bays Volunteer Ambulance Corporation -

Program net assets, beginning of year		\$	277,402
Changes during the year:			
Plan contributions	\$	58,325	
Investment income earned		31,521	
Benefits paid		(1,369)	
Trustee fees		(1,395)	
Administrative fees		(2,877)	
			<u>84,205</u>
Program net assets, end of year		\$	<u>361,607</u>
Contributions -			
Amount of sponsor's contribution recommended by actuary		\$	<u>59,169</u>
Amount of sponsor's actual contribution		\$	<u>58,325</u>

Southampton Volunteer Ambulance Corporation -

Program net assets, beginning of year		\$	235,835
Changes during the year:			
Plan contributions	\$	42,723	
Investment income earned		26,586	
Benefits paid		(240)	
Trustee fees		(1,187)	
Administrative fees		(2,673)	
			<u>65,209</u>
Program net assets, end of year		\$	<u>301,044</u>
Contributions -			
Amount of sponsor's contribution recommended by actuary		\$	<u>41,019</u>
Amount of sponsor's actual contribution		\$	<u>42,723</u>

## Funding methodology and actuarial assumptions

### Westhampton War Memorial Ambulance Corporation -

Valuation Date	December 31, 2010
Actuarial Cost Method	Attained Age Normal Frozen Initial Liability
Amortization Method	Level Dollar, open
Pre-entitlement age mortality table	None assumed
Post-entitlement age mortality table	1994 US Uninsured Pensioner 50/50 M/F Mortality Table
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, 2010
Actuarial Cost Method	Attained Age Normal Frozen Initial Liability
Amortization Method	Level Dollar, open
Pre-entitlement age mortality table	None assumed
Post-entitlement age mortality table	1994 US Uninsured Pensioner 50/50 M/F Mortality Table
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, 2010
Actuarial Cost Method	Attained Age Normal Frozen Initial Liability
Amortization Method	Level Dollar, open
Pre-entitlement age mortality table	None assumed
Post-entitlement age mortality table	1994 US Uninsured Pensioner 50/50 M/F Mortality Table
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, 2010
Actuarial Cost Method	Attained Age Normal Frozen Initial Liability
Amortization Method	Level Dollar, open
Pre-entitlement age mortality table	None assumed
Post-entitlement age mortality table	1994 US Uninsured Pensioner 50/50 M/F Mortality Table
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, 226 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 fund financial statements as payments are made. For the year ended December 31, 2011, the Town recognized \$3,258,976 for its share of insurance premiums for currently enrolled retirees.

The Town has obtained an actuarial valuation report as of January 1, 2010 which indicates that the total liability for other post-employment benefits is \$149,490,000 (\$61,279,000 related to retirees and \$88,211,000 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 Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation:

	For the Year Ended December 31, 2011
Annual required contribution	\$ 12,409,000
Interest on net OPEB obligation	<u>1,109,683</u>
Annual OPEB cost	13,518,683
Contributions made	<u>3,258,976</u>
Increase in net OPEB obligation	10,259,707
Net OPEB obligation, beginning of year	<u>27,742,065</u>
Net OPEB obligation, end of year	<u><u>\$ 38,001,772</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2011 and the two preceding years 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>
12/31/2009	\$ 11,314,368	20.3%	\$ 17,874,248
12/31/2010	\$ 12,528,170	21.2%	\$ 27,742,065
12/31/2011	\$ 13,518,683	24.1%	\$ 38,001,772

### Funded status and funding progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$149,490,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$149,490,000. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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, 2010 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 13.7% initially, reduced by decrements to an ultimate rate of 4.7% after 70 years. 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, 2011 was 26 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 Position. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2011 the value of the accumulated vacation time and sick leave for governmental activities and business-type activities was \$10,836,413.

## **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>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenditures at the beginning of the year	<u>\$ 1,808,500</u>	<u>\$ 1,313,626</u>
Incurred claims and claim adjustment expenditures:		
Provision for insured events of the current year and increases in provision for insured events of prior years	<u>150,115</u>	<u>731,352</u>
Total incurred claims and adjustment expenditures	<u>1,958,615</u>	<u>2,044,978</u>
Payments:		
Claims and claim adjustment expenditures attributable to insured events of the current and prior years	<u>258,615</u>	<u>236,478</u>
Total payments	<u>258,615</u>	<u>236,478</u>
Total unpaid claims and claim adjustment expenditures at the end of the year	<u>\$ 1,700,000</u>	<u>\$ 1,808,500</u>

B. Litigation

In common with other towns, the Town from time to time receives notices of claim and is party to litigation. In the opinion of the Town Attorney, unless otherwise set forth herein and apart from matters provided for by applicable insurance coverage, there are no significant claims or actions pending in which the Town has not asserted a substantial and adequate defense, nor which, if determined against the Town, would have an adverse material effect on the financial condition of the Town, in view of the Town's ability to fund the same through use of appropriate funding mechanisms provided by the Local Finance Law.

In June 2005, the Shinnecock Indian Nation (the "Shinnecoeks") commenced an action in the United States District Court, Eastern District of New York, against the Town, the County of Suffolk, the State of New York and several other parties seeking to recover both real property and monetary damages in the amount of fair market value and/or rental value related to various properties in the Town. The Shinnecock Indian Nation claims that such properties, on which the Shinnecoeks allegedly had a leasehold interest, were illegally conveyed and that the Shinnecoeks should be granted "possessory rights" to such properties including restoration to the Shinnecoeks of possession of such land. It is estimated that the property represented by the claim is equal to approximately 3.85% of the total taxable real property in the Town.

By Memorandum and Order dated November 28, 2006, U.S. District Judge Thomas Platt granted the motion of defendants seeking to dismiss the Shinnecoeks' complaint in its entirety, pursuant to Fed. R. Civ. P. 12(b)(6), for equitable considerations, including plaintiffs' delay in commencing the action.

The Shinnecoeks filed a motion for reconsideration of Judge Platt's Memorandum and Order, and also moved for leave to amend their complaint. They also filed a notice of appeal to the U.S. Court of Appeals (Second Circuit).

The Shinnecoeks' appeal, as well as their motions for reconsideration and leave to amend, have been held in abeyance pending a decision from the Second Circuit Court of Appeals, in the case of *Oneida Nation of New York v. State of New York*, as the Shinnecoeks asserted that a decision in that case could bear heavily on their litigation with the Town.

On August 9, 2010, a decision was rendered by the Second Circuit Court of Appeals in the *Oneida Nation* case, and that decision was forwarded to Judge Platt by defendants, with the advice that in defendants' view, the decision is favorable, and indeed dispositive, of the Shinnecocks' claims against defendants. The Shinnecocks have requested that Judge Platt continue the indefinite adjournment of both motions, to accommodate the possibility that the United States might agree to intervene in the action on behalf of the Shinnecocks. Judge Platt has agreed to extend the adjournment of both motions until June 1, 2012.

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. Accordingly, as of December 31, 2011, the Town has recorded a liability of \$4,113,328 in the government-wide financial statements which represents the provision to be made in future budgets for unfunded closure and post-closure landfill costs. Actual costs may be higher or lower due to inflation, changes in technology or changes in regulations. These amounts are based on what it would cost to perform all closure and post-closure care as of December 31, 2011.

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. Property tax cap

In June 2011, subsequent to the adoption of the 2011 Town budget but prior to the adoption of the 2012 Town budget, New York State Legislature enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions. For fiscal years beginning in 2012 through at least June 15, 2016, growth in the property tax levy (the total amount to be raised through property taxes charged on a municipality's taxable assessed value of property) will be capped at 2 percent or the rate of inflation (but not less than 1 percent), whichever is less, with some exceptions. Local governments can exceed the tax levy limit by a 60% vote of the governing body, or by local law.

F. Lease commitments and leased assets

Operating leases

The Town is committed under a noncancellable operating lease for the Hampton Bays Town Center. Total rental expenditures on the lease for the year ended December 31, 2011 totaled approximately \$300,000.

The Town is also committed under various other operating leases that expire on various dates through December 31, 2015. Total rental expenditures on these leases for the year ended December 31, 2011 totaled approximately \$47,000.

Future minimum operating lease commitments are as follows:

Year ended December 31,	
2012	\$ 369,429
2013	383,471
2014	387,934
2015	382,297
2016	349,313
2017-2021	1,906,664
2022-2023	523,969
	\$ 4,303,077

**15. TWO PERCENT (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 Fund, and are used for the purchase and/or preservation of agricultural land, open space, parks or historic preservation sites. The tax generally 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.

For the year ended December 31, 2011, and for the four previous years, the Town has the following 2% transfer tax revenue and expenses associated with environmental or historic preservation purposes:

Year ended December 31,	Revenues	Expenditures
2011	\$ 39,218,441	\$ 35,766,084
2010	34,225,797	20,334,329
2009	24,805,488	31,066,640
2008	33,948,760	80,636,665
2007	53,987,196	68,385,613

**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, 2011:

*Condensed Statement of Net Position:*

	Assets and Other Debits			Liabilities		
	Current Assets	Capital Assets Net of Depreciation	Non-current Assets	Current Liabilities	Bonds and Other Long-Term Liabilities	Net Position
Town of Southampton Housing Authority	\$ 494,719	\$ 3,151,996	\$ 23,077	\$ 110,172	\$ 2,991,321	\$ 568,299

*Condensed Statement of Activities:*

	Program			Other	Change	Net Position
	Expenses	Revenue	Net Revenues			
Town of Southampton Housing Authority	\$ 798,153	\$ 507,802	\$ (290,351)	\$ 199,860	\$ (90,491)	\$ 568,299

**17. NEW ACCOUNTING STANDARDS**

GASB has issued Statement No. 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 adopted the provisions of this Statement during the year ended December 31, 2011.

GASB has issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- A. Financial Accounting Standards Board ("FASB") Statements and Interpretations
- B. Accounting Principles Board Opinions
- C. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures

The Town is currently studying the Statement and plans on adoption when required, which will be for the December 31, 2012 financial statements.

GASB has issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Town adopted the provisions of this Statement during the year ended December 31, 2011.

GASB has issued Statement No. 66, Technical Corrections (effective for periods beginning after December 15, 2012), which resolves conflicting guidance that resulted from the issuance of two recent pronouncements; GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Town is currently studying the Statement and plans on adoption when required, which will be for the December 31, 2013 financial statements.

**18. PRIOR PERIOD ADJUSTMENTS**

Governmental funds fund equity, business-type activities net position and Town-wide net position have been restated as of January 1, 2011, to give effect to the following:

	Governmental Funds Fund Equity	Business-type Activities Net Position	Town-wide Net Position
Balance as of January 1, 2011, as reported	\$ 76,570,558	\$ 10,731,601	\$ 620,841,276
Add: reclassification of Historic Preservation Reserve monies previously recorded as a liability as a result of internal study	500,000	-	500,000
Add (deduct): reclassification related to Ponquogue Beach Improvements from Capital Projects Fund to Beaches and Marinas	<u>(250,000)</u>	<u>250,000</u>	<u>(250,000)</u>
Balance as of January 1, 2011, as restated	<u>\$ 76,820,558</u>	<u>\$ 10,981,601</u>	<u>\$ 621,091,276</u>

**19. SUBSEQUENT EVENTS**

The Town has evaluated subsequent events occurring after the Statement of Net Position through the date of April 24, 2012, which is the date the financial statements were available to be issued. Based on this evaluation, the Town has determined the following subsequent events have occurred, which require disclosure in the financial statements:

In March 2012, the Town was authorized by the Town Board to purchase the Town of East Hampton's share (50%) of the Poxabogue Golf Course at a total cost not to exceed \$2,200,000, plus closing costs. The source of funding has not yet been determined, however, once the sale is final, the Town will no longer share an undivided interest with the Town of East Hampton.

In April 2012, the Town issued \$6,105,000 of bond anticipation notes at an interest rate of 0.5% maturing on April 18, 2013.

**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget Amounts		Actual	Year-end Encumbrances	Variance Favorable (Unfavorable) To Revised Budget
	Original Budget	Revised Budget			
<b>REVENUES</b>					
Real property taxes	\$ 23,747,787	\$ 22,983,270	\$ 22,983,270		\$ -
Other real property tax items	165,000	165,000	201,668		36,668
Non-property tax items	1,250,000	1,250,000	1,424,315		174,315
Special assessments	-	-	51,209		51,209
Departmental income	733,000	733,000	671,802		(61,198)
Intergovernmental charges	120,687	120,524	119,989		(535)
Use of money and property	101,000	101,000	34,163		(66,837)
Licenses and permits	235,000	235,000	283,346		48,346
Fines and forfeitures	1,800,000	1,800,000	1,784,553		(15,447)
Sale of property and compensation for loss	-	840	31,969		31,129
Miscellaneous local sources	547,659	550,584	648,654		98,070
State aid	5,817,000	5,831,563	6,249,172		417,609
Federal aid	720,000	720,000	341,735		(378,265)
<b>Total revenues</b>	<b>35,237,133</b>	<b>34,490,781</b>	<b>34,825,845</b>		<b>335,064</b>
<b>EXPENDITURES</b>					
General governmental support	13,955,804	13,157,269	12,088,942	\$ 22,570	1,045,757
Public safety	2,159,171	2,248,817	2,117,152	-	131,665
Economic assistance and opportunity	2,133,333	2,179,021	2,692,197	-	(513,176)
Culture and recreation	3,854,534	3,853,721	3,594,108	-	259,613
Home and community services	668,811	651,406	581,913	-	69,493
Employee benefits	7,171,422	8,243,277	7,671,505	-	571,772
Debt service -					
Principal	3,983,800	3,959,635	4,036,956	-	(77,321)
Interest	1,338,971	1,110,984	1,043,894	-	67,090
<b>Total expenditures</b>	<b>35,265,846</b>	<b>35,404,130</b>	<b>33,826,667</b>	<b>22,570</b>	<b>1,554,893</b>
Excess (deficiency) of revenues over (under) expenditures	(28,713)	(913,349)	999,178	(22,570)	1,889,957
<b>OTHER FINANCING SOURCES (USES)</b>					
Premium on debt issuance	-	-	105,849	-	105,849
Transfers in	178,713	594,595	1,105,804	-	511,209
Transfers out	(150,000)	(4,042,382)	(3,267,382)	-	775,000
Appropriated reserves	-	4,361,136	-	-	(4,361,136)
<b>Total other financing sources (uses)</b>	<b>28,713</b>	<b>913,349</b>	<b>(2,055,729)</b>	<b>-</b>	<b>(2,969,078)</b>
Changes in fund balance	-	-	(1,056,551)	\$ (22,570)	\$ (1,079,121)
Fund balance, beginning of year	14,005,683	14,005,683	14,005,683		
Fund balance, end of year	\$ 14,005,683	\$ 14,005,683	\$ 12,949,132		

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

**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - POLICE DISTRICT FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget Amounts		Actual	Year-end Encumbrances	Variance Favorable (Unfavorable) To Revised Budget
	Original Budget	Revised Budget			
<b>REVENUES</b>					
Real property taxes	\$ 18,814,396	\$ 18,814,396	\$ 18,814,396		\$ -
Other real property tax items	120,000	120,000	145,486		25,486
Departmental income	131,250	131,250	395,909		264,659
Use of money and property	25,000	25,000	9,907		(15,093)
Licenses and permits	32,219	33,191	62,999		29,808
Sale of property and compensation for loss	5,000	5,000	2,027		(2,973)
Miscellaneous local sources	84,000	88,000	135,900		47,900
State aid	1,978,633	2,263,953	2,286,408		22,455
Federal aid	62,464	85,371	91,667		6,296
Total revenues	<u>21,252,962</u>	<u>21,566,161</u>	<u>21,944,699</u>		<u>378,538</u>
<b>EXPENDITURES</b>					
Public safety	14,145,480	14,439,455	14,104,920	\$ 1,389	333,146
Employee benefits	7,085,299	6,960,911	6,822,336	-	138,575
Debt service -					
Principal	18,700	18,700	18,700	-	-
Interest	3,483	3,483	3,483	-	-
Total expenditures	<u>21,252,962</u>	<u>21,422,549</u>	<u>20,949,439</u>	<u>1,389</u>	<u>471,721</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>143,612</u>	<u>995,260</u>	<u>(1,389)</u>	<u>850,259</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Premium on debt issuance	-	-	12,346	-	12,346
Appropriated reserves	-	(143,612)	-	-	143,612
Total other financing sources (uses)	<u>-</u>	<u>(143,612)</u>	<u>12,346</u>	<u>-</u>	<u>155,958</u>
Changes in fund balance	-	-	1,007,606	\$ (1,389)	\$ 1,006,217
Fund balance, beginning of year	<u>234,831</u>	<u>234,831</u>	<u>234,831</u>		
Fund balance, end of year	<u>\$ 234,831</u>	<u>\$ 234,831</u>	<u>\$ 1,242,437</u>		

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

**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - TOWN OUTSIDE VILLAGE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget Amounts		Actual	Year-end Encumbrances	Variance Favorable (Unfavorable) To Revised Budget
	Original Budget	Revised Budget			
<b>REVENUES</b>					
Real property taxes	\$ 907,561	\$ 907,561	\$ 907,561		\$ -
Other real property tax items	10,000	10,000	9,237		(763)
Departmental income	2,757,328	2,757,322	3,073,386		316,064
Intergovernmental charges	534,573	-	-		-
Use of money and property	7,500	7,500	4,692		(2,808)
Miscellaneous local sources	-	-	1,291		1,291
<b>Total revenues</b>	<b>4,216,962</b>	<b>3,682,383</b>	<b>3,996,167</b>		<b>313,784</b>
<b>EXPENDITURES</b>					
Public safety	3,727	86,937	86,937	\$ -	-
Home and community services	3,168,385	3,145,710	3,062,910	-	82,800
Employee benefits	1,460,277	1,484,694	1,410,494	-	74,200
Debt service - Interest	-	2,388	2,388	-	-
<b>Total expenditures</b>	<b>4,632,389</b>	<b>4,719,729</b>	<b>4,562,729</b>	<b>-</b>	<b>157,000</b>
Excess (deficiency) of revenues over (under) expenditures	(415,427)	(1,037,346)	(566,562)	-	470,784
<b>OTHER FINANCING SOURCES (USES)</b>					
Premium on debt issuance	-	-	9,497	-	9,497
Transfers in	(534,573)	7,393	7,393	-	-
Transfers out	(129,963)	(129,963)	(129,963)	-	-
Appropriated reserves	1,079,963	1,159,916	-	-	(1,159,916)
<b>Total other financing sources (uses)</b>	<b>415,427</b>	<b>1,037,346</b>	<b>(113,073)</b>	<b>-</b>	<b>(1,150,419)</b>
Changes in fund balance	-	-	(679,635)	\$ -	\$ (679,635)
Fund balance, beginning of year	1,218,538	1,218,538	1,218,538		
Fund balance, end of year	<b>\$ 1,218,538</b>	<b>\$ 1,218,538</b>	<b>\$ 538,903</b>		

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

**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - HIGHWAY FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budget Amounts		Actual	Year-end Encumbrances	Variance Favorable (Unfavorable) To Revised Budget
	Original Budget	Revised Budget			
<b>REVENUES</b>					
Real property taxes	\$ 10,770,010	\$ 10,770,010	\$ 10,770,010		\$ -
Other real property tax items	60,000	60,000	82,298		22,298
Intergovernmental charges	754,285	754,285	754,285		-
Use of money and property	20,000	20,000	9,529		(10,471)
Sale of property and compensation for loss	-	-	876		876
Miscellaneous local sources	160,000	165,200	281,821		116,621
State aid	650,000	659,266	684,530		25,264
Federal aid	-	46,367	9,562		(36,805)
<b>Total revenues</b>	<b>12,414,295</b>	<b>12,475,128</b>	<b>12,592,911</b>		<b>117,783</b>
<b>EXPENDITURES</b>					
Transportation	6,870,033	7,133,201	6,648,842	\$ -	484,359
Employee benefits	2,882,284	2,952,572	2,771,944	-	180,628
Debt service -					
Principal	1,916,900	1,957,389	1,957,389	-	-
Interest	745,078	725,014	725,014	-	-
<b>Total expenditures</b>	<b>12,414,295</b>	<b>12,768,176</b>	<b>12,103,189</b>	<b>-</b>	<b>664,987</b>
Excess (deficiency) of revenues over (under) expenditures	-	(293,048)	489,722	-	782,770
<b>OTHER FINANCING SOURCES</b>					
Premium on debt issuance	-	-	243,552	-	243,552
Transfers in	-	8,263	8,263	-	-
Transfers out	-	(414,179)	(414,179)	-	-
Appropriated reserves	-	698,964	-	-	(698,964)
<b>Total other financing sources</b>	<b>-</b>	<b>293,048</b>	<b>(162,364)</b>	<b>-</b>	<b>(455,412)</b>
Changes in fund balance	-	-	327,358	\$ -	\$ 327,358
Fund balance, beginning of year	1,482,751	1,482,751	1,482,751		
Fund balance, end of year	<b>\$ 1,482,751</b>	<b>\$ 1,482,751</b>	<b>\$ 1,810,109</b>		

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

TOWN OF SOUTHAMPTON  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS  
JUSTICE COURT  
FOR THE YEAR ENDED DECEMBER 31, 2011

Town Justices

	Justice DeMayo	Justice Kooperstein	Justice Wilson	Justice Burke	Justice Scialvoni	Bail Accounts	Special Accounts	Parking Accounts	Totals
Cash balance, beginning of year	\$ 230	\$ 69,412	\$ 57,528	\$ 56,092	\$ 53,676	\$ 382,229	\$ 15,671	\$ 26,720	\$ 661,558
Collections:									
Traffic, criminal fines, civil and surcharge	-	659,594	615,632	601,644	636,618	-	-	-	2,513,488
Parking fines	-	115,060	130,930	104,820	126,045	-	-	1,551	478,406
Bail	-	-	-	-	-	488,919	-	-	488,919
Miscellaneous	-	25	25	26	26	32,187	1,804	-	34,093
Total collections	-	774,679	746,587	706,490	762,689	521,106	1,804	1,551	3,514,906
Disbursements:									
Town of Southampton	-	796,262	756,954	721,218	772,237	-	-	-	3,046,671
Return of bail and other	-	-	-	-	-	482,146	-	-	482,146
Miscellaneous	230	-	-	-	-	-	2,900	5,668	8,798
Total disbursements	230	796,262	756,954	721,218	772,237	482,146	2,900	5,668	3,537,615
Cash balance, end of year	\$ -	\$ 47,829	\$ 47,161	\$ 41,364	\$ 44,128	\$ 421,189	\$ 14,575	\$ 22,603	\$ 638,849

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

**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS - SERVICE AWARD PROGRAM**  
**DECEMBER 31, 2011**

**Westhampton War Memorial Ambulance Corp:**

<u>Year Ended Dec. 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 58,535	\$ 57,192	97.71%

**Flanders Northampton Volunteer Ambulance Corp:**

<u>Year Ended Dec. 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 63,238	\$ 71,750	113.46%

**Hampton Bays Volunteer Ambulance Corp:**

<u>Year Ended Dec. 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 59,169	\$ 58,325	98.57%

**Southampton Volunteer Ambulance Corp:**

<u>Year Ended Dec. 31</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 41,019	\$ 42,723	104.15%

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, 2011**

**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]
2010	\$ 333,233	\$ 481,804	\$ 148,571	69.16%	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]
2010	\$ 372,924	\$ 468,900	\$ 95,976	79.53%	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]
2010	\$ 361,607	\$ 391,923	\$ 30,316	92.26%	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]
2010	\$ 301,044	\$ 333,679	\$ 32,635	90.22%	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.

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

**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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)
01/01/09	\$ -	\$ 145,399,000	\$ 145,399,000	0%	\$ 37,330,904	389.49%
01/01/10	-	149,490,000	149,490,000	0%	38,278,198	390.54%
01/01/11	-	149,490,000	149,490,000	0%	37,513,001	398.50%

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, 2011**

Federal Grantor/ Pass - Through Grantor/ Program Title/Cluster Title	Federal CFDA Number	Total Federal Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>		
Section 8 Housing Choice Vouchers Program	14.871	\$ 4,071,571
Passed - through Suffolk County Community Development Block Grant	14.218	<u>78,064</u>
		<u>4,149,635</u>
<b><u>U.S. Department of Justice</u></b>		
Passed - through Office of the New York State Comptroller Federal Surplus Property Transfer Program	16.578	22,907
Edward Byrne Memorial Justice Assistance Grant Program	16.738	700
Bulletproof Vest Partnership Program	16.607	<u>5,925</u>
		<u>29,532</u>
<b><u>U.S. Department of Transportation</u></b>		
Passed - through Office of the New York State Comptroller Highway Planning and Construction (FEMA)	20.205	<u>9,562</u>
<b><u>Environmental Protection Agency</u></b>		
National Estuary Program	66.456	<u>6,250</u>
<b><u>U.S. Department of Energy</u></b>		
State Energy Program	81.042	<u>126,600</u>
<b><u>U.S. Department of Health Services</u></b>		
Passed - through Suffolk County Administration on Aging Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.052	<u>7,470</u>
<b><u>U.S. Department of Homeland Security</u></b>		
Emergency Management Performance Grants	97.042	<u>16,879</u>
<b><u>Highway Safety Cluster</u></b>		
<b><u>U.S. Department of Transportation</u></b>		
Passed - through Office of the New York State Comptroller State and Community Highway Safety	20.600	14,376
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	<u>33,707</u>
		<u>48,083</u>
<b><u>Aging Cluster</u></b>		
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed - through Suffolk County Administration on Aging Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	282,153
Nutrition Services Incentive Program	93.053	<u>52,112</u>
		<u>334,265</u>
<b>TOTAL FEDERAL EXPENDITURES</b>		<u>\$ 4,728,276</u>

**TOWN OF SOUTHAMPTON**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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 aggregate discretely presented component units, 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, 2011, which collectively comprise the Town of Southampton's basic financial statements and have issued our report thereon dated April 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

# Nawrocki Smith LLP

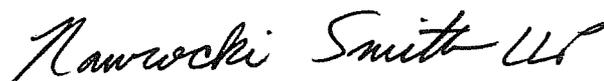
## Compliance and Other Matters

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town of Southampton, in a separate letter dated April 24, 2012.

This report is intended solely for the information and use of management, the Supervisor, Audit Committee, Town Board, 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  
April 24, 2012

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



Nawrocki Smith LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

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 programs for the year ended December 31, 2011. The Town of Southampton's major federal programs are 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 program for the year ended December 31, 2011.

Internal Control Over Compliance

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

## Nawrocki Smith LLP

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

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

We noted certain other matters that we reported to management of the Town of Southampton in a separate letter dated April 24, 2012.

This report is intended solely for the information and use of management, the Supervisor, Audit Committee, Town Board, 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  
April 24, 2012



**TOWN OF SOUTHAMPTON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. No deficiencies or material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance were disclosed during the audit.
4. No deficiencies or material weaknesses were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Town of Southampton expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs 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:

CFDA Number

Name of Federal Program

14.871

U.S. Department of Housing and Urban Development -  
Section 8 Housing Choice Vouchers Program

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Auditee was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None reported.

**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, 2011**

**Findings - Financial Statement Audit**

07-03 Recommendation - It was recommended that 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.

**Findings And Questioned Costs - Major Federal Award Programs Audit**

None reported.

TOWN OF SOUTHAMPTON  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	Special Revenue Funds		Special Districts Funds								Total Non-Major Governmental Funds	
	Special Grant Fund	Special Fund	Trustees of the Freeholders and Commonalty	Fire Protection Districts	Lighting Districts	Public Parking Districts	Water Districts	Ambulance Districts	Coastal Erosion	Parks Districts		
<b>ASSETS</b>												
Cash and cash equivalents	\$ 240,900	\$ 426,434	\$ 3,045	\$ 56,843	\$ 435,955	\$ 98,481	\$ 693,900	\$ 283,246	\$ 97,608	\$ 279,568	\$ 2,615,960	
Restricted cash	1,455,075	5,267,297	740,054	-	-	62,370	98,301	-	-	-	7,623,097	
Accounts receivable, net	118,869	5,738	-	-	-	-	631,281	-	-	-	755,868	
Due from fiduciary funds	-	-	-	-	-	-	670,389	-	-	-	670,389	
Prepaid expenses	-	633	-	-	8,074	-	52,560	-	-	-	61,267	
Total assets	\$ 1,814,844	\$ 5,700,102	\$ 743,099	\$ 56,843	\$ 444,029	\$ 160,851	\$ 2,146,431	\$ 283,246	\$ 97,608	\$ 279,568	\$ 11,726,621	
<b>LIABILITIES</b>												
Accounts payable	\$ 25,268	\$ 351,680	\$ -	\$ 20,207	\$ 22,806	\$ -	\$ 131,620	\$ -	\$ 11,753	\$ 5,370	\$ 568,904	
Accrued liabilities	16,450	-	3,045	-	-	-	1,235	-	38	-	20,768	
Due to fiduciary funds	268,014	79,933	-	59,082	92	-	191	-	100,000	-	507,312	
Due to other governments	-	-	-	23,221	-	-	-	-	-	-	23,221	
Total liabilities	309,732	431,613	3,045	102,510	22,898	-	133,046	-	111,791	5,370	1,120,205	
<b>DEFERRED INFLOWS</b>												
Deferred property taxes	50,037	359	-	13,754	8,527	1,872	17,374	45,236	7,837	9,086	154,082	
Total deferred inflows	50,037	359	-	13,754	8,527	1,872	17,374	45,236	7,837	9,086	154,082	
<b>FUND BALANCE (DEFICIT)</b>												
Fund balance:												
Nonspendable	-	633	-	-	8,074	-	52,560	-	-	-	61,267	
Restricted	1,455,075	5,267,297	740,054	-	-	62,370	98,301	-	-	-	7,623,097	
Assigned	-	-	-	-	404,530	96,609	1,845,150	238,010	-	265,112	2,849,411	
Unassigned	-	-	-	(59,421)	-	-	-	-	(22,020)	-	(81,441)	
Total fund balance (deficit)	1,455,075	5,267,930	740,054	(59,421)	412,604	158,979	1,996,011	238,010	(22,020)	265,112	10,452,334	
Total liabilities, deferred inflows and fund balance (deficit)	\$ 1,814,844	\$ 5,700,102	\$ 743,099	\$ 56,843	\$ 444,029	\$ 160,851	\$ 2,146,431	\$ 283,246	\$ 97,608	\$ 279,568	\$ 11,726,621	

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

**TOWN OF SOUTHAMPTON**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE (DEFICIT) - NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Special Revenue Funds			Special Districts Funds							Total Non-Major Governmental Funds	
	Special Grant Fund	Special Fund	Trustees of the Freeholders and Commonalty	Fire Protection Districts	Lighting Districts	Public Parking Districts	Water Districts	Ambulance Districts	Coastal Erosion	Parks Districts		
<b>REVENUES</b>												
Real property taxes	-	\$ 20,000	\$ -	\$ 852,904	\$ 564,456	\$ 107,984	\$ 1,082,412	\$ 2,820,465	\$ -	\$ 599,627	\$ 6,047,848	
Other real property tax items	-	2	-	6,169	2,105	136	32,586	73,195	-	1,558	115,752	
Departmental income	-	-	589,178	-	-	-	1,962,671	-	-	-	2,561,849	
Use of money and property	1,466	16,690	1,860	128	1,346	416	288,366	1,561	226	765	312,844	
Miscellaneous local sources	8,035	277,769	9,160	-	-	-	25,695	-	-	-	320,659	
State aid	-	87,446	-	-	-	-	-	-	-	-	87,446	
Federal aid	-	127,300	-	-	-	-	-	-	-	-	4,276,935	
<b>Total revenues</b>	<b>4,159,136</b>	<b>529,207</b>	<b>600,218</b>	<b>859,201</b>	<b>567,908</b>	<b>108,536</b>	<b>3,391,730</b>	<b>2,895,221</b>	<b>226</b>	<b>601,950</b>	<b>13,713,333</b>	
<b>EXPENDITURES</b>												
General governmental support	-	300,105	-	-	-	-	-	-	-	-	300,105	
Public safety	-	-	-	783,317	-	-	-	-	-	-	783,317	
Health	-	-	-	-	-	-	-	2,606,820	-	-	2,606,820	
Transportation	-	-	-	-	366,418	72,012	-	-	-	-	438,430	
Economic assistance and opportunity	-	555	-	-	-	-	-	-	-	-	555	
Culture and recreation	-	186,011	-	-	-	-	-	-	-	-	186,011	
Home and community services	3,759,877	14,966	832,970	-	-	-	2,137,448	-	86,862	374,057	6,469,930	
Employee benefits	-	16,318	-	-	65,537	-	452,447	221,961	-	-	6,745,261	
Debt service - Principal	-	-	-	-	46,862	20,335	525,985	18,207	-	65,391	676,780	
Interest	-	-	-	-	17,235	4,444	214,935	5,372	-	29,675	271,661	
<b>Total expenditures</b>	<b>3,759,877</b>	<b>517,955</b>	<b>832,970</b>	<b>789,317</b>	<b>496,052</b>	<b>96,791</b>	<b>3,330,815</b>	<b>2,952,360</b>	<b>86,862</b>	<b>469,123</b>	<b>13,226,122</b>	
Excess (deficiency) of revenues over (under) expenditures	399,259	11,252	(232,752)	75,884	71,856	11,745	60,915	42,861	(86,636)	132,827	487,211	
<b>OTHER FINANCING SOURCES (USES)</b>												
Premium on debt issuance	-	-	-	-	-	-	3,527	-	-	-	3,527	
Interfund transfers in	-	1,000	-	-	-	-	94,773	-	-	2,000	97,773	
Interfund transfers out	-	(515,272)	-	-	-	-	-	-	-	-	(515,272)	
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(514,272)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,300</b>	<b>-</b>	<b>-</b>	<b>2,000</b>	<b>(413,972)</b>	
Changes in fund balance	399,259	(503,020)	(232,752)	75,884	71,856	11,745	159,215	42,861	(86,636)	134,827	73,239	
Fund balance (deficit), beginning of year, as restated (see Note 18)	1,055,816	5,770,950	972,806	(135,305)	340,748	147,234	1,836,796	195,149	64,616	130,285	10,379,095	
<b>Fund balance (deficit), end of year</b>	<b>\$ 1,455,075</b>	<b>\$ 5,267,930</b>	<b>\$ 740,054</b>	<b>\$ (59,421)</b>	<b>\$ 412,604</b>	<b>\$ 158,979</b>	<b>\$ 1,996,011</b>	<b>\$ 238,010</b>	<b>\$ (22,020)</b>	<b>\$ 265,112</b>	<b>\$ 10,452,334</b>	

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