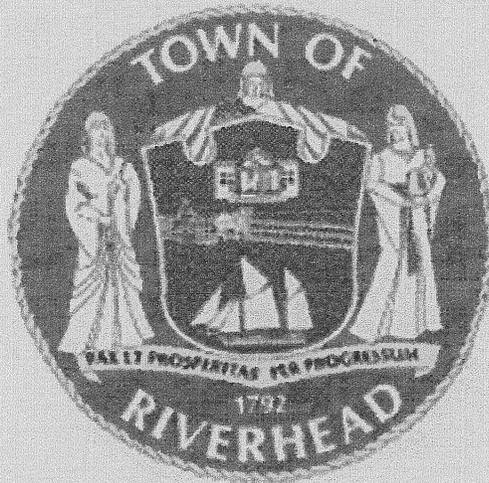


TOWN OF RIVERHEAD, NEW YORK
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005



MARKOWITZ, FENELON & BANK, LLP
CERTIFIED PUBLIC ACCOUNTANTS
EAST HAMPTON, NEW YORK
SAG HARBOR, NEW YORK
RIVERHEAD, NEW YORK
SOUTHAMPTON, NEW YORK

TOWN OF RIVERHEAD, NEW YORK
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005



BASIC FINANCIAL STATEMENTS
Town of Riverhead, New York
Year Ended December 31, 2005

TABLE OF CONTENTS

INTRODUCTORY SECTION:	<u>Page</u>
List of Principal Officials	1
FINANCIAL SECTION:	
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis (unaudited)	4 - 10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses and Changes in Fund Net Assets	18

BASIC FINANCIAL STATEMENTS
Town of Riverhead, New York
Year Ended December 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Net Assets	20
Notes to the Basic Financial Statements	21 - 43
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	44
Note to Budgetary Comparison Schedule – General Fund	45

TOWN OF RIVERHEAD
TOWN OFFICIALS AND DEPARTMENT HEADS
AS OF
DECEMBER 31, 2005

Philip Cardinale, Supervisor

Barbara Blass, Councilwoman

George Bartunek, Councilman

Edward Densieski, Councilman

Rose Sanders, Councilwoman

ELECTED OFFICIALS

Laverne Tennenberg

Chairwoman, Board of Assessors

Madelyn Sendlewski

Board of Assessors

Paul Leszczyński

Board of Assessors

Mark Kwasna

Highway Superintendent

Maryann Wowak-Heilbrunn

Receiver of Taxes

Barbara A. Grattan

Town Clerk

Richard Ehlers

Town Justice

Allen M. Smith

Town Justice

DEPARTMENT HEADS

John J. Hansen

Accounting Department

Leroy E. Barnes, Jr.

Building Department

Andrea Lohneiss

Community Development

Kenneth Testa

Engineering Department

Richard Hanley

Planning Department

Chief David Hegermiller

Police Department

John Reeve

Sanitation Department

Michael Reichel

Sewer District

Dawn Thomas

Town Attorney

Gary Pendzick

Water Department

INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Town Board
Town of Riverhead
Riverhead, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York, as of and for the year ended December 31, 2005, 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 of Riverhead, New York's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006, on our consideration of the Town of Riverhead, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4-10 and 44-45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Riverhead, New York's basic financial statements.

Markowitz Fenelon & Bank LLP

Markowitz, Fenelon & Bank, LLP
Riverhead, New York
December 1, 2006

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

The Town of Riverhead's (the "Town") discussion and analysis is designed to (a) assist the reader in focusing on significant issues, (b) provide an overview of the Town's financial activity, (c) identify changes in the Town's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. Please read it in conjunction with the Town's financial statements.

Financial Highlights

- The Town's net assets decreased by \$23,312,811 (or 22.98%). 15,750,000 of the decrease is due to a projected liability to complete the capping at the landfill. The governmental net assets decreased by \$25,837,664 (or 38.51%) and the business-type net assets increased by \$2,524,853 (or 7.35%).
- The assets of the Town exceeded liabilities at the close of 2005 by \$78,149,355.
- As of December 31, 2005, the Town's governmental funds reported combined ending fund balances of \$38,503,731. Of this total \$32,904,780 is unreserved and available to meet the Town's current and future needs.
- As of December 31, 2005, unreserved fund balance for the general fund was \$7,655,230 or 26.94% of the total general fund expenditures.
- The Town's debt payable increased \$9,341,742 or 10.68% due to the 2005 bond issue; long-term debt information can be found in note 5 on pages 34-37.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. To assess the overall health of the Town, other indicators, including non-financial indicators like the Town's property tax base, bond ratings, the condition of its infrastructure, and sources of non-tax revenue, should also be considered.

The Statement of Activities presents information showing how the Town's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government support, public safety,

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

health, transportation, economic assistance and opportunity, culture and recreation, and home and community services. The government-wide financial statements can be found on pages 11-12.

Component Units, which are other governmental units over which the Town can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements. The focus of the statements is clearly on the primary government and the presentation allows the user to address the relative relationship with the component unit. Please refer to the Management Discussion and Analysis of the Town of Riverhead Industrial Development Agency separately issued basic financial statements.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories - governmental funds, proprietary funds and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as, balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 14 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Capital Projects, and Community Preservation Fund, all of which are considered to be major funds. Data from the other 10 funds are combined into a single, aggregated presentation. The basic governmental financial statements can be found on pages 13-16.

Proprietary Funds – The Town maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses its internal service funds to account for its fleet services, risk management and employee health and disability programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water District and Sewer District funds since both are considered to be major funds of the Town. All internal service

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

funds are combined into a single aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 17-19.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. While these funds represent trust responsibilities of the Town, these assets are restricted in purpose and do not represent discretionary assets of the Town. The basic fiduciary fund financial statement can be found on page 20.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-43.

Government –Wide Financial Analysis

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$78,149,355 as of December 31, 2005.

The largest portion of the Town's net assets (71.98%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Riverhead's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 43,141,311	\$ 39,704,054	\$ 13,304,302	\$ 13,418,729	\$ 56,445,613	\$ 53,122,783
Capital assets	98,930,027	100,932,917	42,800,627	41,311,582	141,730,654	142,244,499
Total assets	<u>142,071,338</u>	<u>140,636,971</u>	<u>56,104,929</u>	<u>54,730,311</u>	<u>198,176,267</u>	<u>195,367,282</u>
Long-term liabilities	94,497,574	68,086,045	17,342,809	18,529,423	111,840,383	86,615,468
Other liabilities	6,320,629	5,460,127	1,865,900	1,829,521	8,186,529	7,289,648
Total liabilities	<u>100,818,203</u>	<u>73,546,172</u>	<u>19,208,709</u>	<u>20,358,944</u>	<u>120,026,912</u>	<u>93,905,116</u>
Net assets:						
Investment in capital assets						
net of related debt	31,689,522	31,579,892	24,561,681	22,070,879	56,251,203	53,650,771
Restricted	(62,390,954)	(49,778,912)	6,112,355	7,443,131	(56,278,599)	(42,335,781)
Unrestricted	71,954,567	85,289,819	6,222,184	4,857,357	78,176,751	90,147,176
Total net assets	<u>\$ 41,253,135</u>	<u>\$ 67,090,799</u>	<u>\$ 36,896,220</u>	<u>\$ 34,371,367</u>	<u>\$ 78,149,355</u>	<u>\$ 101,462,166</u>

Analysis of the Town's Operations – Overall the Town had a decrease in net assets of \$23,312,811.

The following table provides a summary of the Town's operations for the year ended December 31, 2005.

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

Town of Riverhead's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 7,655,079	\$ 8,293,656	\$ 6,294,406	\$ 5,596,910	\$ 13,949,485	\$ 13,890,566
Operating contributions	608,216	2,005,528	-	-	608,216	2,005,528
Capital contributions	2,689,062	1,504,410	1,746,284	2,549,371	4,435,346	4,053,781
General revenues:						
Real property taxes	30,240,424	27,756,536	2,017,435	2,431,702	32,257,859	30,188,238
Real property tax items	363,796	279,523	-	-	363,796	279,523
Sales tax	552,656	552,656	146,688	146,688	699,344	699,344
CPF tax	6,075,068	6,023,336	-	-	6,075,068	6,023,336
Mortgage tax	2,718,503	2,758,355	-	-	2,718,503	2,758,355
Investment earnings	1,432,633	644,133	332,478	143,816	1,765,111	787,949
Sale of property	423,894	758,455	-	-	423,894	758,455
Miscellaneous	-	400,000	-	-	-	400,000
Transfers	-	-	-	-	-	-
Total revenues	\$ 52,759,331	\$ 50,976,588	\$ 10,537,291	\$ 10,868,487	\$ 63,296,622	\$ 61,845,075
Expenses:						
General government support	\$ 8,866,389	\$ 8,188,272	-	-	\$ 8,866,389	\$ 8,188,272
Public safety	16,459,985	15,306,439	-	-	16,459,985	15,306,439
Health	576,969	635,956	-	-	576,969	635,956
Transportation	8,547,423	6,933,543	-	-	8,547,423	6,933,543
Economic assist & oppority	2,190,637	2,033,136	-	-	2,190,637	2,033,136
Culture and recreation	2,671,965	2,110,422	-	-	2,671,965	2,110,422
Home and community services	36,407,257	21,340,764	8,012,438	8,133,757	44,419,695	29,474,521
Debt service - interest	2,876,370	2,938,780	-	-	2,876,370	2,938,780
Total Expenses	\$ 78,596,995	\$ 59,487,312	\$ 8,012,438	\$ 8,133,757	\$ 86,609,433	\$ 67,621,069
Change in net assets	(25,837,664)	(8,510,724)	2,524,853	2,734,730	(23,312,811)	(5,775,994)
Net assets - beginning	67,090,799	75,601,523	34,371,367	31,636,637	101,462,166	107,238,160
Net assets - ending	\$ 41,253,135	\$ 67,090,799	\$ 36,896,220	\$ 34,371,367	\$ 78,149,355	\$ 101,462,166

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

At December 31, 2005 the Town's governmental funds reported combined ending fund balances of \$38,503,731. Approximately 34% of the total amount (\$13,089,192) constitutes unreserved fund balance that is available to meet the Town's current and future operational and capital needs. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$5,023,320 to pay for encumbrances, \$575,631 reserved for designated funds and \$19,815,588 to pay for current and future debt service.

The general fund is the chief operating fund of the Town. At December 31, 2005 unreserved fund balance of the general fund was \$7,655,230, while total fund balance of the general fund reached \$8,775,495. As a measure of general funds liquidity, it may be useful to compare both unreserved fund balance and total fund balance of the general fund to total general fund expenditures. Unreserved fund balance represents 26.94% of total general fund expenditures, while total fund balance represents 30.89% of the same amount.

General fund revenue and operating transfers of \$31,185,416 exceeded budget by \$946,031 and expenditures and operating transfers (excluding encumbrances) totaled \$30,892,472, less than budget by \$3,313,800.

Due to actual revenues being more than budgeted and actual expenses being less than budgeted, the actual fund balance increased for the year ended December 31, 2005 by \$292,944.

In 2001 and 2002, the Town deposited funds from the sale of the core property of the Calverton Facility to be used for debt reduction. Debt service fund balance increased in 2005 by \$900,260 and was primarily due to the use of community preservation tax dedicated for debt reduction of open space and farmland preservation.

Proprietary Funds – The Town's proprietary fund statements provide the same type of information found in the government- wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are water - \$1,391,776 and sewer - \$4,830,408. Water had a net assets increase of \$1,169,788. Sewer had a net assets increase of \$1,355,065.

General Fund Budgetary Highlights – The Town made revisions to the original appropriations approved by the Town Board. Overall these changes resulted in an increase in budgeted expenditures from the original budget of 4.20% or \$1,232,334. The majority of the increase was due to, in public safety, an increased effort by staff in the police department and in employee benefits, an increase in retirement costs.

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of December 31, 2005 amounts to \$141,730,654 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, and construction in progress.

Major capital asset events during the current year included the following:

- The purchase of development rights of farmland and acquisitions of open space in 2005 totaled \$4,120,229.

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

**Capital Assets at Year-End
Net of Accumulated Depreciation**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 63,704,992	\$ 59,584,763	\$ 3,648,751	\$ 3,648,751	\$ 67,353,743	\$ 63,233,514
Buildings	3,810,232	3,948,516	7,725,163	8,056,115	11,535,395	12,004,631
Improvements	26,789,315	32,371,657	21,718,228	22,422,379	48,507,543	54,794,036
Equipment	4,625,488	4,862,851	536,224	652,098	5,161,712	5,514,949
Construction in Progress	-	165,130	9,172,261	6,532,239	9,172,261	6,697,369
Total	<u>\$98,930,027</u>	<u>\$100,932,917</u>	<u>\$42,800,627</u>	<u>\$41,311,582</u>	<u>\$141,730,654</u>	<u>\$142,244,499</u>

Additional information on the Town's capital assets can be found in note 4 on pages 33-34.

Debt Administration

At December 31, 2005, the Town had total debt outstanding of \$96,771,637 as compared to \$87,429,895 in the prior year. During the year \$6,093,258 of debt was retired. New York State statutes limit the amount of general obligation debt a governmental unit may issue to 7% of its five-year valuation. The debt limit excludes water debt and sewer debt, the business-type activities. The current debt-limitation for the Town is \$284,547,784, which is significantly in excess of the Town's outstanding long-term debt. Therefore, the governmental activities result in exhausting 27.68% of the debt limit.

**Outstanding Debt at Year End
Bonds & Notes Payable**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$78,756,454	\$68,068,192	\$17,981,183	\$19,240,703	\$96,737,637	\$87,308,895
Bond Anticipation Notes	34,000	121,000	-	-	34,000	121,000
Total	<u>\$78,790,454</u>	<u>\$68,189,192</u>	<u>\$17,981,183</u>	<u>\$19,240,703</u>	<u>\$96,771,637</u>	<u>\$87,429,895</u>

During the year, the Town's total debt increased by \$9,341,742 or 10.68%.

**Town of Riverhead, New York
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)**

The Town issued \$15,435,000 General Obligation Public Improvement Bonds dated August 1, 2005.

<u>Purpose</u>	<u>Amount</u>
Reclamation of Youngs Avenue Landfill	\$ 11,000,000
Open Space Preservation	3,000,000
Electrical Generator – Police / Court Building	10,000
Computer Hardware and Software	15,000
Town Hall Annex	250,000
Upper Mills Dam Improvement	70,000
Railroad Avenue Parking	320,000
2004 Highway Vehicles	140,000
Route 58 Commercial Sewer District	95,000
Scavenger Waste Headworks	35,000
Resurface Various Town Roads	<u>500,000</u>
	<u>\$ 15,435,000</u>

The voters of the Town approved the implementation of a real estate transfer tax in the amount of 2% against the proceeds of the sale of real property in excess of \$150,000 for developed property and in excess of \$100,000 for undeveloped property. The tax is to be collected on every transaction through the year 2020. These funds are dedicated by the Town Board to pay the debt service generated by the acquisition of open space and purchase of farmland development rights.

The Town enjoys an A1 rating from Moody's Investors Service Inc. and A+ rating from Standard & Poor's Corporation. All of the Town's Bonds are insured thus holding a Triple A credit rating from both Moody's and Standard & Poor's.

Additional information on the Town's long-term debt can be found in note 5 on pages 34-37.

Economic Factors and Next Year's Budget And Rates

Next year's budget will increase by \$4,265,654 or 8.67% with the majority of this increased spending for General Fund (\$2,111,225), Highway Fund (\$312,327), Water District (\$388,999) Sewer District (\$174,861), and the Refuse & Garbage District (\$1,201,125).

Increasing property values and a growing tax base are expected to continue. The tax base grew in 2005 by \$22,111,130 or 2.91%.

The Town wide tax rate decreased by \$.011 per \$1000 of assessed value or .03% for the year 2006

Contacting the Town's Financial Management

This financial report is designed to provide a general overview of the Town's finances. If you have any questions about this report or need any additional information, contact the Financial Administrator at Town Hall, 200 Howell Avenue, Riverhead, New York, 11901 or by telephone 631-727-3200.

**TOWN OF RIVERHEAD
STATEMENT OF NET ASSETS
AS OF
DECEMBER 31, 2005**

	PRIMARY GOVERNMENT			COMPONENT UNITS I.D.A.
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
CASH	\$ 943,454	\$ 2,665,870	\$ 3,609,324	\$ 197,341
CASH IN TIME CERTIFICATES	33,613,500	7,895,000	41,508,500	-
PETTY CASH	3,375	500	3,875	-
CASH FROM OBLIGATIONS	-	(248,964)	(248,964)	-
CASH WITH FISCAL AGENT	-	558,339	558,339	-
ACCOUNTS RECEIVABLE	2,021,370	-	2,021,370	263
ACCRUED INTEREST RECEIVABLE	25,649	10,364	36,013	-
BILLINGS RECEIVABLE	106,818	587,283	694,101	-
DUE FROM OTHER GOVERNMENTS	137,990	-	137,990	-
INTERNAL BALANCES	504,970	(504,970)	-	-
INVENTORY	117,952	64,499	182,451	-
RESTRICTED ASSETS:				
CASH, SPECIAL RESERVES	5,115,533	67,448	5,182,981	-
CASH, CUSTOMER DEPOSITS	-	458,933	458,933	-
CASH IN TIME CERTIFICATES, SPECIAL RESERVES	550,700	1,750,000	2,300,700	-
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION) (SEE NOTE 4)				
LAND	63,704,992	3,648,751	67,353,743	-
BUILDINGS	3,810,232	7,725,163	11,535,395	-
IMPROVEMENTS OTHER THAN BUILDINGS	26,789,315	21,718,228	48,507,543	-
MACHINERY AND EQUIPMENT	4,625,488	536,224	5,161,712	1,635
CONSTRUCTION IN PROGRESS	-	9,172,261	9,172,261	-
TOTAL ASSETS	142,071,338	56,104,929	198,176,267	199,239
LIABILITIES				
ACCOUNTS PAYABLE	86,238	280,748	366,986	9,955
DEFERRED REVENUES	-	770	770	-
SERIAL BONDS INTEREST PAYABLE - CURRENT	518,364	127,240	645,604	-
DUE TO OTHER GOVERNMENTS	304,738	11,606	316,344	-
NONCURRENT LIABILITIES: (SEE NOTE 5)				
DUE WITHIN ONE YEAR	5,411,289	1,445,536	6,856,825	-
DUE IN MORE THAN ONE YEAR	94,497,574	17,342,809	111,840,383	-
TOTAL LIABILITIES	100,818,203	19,208,709	120,026,912	9,955
NET ASSETS				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	31,689,522	24,561,681	56,251,203	-
RESTRICTED FOR:				
DEBT SERVICE	(56,499,430)		(56,499,430)	-
CAPITAL PURPOSES	2,409,340	2,101,883	4,511,223	-
COMMUNITY PRESERVATION FUND	3,411,652		3,411,652	-
OTHER PURPOSES	(11,712,516)	4,010,472	(7,702,044)	-
UNRESTRICTED	71,954,567	6,222,184	78,176,751	189,284
TOTAL NET ASSETS	\$ 41,253,135	\$ 36,896,220	\$ 78,149,355	\$ 189,284

TOWN OF RIVERHEAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2005

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			COMPONENT UNIT INDUSTRIAL DEVELOPMENT AGENCY
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES:								
GENERAL GOVERNMENT	\$ 8,866,389	\$ 4,320,447	\$ 101,968	\$ 15,480	\$ (4,428,494)	\$ -	\$ (4,428,494)	\$ -
PUBLIC SAFETY	16,459,985	1,501,058	174,704	66,814	(14,717,309)	-	(14,717,309)	-
HEALTH	576,969	46,120	-	-	(530,849)	-	(530,849)	-
TRANSPORTATION	8,547,423	4,078	-	408,382	(8,134,963)	-	(8,134,963)	-
ECONOMIC ASSISTANCE AND OPPORTUNITY	2,190,637	106,687	223,429	62,574	(1,797,947)	-	(1,797,947)	-
CULTURE AND RECREATION	2,671,965	1,277,978	-	50,000	(1,343,987)	-	(1,343,987)	-
HOME AND COMMUNITY SERVICES	36,407,257	398,711	108,115	2,085,712	(33,814,719)	-	(33,814,719)	-
INTEREST ON LONG-TERM DEBT	2,876,370	-	-	-	(2,876,370)	-	(2,876,370)	-
TOTAL GOVERNMENTAL ACTIVITIES (SEE NOTE 4)	78,596,995	7,655,079	608,216	2,689,062	(67,644,638)	-	(67,644,638)	-
BUSINESS-TYPE ACTIVITIES:								
WATER	4,638,910	3,080,326	-	1,383,252	-	(375,332)	(375,332)	-
SEWER	3,173,528	3,214,080	-	363,032	-	403,584	403,584	-
TOTAL BUSINESS-TYPE ACTIVITIES	8,012,438	6,294,406	-	1,746,284	-	28,252	28,252	-
TOTAL PRIMARY GOVERNMENT	\$ 86,609,433	\$ 13,949,485	\$ 608,216	\$ 4,435,346	\$ (67,644,638)	\$ 28,252	\$ (67,616,386)	\$ -
COMPONENT UNIT:								
I.D.A.	\$ 157,436	\$ 138,823	\$ 25,000	\$ -	-	-	-	\$ 6,387
TOTAL COMPONENT UNIT	157,436	138,823	25,000	-	-	-	-	6,387
GENERAL REVENUES:								
PROPERTY TAXES								
REAL PROPERTY TAX ITEMS					30,240,424	2,017,435	32,257,859	-
C.P.F. 2% TAXES					363,796	-	363,796	-
MORTGAGE TAX					6,075,068	-	6,075,068	-
SALES TAX					2,718,503	146,688	2,865,191	-
UNRESTRICTED INVESTMENT EARNINGS					552,656	332,478	885,134	256
GAIN ON SALE OF CAPITAL ASSETS					1,432,633	-	1,432,633	-
MISCELLANEOUS					423,894	-	423,894	-
TRANSFERS					-	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					41,806,974	2,496,601	44,303,575	256
CHANGES IN NET ASSETS					(25,837,664)	2,524,853	(23,312,811)	6,643
NET ASSETS - BEGINNING					67,090,799	34,371,367	101,462,166	182,641
NET ASSETS - ENDING					\$ 41,253,135	\$ 36,896,220	\$ 78,149,355	\$ 189,284

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS.

TOWN OF RIVERHEAD
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF
DECEMBER 31, 2005

	<u>GENERAL FUND</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>COMMUNITY PRESERVATION</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS						
CASH	\$ 1,955,189	\$ 489,181	\$ (2,667,077)	\$ 84,724	\$ 563,128	\$ 425,145
CASH IN TIME CERTIFICATES	6,500,000	15,438,000	-	2,800,000	4,700,000	29,438,000
PETTY CASH	3,025	-	-	-	350	3,375
ACCOUNTS RECEIVABLE	1,395,227	-	80,439	524,369	21,335	2,021,370
ACCRUED INTEREST RECEIVABLE	2,996	12,577	-	3,039	3,692	22,304
DUE FROM OTHER FUNDS	925,162	3,750,830	29,200	-	16,372	4,721,564
DUE FROM OTHER GOVERNMENTS	11,609	125,000	-	-	798	137,407
CASH, SPECIAL RESERVES	48,939	-	5,066,594	-	-	5,115,533
CASH IN TIME CERTIFICATES, SPECIAL RESERVES	550,700	-	-	-	-	550,700
TOTAL ASSETS	<u>11,392,847</u>	<u>19,815,588</u>	<u>2,509,156</u>	<u>3,412,132</u>	<u>5,305,675</u>	<u>42,435,398</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
ACCOUNTS PAYABLE	53,579	-	-	-	9,240	62,819
BOND ANTICIPATION NOTES PAYABLE	-	-	34,000	-	-	34,000
DUE TO OTHER FUNDS	2,388,126	-	65,407	480	1,078,162	3,532,175
DUE TO EMPLOYEES' RETIREMENT SYSTEM	175,647	-	-	-	926	176,573
DUE TO OTHER GOVERNMENTS	-	-	409	-	125,691	126,100
TOTAL LIABILITIES	<u>2,617,352</u>	<u>-</u>	<u>99,816</u>	<u>480</u>	<u>1,214,019</u>	<u>3,931,667</u>
FUND BALANCES:						
RESERVED FOR:						
ENCUMBRANCES	544,634	-	4,238,815	7,377	232,494	5,023,320
MISCELLANEOUS RESERVES	575,631	-	-	-	-	575,631
UNRESERVED, REPORTED IN:						
GENERAL FUND	7,655,230	-	-	-	-	7,655,230
SPECIAL REVENUE FUNDS	-	-	-	-	3,859,162	3,859,162
COMMUNITY PRESERVATION FUNDS	-	-	-	3,404,275	-	3,404,275
CAPITAL PROJECTS FUNDS	-	-	(1,829,475)	-	-	(1,829,475)
DEBT SERVICE FUNDS	-	19,815,588	-	-	-	19,815,588
TOTAL FUND BALANCES	<u>8,775,495</u>	<u>19,815,588</u>	<u>2,409,340</u>	<u>3,411,652</u>	<u>4,091,656</u>	<u>38,503,731</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,392,847</u>	<u>\$ 19,815,588</u>	<u>\$ 2,509,156</u>	<u>\$ 3,412,132</u>	<u>\$ 5,305,675</u>	<u>\$ 42,435,398</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS.

**TOWN OF RIVERHEAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
AS OF
DECEMBER 31, 2005**

Total Fund Balances - total governmental funds \$ 38,503,731

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not current financial resources and; therefore, are not reported in the governmental funds balance sheet. Includes capital assets of Internal Service Funds.

Governmental capital assets	182,844,907	
Less accumulated depreciation	<u>(83,914,880)</u>	98,930,027

Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet. (518,364)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in government activities in the government-wide statement of net assets (net of amount allocated to capital assets and long-term liabilities). Internal Service Fund balances not included in other reconciling items:

Current Assets	4,974,844	
Accounts Payable	(23,419)	
Due to Employees' Retirement System	(2,065)	
Due to other funds	<u>(736,756)</u>	4,212,604

Long-term liabilities, including bonds payable are not due and payable in the current period and; therefore, are not reported in the governmental funds balance sheet. Includes Internal Service Funds' non-current liabilities.

Bonds Payable due within one year	5,377,289	
Bonds Payable due in more than one year	78,747,574	
Estimated landfill liability	<u>15,750,000</u>	<u>(99,874,863)</u>

Net assets of governmental activities \$ 41,253,135

**TOWN OF RIVERHEAD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED
DECEMBER 31, 2005**

	GENERAL FUND	DEBT SERVICE	CAPITAL PROJECTS	COMMUNITY PRESERVATION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
REAL PROPERTY TAXES	\$ 21,570,467	\$ -	\$ -	\$ -	\$ 8,669,957	\$ 30,240,424
REAL PROPERTY TAX ITEMS	363,796	-	-	6,075,068	-	6,438,864
NON PROPERTY TAX ITEMS	552,656	-	-	-	-	552,656
DEPARTMENTAL INCOME	2,494,061	-	-	-	759,990	3,254,051
INTERGOVERNMENTAL CHARGES	66,320	-	230,253	-	-	296,573
USE OF MONEY AND PROPERTY	579,304	467,758	80,154	65,346	266,213	1,458,775
LICENSES AND PROPERTY	75,503	-	-	-	-	75,503
FINES AND FORFEITURES	493,141	-	-	-	-	493,141
SALE OF PROPERTY AND COMPENSATION FOR LOSS	710,855	-	-	-	17,662	728,517
MISCELLANEOUS LOCAL SOURCES	135,519	16,129	28,750	-	1,407	181,805
INTERFUND REVENUES	826,446	60,000	-	-	-	886,446
NEW YORK STATE AID	3,191,789	-	2,304,637	-	-	5,496,426
FEDERAL AID	-	-	-	-	154,173	154,173
TOTAL REVENUES	<u>31,059,857</u>	<u>543,887</u>	<u>2,643,794</u>	<u>6,140,414</u>	<u>9,869,402</u>	<u>50,257,354</u>
EXPENDITURES						
CURRENT:						
GENERAL GOVERNMENT SUPPORT	6,294,278	69,984	3,514,925	-	-	9,879,187
PUBLIC SAFETY	11,621,583	-	119,178	-	-	11,740,761
HEALTH	4,619	-	60,894	-	477,790	543,303
TRANSPORTATION	307,118	-	2,525,796	-	3,735,903	6,568,817
ECONOMIC ASSISTANCE AND OPPORTUNITY	900,227	-	722,262	137,847	89,685	1,850,021
CULTURE AND RECREATION	1,048,959	-	1,223,901	-	45,882	2,318,742
HOME AND COMMUNITY SERVICES	1,209,971	-	9,666,145	-	3,304,625	14,180,741
EMPLOYEE BENEFITS	7,025,135	-	-	5,668	990,033	8,020,836
DEBT:						
DEBT SERVICE, PRINCIPAL	-	4,175,738	-	-	-	4,175,738
DEBT SERVICE, INTEREST	-	2,570,394	-	-	-	2,570,394
TOTAL EXPENDITURES	<u>28,411,890</u>	<u>6,816,116</u>	<u>17,833,101</u>	<u>143,515</u>	<u>8,643,918</u>	<u>61,848,540</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,647,967	(6,272,229)	(15,189,307)	5,996,899	1,225,484	(11,591,186)
OTHER FINANCING SOURCES (USES)						
NOTES REDEEMED	-	-	87,000	-	-	87,000
SERIAL BONDS ISSUED	-	-	15,305,000	-	-	15,305,000
TRANSFER IN	125,559	7,210,489	1,673,115	-	40,750	9,049,913
TRANSFER OUT	(2,480,582)	(38,000)	(371,745)	(4,000,000)	(2,159,586)	(9,049,913)
TOTAL OTHER FINANCING SOURCES AND USES	<u>(2,355,023)</u>	<u>7,172,489</u>	<u>16,693,370</u>	<u>(4,000,000)</u>	<u>(2,118,836)</u>	<u>15,392,000</u>
NET CHANGE IN FUND BALANCES	292,944	900,260	1,504,063	1,996,899	(893,352)	3,800,814
FUND BALANCES - BEGINNING	8,482,551	18,915,328	905,277	1,414,753	4,985,008	34,702,917
FUND BALANCES - ENDING	<u>\$ 8,775,495</u>	<u>\$ 19,815,588</u>	<u>\$ 2,409,340</u>	<u>\$ 3,411,652</u>	<u>\$ 4,091,656</u>	<u>\$ 38,503,731</u>

TOWN OF RIVERHEAD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
DECEMBER 31, 2005

Net change in fund balances - total governmental funds \$ 3,800,814

Amounts reported for governmental activities in the statement of activities are different because:

Government 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. This is the amount of capital assets recorded in the current period.

Expenditures for capital assets 5,361,851

Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources.

Therefore, depreciation expense is not reported as an expenditure in governmental funds. Includes Internal Service Funds' depreciation expense of \$90,351.

(7,491,950)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments:

	(15,305,000)	
Bond and loan proceeds		
Principal payments	4,029,238	(11,275,762)

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.

	(560,415)	
Compensated Absences		
Estimated landfill closure and post-closure costs		(15,750,000)

Accrued interest expense on long-term debt is reported in the statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.

(228,975)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of amount allocated to depreciation expense.

	293,423	
Change in Net Assets		
Interest Expense	(77,001)	
Depreciation expense	90,351	306,773

Change in net assets of governmental activities \$ (25,837,664)

**TOWN OF RIVERHEAD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF
DECEMBER 31, 2005**

	<u>ENTERPRISE FUNDS</u>		<u>TOTALS</u>	<u>INTERNAL SERVICE FUNDS</u>
	<u>SEWER</u>	<u>WATER</u>		
ASSETS				
CURRENT ASSETS:				
CASH	\$ 477,313	\$ 2,188,557	\$ 2,665,870	\$ 518,309
CASH IN TIME CERTIFICATES	6,505,000	1,390,000	7,895,000	4,175,500
PETTY CASH	200	300	500	-
CASH FROM OBLIGATIONS	(248,964)	-	(248,964)	-
CASH WITH FISCAL AGENT	558,339	-	558,339	-
CASH, SPECIAL RESERVES	55,745	11,703	67,448	-
CASH IN TIME CERTIFICATES, SPECIAL RESERVES	-	1,750,000	1,750,000	-
CASH, CUSTOMER DEPOSITS	470,933	(12,000)	458,933	-
ACCRUED INTEREST RECEIVABLE	6,876	3,488	10,364	3,345
BILLINGS RECEIVABLE	69,272	518,011	587,283	106,818
DUE FROM OTHER FUNDS	51,997	-	51,997	52,920
DUE FROM OTHER GOVERNMENTS	-	-	-	-
INVENTORY	-	64,499	64,499	117,952
TOTAL CURRENT ASSETS	<u>7,946,711</u>	<u>5,914,558</u>	<u>13,861,269</u>	<u>4,974,844</u>
NONCURRENT ASSETS:				
CAPITAL ASSETS:				
LAND	534,260	3,114,491	3,648,751	-
BUILDINGS	12,056,951	7,644,984	19,701,935	1,466,137
IMPROVEMENTS OTHER THAN BUILDINGS	20,653,883	34,031,377	54,685,260	479,443
MACHINERY AND EQUIPMENT	594,990	7,112,851	7,707,841	200,197
CONSTRUCTION WORK IN PROGRESS	3,843,412	5,328,849	9,172,261	-
LESS ACCUMULATED DEPRECIATION	<u>(28,574,370)</u>	<u>(23,541,051)</u>	<u>(52,115,421)</u>	<u>(515,590)</u>
TOTAL FIXED ASSETS (NET)	<u>9,109,126</u>	<u>33,691,501</u>	<u>42,800,627</u>	<u>1,630,187</u>
TOTAL NONCURRENT ASSETS	<u>9,109,126</u>	<u>33,691,501</u>	<u>42,800,627</u>	<u>1,630,187</u>
TOTAL ASSETS	<u>17,055,837</u>	<u>39,606,059</u>	<u>56,661,896</u>	<u>6,605,031</u>
LIABILITIES				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE	3,589	277,159	280,748	23,419
COMPENSATED ABSENCES	-	2,154	2,154	18,704
DEFERRED REVENUES	-	770	770	-
INTEREST PAYABLE	52,112	75,128	127,240	-
SERIAL BONDS PAYABLE	385,900	1,057,482	1,443,382	634,400
DUE TO EMPLOYEES' RETIREMENT SYSTEM	5,400	6,206	11,606	2,065
DUE TO OTHER FUNDS	241,227	315,740	556,967	736,756
TOTAL CURRENT LIABILITIES	<u>688,228</u>	<u>1,734,639</u>	<u>2,422,867</u>	<u>1,415,344</u>
NONCURRENT LIABILITIES:				
BONDS PAYABLE	6,286,377	10,251,424	16,537,801	2,325,400
COMPENSATED ABSENCES	206,550	598,458	805,008	144,400
TOTAL NONCURRENT LIABILITIES	<u>6,492,927</u>	<u>10,849,882</u>	<u>17,342,809</u>	<u>2,469,800</u>
TOTAL LIABILITIES	<u>7,181,155</u>	<u>12,584,521</u>	<u>19,765,676</u>	<u>3,885,144</u>
NET ASSETS				
NET ASSETS, INVESTMENT IN CAPITAL				
ASSETS NET RELATED DEBT	2,436,648	22,125,033	24,561,681	109,630
NET ASSETS, RESTRICTED FOR CAPITAL PURPOSES	966,521	1,135,362	2,101,883	-
NET ASSETS, RESTRICTED FOR OTHER PURPOSES	1,641,105	2,369,367	4,010,472	1,224,505
NET ASSETS, UNRESTRICTED	<u>4,830,408</u>	<u>1,391,776</u>	<u>6,222,184</u>	<u>1,385,752</u>
TOTAL NET ASSETS	<u>\$ 9,874,682</u>	<u>\$ 27,021,538</u>	<u>\$ 36,896,220</u>	<u>\$ 2,719,887</u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS.

**TOWN OF RIVERHEAD
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED
DECEMBER 31, 2005**

	ENTERPRISE FUNDS			INTERNAL
	<u>SEWER</u>	<u>WATER</u>	<u>TOTALS</u>	<u>SERVICE FUNDS</u>
OPERATING REVENUES:				
CHARGES FOR SALES AND SERVICES:				
WATER SALES		\$ 2,785,778	\$ 2,785,778	
SEWER RENTS	1,804,070		1,804,070	
SEWER CHARGES	929,266		929,266	
DEPARTMENTAL INCOME			-	10,025
WATER SERVICE CHARGES		24,000	24,000	
SERVICE OTHER DEPARTMENTS			-	2,657,819
INTERFUND REVENUES	26,306		26,306	
SEWER SERVICES OTHER GOVERNMENTS	<u>453,743</u>	-	<u>453,743</u>	-
TOTAL OPERATING REVENUES	<u>3,213,385</u>	<u>2,809,778</u>	<u>6,023,163</u>	<u>2,667,844</u>
OPERATING EXPENSES:				
ADMINISTRATION	797,032	1,590,420	2,387,452	1,285,675
EXCESS INSURANCE			-	563,651
JUDGMENTS AND CLAIMS			-	484,896
SEWAGE TREATMENT DISPOSAL	1,404,464		1,404,464	
SOURCE OF SUPPLY, POWER AND PUMP		1,253,646	1,253,646	
DEPRECIATION	365,777	996,624	1,362,401	90,351
EMPLOYEE BENEFITS	<u>383,873</u>	<u>506,310</u>	<u>890,183</u>	<u>136,905</u>
TOTAL OPERATING EXPENSES	<u>2,951,146</u>	<u>4,347,000</u>	<u>7,298,146</u>	<u>2,561,478</u>
OPERATING INCOME/(LOSS)	<u>262,239</u>	<u>(1,537,222)</u>	<u>(1,274,983)</u>	<u>106,366</u>
NONOPERATING REVENUES (EXPENSES):				
INTERGOVERNMENTAL			-	59,500
INVESTMENT EARNINGS	217,799	114,679	332,478	127,557
INTEREST EXPENSE	(222,382)	(491,910)	(714,292)	(77,001)
MISCELLANEOUS SOURCES		624	624	
RETIREMENT SYSTEM CREDITS	695		695	
TOWER RENTALS		269,924	269,924	
DEVELOPER FEES	363,032	1,383,252	1,746,284	
REAL PROPERTY TAXES	586,994	1,430,441	2,017,435	
NON PROPERTY TAX DISTRICT BY COUNTY	<u>146,688</u>	-	<u>146,688</u>	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,092,826</u>	<u>2,707,010</u>	<u>3,799,836</u>	<u>110,056</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,355,065	1,169,788	2,524,853	216,422
TRANSFERS IN	-	-	-	-
TRANSFERS OUT	-	-	-	-
CHANGE IN NET ASSETS	1,355,065	1,169,788	2,524,853	216,422
TOTAL NET ASSETS - BEGINNING	8,519,617	25,851,750	34,371,367	2,503,465
TOTAL NET ASSETS - ENDING	<u>\$ 9,874,682</u>	<u>\$ 27,021,538</u>	<u>\$ 36,896,220</u>	<u>\$ 2,719,887</u>

**TOWN OF RIVERHEAD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED
DECEMBER 31, 2005**

	ENTERPRISE FUNDS			INTERNAL
	SEWER	WATER	TOTALS	SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:				
CASH RECEIVED FROM PROVIDING SERVICES	\$ 4,044,035	\$ 4,418,945	\$ 8,462,980	\$ 2,647,255
CASH PAYMENTS CONTRACTUAL EXPENSE	(1,334,923)	(1,676,282)	(3,011,205)	(2,010,604)
CASH PAYMENTS PERSONAL SERVICE AND BENEFITS	(1,220,678)	(1,567,906)	(2,788,584)	(479,562)
OTHER OPERATING REVENUES	26,306	-	26,306	25
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>1,514,740</u>	<u>1,174,757</u>	<u>2,689,497</u>	<u>157,114</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
OPERATING GRANTS RECEIVED			-	59,500
TRANSFER TO/FROM OTHER FUND/ OTHER GOVERNMENTS	184,730	315,740	500,470	-
PAYMENT OF DEBT			-	(528,000)
INTEREST EXPENSES	-	-	-	(77,001)
NET CASH PROVIDED/(USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>184,730</u>	<u>315,740</u>	<u>500,470</u>	<u>(465,007)</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:				
PROCEEDS OF DEBT	130,000		130,000	
PRINCIPAL PAYMENTS DEBT	(364,536)	(1,024,984)	(1,389,520)	(59,500)
INTEREST EXPENSE	(222,382)	(491,910)	(714,292)	
CAPITAL CONTRIBUTIONS BY DEVELOPERS	363,032	1,382,082	1,745,114	
CAPITAL CONTRIBUTIONS BY OTHER FUNDS			-	
PAYMENT TO CONTRACTORS	(1,540,967)	(1,311,633)	(2,852,600)	(127,208)
CREDIT FROM NYS EMPLOYEES RETIREMENT SYSTEM	695		695	
CAPITAL GRANTS RECEIVED FROM OTHER GOVERNMENTS	3,993	-	3,993	-
NET CASH PROVIDED/(USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	<u>(1,630,165)</u>	<u>(1,446,445)</u>	<u>(3,076,610)</u>	<u>(186,708)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
PURCHASE OF INVESTMENTS	(6,505,000)	(3,140,000)	(9,645,000)	(4,175,500)
SALE OF INVESTMENTS	5,329,500	3,989,500	9,319,000	4,753,000
INTEREST INCOME	213,774	114,502	328,276	126,128
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	<u>(961,726)</u>	<u>964,002</u>	<u>2,276</u>	<u>703,628</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(892,421)	1,008,054	115,633	209,027
BALANCES - BEGINNING OF YEAR	2,205,786	1,180,207	3,385,993	309,283
BALANCES - END OF YEAR	<u>\$ 1,313,365</u>	<u>\$ 2,188,261</u>	<u>\$ 3,501,626</u>	<u>\$ 518,310</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
OPERATING INCOME/(LOSS)	\$ 1,000,421	\$ 164,938	\$ 1,165,359	\$ 106,365
DEPRECIATION EXPENSE	365,777	996,624	1,362,401	90,351
OTHER RECONCILING ITEMS:				
(INCREASE)/DECREASE IN BILLINGS		(96,948)	(96,948)	
(INCREASE)/DECREASE IN ACCOUNTS RECEIVABLE	123,274	3,954	127,228	(20,564)
(INCREASE)/DECREASE IN INVENTORY		4,620	4,620	(33,230)
(INCREASE)/DECREASE IN PREPAID EXPENSE	6,468	12,912	19,380	5,348
INCREASE/(DECREASE) IN COMPENSATED ABSENCES	16,953	93,231	110,184	(6,230)
INCREASE/(DECREASE) IN ACCOUNTS PAYABLE	(361)	(3,791)	(4,152)	13,009
INCREASE/(DECREASE) IN INTEREST PAYABLE	(210)	(6,990)	(7,200)	-
INCREASE/(DECREASE) IN ACCRUED LIABILITIES	2,418	6,207	8,625	2,065
TOTAL ADJUSTMENTS	<u>514,319</u>	<u>1,009,819</u>	<u>1,524,138</u>	<u>50,749</u>
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>\$ 1,514,740</u>	<u>\$ 1,174,757</u>	<u>\$ 2,689,497</u>	<u>\$ 157,114</u>

**TOWN OF RIVERHEAD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF
DECEMBER 31, 2005**

ASSETS

CASH - TOWN AGENCY	\$ 8,965,445
CASH - TOWN CLERK	7,945
CASH - TAX RECEIVER	6,891,827
CASH - RECREATION DEPT.	10,869
CASH - TOWN HISTORIAN	4,031
CASH - JUSTICE COURT	553,490
DUE FROM OTHER FUNDS	(583)
TOTAL ASSETS	<u>\$ 16,433,024</u>

LIABILITIES

TOWN AGENCY FUNDS

CONSOLIDATED PAYROLL	\$ (353,179)
STATE RETIREMENT	22,104
GROUP INSURANCE	325,556
NYS INCOME TAX	591,609
FEDERAL INCOME TAX	(133,463)
INCOME EXECUTIONS	12,127
ASSOCIATE AND UNION DUES	(6,369)
SOCIAL SECURITY TAX	148,034
GUARANTY AND BID DEPOSITS	622,005
OTHER FUNDS	7,736,438
TOTAL LIABILITIES - TOWN AGENCY FUNDS	<u>8,964,862</u>

TOWN CLERK AGENCY FUNDS

DUE TO TOWN SUPERVISOR	7,522
DUE TO DEPT. OF ENVIRONMENTAL CONSERVATION	-
DUE TO DEPT. OF HEALTH	337
DUE TO DEPT. OF AGRICULTURE AND MARKET	12
DUE TO COUNTY TREASURER	74
TOTAL LIABILITIES - TOWN CLERK AGENCY FUND	<u>7,945</u>

TAX RECEIVER AGENCY FUNDS

DUE TO TOWN SUPERVISOR	6,891,827
TOTAL LIABILITIES - TAX RECEIVER AGENCY FUND	<u>6,891,827</u>

RECREATION DEPT FUNDS

DUE TO TOWN SUPERVISOR	10,869
TOTAL LIABILITIES - RECREATION DEPT FUND	<u>10,869</u>

TOWN HISTORIAN FUNDS

SCHOLARSHIP FUNDS	4,031
TOTAL LIABILITIES HISTORIAN FUNDS	<u>4,031</u>

JUSTICE COURT AGENCY FUND

DUE TO STATE COMPROLLER	220,799
DUE TO BAILEES	332,691
TOTAL LIABILITIES - JUSTICE COURT AGENCY FUND	<u>553,490</u>

TOTAL LIABILITIES	<u>\$ 16,433,024</u>
--------------------------	-----------------------------

**TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Town of Riverhead (the "Town"), which was established in 1792, 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 whose term is fixed by Town Law. The Town Clerk and Receiver of Taxes are elected and serve for two years and four years, respectively. The Town provides a full range of municipal services, including public safety, transportation, home and community services, public works and road maintenance, recreation and parks, and general and administrative services.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Government Units* and by the Financial Accounting Standards Board (when applicable). The Town has elected not to apply Financial Accounting Standards Board (FASB) pronouncements developed for business enterprises after November 30, 1989.

B. Financial Reporting Entity

The financial reporting entity consists of: (a) the primary government, which is the Town of Riverhead; (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 decision to include a potential component unit in the Town of Riverhead reporting entity is based on several criteria set forth in GASB Statement No. 14 including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the following is a summary of certain entities considered in determining the Town of Riverhead's reporting entity.

The Town of Riverhead Community Development Agency was created by Chapter 480 of the Laws of 1982, a special act of the New York State Legislature. The Community Development Agency is an independent governmental agency and instrumentality of the State of New York and is a corporate governmental agency constituting a public benefit corporation of the State of New York. The Community Development Agency can enter into contracts, sue and be sued, and acquire and own real and personal property, each on its own behalf and in its own name. The Community Development Agency can incur debt and issue bonds and notes in its own name and, unless the Town of Riverhead elects to guarantee principal of and interest on, or only the interest on, indebtedness issued by the Community Development Agency, all indebtedness of the Community Development Agency is a liability only of the Community Development Agency and not of the Town of Riverhead.

Inclusion of the Community Development Agency as a component unit of the Town of Riverhead reported as a special revenue fund type is required by GASB Statement No. 14 solely because the members of the Community Development Agency are the same as the members of the Town Board of the Town of Riverhead. When acting as a member of the Community Development Agency, however, a member has a fiduciary responsibility to the Community Development Agency and not to the Town of Riverhead. Inclusion of the Community Development Agency as a component unit of the Town of Riverhead reported as a special

B. Financial Reporting Entity (continued)

revenue fund type is not intended to state or imply, and should not give rise to any impression or inference, either that the Town of Riverhead is legally responsible for the indebtedness and other liabilities of the Community Development Agency or that the Town of Riverhead has any legal claim to the assets of the Community Development Agency.

The Town of Riverhead Community Development Agency is blended as a governmental fund component unit into the primary government.

Complete financial statements of the Town of Riverhead Community Development Agency can be obtained by contacting:

Town of Riverhead Community Development Agency
200 Howell Avenue
Riverhead, NY 11901

The Town of Riverhead Industrial Development Agency was created by the New York State Legislature by Article 18-A of the General Municipal law under Section 925-p. It shall have the powers and duties now and hereafter conferred by Title One of Article 18-A and provided that the exercise of the powers of this Agency with respect to the acquisition of real property whether by purchase, condemnation or otherwise shall be limited to the corporate limits of the Town of Riverhead. Its members shall be appointed by the governing body of the Town of Riverhead.

The Town of Riverhead Industrial Development Agency is a component unit of the Town and is discretely presented.

Complete financial statements of the Town of Riverhead Industrial Development Agency can be obtained by contacting:

Town of Riverhead Industrial Development Agency
4603 Middle Country Road
Calverton, NY 11933

C. Basis of Presentation

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the Town as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (General Government Support, Public Safety, Health, Transportation, Economic Assistance and Opportunity, Culture and Recreation, Home and Community Services, Employee Benefits, etc.), which are otherwise being supported by general government revenues (fees, water sales and charges, sewer rents and charges, intergovernmental revenues, fines, permits and charges, federal and state aid, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (General Government Support, Public Safety, Health, Transportation, Economic Assistance and Opportunity, Culture and Recreation, Home and Community Services, etc.) or a business-type activity. The operating grants include

C. Basis of Presentation (continued)

operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (real property taxes, other tax items, intergovernmental revenues, interest earnings, etc.). Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

The Town does not currently employ an indirect cost allocation system. An administrative service fee is charged by the General Fund to the other operating funds, that is eliminated at year-end like a reimbursement (reducing the revenue and expense in the General Fund), to address General Fund services (finance, personnel, purchasing, legal, etc.) provided.

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Town's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (General Government Support, Public Safety, Health, Transportation, Economic Assistance and Opportunity, Culture and Recreation, Home and Community Services, etc.).

When appropriate, surplus or deficits in the Internal Service Funds may be allocated back to customers at the entity-wide level Statement of Activity. This creates a reconciling item between the business-type activities column and the Proprietary Fund statements.

The Town's fiduciary fund (Agency Fund) is presented in the fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the Statement #34 model is on the Town as a whole and the fund financial statements. The focus of the Fund Financial Statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary fund, and component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The financial transactions of the Town are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity,

C. Basis of Presentation (continued)

revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The Town has presented the following major governmental funds:

General Fund-

General Fund is the main operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund-

Capital Projects Fund is used to account for funds received and expended for the construction, renovation, expansion and major improvement of various Town facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects, other than those financed by the enterprise or internal service funds. It is also used to account for a few special grants received from Federal, State and/or County sources.

Debt Service Fund-

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the Town. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures. There are two separate debt service funds, which include General Fund Debt Service Fund and Public Parking Debt Service Fund.

Special Revenue 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 specific purposes. Special Revenue Funds include the following:

Community Preservation Fund - includes funds collected on all land transfers. The voters of the Town approved the implementation of a real estate transfer tax in the amount of 2% against the proceeds of the sale of real property in excess of \$150,000 for developed property and in excess of \$100,000 for undeveloped property. The tax is to be collected on every transaction through the year 2020. The proceeds of this tax are required to be set aside and used to pay the cost of the acquisition of real property, or development rights in farmland for the preservation of open space in the Town.

The Town has presented the following non-major funds:

Special Revenue Funds –

Special Revenue Funds include the following:

Highway Fund - includes all operations relating to the repair and maintenance of Town roads.

Community Development Fund [Special Grant Fund] - is used to account for the Federal Grant Program administered by the Federal Department of Housing and Urban Development. The Town of Riverhead is a member of the Suffolk County Consortium. It is also used to account for various New York State Grant Programs dealing with Community Development.

C. Basis of Presentation (continued)

Street Lighting District Fund - includes operations relating to the repair and maintenance of both traffic and street lights located within the boundaries of the Town.

Business Improvement District - includes all operations relating to promotion of the downtown business community, and was created in 1991.

Ambulance District Fund - includes all operations of a volunteer ambulance within the Town excluding the Wading River Fire District and was created in 2000. Previously the operations were contained within the General Fund.

Garbage and Refuse District Fund - includes all operations of the closed Town Landfill and includes contracted residential garbage pickup. Prior to 1992 when the District was created, Landfill operations were part of the General Fund and there was no residential pickup. On 01/01/97, the Town closed the transfer station at the Town Landfill. Commercial carters are contracted with the Town to provide residential collection of solid waste and are responsible for the ultimate disposal of this solid waste. Only residential properties, not commercial properties, contribute to the operations of the District via real property taxes on a benefit derived basis.

Public Parking District Fund - includes all operations relating to the public parking fields located only in the downtown business district.

Park & Recreation Fund - includes funds collected as impact fees from newly approved residential subdivisions and condominiums. The Town Board set the fee of \$2,000 per parcel by Town Board Resolution on April 2, 1991. On September 19, 2000 the Town Board approved an increase to \$3,000 per parcel.

East Creek Docking Facility Fund – includes all operations relating to the Town operational docking facility at East Creek Jamesport.

Proprietary Funds-

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The Town has presented the following major proprietary funds:

The Sewer District Fund, which is comprised of:

Riverhead Sewer District Fund - includes all operations relating to public sanitary sewers within the hamlet of Riverhead. This fund also includes its own capital projects, Debt Service Reserve, and a Denitrification Reserve fund. This district does not encompass the entire Town. This District contracts with the County of Suffolk to provide services to the County Center Complex located in the Town of Southampton. This fund was converted to an Enterprise Fund in 2001.

Calverton Sewer District Fund - includes all operations relating to public sanitary sewers within the hamlet of Calverton. This fund also includes its own capital projects and a Debt Service Reserve Fund. The Sewage Treatment Plant and its infrastructure were given to the District in the 2000 fiscal year by the Riverhead Community Development Agency who, in turn, received this facility when the Agency received the Naval Weapons Facility at Calverton from the U.S. Government. This fund was converted to an Enterprise Fund in 2001.

Riverhead Scavenger Waste District Fund - includes all the operations relating to scavenger or septic system waste from properties outside the two sewer districts. A Joint Scavenger Waste District was

C. Basis of Presentation (continued)

established in 1979 as a joint activity between the Towns of Riverhead and Southampton. This joint activity terminated on December 31, 2001 and this fund was established on January 1, 2002. This fund also includes its own capital projects and a Debt Service Reserve Fund.

The Water District Fund - includes operations relating to potable water within the Town. This district does not encompass the entire Town. This fund also includes its own capital projects, a Repair & Maintenance Reserve and a Debt Service Reserve Fund. The Water District was converted to an Enterprise Fund in 2002.

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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Funds-

Internal Service Funds are used to account for special activities or services provided by one department to other departments on a cost-reimbursement basis. The Town has presented the following Internal Service Funds:

Municipal Garage Fund - is used to account for the repair and maintenance of all Town vehicles.

Municipal Fuel Fund - is used to account for the fueling of all Town vehicles.

Self-Insurance Fund - Worker's Compensation - is a fund that the Town uses as a self-insurance program covering worker's compensation costs for all employees and this fund is used to report this activity. The Town obtained catastrophic loss coverage beginning with the fourth quarter of 1993. For 2005, worker's compensation has a Self-Insured Retention (SIR) of \$175,000.

Self-Insurance Fund - Risk Retention Fund - is used to account for the Town's self-insurance program that was adopted in 1987 when insurance liability coverage was becoming increasingly difficult to obtain and the cost of liability insurance was becoming prohibitive. Beginning in the fourth quarter of 1993, the Town obtained catastrophic loss coverage. For 2005, Property had a \$100,000 SIR with a limit of \$10,000,000 for the building and contents. Liability had a \$150,000 SIR with a limit of \$10,000,000. This fund is accounted for as Risk Retention in the Internal Service Fund as per GASB No. 10.

Self-Insurance Fund – Unemployment Insurance - is used to account for the direct reimbursement program for Unemployment claims made on behalf of the Town by the NYS Department of Labor.

Fiduciary Funds-

Fiduciary Funds are used to account for assets held by the Town in a trustee or custodial capacity. The Town has presented the following fiduciary funds:

Agency Funds - are used to account for money received and held in the capacity of trustee, custodian or agent.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; 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.

D. Measurement Focus/Basis of Accounting (continued)

Accrual Basis:

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. Fixed assets and long-term liabilities related to these activities are recorded within the funds. Depreciation utilizes the straight-line method in both the Enterprise and Internal Service Funds. Inventories are valued by the first-in, first-out method with an actual physical inventory taking place at year-end.

Modified Accrual Basis:

Governmental fund financial statements are reported using the current financial resources measurements 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; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year end. A 60 day availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are real property taxes, state and federal aid, and certain user charges. All other governmental fund revenues are recognized when received. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made and the resources are available.

Expenditures are recorded when incurred except that a) expenditures for prepaid expenses and inventory-type items are recognized at the time of the purchase and b) principal and interest on indebtedness are not recognized as an expenditure until due.

Compensated absences, such as vacation, personal leave and sick leave, which vest or accumulate are charged as an expenditure when paid. (See Note K on page 31).

The Worker's Compensation Self Insurance Fund utilizes our insurance revision based on statutory allowances under Workers' Compensation Law.

E. Budgetary Control

The Town Charter establishes the fiscal year as the twelve-month period beginning January 1. The budget officer (the Town Supervisor) submits the Tentative Budget to the Town Board no later than September 30th for the fiscal year commencing the following January 1st. The Tentative Budget includes proposed expenditures and the proposed means of financing for all funds.

The Town Board formulates the Preliminary Budget, which becomes the subject of public hearings.

After public hearings are conducted to obtain taxpayer comments, the governing board adopts the budget no later than November 20th.

All modifications of the budget must be approved by the Town Board via Resolution.

E. Budgetary Control (continued)

Budgets are prepared for proprietary funds to establish the estimated contributions required from other funds and to control expenditures.

The Budgetary Comparison Schedule – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

Encumbrances -

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

F. Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the Town. For the purpose of proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are stated at cost, which approximates market.

G. Inventory

Inventory in the Internal Service Funds and the Enterprise Funds is valued at cost utilizing the first-in, first-out method.

H. Interfund Receivables and Payables

Government-Wide Financial Statements:

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances”.

Fund Financial Statements:

Various funds have made short-term advances for operating purposes. The Interfund receivables and payables are as follows:

H. Interfund Receivables and Payables (continued)

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 925,162	\$ 2,388,126
Debt Service	3,750,830	-
Capital Projects	29,200	65,407
Community Preservation	-	480
Enterprise Water	-	315,740
Enterprise Sewer	51,997	241,227
Non-Major		
Governmental Funds	16,372	1,078,162
Internal Service Funds	52,920	736,756
Fiduciary Funds	-	583
	<u>\$ 4,826,481</u>	<u>\$ 4,826,481</u>

I. Transactions Between Funds

Legally authorized transfers are treated as Interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

J. Capital Assets

Government-Wide Financial Statements:

Capital assets, which includes property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant or equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life for Enterprise Funds and \$3,000 or more and over three years of useful life for Internal Service Funds. Infrastructure assets capitalized have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

J. Capital Assets (continued)

<u>Description:</u>	<u>Estimated</u>
<u>General Town:</u>	<u>Useful Life</u>
Buildings	50 years
Drainage & Sidewalks	30 years
Improvements/Infrastructure	15 years
Equipment	5 years
Equipment - Autos & Pickups	5 years
Equipment - Heavy Trucks	10 years
 <u>Internal Service Funds:</u>	
Municipal Garage – Building	30 years
Municipal Garage - Equipment	5 years
Municipal Garage – Improvements	10 years
Municipal Fuel - Fuel Tanks & Pumps	20 years
Municipal Fuel - Equipment	5 years
 <u>Enterprise Funds:</u>	
<u>Buildings:</u>	
Calverton Sewer District	20 years
Riverhead Sewer District	50 years
Riverhead Water District	40 years
 <u>Infrastructure Improvements:</u>	
Calverton Sewer District	20 years
Riverhead Sewer District	15 years
Riverhead Water District - Water Pipes	50 years
Riverhead Water District - Improvements	15 years
 <u>Equipment, Autos & Pickups:</u>	
Calverton Sewer District	-
Riverhead Sewer District	5 years
Riverhead Water District	5 years
 <u>Equipment – Heavy Trucks:</u>	
Calverton Sewer District	-
Riverhead Sewer District	10 years
Riverhead Water District	5 years

Fund Financial Statements:

Fixed asset purchases for general governmental purposes are recorded as expenditures in the governmental funds. Contributed fixed assets are recorded at fair market value at the date received.

J. Capital Assets (continued)

No depreciation has been provided on general fixed assets, nor has interest on general fixed assets and construction in progress been capitalized.

K. Compensated Absences

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

Vested vacation, personal leave and sick leave accumulated by employees is recorded in proprietary funds as a liability and expense, and in governmental funds as a long-term liability if payable from future financial resources, or as a fund liability and expenditures, if payable from current resources. The liability for compensated absences increased by \$664,369 during the year to \$6,175,571 and is reported in proprietary funds (\$807,162), and in governmental funds (\$5,368,409). Payment of vacation, personal leave, and sick leave recorded as long term liabilities are dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for payments of vacations, personal leave, and sick leave when such payments become due.

L. Nature and Purpose of Reservations and Designations of Fund Equity

The fund equity reserves for bond retirement and debt service are discussed in notes 5 and 1 (C) respectively. The fund equity designation for subsequent years' expenditures, also called the encumbrances, represents open purchase orders at year-end. Encumbrances are reported as reservations of fund balance since they do not constitute expenditures or liabilities. The appropriations for the following years' budget are increased by the amount of the encumbrances carried forward from the prior year. The majority of the miscellaneous reserves are made up of the following designated fund balances in the general fund: \$172,140 is reserved for various recreation programs, \$122,346 is reserved for the building operations of the Stotsky Park child care building, \$114,935 is reserved for the Town Board special programs and represents the balance of a DEC fine for illegal land mining, and \$63,836 is reserved for the Empire Zone.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

(2) BUDGET BASIS OF ACCOUNTING

Budgets for all funds except Capital Projects are adopted annually on a basis consistent with Generally Accepted Accounting Principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Budgets for Capital Projects are adopted at the beginning of the undertaking and can extend over the life of the Capital Project.

(3) DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of New York State or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. Collateral is required for all demand deposits and certificates of deposit at 100 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the state and its municipalities, and school districts. The

(3) DEPOSITS AND INVESTMENTS (CONTINUED)

Town's deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at December 31, 2005. At year-end, the carrying amount of the Town's deposits was a debit balance of \$62,193,475 and the respective bank balances totaled \$74,958,560. Included in the bank balances are Certificates of Deposit totaling \$43,809,200. Of the total bank balance, \$614,257 was covered by the Federal Depository Insurance Corporation (FDIC). The total value of the collateral at December 31, 2005 was \$75,133,569. The collateral is held by the M&T Investment Group in the Town's name as custodian for Suffolk County National Bank, North Fork Bancorporation for North Fork Bank, and The Bank of New York as part of Tri-Party Collateral agreements with each Chase Bank, Citibank N.A., and The Bank of New York Trust Company.

Investments – State statutes, Town bond ordinances and Town resolutions authorize the Town's investments. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC - insured commercial banks or trust companies located within the state. The Town Supervisor is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities. All demand deposits and certificates of deposit are carried at cost. The Town has no investments other than certificates of deposit.

The Town's investments carried at cost as of December 31, 2005 are:

	<u>Cost</u>
Investments:	
Certificates of Deposit	<u>\$43,809,200</u>
Total Investments	<u>\$43,809,200</u>

(4) CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Additions/</u> <u>Completions</u>	<u>Retirements/</u> <u>Adjustments</u>	<u>Balance</u> <u>December 31</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 59,584,763	\$ 4,120,229	\$ -	\$ 63,704,992
Construction in Progress	165,130	-	(165,130)	-
Total Capital assets not being depreciated	<u>59,749,893</u>	<u>4,120,229</u>	<u>(165,130)</u>	<u>63,704,992</u>
Capital assets being depreciated				
Buildings	6,424,313	-	-	6,424,313
Equipment	17,129,801	769,159	(58,990)	17,839,970
Improvements	94,096,715	778,917	-	94,875,632
Total Capital assets being depreciated	<u>117,650,829</u>	<u>1,548,076</u>	<u>(58,990)</u>	<u>119,139,915</u>
Less accumulated depreciation for				
Buildings	(2,475,797)	-	(138,284)	(2,614,081)
Equipment	(12,266,950)	44,875	(992,407)	(13,214,482)
Improvements	(61,725,058)	-	(6,361,259)	(68,086,317)
Total accumulated depreciation	<u>(76,467,805)</u>	<u>44,875</u>	<u>(7,491,950)</u>	<u>(83,914,880)</u>
Total capital assets being depreciated, net	<u>41,183,024</u>	<u>1,592,951</u>	<u>(7,550,940)</u>	<u>35,225,035</u>
Governmental activities capital assets, net	<u>\$ 100,932,917</u>	<u>\$ 5,713,180</u>	<u>\$ (7,716,070)</u>	<u>\$ 98,930,027</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated				
Land	\$ 3,648,751	\$ -	\$ -	\$ 3,648,751
Construction in Progress	6,532,239	2,743,291	(103,269)	9,172,261
Total Capital assets not being depreciated	<u>10,180,990</u>	<u>2,743,291</u>	<u>(103,269)</u>	<u>12,821,012</u>
Capital assets being depreciated				
Buildings	19,701,935	-	-	19,701,935
Equipment	7,620,217	118,894	(31,270)	7,707,841
Improvements	54,592,730	92,530	-	54,685,260
Total Capital assets being depreciated	<u>81,914,882</u>	<u>211,424</u>	<u>(31,270)</u>	<u>82,095,036</u>
Less accumulated depreciation for				
Buildings	(11,645,820)	-	(330,952)	(11,976,772)
Equipment	(6,968,119)	31,270	(234,768)	(7,171,617)
Improvements	(32,170,351)	-	(796,681)	(32,967,032)
Total accumulated depreciation	<u>(50,784,290)</u>	<u>31,270</u>	<u>(1,362,401)</u>	<u>(52,115,421)</u>
Total capital assets being depreciated, net	<u>31,130,592</u>	<u>242,694</u>	<u>(1,393,671)</u>	<u>29,979,615</u>
Business-type activities capital assets, net	<u>\$ 41,311,582</u>	<u>\$ 2,985,985</u>	<u>\$ (1,496,940)</u>	<u>\$ 42,800,627</u>

(4) CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:

General government and administration	\$ 196,752
Public Safety	276,984
Health	59,345
Transportation	924,551
Economic Assistance	27,269
Culture and Recreation	28,138
Home and Community	<u>5,978,911</u>
Total depreciation expense-Governmental activities	<u>\$ 7,491,950</u>

Business-Type activities:

Water	\$ 996,624
Sewer	<u>365,777</u>
Total depreciation expense-Business-Type activities	<u>\$ 1,362,401</u>

The Town has active construction projects as of December 31, 2005. Total accumulated commitments for ongoing capital projects are composed of the following:

	<u>Committed</u>
Sewer	\$ 3,843,412
Water	<u>5,328,849</u>
Total	<u>\$ 9,172,261</u>

(5) LONG-TERM DEBT

Bonds Payable

At December 31, 2005, bonds payable consisted of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
1984 General Obligation Various Purpose Bonds, dated November 1, 1984, due in annual installments through May 1, 2009, bearing interest at 9.50%	300,000	
1991 General Obligation Public Improvements Bonds, dated December 1, 1991, due in annual installments through March 1, 2011, bearing interest at 6.35%	188,000	862,000
1997 General Obligation Rt. 58 Sewer Ext. Bonds, dated March 26, 1997, due in annual installments through August 15, 2018, bearing interest at 5.65%		2,925,000
1997 General Obligation Peconic Riverfront Bulkhead Bonds, dated March 3, 1997, due in annual installments through April 1, 2007, bearing interest at 4.00%	17,637	
2000 General Obligation Public Improvement Bonds, dated November 15, 2000, due in annual installments through May 15, 2020, bearing interest at 5.00%	2,287,900	3,387,100

(5) LONG-TERM DEBT (CONTINUED)

2002 General Obligation Sewer Plant Upgrade Bonds, dated July 25, 2002, due in annual installments through October 15, 2031, bearing interest at 4.85%		1,520,000
2003 General Obligation Bonds, dated January 1, 2003, due in annual installments through June 1, 2022, bearing interest at 3.75%	29,322,300	452,700
2003 General Obligation Refunding Bonds, dated January 15, 2003, due in annual installments through March 1, 2013, bearing interest at 3.00%	1,008,017	2,536,983
2003 General Obligation Public Improvement Bonds, dated December 15, 2003, due in annual installments through November 15, 2022, bearing interest at 3.625%	27,107,800	2,342,200
2004 General Obligation Refunding Bonds, dated November 4, 2004, due in annual installments through June 15, 2016, bearing interest at 2.50%	2,691,700	3,768,300
2004 General Obligation Refunding Bonds, dated November 5, 2004, due in annual installments through January 15, 2016, bearing interest at 1.50%	528,100	56,900
2005 General Obligation Public Improvement Bonds, dated August 1, 2005, due in annual installments through August 1, 2022, bearing interest at 3.75%	<u>15,305,000</u>	<u>130,000</u>
Total Bonds Payable	<u>\$78,756,454</u>	<u>\$17,981,183</u>

Bond Anticipation Notes (BAN's)

Liabilities for Bond Anticipation Notes (BAN's) are generally accounted for in the capital projects funds and the proprietary funds. 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. Payments of this short-term debt are made through the various debt service funds.

State law requires that BAN's issued for capital purpose be converted to long-term obligations within five years after the original issue date. However, BAN's issued for assessable improvement projects, as found in the Water and/or Sewer Districts, may be renewed for periods equivalent to maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

(5) LONG-TERM DEBT (CONTINUED)

At December 31, 2005, BAN's consisted of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
2005 BAN, dated May 20, 2005, due on May 19, 2006, bearing interest at 2.71%	\$14,000	\$0
2005 BAN, dated August 5, 2005, due on August 4, 2006, bearing interest at 2.94%	<u>20,000</u>	<u>0</u>
Total BAN's Payable	<u>\$34,000</u>	<u>\$0</u>

Transactions for the year ended December 31, 2005 are summarized as follows:

<u>Government Type Activities</u>	Balance January 1	Issues or Additions	Payments or Expenditures	Balance December 31	Due Within One Year
General Obligation Bonds	\$ 68,068,192	\$ 15,305,000	\$ 4,616,738	\$ 78,756,454	\$ 5,248,259
Bond Anticipation Notes	121,000	-	87,000	34,000	34,000
Estimated Landfill Liability	-	15,750,000	-	15,750,000	-
Compensated Absences	4,814,224	554,185	-	5,368,409	129,030
Total Governmental Activities	<u>\$ 73,003,416</u>	<u>\$ 31,609,185</u>	<u>\$ 4,703,738</u>	<u>\$ 99,908,863</u>	<u>\$ 5,411,289</u>
 <u>Business-Type Activities</u>					
General Obligation Bonds	\$ 19,240,703	\$ 130,000	\$ 1,389,520	\$ 17,981,183	\$ 1,443,382
Bond Anticipation Notes	-	-	-	-	-
Compensated Absences	696,978	110,184	-	807,162	2,154
Total Business Type Activities	<u>\$ 19,937,681</u>	<u>\$ 240,184</u>	<u>\$ 1,389,520</u>	<u>\$ 18,788,345</u>	<u>\$ 1,445,536</u>

Additions and expenditures to the compensated absences are shown net since it is impractical to determine these amounts separately.

General Obligation Bonds –

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the Town. General Obligation Bonds require the Town to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The Town is in compliance with this requirement.

(5) LONG-TERM DEBT (CONTINUED)

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the Town to rebate excess arbitrage earnings from bond proceeds to the federal government. There were no excess arbitrage earnings for the year ended December 31, 2005.

Annual Requirements to Retire Debt Obligations-

The annual aggregate maturities for each bond type for the years subsequent to December 31, 2005, are as follows:

General Obligation Bonds

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2006	\$ 5,248,259	\$ 3,070,755	\$ 1,443,382	\$ 771,753	\$ 10,534,149
2007	5,264,523	2,879,126	1,441,473	718,425	10,303,547
2008	5,406,966	2,685,289	1,443,034	664,222	10,199,511
2009	4,463,315	2,486,296	1,441,685	606,792	8,998,088
2010	4,448,264	2,313,043	1,431,736	546,584	8,739,627
2011-2015	23,384,927	8,908,885	6,170,073	1,843,844	40,307,729
2016-2020	22,588,800	4,301,667	3,551,200	650,963	31,092,630
2021-2025	7,951,400	434,421	673,600	171,756	9,231,177
2026-2030	-	-	320,000	68,856	388,856
2031-2035	-	-	65,000	3,460	68,460
Total	<u>\$ 78,756,454</u>	<u>\$ 27,079,482</u>	<u>\$ 17,981,183</u>	<u>\$ 6,046,655</u>	<u>\$ 129,863,774</u>

Bonds Authorized and Unissued-

At December 31, 2005, the Town had \$65,073,600 in General Obligation Bonds, which were authorized and unissued.

As of December 31, 2005, the total long-term outstanding indebtedness of the Town aggregated \$96,737,637. Of this amount, \$78,756,454 was subject to the constitutional debt limit and represented approximately 33.88% of its statutory debt limit.

Conduit Debt Obligations-

From time to time the Industrial Development Agency has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Town, the IDA, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2005 there were eleven (11) Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$56,892,031.

(6) PROPERTY TAX

Real property taxes are levied annually no later than December 15th and become a lien on December 1st. Taxes are collected by the Town during the period December 1st to May 31st. Taxes for county and school purposes are levied together with taxes for Town and special district purposes as a single bill. The first half is due on January 10th and the second half is due on May 31st. The Suffolk County Tax Act guarantees that the Town, Special Districts and School Districts will receive the full amount of their levies at the end of the collection period. After May 31st, the County of Suffolk assumes enforcement responsibility for all uncollected taxes.

The entire Tax Warrant is guaranteed by the County of Suffolk as outlined in the Suffolk County Tax Act. Any taxes not collected by May 31st are turned over to the County to collect. If the Town fails to collect the Town's portion of the Tax Warrant, that shortfall is remitted by the County to the Town in June.

(7) PENSION PLAN

Plan Description

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

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYRSSL, 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 of Riverhead is required to contribute at an actuarially determined rate. The required contributions for the current year and three preceding years were:

<u>YEAR</u>	<u>ERS</u>	<u>PFRS</u>
2005	\$1,184,110	\$1,228,190
2004	\$1,191,264	\$1,254,744
2003	\$602,366	\$372,003
2002	\$115,650	\$105,538

The Town's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The Town of Riverhead elected to make the full payment on December 15, 1989.

(8) DEFERRED COMPENSATION PLAN

In October 1997 the Governmental Accounting Standards Board issued Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. This statement established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

On October 1, 1997 the New York State Deferred Compensation Board (Board) created a Trust and Custody agreement making Chase Manhattan Bank the Trustee and Custodian of the Plan. Consequently, Statement No. 32 became effective for the New York State Deferred Compensation Plan as of October 1, 1997. Since the Board is no longer the trustee of the plan, the plan no longer meets the criteria for inclusion in New York State's financial statements. Therefore, municipalities, which participate in New York State's Deferred Compensation Plan, are no longer required to record the value of the plan assets.

(9) INTERFUND TRANSFERS

Interfund transfers are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Interfund transfers during the year ended December 31, 2005, were as follows:

	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ 125,559	\$ 2,480,582
Debt Service	7,210,489	38,000
Capital Projects	1,673,115	371,745
Community Preservation	-	4,000,000
Enterprise Sewer	-	-
Enterprise Water	-	-
Non-Major		
Governmental Funds	40,750	2,159,586
Internal Service Funds	-	-
Fiduciary Funds	-	-
	<u>\$ 9,049,913</u>	<u>\$ 9,049,913</u>

(10) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal Laws and Regulations require the Town to place a final cover on its Youngs Avenue Landfill Site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Town closed the Landfill in the fall of 1993 and operated a transfer station until December 31, 1996 when the transfer station was closed. The Town has engaged an engineering firm to study the economic feasibility of either capping and closure or reclamation of the Town

(10) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)

Landfill.

The Town entered into a contract with a contracting company on April 18, 2002 for a pilot reclamation project at the Town's Youngs Avenue Landfill. On May 20, 2003, the Town contracted with the same contracting company to complete the landfill reclamation project. The project was expected to cost a total of approximately \$40,000,000 to complete based on estimates provided by an engineering firm hired by the Town. However, as of July 2006 the Town had expended approximately \$40,000,000 but the landfill reclamation project was not complete. (see Subsequent Events Note 15).

(11) SELF INSURANCE

Workers Compensation/Unemployment Benefits

The Town is self-insured for workers' compensation insurance. Estimated benefits to be paid are appropriated in the various operating funds of the Town. The Town has provided an umbrella-type policy protecting against a catastrophic loss in the workers' compensation self-insurance protection program with \$175,000 retention per occurrence. The Town is also self-insured for unemployment benefits paid. There have been no significant reductions in insurance coverage as compared to the prior year.

Liability

From 1987 until September 22, 1993, the Town of Riverhead was a self-insurer against personal injury liability. On September 22, 1993, the Town of Riverhead obtained catastrophic loss coverage for comprehensive general liability, automobile liability, public officials errors and omissions and employee benefits liability. This catastrophic loss coverage has a self-insured retention of \$150,000 per occurrence. Claims paid under these coverages are subject to a maximum of \$10,000,000 per occurrence for general liability and automobile liability. Coverage for Public Officials is \$10,000,000 per policy year. Terrorism is excluded from liability coverage as well as any loss involving fungal pathogens and mold.

Property

The Town is self-insured for property on the first \$100,000 per loss and \$10,000,000 per occurrence with no annual aggregate. Terrorism is excluded from property coverage. The Town has flood and earthquake coverage of \$1,000,000 per occurrence and annual aggregate. The Town also has boiler and machinery coverage with a \$1,000 deductible and coverage with a \$50,000,000 limit.

Miscellaneous

The Town has ancillary insurance policies for the Jamesport Marina, Calverton Airport and Stotsky Skate Park. The Jamesport Marina has a zero deductible with coverage up to \$1,000,000 per occurrence and \$2,000,000 annual aggregate. The Calverton Airport has a \$1,000 deductible with coverage up to \$5,000,000 per occurrence. The Stotsky Skate Park has a \$250 deductible with coverage of \$250,000 maximum with \$10,000 accidental death benefit.

Self-Insurance Fund

The Town uses a Self-Insurance Fund to account for its potential liability. As of December 31, 2005, the Self-Insurance Fund had assets of \$4,548,569 and liabilities of \$2,252,565. At the suggestion of legal counsel, the Town has recorded a reserve in its Self-Insurance Fund of \$1,060,389. Of this reserve, \$482,752 is for worker's compensation claims and \$577,637 is for general liability claims. This amount includes litigation but not administration expenses.

The Town estimates its workers' compensation and general liability reserves by consulting with legal counsel, contracted 3rd party administrators and past experience with similar claims. Although the dollar amounts of the claims on file against the Town materially exceed the reserves recorded; the ultimate outcome of the claims cannot be presently 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.

(11) SELF INSURANCE (CONTINUED)

The Town does have the ability to bond any tort claims which may be resolved against the Town and which are not covered by the catastrophic loss coverage.

One of the claims filed against the Town alleges breach of contract and constitutional violations. It was initiated on December 8, 2003 and the complaint seeks \$150,000,000 in damages for breach of contract, tortious interference with contract, and civil rights violations. The complaint also seeks \$30,000,000 in punitive damages.

In October of 2006, the above stated case went to trial in the Eastern District Federal Court and has been concluded with a jury verdict in the Town's favor on all claims. The complainant is currently appealing the case.

The attorneys representing the Town do not wish to express any opinion on the probable outcome of the above matter nor estimate possible settlement or ultimate liability costs.

The schedule below presents the changes in claim reserves for general liability and workers' compensation.

	General Liability		Workers' Compensation	
	2004	2005	2004	2005
Unpaid Claims Reserve at beginning of year	\$ 277,625	\$ 341,512	\$ 251,113	\$ 337,341
Additions	94,200	267,567	143,794	212,506
Total	371,825	609,079	394,907	549,847
Reductions	30,313	31,442	57,566	67,095
Unpaid Claims Reserve at end of year	<u>\$ 341,512</u>	<u>\$ 577,637</u>	<u>\$ 337,341</u>	<u>\$ 482,752</u>

(12) COMMITMENTS AND CONTINGENT LIABILITIES

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

(13) POST RETIREMENT BENEFITS

In addition to providing pension benefits, the Town provides health insurance coverage for retired employees at 100% of premium and their dependents at 50% of premium. Substantially, all the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits are provided through the State system and the Town's two HMO programs where premiums are based on the benefits paid during the year. The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. During 2005, the following was paid on behalf of eligible retirees and recorded as an expenditure in the described operating Funds.

(13) POST RETIREMENT BENEFITS (CONTINUED)

75 retirees in the General Fund costing	\$ 450,961
15 retirees in the Highway Fund costing	\$ 88,339
7 retirees in the Water District costing	\$ 42,178
6 retirees in the Riverhead Sewer District costing	\$ 31,200
2 retirees in the Refuse & Garbage District costing	\$ 14,388
1 retiree in the Public Parking District costing	\$ 6,315
1 retiree in the Street Lighting District costing	\$ 6,315

(14) POST EMPLOYMENT BENEFITS

In June of 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs)*. OPEBs are benefits such as health insurance, dental, vision, prescription benefits, or other health benefits. OPEBs also include life insurance, disability and long term care.

Traditionally, governments report their current outlays for OPEBs in a given year. This GASB will require government to report information about their long-term financial obligations and commitments to OPEBs. The theory behind this reporting is that the traditional pay as you go public disclosures may be incomplete regarding the true cost of public services as well as possibly misleading the public about the true financial position and long term health of the government.

The effective date for GASB 45 will depend on the size of the government. The Town of Riverhead will have to address GASB 45 for its fiscal year beginning January 1, 2008. The full impact of this GASB cannot be determined at this time.

(15) SUBSEQUENT EVENTS

As indicated in Note 10, the Town entered into a contract with a contracting company on April 18, 2002 for a pilot reclamation project at the Town's Youngs Avenue Landfill. On May 20, 2003, the Town contracted with the same contracting company to complete the landfill reclamation project. The project was expected to cost a total of approximately \$40,000,000 to complete based on estimates provided by an engineering firm hired by the Town. However, as of July 2006 the Town had expended approximately \$40,000,000 but the landfill reclamation project was not complete. According to a subsequent engineering firm hired by the Town, the landfill reclamation project was only one-third complete. On July 19, 2006, the Town sent a letter to the contracting company terminating their contract.

The Town is currently considering and evaluating options for completing the closure of the landfill. These options include continued reclamation, capping the balance of the landfill remaining or a combination of both (hybrid).

The Town has recorded a liability of \$15,750,000 in the government-wide financial statements. Actual costs for capping may be higher or lower due to inflation, changes in technology, changes in regulations or conditions on the ground. Actual costs for completing the closure of the landfill may also be materially higher or lower than the \$15,750,000 should the Town choose an alternative option.

The contracting company has filed two notices of claim. The first, dated May 19, 2006, seeks indemnification from the Town in the event the contracting company is found to have liability to a paving company in connection with the landfill reclamation project. No specific amount of damages was alleged in this notice of claim. The second dated July 27, 2006 alleges that the Town breached the contract between the parties in connection with the landfill reclamation project. That claim asserts that claimant is due \$8,924,932.40.

(15) SUBSEQUENT EVENTS (CONTINUED)

The attorneys representing the Town do not wish to express any opinion on the probable outcome of the above matters nor estimate possible settlement or ultimate liability costs.

**TOWN OF RIVERHEAD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED
DECEMBER 31, 2005**

	BUDGETED AMOUNTS		ACTUAL BUDGET BASIS	ADJUSTMENTS BUDGET BASIS	ACTUAL GAAP BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL				
REVENUES						
REAL PROPERTY TAXES	\$ 21,559,630	21,559,630	\$ 21,570,467	\$ -	\$ 21,570,467	\$ 10,837
REAL PROPERTY TAX ITEMS	338,450	338,450	363,796	-	363,796	25,346
NON-PROPERTY TAX ITEMS	534,000	534,000	552,656	-	552,656	18,656
DEPARTMENTAL INCOME	3,303,380	3,315,495	2,494,061	-	2,494,061	(821,434)
INTERGOVERNMENTAL CHARGES	379,000	359,000	66,320	-	66,320	(292,680)
USE OF MONEY AND PROPERTY	253,760	253,760	579,304	-	579,304	325,544
LICENSES AND PROPERTY	52,200	52,200	75,503	-	75,503	23,303
FINES AND FORFEITURES	380,000	380,000	493,141	-	493,141	113,141
SALE OF PROPERTY AND COMPENSATION FOR LOSS	128,350	128,350	710,855	-	710,855	582,505
MISCELLANEOUS LOCAL SOURCES	88,700	94,450	135,519	-	135,519	41,069
INTERFUND REVENUES	750,000	750,000	826,446	-	826,446	76,446
STATE AID	2,379,100	2,409,750	3,191,789	-	3,191,789	782,039
FEDERAL AID	-	-	-	-	-	-
TOTAL REVENUES	30,146,570	30,175,085	31,059,857	-	31,059,857	884,772
EXPENDITURES						
GENERAL GOVERNMENT SUPPORT	6,262,091	6,125,215	6,590,134	295,856	6,294,278	(464,919)
PUBLIC SAFETY	11,955,092	12,663,557	11,781,494	159,911	11,621,583	882,063
HEALTH	10,510	10,510	4,619	-	4,619	5,891
TRANSPORTATION	315,913	331,463	311,166	4,048	307,118	20,297
ECONOMIC ASSISTANCE AND OPPORTUNITY	1,052,237	1,076,321	935,474	35,247	900,227	140,847
CULTURE AND RECREATION	1,246,583	1,321,223	1,088,756	39,797	1,048,959	232,467
HOME AND COMMUNITY SERVICES	1,325,247	1,415,718	1,219,746	9,775	1,209,971	195,972
EMPLOYEE BENEFITS	7,195,665	7,651,665	7,025,135	-	7,025,135	626,530
TOTAL EXPENDITURES	29,363,338	30,595,672	28,956,524	544,634	28,411,890	1,639,148
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	783,232	(420,587)	2,103,333	(544,634)	2,647,967	2,523,920
OTHER FINANCING SOURCES (USES)						
OPERATING TRANSFERS IN	64,300	64,300	125,559	-	125,559	61,259
OPERATING TRANSFERS OUT	(2,872,500)	(3,610,600)	(2,480,582)	-	(2,480,582)	1,130,018
TOTAL OTHER FINANCING SOURCES (USES)	(2,808,200)	(3,546,300)	(2,355,023)	-	(2,355,023)	1,191,277
NET CHANGES IN FUND BALANCES	\$ (2,024,968)	\$ (3,966,887)	\$ (251,690)	\$ (544,634)	\$ 292,944	\$ 3,715,197
FUND BALANCES AT BEGINNING OF YEAR					8,482,551	
FUND BALANCES AT END OF YEAR					\$ 8,775,495	

SEE ACCOMPANYING NOTE TO BUDGETARY COMPARISON SCHEDULE.

**TOWN OF RIVERHEAD
NOTE TO BUDGETARY COMPARISON SCHEDULES
DECEMBER 31, 2005**

Note A – Budget VS GAAP Differences

There are differences in the treatment of certain expenditures between the “actual budget basis” figures and the “actual GAAP basis” figures.

Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes in accordance with generally accepted accounting principles (GAAP).