

TOWN OF RIVERHEAD
FINANCIAL STATEMENTS
December 31, 2008

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FINANCIAL STATEMENTS
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INTRODUCTORY SECTION

TOWN OF RIVERHEAD
PRINCIPAL OFFICIALS
December 31, 2008

Philip Cardinale, Supervisor

Barbara Blass, Councilwoman
John Dunleavy, Councilman

Timothy Buckley, Councilman
James Wooten, Councilman

ELECTED OFFICIALS

Laverne Tennenberg
Paul Leszczynski
Mason E. Haas
George Woodson
Maryann Wowak Heilbrunn
Barbara Grattan
Diane M. Wilhelm
Richard Ehlers
Allen M. Smith

Chairwoman, Board of Assessors
Board of Assessors
Board of Assessors
Highway Superintendent
Receiver of Taxes
Town Clerk
Town Clerk as of 11/18/08
Town Justice
Town Justice

DEPARTMENT HEADS

Dawn Thomas
William Rothaar
Leroy E. Barnes, Jr.
Andrea Lohneiss
Christina Kempner
Ken Testa
Richard Hanley
Chief David Hegermiller
Ray Coyne
Judy Doll
John Reeve
Michael Reichel
Gary Pendzick

Town Attorney
Accounting Department
Building Department
Community Development
Community Development as of 1/10/08
Engineering Department
Planning Department
Police Department
Recreation Department
Senior Services
Sanitation Department
Sewer District
Water Department

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York, as of December 31, 2008, and for the year then ended, which collectively comprise the Town of Riverhead's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Town of Riverhead Industrial Development Agency, the discretely presented component unit presented in the financial statements. As of December 31, 2008, the Town of Riverhead Industrial Development Agency has assets, net assets and revenues of \$249,396, \$235,521 and \$8,646 respectively, for the year then ended. These financial statements were audited by another auditor whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the Town of Riverhead Industrial Development Agency, is based solely on the report of the other auditor.

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. The financial statements of the component unit presented discretely in these financial statements were audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PERSONAL SERVICE. TRUSTED ADVICE. 

ALBRECHT, VIGGIANO, ZURECK & COMPANY, P.C.

245 PARK AVENUE, 24TH FLOOR
NEW YORK, NY 10167
T: 212.792.4075

25 SUFFOLK COURT
HAUPPAUGE, NY 11788-3715
T: 631.434.9500 F: 631.434.9518

www.avz.com
INDEPENDENT MEMBER OF BKR INTERNATIONAL

As discussed in Note A.8 to the basic financial statements, for the year ended December 31, 2008, the Town adopted *Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* and *Governmental Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations*.

The management's discussion and analysis and required supplementary information other than management's discussion and analysis 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, and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise of the Town of Riverhead, New York's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Albrecht, Vignano, Zureck & Co., P.C.

Hauppauge, New York
February 28, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

As management of the Town of Riverhead (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2008. The Town's 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 combined assets of the Town exceed its liabilities at the close of 2008 by \$151,999,944 (net assets).
- The Town's combined net assets decreased by \$4,426,775 (or 2.8%). The governmental net assets decreased by \$3,916,128 (or 3.8%) and the business-type net assets decreased by \$510,647 (or 1.0%).
- As of December 31, 2008, the Town's governmental funds reported combined ending fund balances of \$51,937,616. Of this total \$21,494,903 is unreserved and available to meet the Town's current and future needs.
- As of December 31, 2008, unreserved fund balances for the General Fund was \$11,267,565 (or 28.8%) of the total general fund expenditures and transfers out. The unreserved, undesignated portion was \$7,303,415 (or 18.7%) of the total General Fund expenditures and transfers out.
- The Town's total bonded debt outstanding increased by \$27,433,999 (or 24.8%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The reporting focus of this report is on the Town as a whole, as well as on the major individual funds. The report presents a more comprehensive view of the Town's financial activities and makes it easy to compare the performance of the Town of Riverhead's government to that of other governments.

The financial section of this annual report presents the Town's financial activities and position in four parts – (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) required supplementary information other than management's discussion and analysis, and (4) other supplementary information presenting combining statements.

The basic financial statements include government-wide financial statements, fund financial statements, and notes that provide more detailed information to supplement the basic financial statements.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Reporting the Town as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the Town. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The Statement of Net Assets combines and consolidates the Towns' current financial resources with capital assets and long-term obligations. This statement includes all of the Town's assets and liabilities.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

Reporting the Town as a Whole (continued)

Net assets are the difference between the Town's assets and its liabilities, and represent one measure of the Town's fiscal health. Over time increases or decreases in the Town's net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The reader may wish to consider other nonfinancial factors, however, such as changes in the Town's property tax base, bond ratings, the condition of its infrastructure, and sources of non-tax revenue, to assess the overall health of the Town.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental, business-type and component unit); these costs are paid by the Town's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The Statement of Net Assets and the Statement of activities divide the Town's activities into two types:

Primary Government

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, health, transportation, economic assistance and opportunity, culture and recreation, and home and community services. Property taxes, mortgage taxes, sales taxes, franchise fees, user fees, and state and federal grants finance these activities. The Town also charges fees to customers to help cover the cost of certain services it provides.

Component Unit

Component units are legally separate organizations for which the Town is either financially accountable, or the nature and significance of their relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete. These entities are reported in a separate column in the government-wide statements. The Town includes the Town of Riverhead Industrial Development Agency in its report.

Information on separately issued financial statements is shown in Note A.1 to the financial statements.

Reporting the Town's Most Significant Funds

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 of Riverhead, 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 near-term inflows and outflows of spendable resources, as well as on 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.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

Reporting the Town's Most Significant Funds (continued)

Governmental funds (continued)

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 fourteen (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 fund, debt service fund, community preservation fund, and capital projects, all of which are considered to be major funds. Data from the other ten (10) nonmajor funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Town of Riverhead adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental funds financial statements can be found in the Basic Financial Statements.

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 sewer and water district funds. 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, but are included in a single column in the proprietary funds 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 sewer district and water district funds since both are considered to be major funds of the Town. The proprietary fund financial statements can be found in the Basic Financial Statements section of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. The fiduciary fund financial statement can be found in the Basic Financial Statements section of this report.

Notes to 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 following the Basic Financial Statements.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information, in other supplementary information.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Government-Wide Financial Analysis

The comparative condensed statements below focus on the net assets and changes in net assets of the Town of Riverhead's governmental and business-type activities.

The 2007 opening net assets have been restated to include \$3,581,400 in capital grant receivables.

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial health. In the case of the Town, total combined assets exceeded liabilities by \$151,999,944 as of December 31, 2008.

The largest portion of the Town's combined net assets, at December 31, 2008, (or 79.3%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and construction in progress) less any debt used to acquire those assets that are 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.

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007 (as restated)	2008	2007	2008	2007 (as restated)
Assets						
Current and other assets	\$ 73,107,636	\$ 59,552,387	\$ 13,863,807	\$ 17,640,421	\$ 86,971,443	\$ 77,192,808
Capital assets	186,123,272	173,325,973	54,768,694	52,336,865	240,891,966	225,662,838
Total assets	<u>259,230,908</u>	<u>232,878,360</u>	<u>68,632,501</u>	<u>69,977,286</u>	<u>327,863,409</u>	<u>302,855,646</u>
Liabilities						
Current liabilities	27,999,230	17,387,703	3,647,939	3,301,347	31,647,169	20,689,050
Non-current liabilities	130,804,385	111,147,236	13,411,911	14,592,641	144,216,296	125,739,877
Total liabilities	<u>158,803,615</u>	<u>128,534,939</u>	<u>17,059,850</u>	<u>17,893,988</u>	<u>175,863,465</u>	<u>146,428,927</u>
Net Assets (Deficit)						
Invested in capital assets, net of related debt	79,710,515	77,321,403	40,883,383	37,175,536	120,593,898	114,496,939
Restricted	34,668,512	29,114,835	3,722,076	3,817,325	38,390,588	32,932,160
Unrestricted	(13,951,734)	(2,092,817)	6,967,192	11,090,437	(6,984,542)	8,997,620
Total net assets	<u>\$ 100,427,293</u>	<u>\$ 104,343,421</u>	<u>\$ 51,572,651</u>	<u>\$ 52,083,298</u>	<u>\$ 151,999,944</u>	<u>\$ 156,426,719</u>

An additional portion of the Town's net assets (or 25.3%) represents resources that are subject to external restrictions on how they may be used. The deficit balance in unrestricted net assets, \$6,984,542, does not necessarily indicate fiscal stress.

Total net assets were partially decreased in the current year and will continue to decrease in subsequent years due to the recognition of Governmental Accounting Standards Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB).

At the end of the current year, the Town is able to report positive balances in all three categories of net assets for its business-type activities. The deficit balance of unrestricted net assets arose primarily because the Town borrowed funds only as needed. In addition, long-term liabilities which include other postemployment benefits, compensated absences, claims and judgments and the landfill closure and post-closure monitoring will be funded through future budgetary appropriations when they become payable in future periods.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

The comparative condensed statements below focus on the operations of the Town of Riverhead's governmental and business-type activities.

Changes in Net Assets
Governmental Activities and Business-type Activities - Primary Government
for the years ended December 31,

	Governmental Activities		Business-type Activities		Total	
	2008	2007 (as restated)	2008	2007	2008	2007 (as restated)
Revenues						
Program revenues:						
Charges for services	\$ 6,629,679	\$ 7,519,660	\$ 6,013,811	\$ 6,348,674	\$ 12,643,490	\$ 13,868,334
Operating grants and contributions	1,184,381	579,384		88,614	1,184,381	667,998
Capital grants and contributions	761,029	2,966,256	643,566	3,896,747	1,404,595	6,863,003
	<u>8,575,089</u>	<u>11,065,300</u>	<u>6,657,377</u>	<u>10,334,035</u>	<u>15,232,466</u>	<u>21,399,335</u>
General revenues:						
Real property taxes	37,649,505	34,636,515	2,129,341	2,081,646	39,778,846	36,718,161
Real property tax items	357,540	322,840	133,024	399,005	490,564	721,845
Non-property tax items - sales tax	999,755	910,305	146,688	146,688	1,146,443	1,056,993
Community preservation fund 2% tax	2,772,582	4,571,973			2,772,582	4,571,973
Mortgage tax	1,796,031	2,577,647			1,796,031	2,577,647
Franchise tax	587,357	547,815			587,357	547,815
Investment earnings - unrestricted	2,017,985	2,781,772	770,943	1,260,544	2,788,928	4,042,316
Other compensation for loss	2,249,296	2,195,729			2,249,296	2,195,729
Federal and state aid	116,239	112,853			116,239	112,853
Gain on sale of capital assets				192,000		192,000
Other	140,607	244,075			140,607	244,075
	<u>48,686,897</u>	<u>48,901,524</u>	<u>3,179,996</u>	<u>4,079,883</u>	<u>51,866,893</u>	<u>52,981,407</u>
Total revenues	<u>57,261,986</u>	<u>59,966,824</u>	<u>9,837,373</u>	<u>14,413,918</u>	<u>67,099,359</u>	<u>74,380,742</u>
Expenses						
General government support	13,904,788	10,329,821			13,904,788	10,329,821
Public safety	21,173,481	17,808,445			21,173,481	17,808,445
Health	802,354	654,708			802,354	654,708
Transportation	7,145,654	6,933,577			7,145,654	6,933,577
Economic assistance and opportunity	9,012,618	6,906,346			9,012,618	6,906,346
Culture and recreation	1,685,790	3,618,596			1,685,790	3,618,596
Home and community services	3,289,199	6,797,971	9,406,920	8,875,815	12,696,119	15,673,786
Interest on debt	5,105,330	3,829,276			5,105,330	3,829,276
Total expenses	<u>62,119,214</u>	<u>56,878,740</u>	<u>9,406,920</u>	<u>8,875,815</u>	<u>71,526,134</u>	<u>65,754,555</u>
Change in net assets before transfers	(4,857,228)	3,088,084	430,453	5,538,103	(4,426,775)	8,626,187
Transfers	941,100	609,920	(941,100)	(609,920)	-0-	-0-
Change in net assets	(3,916,128)	3,698,004	(510,647)	4,928,183	(4,426,775)	8,626,187
Net assets - beginning - as restated	104,343,421	100,645,417	52,083,298	47,155,115	156,426,719	147,800,532
Net assets - ending	<u>\$ 100,427,293</u>	<u>\$ 104,343,421</u>	<u>\$ 51,572,651</u>	<u>\$ 52,083,298</u>	<u>\$ 151,999,944</u>	<u>\$ 156,426,719</u>

The 2007 net assets beginning balance has been restated to include \$3,581,400 in capital grant revenues to reimburse the related expenses which were incurred prior to 2007.

The change in net assets from all combined activities was a decrease of \$4,426,775. The governmental activities decreased by \$3,916,128 and the business-type decreased by \$510,647.

Key elements of the changes in governmental activities are:

- A decrease in home and community services costs of \$3,801,687 from a change in estimated costs relating to the capping and closure costs of the Town's landfill.
- Recognition of OPEB costs of \$3,695,099.
- Increased interest costs on debt related to the February 2008 \$35,349,000 borrowing. There were interest payments due in June and December 2008.

Key elements of the changes in business-type activities are:

- Recognition of OPEB costs of \$294,765.

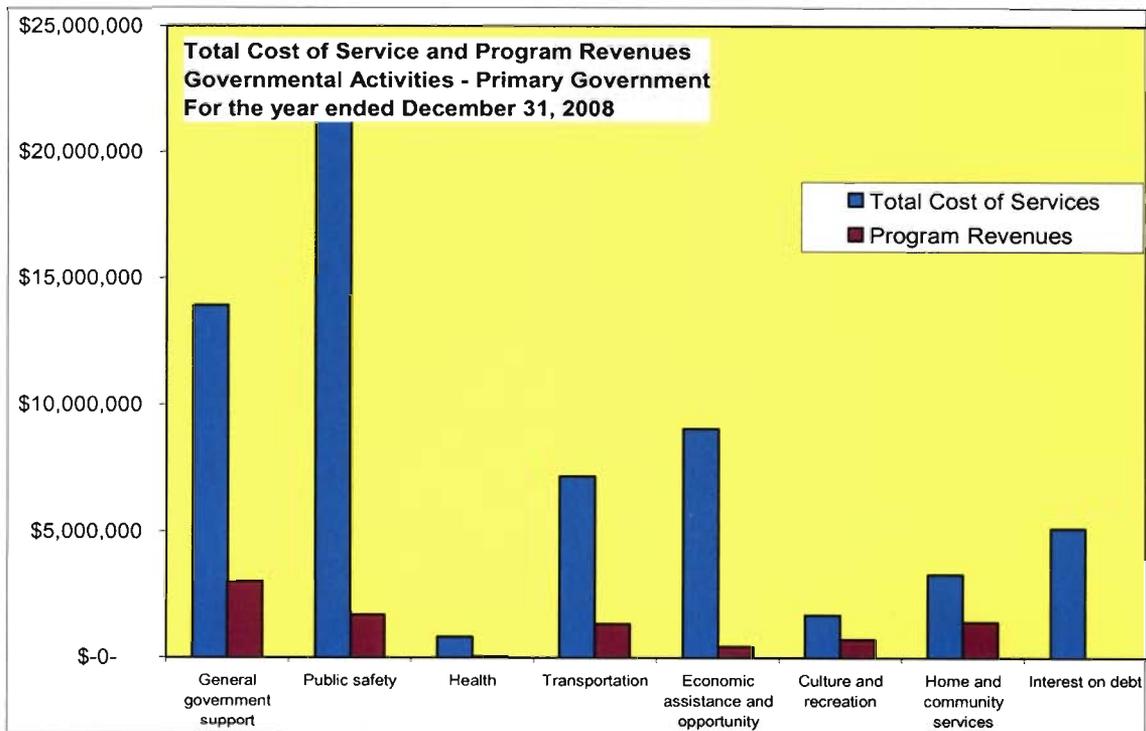
TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2008

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)
Governmental Activities

The following chart illustrates the total expenses by program for the Town's governmental funds.

Total Cost of Services and Program Revenues
Governmental Activities - Primary Government
For the years ended December 31,

	Total Cost of Services		Program Revenues	
	2008	2007	2008	2007
General government support	\$ 13,904,788	\$ 10,329,821	\$ 2,989,715	\$ 3,464,416
Public safety	21,173,481	17,808,445	1,668,431	2,165,727
Health	802,354	654,708	42,950	45,780
Transportation	7,145,654	6,933,577	1,326,046	1,798,966
Economic assistance and opportunity	9,012,618	6,906,346	425,302	477,371
Culture and recreation	1,685,790	3,618,596	722,023	1,463,683
Home and community services	3,289,199	6,797,971	1,400,622	1,649,357
Interest on debt	5,105,330	3,829,276		
	<u>\$ 62,119,214</u>	<u>\$ 56,878,740</u>	<u>\$ 8,575,089</u>	<u>\$ 11,065,300</u>



The cost of the governmental activities this year was \$62,119,214. The cost of these services was subsidized by program revenues of \$8,575,089.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2008

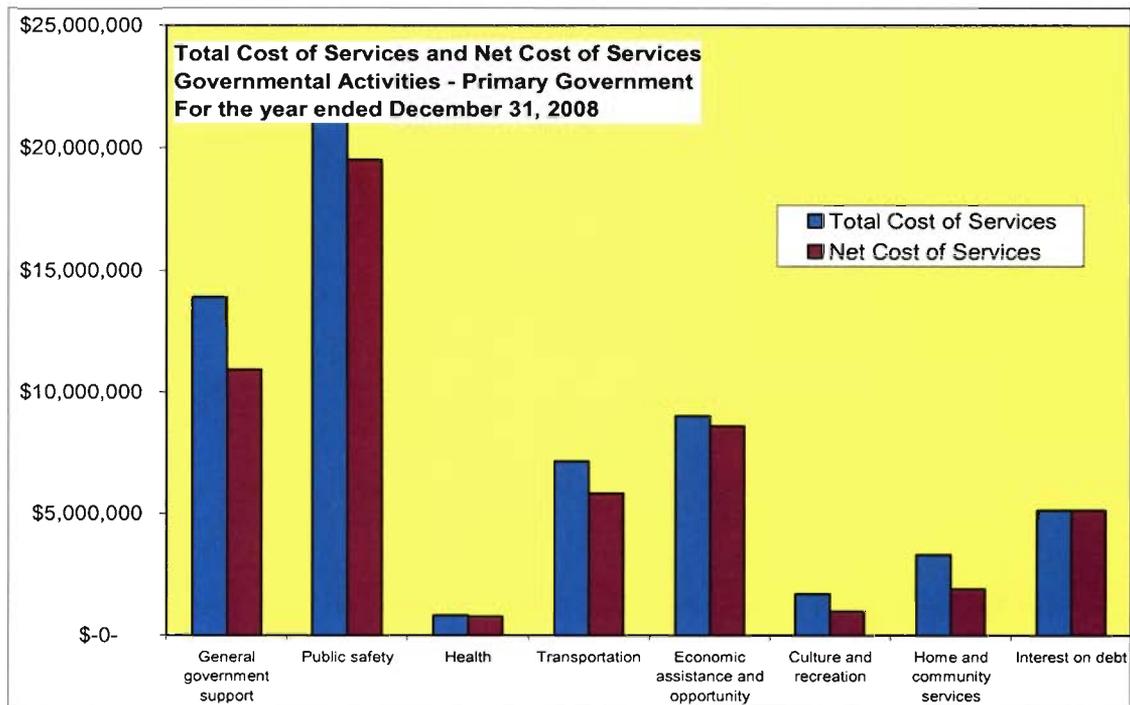
FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

Governmental Activities

The following chart illustrates the total expenses by net cost for the Town's governmental funds.

**Total Cost of Services and Net Cost of Services
 Governmental Activities - Primary Government
 For the years ended December 31,**

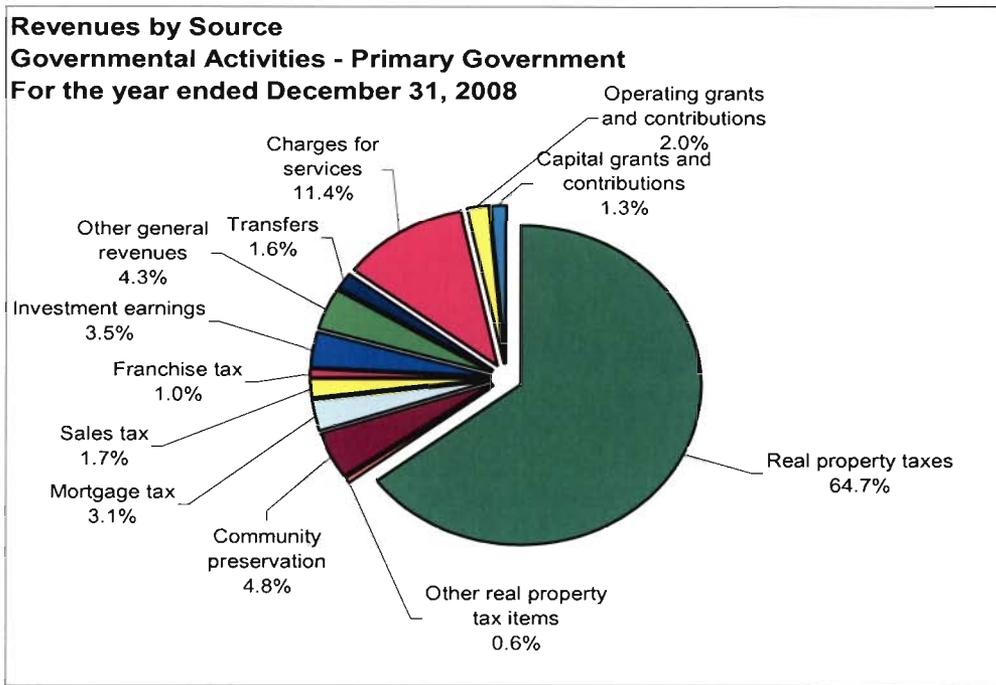
	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
General government support	\$ 13,904,788	\$ 10,329,821	\$ 10,915,073	\$ 6,865,405
Public safety	21,173,481	17,808,445	19,505,050	15,642,718
Health	802,354	654,708	759,404	608,928
Transportation	7,145,654	6,933,577	5,819,608	5,134,611
Economic assistance and opportunity	9,012,618	6,906,346	8,587,316	6,428,975
Culture and recreation	1,685,790	3,618,596	963,767	2,154,913
Home and community services	3,289,199	6,797,971	1,888,577	5,148,614
Interest on debt	5,105,330	3,829,276	5,105,330	3,829,276
	<u>\$ 62,119,214</u>	<u>\$ 56,878,740</u>	<u>\$ 53,544,125</u>	<u>\$ 45,813,440</u>



The net cost of these services after being subsidized by program revenues of \$8,575,089 was \$53,544,125.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2008

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)



Revenue by Source - Governmental Activities - Primary Government years ended December 31,

	2008	2007
Real property taxes	\$ 37,649,505	\$ 34,636,515
Real property tax items	357,540	322,840
Non-property tax items - sales tax	999,755	910,305
Community preservation fund 2% tax	2,772,582	4,571,973
Mortgage tax	1,796,031	2,577,647
Franchise tax	587,357	547,815
Investment earnings - unrestricted	2,017,985	2,781,772
Other general revenues	2,506,142	2,552,657
Transfers	941,100	609,920
Charges for services	6,629,679	7,519,660
Operating grants and contributions	1,184,381	579,384
Capital grants and contributions	761,029	2,966,256
	<u>\$ 58,203,086</u>	<u>\$ 60,576,744</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town of Riverhead 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

As of the end of the current year, the Town of Riverhead's governmental funds reported combined ending fund balances of \$51,937,616. Approximately 33.8% of the total amount (\$17,530,753) constitutes unreserved, undesignated fund balance that is available to meet the Town's current and future operational and capital needs. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed: \$2,588,479 to pay for encumbrances, \$6,469,514 to pay for current and future debt service, \$22,121,785 for use of the Community Preservation Fund, \$562,935 reserved for prepaids, \$2,005,602 appropriated for the subsequent year's budget, and \$658,548 designated for miscellaneous designations.

General Fund

The General Fund is the chief operating fund of the Town. At December 31, 2008 unreserved, undesignated fund balance of the General Fund was \$7,303,415, while total fund balance of the General Fund was \$12,557,055. As a measure of the General Fund's 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, undesignated fund balance represents 18.7% of total General Fund expenditures and transfers out, while total fund balance represents 32.1% of the same amount.

The fund balance decreased by \$1,203,316 during the current year. The major components of the decrease were:

- A downturn in the economy resulted in decreases in mortgage tax of approximately \$800,000; department income from building and planning related fees of \$1,200,000, and \$150,000 in interest earned.
- Intergovernmental charges of \$300,000 did not materialize.
- Revenue shortfalls were partially offset by \$2,000,000 received as a non-refundable deposit on the contract for the sale of the Calverton property.
- Expenses increased in general government support, public safety and other functions as a result of increases in salaries and contractual obligations.

Capital Projects Fund

The fund balance increased by \$10,060,992 during the current year. The major reason for the increase is due to the February 2008 borrowing with approximately \$10,700,000 in unspent proceeds.

Community Preservation Fund

The fund balance decreased by \$1,816,217. The major component of the revenue decrease was the decline in transfer tax.

Nonmajor Funds

The fund balance decreased by \$1,200,968 spread over the ten nonmajor funds. The largest decrease was in the Special Trust Fund, of approximately \$800,000, as a result of the decline in developer's fees and increase in the transfers to Town projects.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (continued)

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 (deficit) of the sewer and water proprietary funds at the end of the year amounted to \$7,098,048 and (\$130,856) respectively. The decrease in net assets for both funds was \$401,665 and \$108,982, respectively. The key element of the changes in business-type activities was the recognition of \$294,765 on OPEB costs.

General Fund Budgetary Highlights – During the year, there was a \$1,094,307 (or 3.1%) increase in overall spending between the original and final amended budget.

This variation is covered by sufficient fund balance and is not expected to have a significant effect of future services or liquidity.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of Riverhead's investment in capital assets for its governmental and business-type activities as of December 31, 2008 amounts to \$240,891,966 (net of accumulated depreciation). This investment in capital assets includes land/development rights, buildings, equipment, improvements, and construction in progress.

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

- The purchase of development rights of farmland and acquisitions of open space in 2008 totaled \$14,126,739 in governmental activities.
- The net \$6,284,601 in governmental activities construction in progress additions, \$3,330,644 was for landfill reclamation and capping, \$1,385,286 was for the Calverton Recreational Park and \$1,170,120 was for Town-wide road resurfacing.
- The net business-type activities construction in progress additions were for sewer extensions, and station and equipment reconstruction.
- The building addition in business-type activities was for the construction of the sewer pump station building at Middle Road, for \$792,429.
- The improvements addition in business-type activities was to water mains for \$463,797.

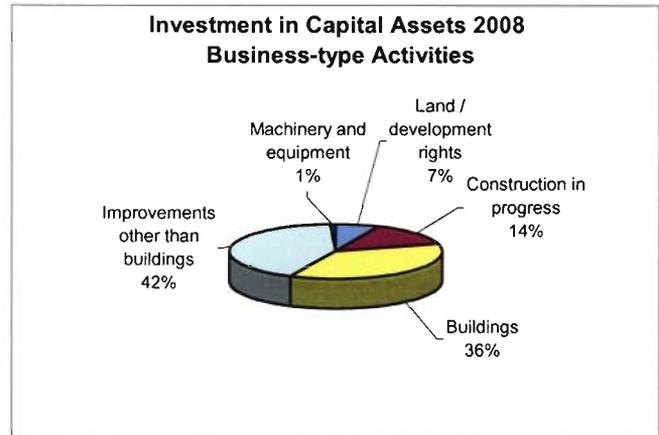
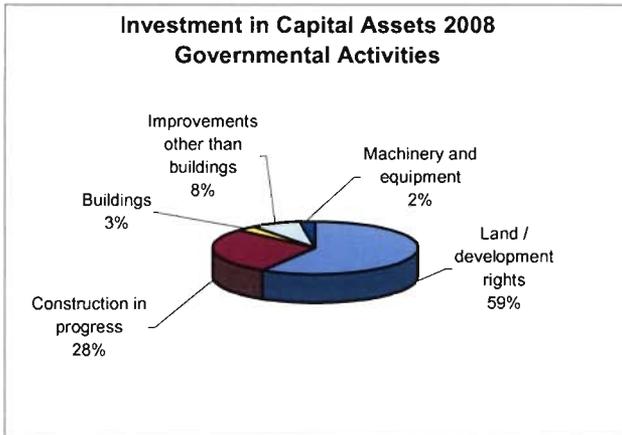
Capital Assets - Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land / development rights	\$ 108,905,511	\$ 94,778,772	\$ 3,682,403	\$ 3,682,403	\$ 112,587,914	\$ 98,461,175
Construction in progress	52,300,449	46,015,848	7,543,483	4,871,462	59,843,932	50,887,310
Buildings	5,892,424	6,083,476	20,020,312	19,838,686	25,912,736	25,922,162
Improvements other than buildings	14,474,600	21,783,096	23,113,551	23,555,509	37,588,151	45,338,605
Machinery and equipment	4,550,288	4,664,781	408,945	388,805	4,959,233	5,053,586
Total capital assets	\$ 186,123,272	\$ 173,325,973	\$ 54,768,694	\$ 52,336,865	\$ 240,891,966	\$ 225,662,838

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)



Additional information on the Town's capital assets can be found in Note C.3 to the financial statements.

Debt Administration

At the end of 2008, the Town of Riverhead had total bonded debt outstanding of \$138,024,000. As of December 31, 2008 the Town's total combined debt increased by \$27,433,999 (or 24.8%). The entire debt is backed by the full faith and credit of the Town of Riverhead.

**Outstanding Debt
as of December 31,**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 124,231,616	\$ 95,428,672	\$ 13,792,384	\$ 15,161,329	\$ 138,024,000	\$ 110,590,001
Total	\$ 124,231,616	\$ 95,428,672	\$ 13,792,384	\$ 15,161,329	\$ 138,024,000	\$ 110,590,001

The Town of Riverhead maintains an "AA-" rating from Standard & Poor's Corp., and an "Aa3" rating from Moody's Investors Service.

New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year average full valuation. The debt limit excludes water debt and sewer debt and the business-type activities. The current debt limitation for the Town is \$446,318,470 which is significantly in excess of the Town's outstanding general obligation debt. The percentage of debt limit exhausted is 27.83%.

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 \$75,000 for undeveloped property. The tax is to be collected on every transaction through the year 2030. 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.

Additional information on the Town's long-term debt can be found in Note C.4 to the financial statements.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Next year's budget will increase by \$1,730,122 (or 2.71%) with the majority of this increased spending for the General Fund, \$969,087; Highway Fund, \$161,082; Water District \$265,932; Riverhead Sewer, \$156,524, Refuse & Garbage District \$160,850; and Ambulance, \$71,509. Several other districts had minor decreases, including Street Lighting for \$23,460.

Assessed values increased in 2009 by \$5,128,446 over 2008 (or 0.65%).

The Town wide tax rate increased by \$1.84 per \$1,000 of assessed value, (or 4.6%), for the 2009 budget year.

The Town will be closely monitoring the current economic conditions and making adjustments as necessary.

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 1295 Pulaski Street, Riverhead, New York 11901 or by telephone 631-727-3200.

BASIC FINANCIAL STATEMENTS

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TOWN OF RIVERHEAD
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
December 31, 2008

	Primary Government			Component Unit IDA
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 49,459,465	\$ 12,012,487	\$ 61,471,952	\$ 246,843
Cash - restricted	19,936,330		19,936,330	
Accounts receivable	258,360		258,360	
Accrued interest receivable	78,334	5,671	84,005	
Billings receivable	96,000	1,036,430	1,132,430	
Due from other governments	2,546,369	687,629	3,233,998	
Internal balances	13,198	(13,198)	-0-	
Prepays	569,345	40,104	609,449	1,293
Inventory of materials and supplies	118,146	58,568	176,714	
Other assets	32,089	36,116	68,205	
Total current assets	73,107,636	13,863,807	86,971,443	248,136
Non-current assets:				
Non-depreciable capital assets	161,205,960	11,225,886	172,431,846	
Capital assets, net of accumulated depreciation	24,917,312	43,542,808	68,460,120	1,260
Total non-current assets	186,123,272	54,768,694	240,891,966	1,260
Total assets	259,230,908	68,632,501	327,863,409	249,396
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	7,871,628	872,998	8,744,626	13,875
Accrued interest payable	614,023	92,736	706,759	
Due to other governments	5,975		5,975	
Unearned revenue/deferred revenue	9,276,483	1,030,590	10,307,073	
Other liabilities		45,807	45,807	
Total current liabilities	27,999,230	3,647,939	31,647,169	13,875
Non-current liabilities due within one year:				
General obligation bonds payable	7,135,813	1,525,998	8,661,811	
Compensated absences payable	191,066	79,810	270,876	
Claims and judgments payable	1,343,292		1,343,292	
Estimated liability for landfill closure and post-closure care costs	1,560,950		1,560,950	
Total non-current liabilities due within one year	10,231,121	1,605,808	11,836,929	
Non-current liabilities due in more than one year:				
General obligation bonds payable	117,148,499	12,359,313	129,507,812	
Compensated absences payable	6,105,579	757,833	6,863,412	
Claims and judgments payable	160,508		160,508	
Estimated liability for landfill closure and post-closure care costs	3,694,700		3,694,700	
Other postemployment benefits	3,695,099	294,765	3,989,864	
Total non-current liabilities due in more than one year	130,804,385	13,411,911	144,216,296	-0-
Total liabilities	158,803,615	17,059,850	175,863,465	13,875
NET ASSETS				
Invested in capital assets, net of related debt	79,710,515	40,883,383	120,593,898	
Restricted for:				
Debt service fund	1,029,025	1,764,309	2,793,334	
Capital projects	7,078,394		7,078,394	
Community preservation fund	25,703,185		25,703,185	
Home and community services	857,908	1,957,767	2,815,675	
Unrestricted	(13,951,734)	6,967,192	(6,984,542)	235,521
Total net assets	\$ 100,427,293	\$ 51,572,651	\$ 151,999,944	\$ 235,521

TOWN OF RIVERHEAD
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
Year ended December 31, 2008

Function/ Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government support	\$ 13,904,788	\$ 2,981,876	\$ 7,839	
Public safety	21,173,481	1,439,522	217,078	\$ 11,831
Health	802,354	42,950		
Transportation	7,145,654	1,122,130		203,916
Economic assistance and opportunity	9,012,618	81,077	325,101	19,124
Culture and recreation	1,685,790	638,460	80,163	3,400
Home and community services	3,289,199	323,664	554,200	522,758
Interest on debt	5,105,330			
Total governmental activities	\$ 62,119,214	\$ 6,629,679	\$ 1,184,381	\$ 761,029
Business-type Activities:				
Sewer	\$ 4,192,051	\$ 2,998,358		\$ 11,250
Water	5,214,869	3,015,453		632,316
Total business-type activities	9,406,920	6,013,811	\$ -0-	643,566
Total Primary Government	\$ 71,526,134	\$ 12,643,490	\$ 1,184,381	\$ 1,404,595
COMPONENT UNIT:				
Industrial Development Agency (IDA)	\$ 169,863	\$ 750		
Total component unit	\$ 169,863	\$ 750		

General revenues:

- Real property taxes
- Real property tax items
- Non-property tax items - sales tax
- Community preservation fund 2% tax
- Mortgage tax
- Franchise tax
- Investment earnings - unrestricted
- Sale of property and compensation for loss
- Federal and state aid
- Other

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - beginning, as reported

Prior period adjustment

Net Assets - beginning, as restated

Net assets - ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Industrial Development Agency
\$ (10,915,073)		\$ (10,915,073)	
(19,505,050)		(19,505,050)	
(759,404)		(759,404)	
(5,819,608)		(5,819,608)	
(8,587,316)		(8,587,316)	
(963,767)		(963,767)	
(1,888,577)		(1,888,577)	
(5,105,330)		(5,105,330)	
<u>\$ (53,544,125)</u>		<u>\$ (53,544,125)</u>	
	\$ (1,182,443)	\$ (1,182,443)	
	<u>(1,567,100)</u>	<u>(1,567,100)</u>	
	<u>(2,749,543)</u>	<u>(2,749,543)</u>	
<u>\$ (53,544,125)</u>	<u>\$ (2,749,543)</u>	<u>\$ (56,293,668)</u>	
			<u>\$ (169,113)</u>
			<u>\$ (169,113)</u>
\$ 37,649,505	\$ 2,129,341	\$ 39,778,846	
357,540	133,024	490,564	
999,755	146,688	1,146,443	
2,772,582		2,772,582	
1,796,031		1,796,031	
587,357		587,357	
2,017,985	770,943	2,788,928	\$ 7,896
2,249,296		2,249,296	
116,239		116,239	
140,607		140,607	
941,100	(941,100)	-0-	
<u>49,627,997</u>	<u>2,238,896</u>	<u>51,866,893</u>	<u>7,896</u>
<u>(3,916,128)</u>	<u>(510,647)</u>	<u>(4,426,775)</u>	<u>(161,217)</u>
100,762,021	52,083,298	152,845,319	396,738
3,581,400		3,581,400	
<u>104,343,421</u>	<u>52,083,298</u>	<u>156,426,719</u>	<u>396,738</u>
<u>\$ 100,427,293</u>	<u>\$ 51,572,651</u>	<u>\$ 151,999,944</u>	<u>\$ 235,521</u>

TOWN OF RIVERHEAD
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008

MAJOR FUNDS

	General	Highway	Debt Service	Capital Projects
ASSETS				
Cash and cash equivalents	\$ 17,348,663	\$ 3,106,569		\$ 17,396,375
Cash - restricted			\$ 10,918,342	
Accounts receivable	187,271			24,479
Accrued Interest receivable	53,239	672	6,669	339
Due from other funds	2,507,913	724,058	5,296,813	483,600
Due from other governments	2,001,993			178,227
Prepays	522,804	33,330		1,507
Other assets	11,609			
Total assets	<u>\$ 22,633,492</u>	<u>\$ 3,864,629</u>	<u>\$ 16,221,824</u>	<u>\$ 18,084,527</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 808,864	\$ 204,624		\$ 6,493,285
Due to other funds	3,153,133		\$ 15,192,799	4,451,183
Due to other governments	1,945			2,770
Deferred revenue	6,112,495	1,404,430		58,895
Total liabilities	<u>10,076,437</u>	<u>1,609,054</u>	<u>15,192,799</u>	<u>11,006,133</u>
Fund Balances:				
Reserved for:				
Encumbrances	576,654	182,391		1,742,285
Debt service	190,032	571,221		207,786
Community preservation				
Prepays	522,804	33,330		1,507
Unreserved, designated for:				
Subsequent year's budget	2,005,602			
Subsequent year's debt service	1,300,000			
Miscellaneous designations	658,548			
Unreserved, undesignated reported in:				
General fund	7,303,415			
Special revenue funds		1,468,633		
Debt service funds			1,029,025	
Capital funds				5,126,816
Total fund balances	<u>12,557,055</u>	<u>2,255,575</u>	<u>1,029,025</u>	<u>7,078,394</u>
Total liabilities and fund balances	<u>\$ 22,633,492</u>	<u>\$ 3,864,629</u>	<u>\$ 16,221,824</u>	<u>\$ 18,084,527</u>

See notes to the financial statements

Community Preservation	Other Governmental Funds	Total Governmental Funds
\$ 8,146,835	\$ 5,731,732	\$ 43,583,339
	871,153	19,936,330
	46,610	258,360
9,642	4,084	74,645
17,419,378	774,123	27,205,885
131,413	234,736	2,546,369
	5,294	562,935
		11,609
<u>\$ 25,707,268</u>	<u>\$ 7,667,732</u>	<u>\$ 94,179,472</u>
\$ 3,657	\$ 122,463	\$ 7,632,893
	2,529,390	25,326,505
	1,260	5,975
	1,700,663	9,276,483
<u>3,657</u>	<u>4,353,776</u>	<u>42,241,856</u>
426	86,723	2,588,479
3,581,400	619,075	5,169,514
22,121,785		22,121,785
	5,294	562,935
		2,005,602
		1,300,000
		658,548
		7,303,415
	2,602,864	4,071,497
		1,029,025
		5,126,816
<u>25,703,611</u>	<u>3,313,956</u>	<u>51,937,616</u>
<u>\$ 25,707,268</u>	<u>\$ 7,667,732</u>	<u>\$ 94,179,472</u>

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TOWN OF RIVERHEAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
December 31, 2008

Total fund balances - governmental funds **\$ 51,937,616**

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

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

Capital assets - non-depreciable	\$ 161,205,960	
Capital assets - depreciable	133,395,634	
Accumulated depreciation	<u>(108,478,322)</u>	186,123,272

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 the government activities in the government wide statement of net assets (net of amount allocated to capital assets and long-term liabilities). 3,995,454

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

General obligation bonds	(124,231,616)	
Compensated absences	(6,296,645)	
Claims and judgments	(1,503,800)	
Estimated liability for landfill closure and postclosure costs	(5,255,650)	
Other postemployment benefits	<u>(3,695,099)</u>	(140,982,810)

Prepaid items included in the Statement of Net Assets 20,480

Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities - bond premiums and deferred charges.

Premiums on debt issuance included in the Statement of Net Assets (52,696)

Interest payable applicable to the Town's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets. (614,023)

Net assets of governmental activities **\$ 100,427,293**

TOWN OF RIVERHEAD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended December 31, 2008

	MAJOR FUNDS			
	General	Highway	Debt Service	Capital Projects
REVENUES				
Real property taxes	\$ 25,137,900	\$ 5,641,500		
Real property tax items	357,540			
Non-property tax items	1,587,112			
Departmental income	2,330,798			
Intergovernmental charges	12,352	1,050		
Use of money and property	732,882	89,576	\$ 268,457	\$ 570,278
Licenses and permits	82,145	20,100		
Fines and forfeitures	472,942			
Sale of property and compensation for loss	2,282,331	48,611		
Miscellaneous local sources	95,508			18,508
Interfund revenue	1,232,900			
State and local aid	2,464,238			385,592
Federal aid	97,120			57,276
Total revenues	<u>36,885,768</u>	<u>5,800,837</u>	<u>268,457</u>	<u>1,031,654</u>
EXPENDITURES				
Current:				
General government support	7,962,353	781,300		
Public safety	13,915,758			
Health	10,929			
Transportation	406,501	2,996,070		
Economic assistance and opportunity	1,032,064			
Culture and recreation	1,440,641			
Home and community services	1,527,774			
Employee benefits	7,730,466	884,841		
Capital Outlay:				
General government support				14,235,066
Public safety				56,197
Health				166,895
Transportation				1,433,040
Economic assistance and opportunity				88,944
Culture and recreation				1,714,455
Home and community services				10,159,604
Debt Service:				
Principal			6,010,206	
Interest			4,887,439	
Bond issuance costs			30,720	
Total expenditures	<u>34,026,486</u>	<u>4,662,211</u>	<u>10,928,365</u>	<u>27,854,201</u>
Excess (deficiency) of revenues over expenditures	<u>2,859,282</u>	<u>1,138,626</u>	<u>(10,659,908)</u>	<u>(26,822,547)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,033,600		10,762,669	1,537,039
Operating transfers out	(5,096,198)	(961,827)	(990)	(2,500)
Payments to refunded bond escrow agent			(1,319,200)	
Refunding bonds issued			1,405,850	
Debt proceeds				35,349,000
Premium on debt issuance			79,044	
Total other financing sources (uses)	<u>(4,062,598)</u>	<u>(961,827)</u>	<u>10,927,373</u>	<u>36,883,539</u>
Net change in fund balance	<u>(1,203,316)</u>	<u>176,799</u>	<u>267,465</u>	<u>10,060,992</u>
Fund balances at beginning, as reported	13,760,371	2,078,776	761,560	(2,982,598)
Prior period adjustments				
Fund balances at beginning, as restated	<u>13,760,371</u>	<u>2,078,776</u>	<u>761,560</u>	<u>(2,982,598)</u>
Fund balances at end of year	<u>\$ 12,557,055</u>	<u>\$ 2,255,575</u>	<u>\$ 1,029,025</u>	<u>\$ 7,078,394</u>

See notes to the financial statements

Community Preservation	Other Governmental Funds	Total Governmental Funds
	\$ 6,870,105	\$ 37,649,505
		357,540
\$ 2,772,582		4,359,694
	676,356	3,007,154
		13,402
248,402	136,420	2,046,015
		102,245
		472,942
	821	2,331,763
	10,000	124,016
	173,004	1,232,900
	244,225	3,022,834
		398,621
3,020,984	8,110,931	55,118,631
	907,000	9,650,653
		13,915,758
	735,968	746,897
	894,183	4,296,754
	123,798	1,155,862
	43,418	1,484,059
64,739	4,858,267	6,450,780
1,135	189,899	8,806,341
		14,235,066
		56,197
		166,895
		1,433,040
		88,944
		1,714,455
		10,159,604
		6,010,206
		4,887,439
		30,720
65,874	7,752,533	85,289,670
2,955,110	358,398	(30,171,039)
	990	13,334,298
(4,771,327)	(1,560,356)	(12,393,198)
		(1,319,200)
		1,405,850
		35,349,000
		79,044
(4,771,327)	(1,559,366)	36,455,794
(1,816,217)	(1,200,968)	6,284,755
23,938,428	4,514,924	42,071,461
3,581,400		3,581,400
27,519,828	4,514,924	45,652,861
\$ 25,703,611	\$ 3,313,956	\$ 51,937,616

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TOWN OF RIVERHEAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
Year ended December 31, 2008

Net change in fund balances - total governmental funds \$ 6,284,755

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

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

Capital outlay, exclusive of Internal Service fund assets	\$ 21,927,137	
Depreciation expense, exclusive of internal service funds assets	<u>(9,054,415)</u>	
		12,872,722

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:

Deferred charges	20,480
------------------	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred Revenue	(52,696)
------------------	----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net loss of the of the internal service funds is reported with governmental activities

Claims and judgments payable	548,334
Other change in net assets	(713,192)

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

Debt issued	(36,754,850)
Repayment of debt principal	7,329,406
Compensated absences	(179,993)
Estimated liability for landfill closure and postclosure care costs	10,494,350
Other postemployment benefits	(3,695,099)
Accrued interest payable	<u>(70,345)</u>

Change in net assets of governmental activities	<u>\$ (3,916,128)</u>
---	-----------------------

TOWN OF RIVERHEAD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 9,149,897	\$ 2,862,590	\$ 12,012,487	\$ 5,876,126
Accrued interest receivable	5,052	619	5,671	3,689
Billings receivables	53,259	983,171	1,036,430	96,000
Due from other funds	12,510	12,324	24,834	655,833
Due from other governments	687,629		687,629	
Prepays	18,447	21,657	40,104	6,410
Inventory		58,568	58,568	118,146
Other assets	1,275	34,841	36,116	
Total current assets	9,928,069	3,973,770	13,901,839	6,756,204
Non-current assets:				
Capital assets:				
Land	575,912	3,106,491	3,682,403	
Construction work in progress	3,622,224	3,921,259	7,543,483	
Buildings	22,766,748	11,016,872	33,783,620	1,466,137
Improvements other than buildings	21,532,305	37,251,766	58,784,071	479,443
Machinery and equipment	766,071	7,310,002	8,076,073	153,316
Less accumulated depreciation	(30,458,611)	(26,642,345)	(57,100,956)	(725,781)
Total capital assets (net of accumulated depreciation)	18,804,649	35,964,045	54,768,694	1,373,115
Total non-current assets	18,804,649	35,964,045	54,768,694	1,373,115
Total assets	28,732,718	39,937,815	68,670,533	8,129,319
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	227,050	645,948	872,998	238,735
Bond interest and matured bonds payable	43,905	48,831	92,736	
Customers deposits payable		45,807	45,807	
General obligation bonds payable	413,661	1,112,337	1,525,998	1,056,100
Compensated absences payable	2,458	77,352	79,810	
Due to other funds		38,032	38,032	2,522,015
Unearned revenue/deferred revenue	660,408	370,182	1,030,590	
Total current liabilities	1,347,482	2,338,489	3,685,971	3,816,850
Non-current liabilities:				
General obligation bonds payable	5,136,683	7,222,630	12,359,313	67,000
Claims and judgments payable				1,503,800
Compensated absences payable	224,421	533,412	757,833	117,623
Postemployment benefits healthcare costs	154,145	140,620	294,765	
Total non-current liabilities	5,515,249	7,896,662	13,411,911	1,688,423
Total liabilities	6,862,731	10,235,151	17,097,882	5,505,273
NET ASSETS				
Invested in capital assets, net of related debt	13,254,305	27,629,078	40,883,383	250,015
Restricted - expendable				
Restricted for debt service	906,408	857,901	1,764,309	
Restricted for other purposes	611,226	1,346,541	1,957,767	
Unrestricted	7,098,048	(130,856)	6,967,192	2,374,031
Total net assets	\$ 21,869,987	\$ 29,702,664	\$ 51,572,651	\$ 2,624,046

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

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities- Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
OPERATING REVENUES				
Charges for sales and services:				
Water sales		\$ 2,871,320	\$ 2,871,320	
Sewer rents	\$ 2,057,323		2,057,323	
Sewer charges	933,841		933,841	
Departmental income		23,169	23,169	\$ 108,105
Water service charges		120,964	120,964	
Service other departments				3,211,518
State aid				
Other services	7,194		7,194	
Total operating revenues	<u>2,998,358</u>	<u>3,015,453</u>	<u>6,013,811</u>	<u>3,319,623</u>
OPERATING EXPENSES				
Cost of sales and services:				
Administration	781,016	1,556,020	2,337,036	1,512,565
Insurance				589,037
Judgments and claims				1,246,802
Sewerage treatment disposal	2,046,439		2,046,439	
Source of supply, power and pump		1,424,394	1,424,394	
Depreciation	626,726	1,053,115	1,679,841	75,423
Employee benefits	551,183	642,778	1,193,961	118,490
Total operating expenses	<u>4,005,364</u>	<u>4,676,307</u>	<u>8,681,671</u>	<u>3,542,317</u>
Operating income (loss)	<u>(1,007,006)</u>	<u>(1,660,854)</u>	<u>(2,667,860)</u>	<u>(222,694)</u>
NON-OPERATING REVENUE (EXPENSE)				
Investment earnings - unrestricted	229,353	93,102	322,455	126,489
Interest expense	(186,687)	(538,562)	(725,249)	(68,653)
Tower rentals		448,488	448,488	
Developer's fees	11,250	632,316	643,566	
Gain (loss) on sale of property				
Real property taxes and tax items, net of allowance	608,013	1,521,328	2,129,341	
Other real property tax items	133,024		133,024	
Non-property tax distribution by county	146,688		146,688	
Total non-operating revenue (expense)	<u>941,641</u>	<u>2,156,672</u>	<u>3,098,313</u>	<u>57,836</u>
Income (loss) before transfers	(65,365)	495,818	430,453	(164,858)
Transfers in	90,000		90,000	
Transfers out	(426,300)	(604,800)	(1,031,100)	
Change in net assets	<u>(401,665)</u>	<u>(108,982)</u>	<u>(510,647)</u>	<u>(164,858)</u>
Total net assets - beginning	<u>22,271,652</u>	<u>29,811,646</u>	<u>52,083,298</u>	<u>2,788,904</u>
Total net assets - ending	<u>\$ 21,869,987</u>	<u>\$ 29,702,664</u>	<u>\$ 51,572,651</u>	<u>\$ 2,624,046</u>

TOWN OF RIVERHEAD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
December 31, 2008

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 2,907,201	\$ 2,889,299	\$ 5,796,500	\$ 3,292,832
Cash payments contractual expense	(1,661,071)	(1,645,666)	(3,306,737)	(2,621,127)
Cash payments employees	(1,433,116)	(1,931,613)	(3,364,729)	(206,501)
Other revenues	7,194	23,169	30,363	108,105
Net cash provided (used) by operating activities	<u>(179,792)</u>	<u>(664,811)</u>	<u>(844,603)</u>	<u>573,309</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Real property taxes and tax items	741,037	1,521,328	2,262,365	
Non-property tax distribution by county	146,688		146,688	
Tower rentals		448,488	448,488	
Principal paid on non-capital debt				(556,400)
Interest paid on non-capital debt				(20,170)
Transfers to/from other funds	2,358,454	547,573	2,906,027	753,480
Net cash provided (used) by noncapital and related financing activities	<u>3,246,179</u>	<u>2,517,389</u>	<u>5,763,568</u>	<u>176,910</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from refunding debt	87,500	2,391,650	2,479,150	
Payment to escrow agent	(83,000)	(2,272,800)	(2,355,800)	
Principal paid on capital debt	(418,763)	(1,073,532)	(1,492,295)	(66,100)
Premium from refunding debt	3,280	89,647	92,927	
Interest paid on capital debt	(196,419)	(549,637)	(746,056)	(48,483)
Capital contributions by developer's	11,250	632,316	643,566	
Payments to contractors	(1,760,763)	(2,350,907)	(4,111,670)	
Net cash provided (used) by capital and related financing activities	<u>(2,356,915)</u>	<u>(3,133,263)</u>	<u>(5,490,178)</u>	<u>(114,583)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	233,040	94,111	327,151	127,585
Net cash provided (used) by investing activities	<u>233,040</u>	<u>94,111</u>	<u>327,151</u>	<u>127,585</u>
Net increase (decrease) in cash and cash equivalents	942,512	(1,186,574)	(244,062)	763,221
Cash and cash equivalents at January 1, 2008	8,207,385	4,049,164	12,256,549	5,112,905
Cash and cash equivalents at December 31, 2008	<u>\$ 9,149,897</u>	<u>\$ 2,862,590</u>	<u>\$ 12,012,487</u>	<u>\$ 5,876,126</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (1,007,006)	\$ (1,660,854)	\$ (2,667,860)	\$ (222,694)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	626,726	1,053,115	1,679,841	75,423
(Increase) decrease in billings receivable	(149,636)	(133,703)	(283,339)	81,314
(Increase) decrease in inventory		(11,509)	(11,509)	7,467
(Increase) decrease in prepaid expense	3,587	8,108	11,695	214
(Increase) decrease in other assets	(1,275)	(34,841)	(36,116)	
Increase (decrease) in deferred revenue	65,673	30,718	96,391	
Increase (decrease) in compensated absences	66	(51,538)	(51,472)	(3,091)
Increase (decrease) in postemployment healthcare benefits	154,145	140,620	294,765	
Increase (decrease) in accounts payable/accrued liabilities	102,840	(92,545)	10,295	86,342
Increase (decrease) in claims and judgments				548,334
Increase (decrease) in accrued liabilities	25,088	87,618	112,706	
Total adjustments	827,214	996,043	1,823,257	796,003
Net cash provided (used) by operating activities	<u>\$ (179,792)</u>	<u>\$ (664,811)</u>	<u>\$ (844,603)</u>	<u>\$ 573,309</u>

TOWN OF RIVERHEAD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2008

		Agency Fund
ASSETS		
Cash		\$ 17,973,585
	Total assets	\$ 17,973,585
 LIABILITIES		
Due to school districts		\$ 16,326,299
Other agency liabilities		1,647,286
	Total liabilities	\$ 17,973,585

TOWN OF RIVERHEAD
INDEX FOR NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The Town has elected not to apply Financial Accounting Standards Board (FASB) pronouncements developed for business enterprises after November 30, 1989.

1. 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. REPORTING ENTITY (continued)

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 it 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

2. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functional categories (general government support, public safety, health, transportation, economic assistance and opportunity, culture and recreation, home and community services, etc.), which are otherwise supported by general government revenues (real property tax, user 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 to produce the net cost of each program.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements (continued)

Program revenues include (a) charges for services and (b) operating and capital grants and contributions that are directly associated with the function or a business-type activity. Operating grants include 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.).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations have been made to prevent distortion of the direct costs and program revenues reported. Sales and purchases of goods and services for a price approximating their external value are not eliminated between the funds in the government-wide financial statements. The Town does not currently employ an indirect cost allocation system. An administrative service fee is charges by the General Fund to the other operating funds that is eliminated at year-end like a reimbursement (reducing the revenue and expense), 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 changes in aggregate financial position resulting from the activities of the current period.

Fund Financial Statements

The fund financial statements are similar to the financial statements presented prior to GASB 34 implementation. Emphasis here is on the major funds in either the governmental or business-type categories. Nonmajor funds are summarized into a single column.

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

Governmental Funds – Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental financial position and changes in financial position. Governmental funds are further classified as major or nonmajor funds.

The governmental funds 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 budgeted 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. BASIS OF PRESENTATION (continued)

Fund Financial Statements (continued)

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 government-wide level Statement of Activities. 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 obligation of the government, these funds are not incorporated into the government-wide statements.

The Town reports the following major governmental funds:

General Fund – is the principal operating fund of the Town. This fund is used to account for all financial resources 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.

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

Debt Service Fund – is used to account for the accumulation of financial resources for the payment of debt 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. The Debt Service Fund reserve balance is made up of amounts being held for Public Parking Debt Service and the Theater Debt Service Fund.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition, 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.

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:

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. BASIS OF PRESENTATION (continued)

Fund Financial Statements (continued)

Community Preservation Fund – is used to account for financial resources for land acquisition and preservation of open space. 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 \$75,000 for undeveloped property. The tax is to be collected on every transaction through the year 2030. 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.

Additionally, the Town reports the following nonmajor funds:

Special Revenue Funds include the following

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.

Special Trust 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 \$5,000 per parcel.

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

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

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.

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.

Refuse and Garbage 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 January 1, 1997, 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 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. BASIS OF PRESENTATION (continued)

Proprietary Fund Financial Statements

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

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

Under the accrual basis of accounting revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation of capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

As previously stated, the Town has elected not to apply Financial Accounting Standards Board (FASB) pronouncements developed for business enterprises after November 30, 1989.

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 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 debt service fund.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. BASIS OF PRESENTATION (continued)

Proprietary Fund Financial Statements (continued)

The Water District 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 and debt service fund. The water district was converted to an Enterprise Fund in 2002.

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 2007, 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 2007, 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. BASIS OF ACCOUNTING/MEASUREMENT FOCUS

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.

In the government-wide statements, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included in 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 and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing or related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fixed assets and long-term liabilities related to proprietary funds activities are recorded within the funds. Depreciation utilizes the straight-line method in both the Proprietary and Internal Service Funds. Inventories are valued by the first-in, first-out method with an actual physical inventory taking place at year-end.

In the funds statements, governmental funds use a 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 (measurable and available to finance operations). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The Town considers all revenues available if they are collected within sixty (60) days after the year end. Revenues susceptible to accrual are real property taxes, state and federal aid, and certain user charges. The Town considers property taxes as available if they are collected within 60 days after year end. All other governmental fund revenues are recognized when received. In those instances where expenditures are the prime factor for determining eligibility for federal and state grants, revenues are recognized upon receipt of the proceeds. Expenditures are recorded on the accrual basis except when that (a) expenditures for prepaid expenses are recognized when incurred; (b) principal and interest on indebtedness are recognized as expenditures when due; (c) compensated absences, such as vacation and sick leave, which vest to accumulate, are charged as expenditures when paid.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded for budgetary control purposes in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Appropriations for all governmental funds except the Capital Projects Fund lapse at year-end. However, encumbrances reserved against fund balance are re-appropriated in the ensuing year. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitment are recorded in the period in which the liability is incurred.

When both restricted and unrestricted resources are available for use, it is the government's unwritten policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. ASSETS, LIABILITIES AND FUND EQUITY

CASH AND CASH EQUIVALENTS

Cash consists of funds deposited in demand accounts, time deposit accounts and certificates of deposit.

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.

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.

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

The Town's deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at December 31, 2008.

RESTRICTED ASSETS

Certain assets of the Community Preservation Fund, Debt Service Fund, Special Grant Fund and Community Development Fund are classified as restricted assets because their use is restricted by law and/or contractual agreement.

RECEIVABLES

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

INVENTORY OF MATERIAL AND SUPPLIES

Inventory in the internal services funds and the proprietary funds is valued at cost utilizing the first-in, first-out method.

PREPAIDS

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

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. ASSETS, LIABILITIES AND FUND EQUITY (continued)

CAPITAL ASSETS

Capital assets, which include 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. Capital assets purchased or acquired with an original cost of \$5,000 or more and a five year useful life are reported at historical cost or estimated historical cost. Infrastructure assets capitalized with an original cost of \$5,000 or more are reported at historical cost. Contributed assets are valued at their fair market value on the date donated. Other costs incurred for repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant or equipment.

In the fund financial statements capital assets are recorded as capital outlay expenditures in the governmental fund upon acquisition. No depreciation has been provided on general fixed assets, nor has interest on general fixed assets and construction in progress been capitalized.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Governmental Funds:</u>	
Buildings	50 years
Improvements other than buildings	15 years
Machinery and equipment	
Equipment	5 years
Equipment - autos and pick-ups	5 years
Equipment - heavy trucks	10 years
Infrastructure/Improvements	
Drainage and sidewalks	30 years
<u>Internal Service Funds:</u>	
Municipal garage - buildings	30 years
Municipal garage - improvements other than buildings	10 years
Municipal garage - equipment	5 years
Municipal fuel - fuel tanks and pumps	20 years
Municipal fuel - equipment	5 years
<u>Proprietary Funds:</u>	
<u>Buildings:</u>	
Calverton sewer district	20 years
Riverhead sewer district	50 years
Riverhead water district	40 years
<u>Machinery and equipment</u>	
Equipment - autos and pick-ups	
Calverton sewer district	
Riverhead sewer district	5 years
Riverhead water district	5 years
Equipment - heavy trucks	
Calverton sewer district	
Riverhead sewer district	10 years
Riverhead water district	5 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

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. ASSETS, LIABILITIES AND FUND EQUITY (continued)

CAPITAL ASSETS (continued)

Infrastructure assets, consisting of certain improvements other than buildings including, Riverhead sewer and water district improvements, are capitalized along with other capital assets.

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

DEFERRED CHARGES

Discounts and expenses related to the issuance of long-term debt and the loss on the early retirement of reduced debt are amortized on a straight-line basis over the life of the issue, and are presented net of accumulated amortization, in the government-wide financial statements. Bond issuance costs that are immaterial are charged as an operating expense to the fund servicing the debt.

In the fund financial statements bond issuance costs are recognized, during the current period, as debt service expenditures in the fund servicing the debt.

PREMIUMS ON DEBT ISSUANCE

Premiums related to the issuance of long-term debt are amortized on a straight-line basis over the life of the issue and are presented as part of general obligations in the changes in long-term liabilities Note C.4. Premiums that are immaterial will not be amortized.

In the fund financial statements premiums are recognized, during the current period, and reported as other financial sources.

UNEARNED REVENUE/DEFERRED REVENUE

Deferred revenue/unearned revenue are those where asset recognition criteria have been met, but which revenue recognition criteria have not been met. Such amounts include collections in advance, unearned income and amounts deemed to be "measurable" but not "available" to finance current expenses pursuant to generally accepted accounting principles. Accordingly, the amount has been recorded as deferred revenue in the funds statements and unearned revenue in the government-wide statements.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

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

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. REVENUES AND EXPENDITURES

REAL PROPERTY TAX ASSESSEMENT AND COLLECTION PROCEDURES

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

The Town of Riverhead Receiver of Taxes ("Receiver") collects all real property taxes for the Town, Suffolk County, Town Special Districts, and School Districts located within the Town of Riverhead as a single bill. 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 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.

INTERFUND TRANSACTIONS

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

a) Interfund Revenues

Interfund revenues and interfund services provided and used, in the General Fund represent amounts charged for services or facilities provided by the General Fund. The amounts paid by the fund receiving the benefits of the service or facilities are reflected as an expenditure in that fund. Transfers to the insurance reserve are classified as insurance expense in the funds, debt transfers are classified as a transfer to other funds and an expense in the Debt Service Fund.

b) Transfers

Transfers represent payments to the Debt Service Fund from the other funds for their appropriate share of the debt service and indirect expense allocations between the Enterprise Funds and the General Fund.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. REVENUES AND EXPENDITURES (continued)

POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their dependents. For Civil Service Employees Association members, Town management and Town elected officials eligibility requirements for coverage in retirement are five consecutive years of service with the Town for all individuals hired or elected prior to October 7, 2008 and 10 consecutive years of service with the Town for all individuals hired or elected thereafter, and the employee must either (1) be in service to the Town on the last date immediately prior to retirement in the NYSERS; or (2) have been in service to the Town as his/her last public sector employer, and have continuously self-paid his/her health insurance premiums to, and remained enrolled in, the Town's health insurance plan between the last date of service with the Town and the date of vesting and also be eligible for the receipt of benefits from the NYSERS.

Substantially all full-time police employees of the Town's become eligible for these benefits if they reach normal retirement age while working for the Town.

Health care benefits are currently provided by the New York State Health Insurance Program NYSHIP (Empire Plan) whose premiums are community rated.

The Town recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The Town's union contracts and ordinances require that it provide its eligible enrollees with the Empire Plan benefit coverage, or if another provider is utilized, the equivalent coverage. Under the provisions of the Empire Plan, premiums are adjusted on a prospective basis for any losses experienced by the Empire Plan. The Town has the option to terminate its participation in the Empire Plan at any time without liability for its respective share of any previously incurred loss.

The liability for these other postemployment benefits payable is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on the most recent actuarial valuation in accordance with the parameters of GASB Statement No. 45.

COMPENSATED ABSENCES

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

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

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. EQUITY CLASSIFICATIONS

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

- a) Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations other governments; or (2) law through constitutional provisions or enabling legislations.
- c) Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

7. USE OF ESTIMATES

The preparation of general purpose financial statements, in conformity with accounting principles generally accepted in the United State of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

8. NEW ACCOUNTING PRINCIPLES

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. Effective with the financial report for the year ending December 31, 2008, the Town has adopted *Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). This statement establishes standards for reporting the liability for non-pension postemployment benefits, chiefly the health care premiums for retirees. Also effective with the financial report for the year ended December 31, 2008, the Town has adopted *GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations”*. This statement provides guidance on how to calculate and report the costs and obligations associated with pollution remediation efforts.

9. RECLASSIFICATIONS

The Town has made certain reclassifications to prior year statements to conform the current year presentation. Such reclassifications did not have a material effect on the income as previously reported.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. BUDGETARY DATA

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

- a) The Town Charter establishes the fiscal year as the twelve-month period beginning January 1.
- b) On or before September 20th, each department, officer or district submits to the Financial Administrator, a detailed estimate of the budget for the amount of revenue to be received and expenditures to be made for the ensuing year.
- c) On or before September 30th, the Budget Officer, who is the Town Supervisor, files with the Town Clerk a tentative budget for the ensuing year. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.
- d) On or before October 5th, the Town Board reviews the tentative budget and files with the Town Clerk, a preliminary budget.
- e) The Town Board conducts public hearings on the preliminary budget and on or before November 20th, the Town Board meets to adopt the budget known as the "annual budget".
- f) Formal budget integration is employed during the year as a management control device for the General Fund and certain Special Revenue Funds. Budgets are prepared for Proprietary Funds to establish the estimated contributions required from other funds and to control expenditures. The Town board adopts the budget and establishes legal level of control of the budget at the object level of expenditures. The object level identifies expenditures by the article purchased or service obtained in order to carry out a function. Appropriations are adopted at the object level. All budgetary amendments and transfers of appropriation require Town Board approval via resolution except for transfers of \$2,500 or less which can be done by the Comptroller. Appropriations for all governmental funds except the Capital Projects Fund lapse at year-end.
- g) Budgets for the General Fund, certain Special Revenue Funds and the Debt Service Fund are legally adopted each year. The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual expenditures exceed budgeted amounts, budgetary appropriations transfers are made. The Capital Projects, Special Grants and Community Development Fund budgets do not have annually adopted budgets.
- h) Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

2. FUND BALANCES

FUND BALANCE RESERVES AND DESIGNATIONS

For the year ended December 31, 2008 while no governmental or proprietary funds had an overall fund deficit, the Municipal Garage, as part of the Internal Service Fund, had a fund deficit of \$438,653. There is an overall positive fund balance in the Internal Service Fund.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

2. FUND BALANCES (continued)

FUND BALANCE RESERVES AND DESIGNATIONS

Miscellaneous Designations

The majority of the \$658,548 in miscellaneous reserves in the General Fund, consists of the following designated fund balances: \$155,134 is designated for various recreation programs, \$201,718 is designated for the building operations of the Stotsky Park child care building, \$126,643 is designated for the Town Board special programs, \$67,066 is designated for the Empire Zone and \$47,060 is designated for the Senior Day Care Center.

Debt Service

The debt service reserve in the various funds are the amounts that are being held specifically for the debt service payments. The major portion of this is for community preservation debt which has been reflected in the Community Preservation Fund.

C. DETAILED NOTES ON ALL FUNDS

1. CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits / Investments – Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party.

Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

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

At December 31, 2008 the Town's deposits totaled \$ 99,381,867 and the bank balances totaled \$101,196,963. The respective bank balances consisted of deposits totaling \$55,598,463 and Certificates of Deposit totaling \$45,598,500. Of the total bank balance, \$38,258,685 was covered by the Federal Depository Insurance Corporation (FDIC) and \$127,531,449 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

1. CASH AND CASH EQUIVALENTS (continued)

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

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

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

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

2. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

At December 31, 2008, individual fund interfund receivable and payable balances represent either loans, services provided, or reimbursements and are expected to be paid currently. 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 expenditure/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. These balances, representing various short-term loans for operating purposes, are stated as follows:

	Receivable	Payable
Major Funds:		
General Fund	\$ 2,507,913	\$ 3,153,133
Highway	724,058	
Debt Service Fund	5,296,813	15,192,799
Capital Projects Fund	483,600	4,451,183
Community Preservation Fund	17,419,378	
Nonmajor Funds:		
Governmental Funds	774,123	2,529,390
Business-type Activities		
Sewer	12,510	
Water	12,324	38,032
Internal Service Funds	655,833	2,522,015
	\$ 27,886,552	\$ 27,886,552

At December 31, 2008 there were some amounts payable that were not expected to be paid within one year.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

2. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

At December 31, 2008, individual fund interfund transfers balances for Governmental and Proprietary Funds represent legally authorized transfers, and are stated as follows:

	Transfer In	Transfer Out
Major Funds:		
General Fund	\$ 1,033,600	\$ 5,096,198
Highway		961,827
Debt Service Fund	10,762,669	990
Capital Projects Fund	1,537,039	2,500
Community Preservation Fund		4,771,327
Nonmajor Funds:		
Governmental Funds	990	1,560,356
Business-type activities		
Sewer	90,000	426,300
Water		604,800
	\$ 13,424,298	\$ 13,424,298

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

Primary Government

	Balance 1/1/2008	Additions	Deletions/ Transfers	Balance 12/31/2008
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land / development rights	\$ 94,778,772	\$ 14,126,739		\$ 108,905,511
Construction work in progress	46,015,848	21,898,345	\$ 15,613,744	52,300,449
Total capital assets not being depreciated	140,794,620	36,025,084	15,613,744	161,205,960
Depreciable capital assets				
Buildings	9,062,707			9,062,707
Improvements	103,684,547	1,224,644		104,909,191
Machinery and equipment	19,132,583	914,338	623,185	19,423,736
Total depreciable capital assets	131,879,837	2,138,982	623,185	133,395,634
Less accumulated depreciation				
Buildings	2,979,231	191,052		3,170,283
Improvements	81,901,451	8,533,140		90,434,591
Machinery and equipment	14,467,802	1,025,242	619,596	14,873,448
Total accumulated depreciation	\$ 99,348,484	\$ 9,749,434	\$ 619,596	108,478,322
Total net depreciable capital assets				24,917,312
Total net capital assets				\$ 186,123,272

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

2. CAPITAL ASSETS (continued)

	Balance 1/1/2008	Additions	Deletions	Balance 12/31/2008
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 3,682,403			\$ 3,682,403
Construction work in progress	4,871,462	\$ 4,010,614	\$ 1,338,593	7,543,483
Total capital assets not being depreciated	<u>8,553,865</u>	<u>4,010,614</u>	<u>1,338,593</u>	<u>11,225,886</u>
Depreciable capital assets				
Buildings	32,991,191	792,429		33,783,620
Improvements	58,320,274	463,797		58,784,071
Machinery and equipment	7,937,650	183,423	45,000	8,076,073
Total depreciable capital assets	<u>99,249,115</u>	<u>1,439,649</u>	<u>45,000</u>	<u>100,643,764</u>
Less accumulated depreciation				
Buildings	13,152,505	610,803		13,763,308
Improvements	34,764,765	905,755		35,670,520
Machinery and equipment	7,548,845	163,283	45,000	7,667,128
Total accumulated depreciation	<u>\$ 55,466,115</u>	<u>\$ 1,679,841</u>	<u>\$ 45,000</u>	<u>57,100,956</u>
Total net depreciable capital assets				<u>43,542,808</u>
Total net capital assets				<u>\$ 54,768,694</u>

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

Governmental activities:

General government support	\$ 215,891
Public safety	222,752
Health	55,457
Transportation	1,340,604
Economic assistance and opportunity	7,503,452
Culture and recreation	387,249
Home and community services	24,029
Total depreciation expense - governmental activities	<u>\$ 9,749,434</u>

Business-type activities:

Sewer	\$ 626,726
Water	1,053,115
Total depreciation expense - business-type activities	<u>\$ 1,679,841</u>

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

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS

Short term Debt

Bond Anticipation Notes (BANs) – Bond anticipation notes (BANs) are generally used as a temporary means of financing capital expenditures in the Capital Projects Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. BANs 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. Liabilities for BANs are generally accounted for in the Capital Projects Fund and Proprietary Funds. BANs are expected to be paid from the proceeds of future bond issues after renewal of these notes or by the stipulated annual reductions of principal. Payments of this short-term debt are made through the debt service fund.

At December 31, 2008 there were no outstanding BANs.

Long-term Debt

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.

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, 2008.

The long-term liabilities, which are backed by the full faith and credit of the Town bear interest at various rates from 1.50% to 9.50% and have maturity dates from 2009 through 2031.

Primary Government

	Balance 1/1/2008	Issued	Redeemed	Balance 12/31/2008
Governmental funds:				
General	\$ 46,171,100	\$ 2,459,900	\$ 3,428,200	\$ 45,202,800
Highway	6,365,568	2,427,750	1,402,172	7,391,146
Community preservation	40,318,403	31,603,100	2,361,323	69,560,180
Internal service	1,745,600		622,500	1,123,100
Nonmajor	828,001	264,100	137,711	954,390
Total primary government	<u>95,428,672</u>	<u>36,754,850</u>	<u>7,951,906</u>	<u>124,231,616</u>
Business-type activities:				
Sewer districts	5,961,327	87,500	501,763	5,547,064
Water districts	9,200,002	2,391,650	3,346,332	8,245,320
Total business-type activities	<u>15,161,329</u>	<u>2,479,150</u>	<u>3,848,095</u>	<u>13,792,384</u>
Total general obligation bonds	<u>\$ 110,590,001</u>	<u>\$ 39,234,000</u>	<u>\$ 11,800,001</u>	<u>\$ 138,024,000</u>

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

General Obligation Bonds (continued)

At December 31, 2008, bonds payable consisted of the following individual issues:

Primary Government

Governmental activities:

Issue	Purpose	Average Rate	Outstanding Amount	Final Maturity
General Obligation Serial Bonds-1984	Various	9.500%	\$ 75,000	May 1, 2009
General Obligation Serial Bonds-1991	Public Improvement	6.350%	90,000	May 1, 2011
General Obligation Serial Bonds-2000	Public Improvement	5.000%-5.250%	396,600	May 12, 2020
General Obligation Serial Bonds-2003	Various	3.750%-4.500%	24,414,300	June 1, 2022
General Obligation Serial Bonds-2003	Refunding Bond	2.250%-4.000%	246,406	March 1, 2013
General Obligation Serial Bonds-2003	Public Improvement	3.625%-4.250%	21,391,200	November 15, 2022
General Obligation Serial Bonds-2004	Refunding Bond	2.500%-5.000%	1,677,700	June 15, 2016
General Obligation Serial Bonds-2004	Refunding Bond	1.500%-3.500%	284,700	January 15, 2016
General Obligation Serial Bonds-2005	Public Improvement	3.750%-4.000%	12,941,600	August 1, 2022
General Obligation Serial Bonds-2006	Public Improvement	3.750%-4.000%	25,997,500	December 1, 2027
General Obligation Serial Bonds-2008	Public Improvement	3.250%-4.000%	35,349,000	December 2, 2030
General Obligation Serial Bonds-2008	Refunding Bond	3.000%-5.000%	1,367,610	May 15, 2020
			<u>\$ 124,231,616</u>	

Business type activities:

Issue	Purpose	Average Rate	Amount	Final Maturity
General Obligation Serial Bonds-1991	Public Improvement	6.350%	\$ 435,000	May 1, 2011
General Obligation Serial Bonds-1997	Rt. 58 Sewer Extension	4.050%-5.650%	2,340,000	August 15, 2019
General Obligation Serial Bonds-2000	Public Improvement	5.000%-5.250%	403,400	May 12, 2020
General Obligation Serial Bonds-2002	Sewer Plant Upgrade	4.850%	1,365,000	October 15, 2031
General Obligation Serial Bonds-2003	Various	3.750%-4.500%	385,700	June 1, 2022
General Obligation Serial Bonds-2003	Refunding Bond	2.250%-4.000%	1,473,594	March 1, 2013
General Obligation Serial Bonds-2003	Public Improvement	3.625%-4.250%	1,958,800	November 15, 2022
General Obligation Serial Bonds-2004	Refunding Bond	2.500%-5.000%	2,787,300	June 15, 2016
General Obligation Serial Bonds-2004	Refunding Bond	1.500%-3.500%	40,300	January 15, 2016
General Obligation Serial Bonds-2005	Public Improvement	3.750%-4.000%	108,400	August 1, 2022
General Obligation Serial Bonds-2006	Public Improvement	3.750%-4.000%	52,500	December 1, 2027
General Obligation Serial Bonds-2008	Refunding Bond	3.000%-5.000%	2,442,390	May 15, 2020
			<u>\$ 13,792,384</u>	
Total General Obligation Bonds			<u>\$ 138,024,000</u>	

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

General Obligation Bonds (continued)

Future principal and interest payments for the government are as follows:

Primary Government

Governmental activities:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2009	\$ 7,109,465	\$ 4,812,107	\$ 11,921,572
2010	7,167,414	4,546,719	11,714,133
2011	7,320,325	4,282,390	11,602,715
2012	7,376,321	4,015,390	11,391,711
2013	7,603,491	3,743,324	11,346,815
2014-2018	38,337,400	14,279,594	52,616,994
2019-2023	32,642,200	6,797,799	39,439,999
2024-2028	13,275,000	2,179,000	15,454,000
2029-2031	3,400,000	204,000	3,604,000
Totals	<u>\$ 124,231,616</u>	<u>\$ 44,860,323</u>	<u>\$ 169,091,939</u>

Business-type activities:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2009	\$ 1,479,535	\$ 500,606	\$ 1,980,141
2010	1,472,586	445,364	1,917,950
2011	1,499,674	383,067	1,882,741
2012	1,328,679	340,624	1,669,303
2013	1,251,510	293,807	1,545,317
2014-2018	4,717,600	838,295	5,555,895
2019-2023	1,537,800	219,559	1,757,359
2024-2028	310,000	63,746	373,746
2029-2031	195,000	12,978	207,978
Totals	<u>\$ 13,792,384</u>	<u>\$ 3,098,046</u>	<u>\$ 16,890,430</u>
Total general obligation bonds	<u>\$ 138,024,000</u>	<u>\$ 47,958,369</u>	<u>\$ 185,982,369</u>

Bonds Authorized and Unissued

At December 31, 2008 the Town had \$51,582,000 in general obligation bonds, which were authorized and unissued.

As of December 31, 2008 the total long-term outstanding indebtedness of the Town aggregated to \$138,024,000. Of this amount, \$124,231,616 was subject to the constitutional debt limit and represented approximately 27.83% of its statutory debt limit.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

General Obligation Bonds (continued)

Advance Refunding of Bonds

On March 6, 2008 the Town issued \$3,885,000 in Public Improvement Refunding (Serial) Bonds (\$1,405,850 was for governmental activities and \$2,479,150 was for business-type activities) with an average rate of 4.150% to advance refund \$3,675,000 of 2000 Serial Bonds with an average rate of 5.181% through the years 2020 (\$1,319,200 was for governmental activities and \$2,355,800 was for business-type activities).

The net proceeds of \$4,018,541 (the par amount of the bonds plus a premium of \$218,434 less underwriter's fees and other issuance costs of \$84,893) were used to buy U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 Serial Bonds. As a result, the 2000 bonds are considered to be defeased and the liability for those bonds removed from the non-current government liabilities.

The Town advance refunded the 2000 Serial Bonds to reduce its total debt service payments over the next 12 years by \$119,841 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$99,988.

Prior-Year Defeasance of Debt

In 2008, certain general obligations and revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At December 31, 2008, \$3,675,000 of outstanding bonds is considered defeased.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

Changes in Long-term Debt

Long-term liability activity for the year ended December 31, 2008 is as follows:

Primary Government

	Balance 1/1/2008	Increases	Reductions	Balance 12/31/2008	Non-current liabilities due within one year	Non-current liabilities
Governmental funds:						
Bonds Payable						
General obligation bonds						
Governmental Funds	\$ 93,683,072	\$ 36,754,850	\$ 7,329,406	\$ 123,108,516	\$ 7,042,465	\$ 116,066,051
Internal Service Fund	1,745,600		622,500	1,123,100	67,000	1,056,100
Total bonds payable	95,428,672	36,754,850	7,951,906	124,231,616	7,109,465	117,122,151
Plus deferred amounts:						
Premiums on issuance		79,044	26,348	52,696	26,348	26,348
Total bonds payable	95,428,672	36,833,894	7,978,254	124,284,312	7,135,813	117,148,499
Compensated absences						
Governmental Funds	5,999,029	3,496,928	3,316,935	6,179,022	191,066	5,987,956
Internal Service Fund	120,714	50,590	53,681	117,623		117,623
Total compensated absences	6,119,743	3,547,518	3,370,616	6,296,645	191,066	6,105,579
Claims and judgments	955,466	1,121,482	573,148	1,503,800	1,343,292	160,508
Estimated liability for landfill closure and post-closure care costs	15,750,000		10,494,350	5,255,650	1,560,950	3,694,700
Other postemployment benefits		4,537,700	842,601	3,695,099		3,695,099
	<u>\$ 118,253,881</u>	<u>\$ 46,040,594</u>	<u>\$ 23,258,969</u>	<u>\$ 141,035,506</u>	<u>\$ 10,231,121</u>	<u>\$ 130,804,385</u>
Business-type activities:						
General obligation bonds	\$ 15,161,329	\$ 2,479,150	\$ 3,848,095	\$ 13,792,384	\$ 1,479,535	\$ 12,312,849
Plus deferred amounts:						
Premiums on issuance		139,390	46,463	92,927	46,463	46,464
Total bonds payable	15,161,329	2,618,540	3,894,558	13,885,311	1,525,998	12,359,313
Compensated absences	889,115	462,069	513,541	837,643	79,810	757,833
Other postemployment benefits		384,900	90,135	294,765		294,765
	<u>\$ 16,050,444</u>	<u>\$ 3,465,509</u>	<u>\$ 4,498,234</u>	<u>\$ 15,017,719</u>	<u>\$ 1,605,808</u>	<u>\$ 13,411,911</u>

Other long-term liabilities for compensated absences and the estimated liability for landfill closure and post-closure costs are to be paid by the fund that gave rise to the liability. Claims and judgments are being paid from the risk retention reserve which is funded by the operating account based on historical experience.

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, 2008 there were fourteen (14) Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$103,006,814.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM

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 NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, 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 for the first 10 years of membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed as proportions of payroll members, used in computing the employers' contributions.

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the system:

- Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given year will be based on the value of the pension fund on the prior April 1st.

Contribution rates for the plan year ended March 31, 2008 are as follows:

<u>Contribution Rates</u>					
<u>Tier</u>	<u>Plan/Option</u>	<u>ERS Rate</u>	<u>Tier</u>	<u>Plan/Option</u>	<u>PRFS Rate</u>
1	75I	12.0%			
2	75I	11.0%	2	384E2	16.6%
3	A14	8.8%			
4	A15	8.8%			

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

The Town of Riverhead is required to contribute at an actuarially determined rate. The actual contributions were equal to 100% of the actuarially required amounts and also included additional contributions to fund various early retirement incentives made available to the Town employees. The credits and miscellaneous adjustments represent modification made by the NYSERS and NYSPFRS for prior year's contributions due to differences between estimated and actual salaries for the plan year.

The required contributions for the current year and two preceding years were:

Annual Required Contribution - ERS

	<u>Amount</u>	<u>% of Covered Payroll</u>	<u>Credits & Miscellaneous Adjustments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>
2008	\$1,064,177	6.92%	\$ 1,024	\$ 10,199	\$1,055,002
2007	1,134,593	8.15%	1,794	10,879	1,125,508
2006	1,199,122	9.09%	50,385	11,962	1,237,545

Annual Required Contribution - PFRS

	<u>Amount</u>	<u>% of Covered Payroll</u>	<u>Credits & Miscellaneous Adjustments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>
2008	\$1,508,070	14.44%	\$ (111,903)	\$ 13,368	\$1,382,799
2007	1,589,532	17.27%	14,519	15,358	1,588,693
2006	1,531,282	17.55%	170,260	16,291	1,685,251

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS

In the government-wide financial statements, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended December 31, 2008, the Town recognizes the costs of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description

For Civil Service Employees Association employees the Town, as a single-employer defined benefit plan will pay 75% of the full premium costs for the medical benefits for employees with less than 10 years of service and 100% for employees with over 10 years of service; currently provided by the New York State Health Insurance Program (NYSHIP) (Empire Plan) or HIP Prime HMO. Employees hired prior to October 7, 2008 only need 8 years of service to receive 100% employer paid benefits. For all other employees the Town provides 100% of these costs. Active employees of the Town have either the Empire PPO Plan (Core Plus Enhancements) or HIP Prime HMO but retirees only have the option of NYSHIP. The Empire Plan has separate pre-Medicare and Medicare rates. Since the plans are community rated, the retiree claim costs are based on the actual rates without adjustment for age.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Plan Description (continued)

Benefits are provided as explained in the section entitled "Postemployment Benefits Healthcare Costs" located in the "Summary of Significant Accounting Policies". The retiree and their spouse are also eligible for Medicare Part B reimbursement in the amount of \$1,157 per year, if they are over the age of sixty-five or receiving supplementary social security disability benefits. The Medicare Part B premium that is charged varies by income level. Medicare Part B reimbursement valuation was assumed at the basic level. During and after 2010 this basic level will increase to \$1,326 for retirees who become Medicare eligible in 2010. Upon death of a retiree the Town ceases to pay the full healthcare costs for the un-remarried survivor after three months. The survivor may, however, elect to continue coverage in NYSHIP beyond the three months grace period but is required to pay the full healthcare costs. Such survivors continue to receive the Medicare reimbursement, if eligible. These contracts may be renegotiated at various times in the future.

The Town, as administrator of the plan, does not issue a separate report.

The number of participants as of January 1, 2008, the effective date of the OPEB valuation, follows. For active members it is assumed that 65% will have covered spouses at retirement. There have been no significant changes in the number or the type of coverage since that date.

	<u>Primary Government</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Active employees	324	294	30
Retired employees and spouses	158	142	16
Surviving spouse of deceased retirees	14	14	
Total	<u>496</u>	<u>450</u>	<u>46</u>

Funding Policy

The Town currently pays for postemployment health care benefits on a pay-as-you-go basis.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2008, the Town's annual other postemployment benefits cost (expenses) of \$4,922,600 was equal to the Annual Required Contribution (ARC). Considering the annual expense as well as the payment of current health insurance premiums and medicare reimbursements, which totaled \$932,736 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$3,989,864 for the year ended December 31, 2008. The Town's IDA, a component unit, does not have a policy to pay for postemployment benefits.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Plan Description (continued)

Benefit Obligations and Normal Cost

	Medical Dental and Medicare B		
	Primary Government	Governmental Activities	Business-Type Activities
Actuarial Accrued Liability (AAL)			
Active employees	\$ 38,956,800	\$ 35,029,900	\$ 3,926,900
Retired employees	16,418,000	15,473,000	945,000
Total Actuarial Accrued Liability (AAL)	<u>55,374,800</u>	<u>50,502,900</u>	<u>4,871,900</u>
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 55,374,800</u>	<u>\$ 50,502,900</u>	<u>\$ 4,871,900</u>
Funded ratio	0%	0%	0%
Annual covered payroll	\$ 25,830,322	\$ 23,440,682	\$ 2,389,640
UAAL as a percentage of covered payroll	214.4%	215.4%	203.9%

The Town's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The unfunded actuarial accrued liability for the Town for the year ended December 31, 2008 amounted to \$55,374,800.

The following table shows the components of the Town's other postemployment benefits liability:

Level Percentage of Payroll Amortization

Calculation of ARC under the Projected Unit Credit Cost Method

	Primary Government	Governmental Activities	Business-Type Activities
Normal cost	\$ 2,806,600	\$ 2,607,900	\$ 198,700
Amortization of unfunded actuarial liability (UAAL) over 30 years	<u>2,116,000</u>	<u>1,929,800</u>	<u>186,200</u>
Annual OPEB cost	4,922,600	4,537,700	384,900
Less: Contribution for year ended December 31, 2008	<u>932,736</u>	<u>842,601</u>	<u>90,135</u>
Increase in other post-employment benefits liability	3,989,864	3,695,099	294,765
Other postemployment benefits liability at December 31, 2007	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Other postemployment benefits liability at December 31, 2008	<u>\$ 3,989,864</u>	<u>\$ 3,695,099</u>	<u>\$ 294,765</u>
Percentage of annual OPEB cost contributed	18.9%	18.6%	23.4%

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Funded Status and Funding Progress

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2008 and the proceeding two years is not available at this time. Trend information will be shown as accumulated.

The primary governments percentage contributed for the current year was:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2008	\$ -0-	\$ 55,374,800	\$ 55,374,800	0%	\$ 25,830,322	214.4%

The scheduling of funding progress presents trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The primary government's funded status of the plan as of December 31, 2008 is as follows:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2008	\$ 4,922,600	\$ 932,736	18.9%	\$ 3,989,864

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress can be found immediately following the notes, in required supplementary information, and presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Actuarial Methods and Assumptions

In the December 31, 2008 actuarial valuation, the liabilities were computed using the projected unit credit method, the level percentage of payroll amortization method, and an open 30 year amortization period to amortize the initial unfunded liability. The actuarial assumptions utilized a 4.0% discount rate and assume that the benefits are not prefunded. GASB 45 requires the discount rate to be set based on the expected earnings of the Town's general fund. The valuation assumes a 0.00%-1.04% healthcare cost trend increase for NYSHIP medical benefits for the year ended 2008, increased by decrements to a rate of 5.8% after nine years for pre-65 medical benefits and eleven years for post-65 medical benefits. The valuation assumes a 5% cost trend for medicare part B benefits for the year ended 2008.

A copy of the Town of Riverhead's Retiree Medical Program, January 1, 2008 Valuation is available by contacting the Town of Riverhead, Office of the Financial Administrator, 1295 Pulaski Street., Riverhead, New York 11901.

7. 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 governmental fund type employees have been recorded in the statement of net assets. Vested vacation, personal leave and sick leave accumulated by business type employees have been recorded in proprietary funds as a liability and expense. 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. As of December 31, 2008 the value of the accumulated vacation, personal leave and sick leave for governmental and business-type activities was \$6,296,645 and \$837,643 respectively for an aggregate total of \$7,134,288.

D. COMMITMENTS AND CONTINGENCIES

1. RISK MANAGEMENT

In common with other municipalities, the Town receives numerous notices of claims. The Town carries liability coverage as follows:

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 official's 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 coverage's 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

D. COMMITMENTS AND CONTINGENCIES (continued)

1. RISK MANAGEMENT (continued)

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.

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, and there were no settlements in excess of insurance coverage over the last three years.

Self-Insurance Fund

The Town uses a Self-Insurance Fund to account for its potential liability. As of December 31, 2008, the Self-Insurance Fund had assets of \$6,189,523 and liabilities of \$3,453,666. Included in this amount is \$730,583 for general liability claims and \$773,217 for worker's compensation 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 third party administrators and assessing 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.

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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

D. COMMITMENTS AND CONTINGENCIES (continued)

1. RISK MANAGEMENT (continued)

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

	General Liability		Workers' Compensation	
	2008	2007	2008	2007
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 397,116	\$ 546,782	\$ 558,350	\$ 563,451
Insured claims and claim adjustment Expenditures:				
Provision for the insured events of the current year and increases in provision for insured events of prior years	611,206	19,432	510,276	178,637
Total incurred claims and claim adjustment expenditures	1,008,322	566,214	1,068,626	742,088
Payments				
Claim and claim adjustment expenditures attributable to insured events of the current and prior years.	277,739	169,098	295,409	183,738
Total unpaid claims and claim adjustment expenditures at the end of the year.	<u>\$ 730,583</u>	<u>\$ 397,116</u>	<u>\$ 773,217</u>	<u>\$ 558,350</u>

2. LITIGATION

The Town is a defendant in various lawsuits. The Town has determined that resolution of these matters will not have a material adverse effect on the financial condition of the Town.

F1, LLC and Marc Liebowitz have commenced action alleging constitutional violations surrounding, among other things, the denial of its site plan application before the Planning Board. The action is related to a pending Supreme Court case in which the plaintiffs are seeking to force an approval of their project. The federal action seeks an unspecified sum in damages against the Town of Riverhead. The Town successfully moved to dismiss the federal complaint but the Court permitted plaintiffs the opportunity to file an amended complaint solely with respect to their equal protection claim. On April 23, 2010, plaintiffs filed an amended complaint repleading only their equal protection claim. On June 16, 2009, the Town moved to dismiss the amended complaint. The Court denied the Town's motion to dismiss the amended complaint. All claims against individually named defendants have been dismissed except against one defendant.

Kar-McVeigh, LLC, has initiated a Supreme Court proceeding against the Town Board and the Planning Board seeking approval of the expansion of the restaurant-catering use on a particular property. The proceeding seeks an unspecified amount in damages. Since damages are typically unavailable in this type of proceeding, it is not anticipated that any damages will be awarded to the petitioner. The Court denied the Town's motion to dismiss the proceeding and the Town has filed a notice of appeal from the denial. The Court granted motion by the Plaintiff for default judgment but denied any monetary judgment. The Town and the Plaintiff have each filed a notice of appeal from this decision.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

D. COMMITMENTS AND CONTINGENCIES (continued)

2. LITIGATION (continued)

Soundview Associates v. Town of Riverhead, et al. The plaintiffs are alleging constitutional violations in connection with their attempts to develop a 77,000 square foot "health spa" on real property in Baiting Hollow. The developer had previously transferred the development rights associated with this property to another part of the property leaving no development potential for the "health spa" project. The Supreme Court confirmed the Town's position in an earlier proceeding brought by Soundview Associates wherein the Town prevailed and the appeal was withdrawn. The damages in the federal action alleged are \$25 million. In addition to the Town Board and the Planning Board, Dawn C. Thomas, Esq., Town Attorney and Richard A. Ehlers, Esq., counsel to the Planning Board are named individually. Discovery has commenced and is expected to proceed through the middle of 2011. The Town expects to move for summary judgment at the conclusion of discovery.

Field Day v Riverhead, et al. The plaintiffs, in the Field Day event, seek damages of \$15 million based on allegations that they were unlawfully denied the right to stage a weekend-long concert in the Township of Riverhead, when the County refused to issue a Mass Gathering Permit. It is alleged that the County denied the permit because the Riverhead Police Chief required an excessive number of police officers for security at the concert. The claims against Riverhead specifically arise from a license agreement entered into between the plaintiff and the Riverhead CDA. The plaintiffs allege that Riverhead breached the agreement by failing to provide a sufficient number of police for the concert. The plaintiffs further allege that the Chief violated their rights by inflating the number of police required for the event.

With the exception of the parties' experts, discovery has been concluded. All parties have moved for summary judgment in May of 2007 and the Town is still awaiting the Court's decision. If all the motions are denied, the parties will proceed with expert disclosures for the purposes of proving and refuting damages and then to trial. A trial in this case would likely last at least a month.

It appears that the plaintiffs' most serious claim against the Town is for breach of contract. In its motion, Riverhead offers several defenses to avoid liability relating to this claim. In addition, the plaintiffs allege numerous other claims against the Town and the Chief that are also addressed in the motions. These claims include allegations of civil rights' violations. Additionally, if plaintiffs prevail on their civil rights claims, the Court can award them a considerable sum of money for their attorney fees. As of yet the Court has not ruled on any of the motions for summary judgment.

Csorny, et al., v. Town of Riverhead, et al., CV 10 3996: The plaintiffs commenced a federal case alleging violations of federal and state laws in connection with their claims of ownership over a parcel of property that is part of the Town's public sandy beach on the Long Island Sound. Plaintiffs also allege that the Town fails to enforce its laws by issuing permits to drive on the beach and allowing the public to drive on the land in dispute. Plaintiffs assert damages in excess of one million dollars. If the plaintiffs prevail in their claim of ownership and defendants are found liable for trespass or a violation of a federal right, plaintiffs could be awarded damages. Although it is not alleged that plaintiffs suffered any physical damage to the property, damages could be measured by the difference in value for a home with a private versus a public beach for the time period in question. Additionally, the Town could be liable for plaintiffs' attorney fees in the event plaintiffs prevail. Discovery has been commenced but has not been completed. However, the court suggested a discovery completion date of August 10, 2011.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

D. COMMITMENTS AND CONTINGENCIES (continued)

2. LITIGATION (continued)

Riverhead Park, et al v. Town of Riverhead, et al.: The plaintiffs commenced a federal case alleging violations of federal rights in connection with the charges filed against them by the Town for violations of Town Code. Plaintiffs owned a 13-acre vacant parcel of land in the Town of Riverhead and cleared the land without benefit of a Town permit. The plaintiffs also destroyed the protected wetlands on the property. Plaintiffs allege their conduct was permitted because it was an agricultural use. In addition to the Town, plaintiffs sued numerous Town officials in their individual capacities. Plaintiffs further allege that the conduct of these Town officials was motivated by personal animus, bad faith, and malice. Plaintiffs seek \$10 million dollars in damages but will have a difficult time proving damages. The Town could be liable for plaintiffs' attorney fees in the event plaintiffs prevail. The case is on the trial calendar but a date has not yet been set by the Court.

The Town is currently defending several personnel related litigation matters. However the current status of these matters does not appear to have a material effect on the financial statements.

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.

3. LANDFILL CLOSURE AND POST-CLOSURE 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 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 halted the project and requested cost estimates to cap the remaining landfill as compared to recycling and/or removing the remaining waste. In 2008, the Town started the capping project. As of December, 2010 the project is almost complete and awaiting approval from the Department of Environmental Conservation.

The Town has paid approximately \$9,173,000 to date for landfill capping costs and expects to pay approximately \$50,000 for final engineering costs. In addition post-closure costs and monitoring are going to be approximately \$2,700,000 over the next 30 years. During 2008 the Town changed the estimated costs related to the closure and post-closure care costs of the Town's landfill by approximately \$3,800,000. The Town has recorded a liability of \$5,255,650 in the government-wide financial statements. Actual costs for post-closure monitoring and maintenance may be higher or lower due to inflation, changes in technology, changes in regulations or conditions on the ground.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

D. COMMITMENTS AND CONTINGENCIES (continued)

3. LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS (continued)

Included in the financial statements is a \$3,300,000 settlement with Grimes Contracting Company, Inc. (the landfill reclamation contractor) for monies owed to them when the Town ordered them to stop reclamation of the landfill. That amount was settled on and paid in June 2009.

4. CONSTRUCTION AND OTHER CAPITAL ACQUISITION COMMITMENTS

Construction in progress and other capital commitments for governmental activities capital projects are \$7,202,987 while sewer and water proprietary funds are \$681,053 and \$288,249 respectively, aggregating to \$8,172,289.

5. GRANTS

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 experience, the Town administration believes disallowances, if any, will be immaterial.

6. POLLUTION REMEDIATION OBLIGATIONS

The Town's policy is to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

The Town:

- Is compelled to take remediation action because of imminent endangerment
- Violates a pollution related permit or license
- Is named or will be named as a responsible party or potentially responsible party for a remediation
- Is named, or will be named in a lawsuit to compel pollution remediation
- Commences or obligates itself to remediate pollution

At December 31, 2008, the Town has recorded no pollution remediation obligations.

E. 2% TRANSFER TAX

In November 1998, the voters of the Town of Riverhead approved a referendum for a 2% transfer tax which became effective on April 1, 1999. The transfer tax expiration date was originally December 31, 2010 but has been extended by local law until December 31, 2030. The transfer tax receipts are recorded in the Community Preservation Fund and are primarily used for purchase and/or preservation of open space, including agricultural land, park improvements and acquisition of land development rights.

F. PRIOR PERIOD ADJUSTMENTS

1. COMMUNITY PRESERVATION FUND DEBT SERVICE RESERVE

The 2007 net assets beginning balance has been restated to include \$3,581,400 in capital grant revenues to reimburse the related expenses which were incurred prior to 2007.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

G. SUBSEQUENT EVENTS

On January 15, 2008 the Town of Riverhead's Community Development Agency entered into an agreement of sale with Riverhead Resorts LLC for a parcel of land in Calverton for a purchase price of \$155,000,000. The Town has received payments in January 2009 of \$1,000,000 for the second deposit and \$4,500,000 in December 2009 from escrow for an additional extension. On November 12, 2010 the Town adopted a resolution terminating the sale of land to Riverhead Resorts LLC based upon the purchaser's failure to buy an additional extension. There is no amount refundable to Riverhead Resorts LLC.

The Town will be the recipient of a \$2.4 million, Restore New York grant, to be spent on a series of projects aimed to revitalize East Main Street in Riverhead. The grant was announced on September 1, 2009. The grant application was prepared and submitted in July 2008 by the Town of Riverhead Community Development Agency and Atlantis Marine World. Construction started in 2010 but the grant contract has not been finalized as of November 2010.

In April 2010 the Town Building Department caught on fire and is vacant and in the Town is in the process of drawing up the plans to rebuild the structure. The total cost to the Town will be the \$150,000 deductible, if the Town does not choose to expand the size of the building. In the interim the Town is leasing a building whose cost is covered by insurance. The building will be rebuilt to present code as part of the insurance reimbursement.

H. NEW LAWS AND PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 51 "*Accounting and Financial Reporting for Intangible Assets*". This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2009.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 53 "*Accounting and Financial Reporting for Derivative Instruments*". This statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2009.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". This purpose of this statement is to enhance the usefulness of fund balance information. The requirements of the new statement become effective for fiscal periods beginning after June 30, 2011.

The Town is currently evaluating the impact of the above pronouncements.

The New York State laws of 2008 Chapter 373 S.8111-A Peconic Bay Community Preservation Fund approved and effective July 21, 2008 amends Town law and provides that the Town have an annual audit of the Community Preservation Fund performed by a Certified Public Accountant or Independent Public Accountant other than the one that performs the general audit of the Town's finances. The Town is in the process of having the 2008 and 2009 audit completed simultaneously. The effects of any adjustments related to that audit, if any, have not been reflected in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

<p>Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Major Governmental Funds and Schedules</p>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations can be made. The Capital Projects and Special Grant Funds are budgeted on a project or grant basis.

The Town adopts the budget and establishes legal level of control of the budget at the object level expenditures. The object level identifies expenditures by the article purchased or service obtained to carry out a function.

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TOWN OF RIVERHEAD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
REVENUES				
Real property taxes	\$ 25,137,900	\$ 25,137,900	\$ 25,137,900	\$ -0-
Real property tax items	448,900	448,900	357,540	(91,360)
Non-property tax items	1,559,000	1,559,000	1,587,112	28,112
Departmental income	3,475,525	3,525,525	2,330,798	(1,194,727)
Intergovernmental charges	249,743	288,943	12,352	(276,591)
Use of money and property	885,350	885,350	732,882	(152,468)
Licenses and permits	104,400	116,160	82,145	(34,015)
Fines and forfeitures	640,000	640,000	472,942	(167,058)
Sale of property and compensation for loss	275,075	275,075	2,282,331	2,007,256
Miscellaneous revenue	77,700	77,800	95,508	17,708
Interfund revenues	1,230,400	1,232,900	1,232,900	-0-
State and local aid	3,047,869	3,117,869	2,464,238	(653,631)
Federal aid	43,838	43,838	97,120	53,282
Total revenues	<u>37,175,700</u>	<u>37,349,260</u>	<u>36,885,768</u>	<u>(463,492)</u>
EXPENDITURES				
Current:				
General government support	7,957,830	8,392,146	7,962,353	429,793
Public safety	13,432,270	13,916,081	13,915,758	323
Health	10,500	11,250	10,929	321
Transportation	358,200	406,515	406,501	14
Economic assistance and opportunity	1,023,600	1,069,569	1,032,064	37,505
Culture and recreation	1,375,195	1,574,563	1,440,641	133,922
Home and community services	1,449,125	1,722,553	1,527,774	194,779
Employee benefits	9,483,400	9,091,750	7,730,466	1,361,284
Total expenditures	<u>35,090,120</u>	<u>36,184,427</u>	<u>34,026,486</u>	<u>2,157,941</u>
Excess of revenues over expenditures	<u>2,085,580</u>	<u>1,164,833</u>	<u>2,859,282</u>	<u>1,694,449</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,033,600	1,033,600	1,033,600	
Transfers out	<u>(5,220,680)</u>	<u>(5,220,680)</u>	<u>(5,096,198)</u>	124,482
Total other financing sources (uses)	<u>(4,187,080)</u>	<u>(4,187,080)</u>	<u>(4,062,598)</u>	124,482
Net change in fund balances	<u>\$ (2,101,500)</u>	<u>\$ (3,022,247)</u>	<u>(1,203,316)</u>	<u>\$ 1,818,931</u>
Fund balances at beginning of year			13,760,371	
Fund balances at end of year			<u>\$ 12,557,055</u>	

TOWN OF RIVERHEAD
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Real property taxes	\$ 5,641,500	\$ 5,641,500	\$ 5,641,500	\$ -0-
Intergovernmental charges	15,000	15,000	1,050	(13,950)
Use of money and property	150,000	150,000	89,576	(60,424)
Licenses and permits			20,100	20,100
Sale of property and compensation for loss	1,500	1,500	48,611	47,111
Total revenues	<u>5,808,000</u>	<u>5,808,000</u>	<u>5,800,837</u>	<u>(7,163)</u>
EXPENDITURES				
Current:				
General government support	781,300	781,300	781,300	-0-
Transportation	3,213,000	3,414,611	2,996,070	418,541
Employee benefits	1,066,873	1,028,273	884,841	143,432
Total expenditures	<u>5,061,173</u>	<u>5,224,184</u>	<u>4,662,211</u>	<u>561,973</u>
Excess of revenues over expenditures	<u>746,827</u>	<u>583,816</u>	<u>1,138,626</u>	<u>554,810</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	215,000	215,000		(215,000)
Transfers out	(961,827)	(961,827)	(961,827)	
Total other financing sources (uses)	<u>(746,827)</u>	<u>(746,827)</u>	<u>(961,827)</u>	<u>(215,000)</u>
Net change in fund balances	<u>\$ -0-</u>	<u>\$ (163,011)</u>	176,799	<u>\$ 339,810</u>
Fund balances at beginning of year			2,078,776	
Fund balances at end of year			<u>\$ 2,255,575</u>	

TOWN OF RIVERHEAD
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Use of money and property	\$ 800,000	\$ 800,000	\$ 268,457	\$ (531,543)
Total revenues	<u>800,000</u>	<u>800,000</u>	<u>268,457</u>	<u>(531,543)</u>
EXPENDITURES				
Debt service:				
Principal	6,594,469	6,553,199	6,010,206	542,993
Interest	4,791,239	4,887,439	4,887,439	-0-
Bond issuance costs		30,720	30,720	-0-
Total expenditures	<u>11,385,708</u>	<u>11,471,358</u>	<u>10,928,365</u>	<u>542,993</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,585,708)</u>	<u>(10,671,358)</u>	<u>(10,659,908)</u>	<u>11,450</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,585,708	10,585,708	10,762,669	176,961
Transfers out		(1,000)	(990)	10
Payments to refunded bond escrow agent		(1,319,200)	(1,319,200)	-0-
Refunding bonds issued		1,405,850	1,405,850	-0-
Premiums of debt issuance			79,044	79,044
Total other financing sources (uses)	<u>10,585,708</u>	<u>10,671,358</u>	<u>10,927,373</u>	<u>256,015</u>
Net change in fund balances	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>267,465</u>	<u>\$ 267,465</u>
Fund balances at beginning of year			<u>761,560</u>	
Fund balances at end of year			<u>\$ 1,029,025</u>	

TOWN OF RIVERHEAD
COMMUNITY PRESERVATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Non-property tax items	\$ 4,550,500	\$ 4,550,500	\$ 2,772,582	\$ (1,777,918)
Use of money and property	80,000	80,000	248,402	168,402
Total revenues	<u>4,630,500</u>	<u>4,630,500</u>	<u>3,020,984</u>	<u>(1,609,516)</u>
EXPENDITURES				
Current:				
Home and community services	154,300	154,300	64,739	89,561
Employee benefits	18,000	18,000	1,135	16,865
Total expenditures	<u>172,300</u>	<u>172,300</u>	<u>65,874</u>	<u>106,426</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,458,200</u>	<u>4,458,200</u>	<u>2,955,110</u>	<u>(1,503,090)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(4,458,200)</u>	<u>(4,771,400)</u>	<u>(4,771,327)</u>	<u>73</u>
Total other financing sources (uses)	<u>(4,458,200)</u>	<u>(4,771,400)</u>	<u>(4,771,327)</u>	<u>73</u>
Net change in fund balances	<u>\$ -0-</u>	<u>\$ (313,200)</u>	<u>(1,816,217)</u>	<u>\$ (1,503,017)</u>
Fund balances at beginning, as reported			23,938,428	
Prior period adjustment			3,581,400	
Fund balances at beginning, as restated			<u>27,519,828</u>	
Fund balances at end of year			<u>\$ 25,703,611</u>	

TOWN OF RIVERHEAD
TOWN OF RIVERHEAD RETIREE MEDICAL PROGRAM
POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
SCHEDULE OF FUNDING PROGRESS FOR THE DECEMBER 31, 2008 VALUATION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2008	\$ -0-	\$ 55,374,800	\$ 55,374,800	0%	\$ 25,830,322	214.4%

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OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet Nonmajor Governmental Funds and
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances Nonmajor Governmental Funds

TOWN OF RIVERHEAD
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2008

	Special Revenue Funds			
	Special Grant	Special Trust	Business Improvement District	East Creek Docking Facility
ASSETS				
Cash and cash equivalents		\$ 2,601,949	\$ 171,446	\$ 161,662
Cash - restricted	\$ 403,282			
Accounts receivable	45,953			
Accrued interest receivable	248	2,603	122	
Due from other funds		463,362	4,182	
Due from other governments	234,736			
Prepays				
Total assets	<u>\$ 684,219</u>	<u>\$ 3,067,914</u>	<u>\$ 175,750</u>	<u>\$ 161,662</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 17,544		\$ 8,627	
Due to other funds	171,354	\$ 2,068,917		\$ 500
Due to other governments	1,260			
Deferred revenue	10,000		31,621	
Total liabilities	<u>200,158</u>	<u>2,068,917</u>	<u>40,248</u>	<u>500</u>
FUND BALANCES				
Reserved:				
Encumbrances	4,779		6,277	4,233
Debt service		421,428		
Prepays				
Unreserved, undesignated	479,282	577,569	129,225	156,929
Total fund balances	<u>484,061</u>	<u>998,997</u>	<u>135,502</u>	<u>161,162</u>
Total liabilities and fund balances	<u>\$ 684,219</u>	<u>\$ 3,067,914</u>	<u>\$ 175,750</u>	<u>\$ 161,662</u>

Street Lighting District	Ambulance	Refuse and Garbage	Public Parking	Community Development	Total Nonmajor Governmental Funds
\$ 594,186	\$ 511,327	\$ 1,540,015	\$ 151,147		\$ 5,731,732
657				\$ 467,871	871,153
121	97	508	139	246	46,610
123,206		119,360	64,013		4,084
					774,123
2,914		2,380			234,736
<u>\$ 721,084</u>	<u>\$ 511,424</u>	<u>\$ 1,662,263</u>	<u>\$ 215,299</u>	<u>\$ 468,117</u>	<u>\$ 7,667,732</u>
\$ 20,456	\$ 2,084	\$ 5,770	\$ 5,853	\$ 62,129	\$ 122,463
119,506	86,825	62,138	20,150		2,529,390
					1,260
<u>234,530</u>	<u>228,218</u>	<u>1,159,453</u>	<u>36,841</u>		<u>1,700,663</u>
<u>374,492</u>	<u>317,127</u>	<u>1,227,361</u>	<u>62,844</u>	<u>62,129</u>	<u>4,353,776</u>
16,373	25,950	159	1,590	27,362	86,723
123,206		1,418	73,023		619,075
2,914		2,380			5,294
<u>204,099</u>	<u>168,347</u>	<u>430,945</u>	<u>77,842</u>	<u>378,626</u>	<u>2,602,864</u>
<u>346,592</u>	<u>194,297</u>	<u>434,902</u>	<u>152,455</u>	<u>405,988</u>	<u>3,313,956</u>
<u>\$ 721,084</u>	<u>\$ 511,424</u>	<u>\$ 1,662,263</u>	<u>\$ 215,299</u>	<u>\$ 468,117</u>	<u>\$ 7,667,732</u>

TOWN OF RIVERHEAD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended December 31, 2008

	Special Revenue Funds			
	Special Grant	Special Trust	Business Improvement District	East Creek Docking Facility
REVENUES				
Real property taxes			\$ 135,454	
Departmental income	\$ 465	\$ 121,000		\$ 127,790
Intergovernmental charges				
Use of money and property	11,335	4,952	4,404	
Licenses and permits				
Sale of property and compensation for loss				
Miscellaneous local sources	10,000			
State and local aid	173,004			
Federal aid	244,225			
Total revenues	<u>439,029</u>	<u>125,952</u>	<u>139,858</u>	<u>127,790</u>
EXPENDITURES				
General governmental support			1,600	
Health				
Transportation				
Economic assistance and opportunity			123,798	
Culture and recreation				43,418
Home and community services	281,442			
Employee benefits	787			235
Total expenditures	<u>282,229</u>	<u>125,952</u>	<u>125,398</u>	<u>43,653</u>
Excess (deficiency) of revenues over (under) Expenditures	<u>156,800</u>	<u>125,952</u>	<u>14,460</u>	<u>84,137</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in				
Operating transfers out	(130,000)	(904,000)		(268,284)
Total other financing sources (uses)	<u>(130,000)</u>	<u>(904,000)</u>		<u>(268,284)</u>
Net change in fund balance	<u>26,800</u>	<u>(778,048)</u>	<u>14,460</u>	<u>(184,147)</u>
Fund balances at beginning of year	<u>457,261</u>	<u>1,777,045</u>	<u>121,042</u>	<u>345,309</u>
Fund balances at end of year	<u>\$ 484,061</u>	<u>\$ 998,997</u>	<u>\$ 135,502</u>	<u>\$ 161,162</u>

Street Lighting District	Ambulance	Refuse and Garbage	Public Parking	Community Development	Total Nonmajor Governmental Funds
\$ 824,900	\$ 907,516	\$ 4,816,524	\$ 185,711	\$ 427,101	\$ 6,870,105
16,363	10,748	44,504	6,058	38,056	136,420
		821			821
					10,000
					173,004
					244,225
<u>841,263</u>	<u>918,264</u>	<u>4,861,849</u>	<u>191,769</u>	<u>465,157</u>	<u>8,110,931</u>
124,100	146,900	548,000	25,400	61,000	907,000
734,654	735,968		159,529		735,968
					894,183
					123,798
					43,418
		4,220,201		356,624	4,858,267
71,781	1,200	88,793	27,103		189,899
<u>930,535</u>	<u>884,068</u>	<u>4,856,994</u>	<u>212,032</u>	<u>417,624</u>	<u>7,752,533</u>
<u>(89,272)</u>	<u>34,196</u>	<u>4,855</u>	<u>(20,263)</u>	<u>47,533</u>	<u>358,398</u>
			990		990
<u>(18,851)</u>	<u>(94,128)</u>	<u>(2,682)</u>	<u>(52,411)</u>	<u>(90,000)</u>	<u>(1,560,356)</u>
<u>(18,851)</u>	<u>(94,128)</u>	<u>(2,682)</u>	<u>(51,421)</u>	<u>(90,000)</u>	<u>(1,559,366)</u>
<u>(108,123)</u>	<u>(59,932)</u>	<u>2,173</u>	<u>(71,684)</u>	<u>(42,467)</u>	<u>(1,200,968)</u>
<u>454,715</u>	<u>254,229</u>	<u>432,729</u>	<u>224,139</u>	<u>448,455</u>	<u>4,514,924</u>
<u>\$ 346,592</u>	<u>\$ 194,297</u>	<u>\$ 434,902</u>	<u>\$ 152,455</u>	<u>\$ 405,988</u>	<u>\$ 3,313,956</u>