

TOWN OF RIVERHEAD
FINANCIAL STATEMENTS
December 31, 2010

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 FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2010
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INTRODUCTORY SECTION

TOWN OF RIVERHEAD
PRINCIPAL OFFICIALS
December 31, 2010

Sean M. Walter, Supervisor

John Dunleavy, Councilman
George Gabrielsen, Councilman

James Wooten, Councilman
Jodi Giglio, Councilwoman

ELECTED OFFICIALS

Laverne Tennenberg
Paul Leszczyński
Mason E. Haas
George Woodson
Maryann Wowak Heilbrunn
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 Justice
Town Justice

DEPARTMENT HEADS

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

Town Attorney
Accounting Department
Building Department
Community Development
Engineering Department
Personnel Officer
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 and for the year ended December 31, 2010, 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, 2010, the Town of Riverhead Industrial Development Agency has assets, net assets and revenues of \$146,619, \$132,984 and \$155,507 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the 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, 2010, 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
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011, on our consideration of the Town of Riverhead, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and 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 or provide any assurance 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 financial statements as a whole. 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 or provide assurance on it.

Albert, Vignier, Zuck & Company P.C.

Hauppauge, New York
November 23, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

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 year ended December 31, 2010. 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 2010 by \$155,453,379 (net assets).
- The Town's combined net assets increased by \$1,082,771 (or 0.7%). The governmental net assets increased by \$1,770,297 (or 1.7%) and the business-type net assets decreased by \$687,526 (or 1.4%).
- As of December 31, 2010, the Town's governmental funds reported combined ending fund balances of \$32,632,608. Of this total \$13,262,351 is unreserved and available for spending at the Town's discretion; though the Town has earmarked \$7,832,950 of the reserved balance for special designations.
- As of December 31, 2010, unreserved fund balances for the General Fund was \$11,552,377 or 27.5% of the total general fund expenditures and transfers out. The unreserved, undesignated portion was \$8,297,927 or 19.8% of the total General Fund expenditures and transfers out.
- The Town's total bonded debt outstanding decreased by \$8,640,000 or 6.7%.

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 Town's 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, 2010

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, 2010

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 Town'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, highway fund, debt service fund, community preservation fund, and capital projects, all of which are considered to be major funds. Data from the other nine (9) 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, Highway Fund Debt Service Fund and Community Preservation Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with their adopted budgets.

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 used to accumulate and allocate costs internally among the Town's various functions. The Town uses its internal service funds to account for 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 statements 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, 2010

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.

As noted earlier, net assets may serve, over time, as a useful indicator of the Town's financial health. In the case of the Town, total combined assets exceeded liabilities by \$155,453,379 as of December 31, 2010.

The largest portion of the Town's combined net assets, at December 31, 2010, \$138,622,077 (or 89.2%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, infrastructure, intangibles 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	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 51,486,336	\$ 59,737,650	\$ 9,793,269	\$ 11,592,063	\$ 61,279,605	\$ 71,329,713
Capital assets	202,554,644	194,254,327	54,616,489	54,095,577	257,171,133	248,349,904
Total assets	254,040,980	253,991,977	64,409,758	65,687,640	318,450,738	319,679,617
Liabilities						
Current liabilities	24,073,147	23,657,731	3,950,585	3,545,308	28,023,732	27,203,039
Non-current liabilities	123,792,633	125,929,343	11,180,994	12,176,627	134,973,627	138,105,970
Total liabilities	147,865,780	149,587,074	15,131,579	15,721,935	162,997,359	165,309,009
Net Assets (Deficit)						
Invested in capital assets, net of related debt	95,910,050	81,272,791	42,712,027	41,530,743	138,622,077	122,803,534
Restricted	20,169,214	24,172,470	2,051,483	3,100,645	22,220,697	27,273,115
Unrestricted	(9,904,064)	(1,040,358)	4,514,669	5,334,317	(5,389,395)	4,293,959
Total net assets	\$ 106,175,200	\$ 104,404,903	\$ 49,278,179	\$ 49,965,705	\$ 155,453,379	\$ 154,370,608

An additional portion of the Town's net assets, \$22,220,697, (or 14.3%) represents resources that are subject to external restrictions on how they may be used. The \$5,389,395 deficit balance in unrestricted net assets does not necessarily indicate fiscal stress. At the end of 2010, the Town is able to report positive balances in the categories of invested in capital assets, net of related debt and restricted net assets. In 2009, the Town was able to report positive balance in all three categories of net assets for its total activities. In addition, long-term liabilities which include compensated absences, claims and judgments, landfill closure and postclosure care costs, and other postemployment benefits (OPEB) will be funded through future budgetary appropriations when they become payable in future periods.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

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	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 5,148,050	\$ 3,957,404	\$ 6,457,482	\$ 5,715,618	\$ 11,605,532	\$ 9,673,022
Operating grants and contributions	1,775,231	1,102,072			1,775,231	1,102,072
Capital grants and contributions	5,723,965	2,146,372	138,457	203,142	5,862,422	2,349,514
	<u>12,647,246</u>	<u>7,205,848</u>	<u>6,595,939</u>	<u>5,918,760</u>	<u>19,243,185</u>	<u>13,124,608</u>
General revenues:						
Real property taxes	41,684,475	39,656,435	2,013,400	2,138,700	43,697,875	41,795,135
Real property tax items	435,944	407,862	428,252	367,241	864,196	775,103
Non-property tax items - sales tax	1,178,655	1,089,205	146,688	146,688	1,325,343	1,235,893
Community preservation fund 2% tax	2,288,395	2,787,122			2,288,395	2,787,122
Mortgage tax	1,120,206	934,019			1,120,206	934,019
Franchise tax	675,409	625,374			675,409	625,374
Investment earnings - unrestricted	321,569	463,766	519,115	498,511	840,684	962,277
Other compensation for loss	344,798	5,958,368			344,798	5,958,368
Federal and state aid	109,212	116,239			109,212	116,239
Other	662,884	138,091			662,884	138,091
	<u>48,821,547</u>	<u>52,176,481</u>	<u>3,107,455</u>	<u>3,151,140</u>	<u>51,929,002</u>	<u>55,327,621</u>
Total revenues	<u>61,468,793</u>	<u>59,382,329</u>	<u>9,703,394</u>	<u>9,069,900</u>	<u>71,172,187</u>	<u>68,452,229</u>
Expenses						
General government support	18,885,194	14,516,875			18,885,194	14,516,875
Public safety	22,664,706	20,711,389			22,664,706	20,711,389
Health	725,984	777,387			725,984	777,387
Transportation	5,563,156	5,450,205			5,563,156	5,450,205
Economic assistance and opportunity	1,808,681	1,692,108			1,808,681	1,692,108
Culture and recreation	2,410,108	2,524,892			2,410,108	2,524,892
Home and community services	4,130,066	6,023,985	9,382,320	9,599,346	13,512,386	15,623,331
Interest on debt	4,519,201	4,785,378			4,519,201	4,785,378
Total expenses	<u>60,707,096</u>	<u>56,482,219</u>	<u>9,382,320</u>	<u>9,599,346</u>	<u>70,089,416</u>	<u>66,081,565</u>
Change in net assets before transfers	761,697	2,900,110	321,074	(529,446)	1,082,771	2,370,664
Transfers	1,008,600	1,077,500	(1,008,600)	(1,077,500)	-0-	-0-
Change in net assets	1,770,297	3,977,610	(687,526)	(1,606,946)	1,082,771	2,370,664
Net assets - beginning	104,404,903	100,427,293	49,965,705	51,572,651	154,370,608	151,999,944
Net Assets - ending	<u>\$ 106,175,200</u>	<u>\$ 104,404,903</u>	<u>\$ 49,278,179</u>	<u>\$ 49,965,705</u>	<u>\$ 155,453,379</u>	<u>\$ 154,370,608</u>

The change in net assets from all combined activities was an increase of \$1,082,771. The governmental activities increased by \$1,770,297 and the business-type decreased by \$687,526.

Key elements of the changes in governmental activities were:

- The Town received a court settlement for MTBE for approximately \$937,000 and a grant for the Calverton Rail Spur for \$3,600,000.
- The recognition of OPEB costs of \$4,395,495 across various functions.
- The Town spent \$1,200,000 less than budgeted in health insurance due to conservative budgeting.

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

- The recognition of OPEB costs of \$379,330.
- Water Rents realized were \$480,000 less than anticipated because water rates are not keeping pace with costs and will be addressed in 2012.
- Sewer processing savings of \$184,000 offset \$150,000 of sewer disposal fees not realized.
- Savings of \$65,000 in the sewer fund employee benefits lines.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2010

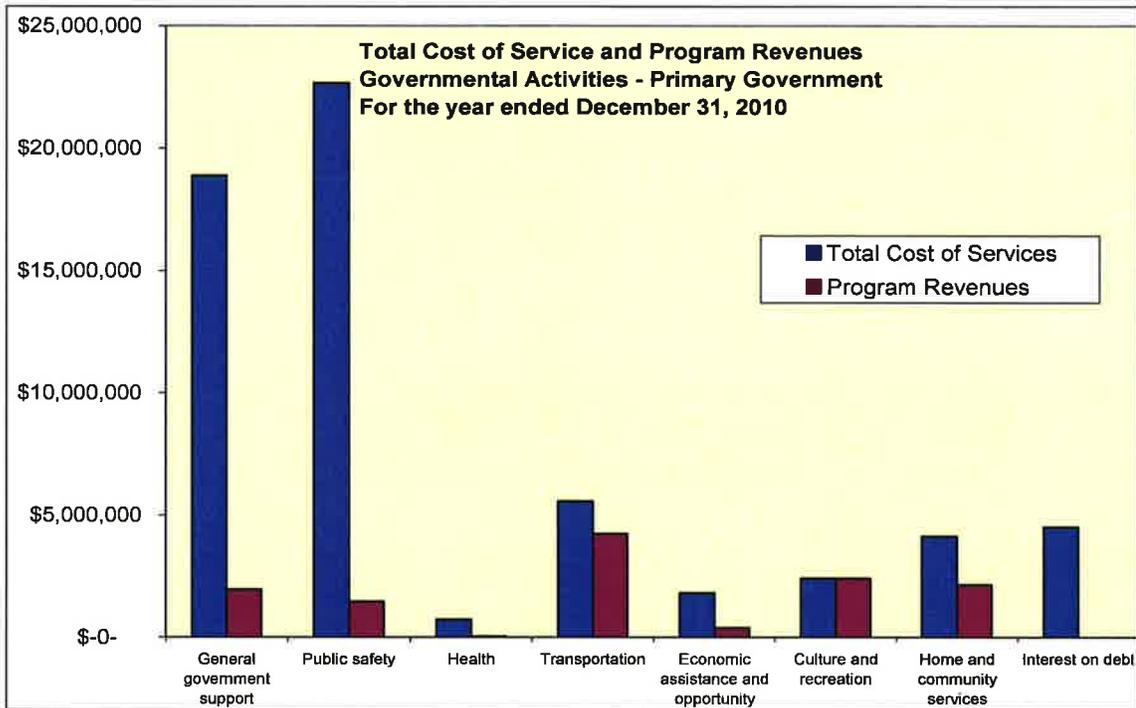
FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

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	
	2010	2009	2010	2009
General government support	\$ 18,885,194	\$ 14,516,875	\$ 1,946,406	\$ 1,714,960
Public safety	22,664,706	20,711,389	1,460,359	1,442,876
Health	725,984	777,387	42,610	44,840
Transportation	5,563,156	5,450,205	4,244,146	1,041,277
Economic assistance and opportunity	1,808,681	1,692,108	394,524	586,234
Culture and recreation	2,410,108	2,524,892	2,406,628	1,514,210
Home and community services	4,130,066	6,023,985	2,152,573	861,451
Interest on debt	4,519,201	4,785,378		
	<u>\$ 60,707,096</u>	<u>\$ 56,482,219</u>	<u>\$ 12,647,246</u>	<u>\$ 7,205,848</u>



The cost of the governmental activities this year was \$60,707,096. The cost of these services was partially subsidized by program revenues of \$12,647,246.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2010

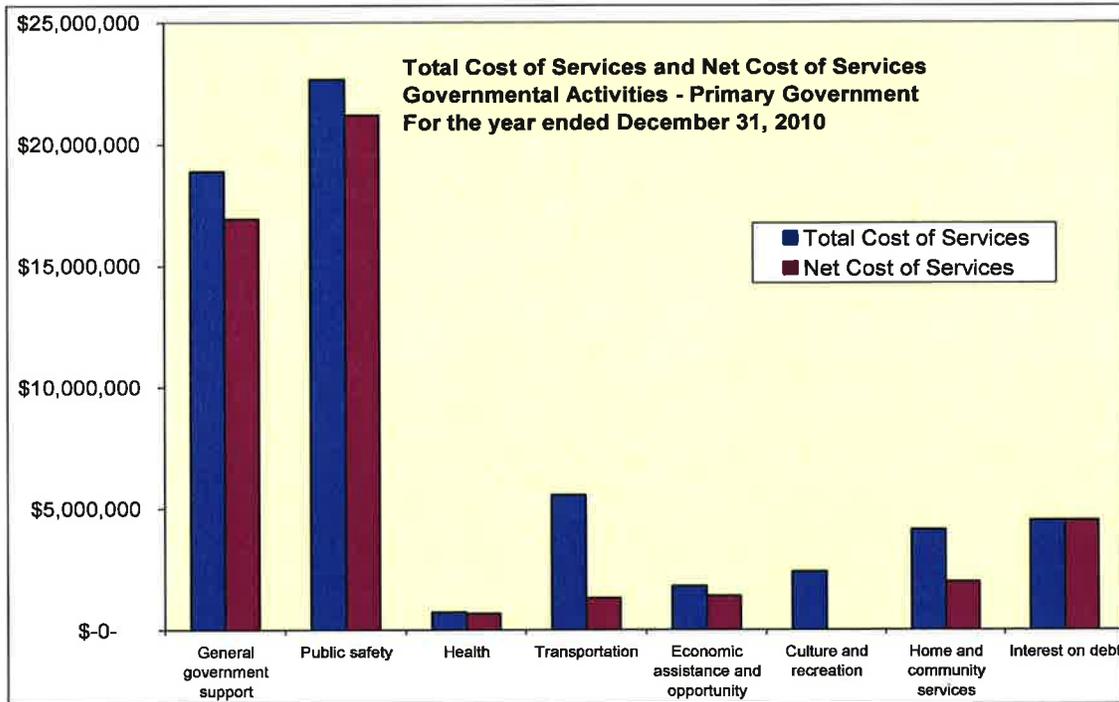
FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

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	
	2010	2009	2010	2009
General government support	\$ 18,885,194	\$ 14,516,875	\$ 16,938,788	\$ 12,801,915
Public safety	22,664,706	20,711,389	21,204,347	19,268,513
Health	725,984	777,387	683,374	732,547
Transportation	5,563,156	5,450,205	1,319,010	4,408,928
Economic assistance and opportunity	1,808,681	1,692,108	1,414,157	1,105,874
Culture and recreation	2,410,108	2,524,892	3,480	1,010,682
Home and community services	4,130,066	6,023,985	1,977,493	5,162,534
Interest on debt	4,519,201	4,785,378	4,519,201	4,785,378
	<u>\$ 60,707,096</u>	<u>\$ 56,482,219</u>	<u>\$ 48,059,850</u>	<u>\$ 49,276,371</u>



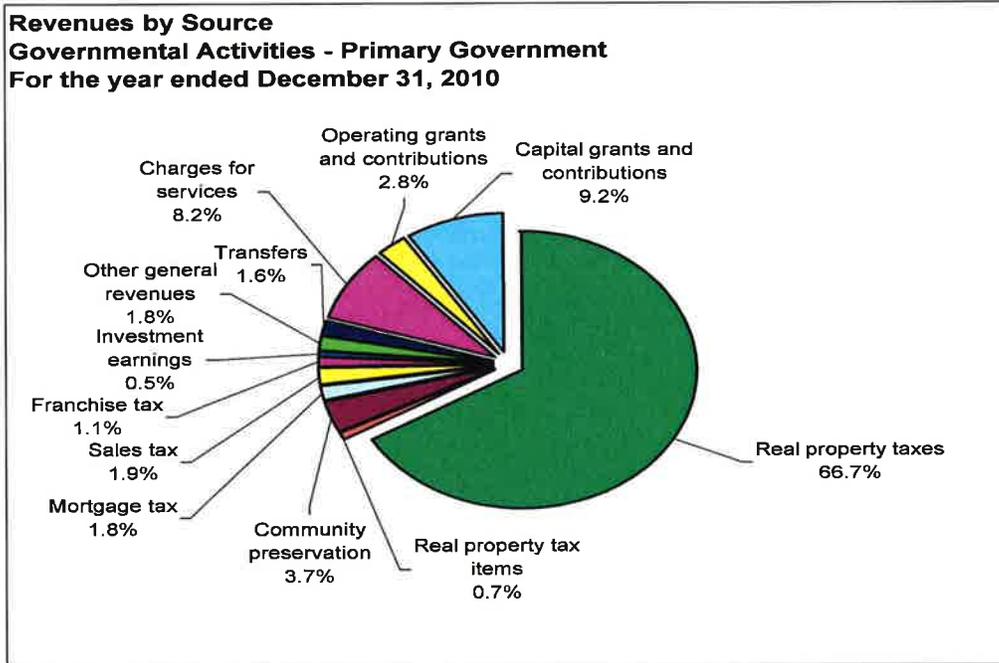
The net cost of these services after being partially subsidized by program revenues of \$12,647,246 was \$48,059,850.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2010

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

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

	2010	2009
Real property taxes	\$ 41,684,475	\$ 39,656,435
Real property tax items	435,944	407,862
Non-property tax items - sales tax	1,178,655	1,089,205
Community preservation fund 2% tax	2,288,395	2,787,122
Mortgage tax	1,120,206	934,019
Franchise tax	675,409	625,374
Investment earnings - unrestricted	321,569	463,766
Other general revenues	1,116,894	6,212,698
Transfers	1,008,600	1,077,500
Charges for services	5,148,050	3,957,404
Operating grants and contributions	1,775,231	1,102,072
Capital grants and contributions	5,723,965	2,146,372
	<u>\$ 62,477,393</u>	<u>\$ 60,459,829</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, 2010

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 \$32,632,608. Approximately 16.6% of the total amount, \$5,429,401, 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: \$2,543,671 to pay for encumbrances, \$15,142,717 to pay for current and future debt service, \$5,412,035 for use of the Community Preservation Fund, \$850,334 reserved for prepaids, \$2,600,000 appropriated for the subsequent year's General Fund budget, and \$654,450 designated for miscellaneous purposes.

General Fund

The General Fund is the chief operating fund of the Town. At December 31, 2010 unreserved, undesignated fund balance of the General Fund was \$8,297,927, while total fund balance of the General Fund was \$12,803,162. 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 and transfers out. Unreserved, undesignated fund balance represents 19.8% of total General Fund expenditures and transfers out, while total fund balance represents 30.5% of the same amount.

The fund balance decreased by \$1,904,804 during the current year. The major components of the decrease were:

- There was a budgeted reduction in fund balance of approximately \$4,701,200.
- Fines and forfeitures came in higher by \$937,000 due to a class action MTBE lawsuit.
- Sale of property for \$450,000 did not materialize.
- Interfund revenues of \$380,000 did not materialize while the Town received \$200,000 in unanticipated Federal aid.
- Expenses decreased in general government support, public safety and employee benefits, resulting from of a hiring freeze and from conservative budgeting for health insurance, as well as budgeting for contingency items, by approximately \$2,200,000.

Capital Projects Fund

The fund balance decreased by \$5,304,390 during the current year. The reason for the decrease is the Town did not issue bonds in 2009 and 2010 and continued to spend down the proceeds from the 2008 issue.

Community Preservation Fund

The fund balance decreased by \$3,722,812. The major components were a decrease in transfer tax due to a slow economy resulting in the use of fund balance to cover debt service costs.

Nonmajor Funds

The fund balance increased by \$808,901 over the nine nonmajor funds. The largest increase was in the Special Trust Fund, of approximately \$375,000; as a result of a transfer from capital projects for unspent projects. In the Ambulance Fund \$160,000 in the equipment line and \$90,000 in repairs and maintenance were not spent. In Community Development, there was unanticipated revenue of \$125,000 from the sale of property.

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

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 \$6,937,275 and (\$2,422,606) respectively. The total net assets change was a decrease of \$687,526, an increase of \$34,432 in the sewer fund and a decrease of \$721,958 in the water fund. The key elements of the changes in business-type activities was the recognition of 2010 OPEB costs of \$177,070 and \$202,260 in the sewer and water funds respectively. In the water fund, water sales came in \$480,000 less than anticipated because water rates have not kept pace with costs and will be addressed in 2012. In the sewer fund, scavenger waste tipping fees decreased by \$150,000 due to the downturn in the economy and competition from Bergen Point, but sewer and scavenger disposal waste fees are down \$104,000 and \$80,000, respectively, as a result of a processing change from an equipment upgrade. Additionally, there were other benefits savings of \$65,000 in the sewer fund.

General Fund Budgetary Highlights – During the year, there was a \$499,923 (or 1.3%) increase in overall spending between the original and final amended budget, inclusive of transfers. The variance is covered by sufficient fund balance and is not expected to have a significant effect of future services or liquidity. The following are the main components of the increase in appropriations:

- Home and community services increased by \$637,000 for the Atlantis Marine World pass-through grant which also increased revenues by an equal amount.
- Prior year encumbrances, included in the final budget, that were spent in 2010 of \$119,069.
- The Town amended the budget to achieve a 5% decrease, \$376,000, across all departments to compensate for a \$350,000 settlement that was not going to materialize.

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, 2010 amounts to \$257,171,133 (net of accumulated depreciation). This investment in capital assets includes land, non-depreciable intangible assets, equipment, improvements, infrastructure, depreciable intangible assets and construction in progress.

Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* has been implemented. Implementation required a reclass of the opening balances from land to non-depreciable intangibles and from machinery and equipment to depreciable intangibles. Additionally, the Town reclassified opening balances from improvements to infrastructure. There were no prior amounts to restate.

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

- The Town purchased property, at North Fork Knolls for Open Space, totaling \$2,765,713.
- Town park improvements of \$2,783,995 and dock improvements of \$1,708,839 were completed in 2010 in governmental activities.
- Highway improvements, throughout the Town, were completed for \$2,855,626 in governmental activities.
- The improvement additions in business-type activities were to water mains and tank improvements for \$1,405,709.

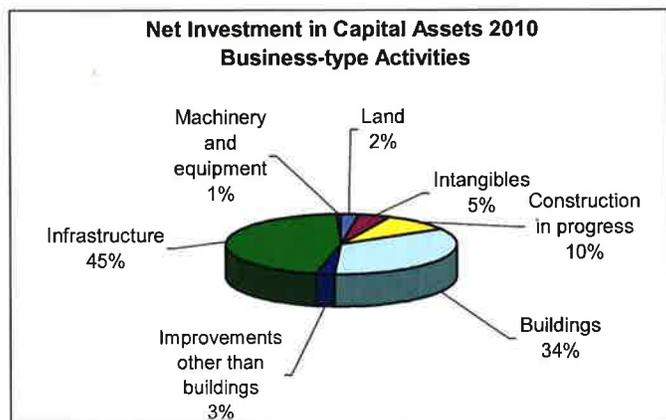
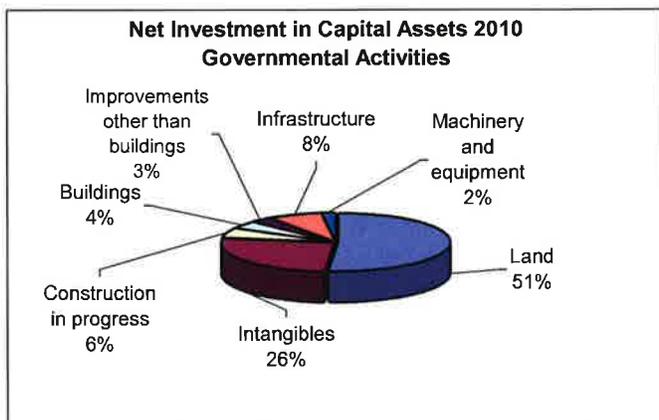
TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
 December 31, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

Capital Assets - Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 103,953,785	\$ 101,188,072	\$ 1,303,645	\$ 1,303,646	\$ 105,257,430	\$ 102,491,718
Intangible development rights and easements	52,841,114	52,841,114	2,378,757	2,378,757	55,219,871	55,219,871
Construction in progress	11,284,412	11,646,310	5,258,255	4,386,963	16,542,667	16,033,273
Buildings	8,311,883	8,556,553	18,798,704	19,409,508	27,110,587	27,966,061
Improvements other than buildings	6,294,714	5,028,586	1,394,845	1,519,087	7,689,559	6,547,673
Infrastructure	15,904,843	10,808,766	25,115,311	24,743,215	41,020,154	35,551,981
Machinery and equipment	3,915,205	4,159,007	280,439	354,401	4,195,644	4,513,408
Intangibles - software	48,688	25,919	86,533		135,221	25,919
Total capital assets	\$ 202,554,644	\$ 194,254,327	\$ 54,616,489	\$ 54,095,577	\$ 257,171,133	\$ 248,349,904



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 2010 the Town of Riverhead had total bonded debt outstanding of \$120,795,000. For the year ended December 31, 2010 the Town's total combined debt decreased by \$8,640,000 or 6.7%. 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	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 109,954,737	\$ 117,122,151	\$ 10,840,263	\$ 12,312,849	\$ 120,795,000	\$ 129,435,000
Total	\$ 109,954,737	\$ 117,122,151	\$ 10,840,263	\$ 12,312,849	\$ 120,795,000	\$ 129,435,000

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

TOWN OF RIVERHEAD
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

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 \$473,295,119 which is significantly in excess of the Town's outstanding general obligation debt. The percentage of debt limit exhausted is 23.23%.

In November 1998, 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Next year's budget will decrease by \$965,103 (or 1.39%) with the majority of this decrease spending for the General Fund, \$894,878, Riverhead Sewer, \$129,000 and Water District, \$83,700. The Highway Fund had an increase of \$156,800. Several other districts had minor increases or decreases.

Assessed values increased in 2011 by \$7,307,392 over 2010 (or 0.91%).

The Town wide tax rate increased by \$4.37 per \$1,000 of assessed value.

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, 2010

	Primary Government			Component Unit IDA
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 20,789,007	\$ 10,284,855	\$ 31,073,862	\$ 143,459
Cash - restricted	18,612,826		18,612,826	
Accounts receivable	324,683		324,683	329
Accrued interest receivable	3,654	1,350	5,004	
Billings receivable		1,268,724	1,268,724	
Due from other governments	8,309,485	575,049	8,884,534	
Internal balances	2,442,431	(2,442,431)	-	
Prepays	850,334	60,948	911,282	
Inventory of materials and supplies	150,916	44,774	195,690	
Other assets	3,000		3,000	
Total current assets	51,486,336	9,793,269	61,279,605	143,788
Non-current assets:				
Non-depreciable capital assets	168,079,311	8,940,657	177,019,968	
Capital assets, net of accumulated depreciation	34,475,333	45,675,832	80,151,165	2,831
Total non-current assets	202,554,644	54,616,489	257,171,133	2,831
Total assets	254,040,980	64,409,758	318,450,738	146,619
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	4,355,583	1,305,046	5,660,629	13,635
Retainage payable	426,076	38,692	464,768	
Accrued interest payable	539,282	69,771	609,053	
Unearned revenue/deferred revenue	9,660,213	894,253	10,554,466	
Other liabilities		36,388	36,388	
Total current liabilities	24,073,147	3,950,585	28,023,732	13,635
Non-current liabilities due within one year:				
General obligation bonds payable	7,320,325	1,499,674	8,819,999	
Compensated absences payable	820,645	106,761	927,406	
Claims and judgments payable	891,023		891,023	
Estimated liability for landfill closure and postclosure care costs	60,000		60,000	
Total non-current liabilities due within one year	8,991,993	1,606,435	10,598,428	
Non-current liabilities due in more than one year:				
General obligation bonds payable	102,634,412	9,340,589	111,975,001	
Compensated absences payable	6,500,010	845,610	7,345,620	
Claims and judgments payable	1,390,921		1,390,921	
Estimated liability for landfill closure and postclosure care costs	1,280,113		1,280,113	
Other postemployment benefits	11,987,177	994,795	12,981,972	
Total non-current liabilities due in more than one year	123,792,633	11,180,994	134,973,627	-0-
Total liabilities	147,865,780	15,131,579	162,997,359	13,635
NET ASSETS				
Invested in capital assets, net of related debt	95,910,050	42,712,027	138,622,077	
Restricted for:				
Debt service fund	1,138,973	1,146,124	2,285,097	
Community preservation fund	18,659,037		18,659,037	
Home and community services	371,204	905,359	1,276,563	
Unrestricted	(9,904,064)	4,514,669	(5,389,395)	132,984
Total net assets	\$ 106,175,200	\$ 49,278,179	\$ 155,453,379	\$ 132,984

TOWN OF RIVERHEAD
GOVERNMENT-WIDE FINANCIAL STATEMENT
STATEMENT OF ACTIVITIES
Year ended December 31, 2010

Function/ Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government support	\$ 18,885,194	\$ 1,875,497	\$ 70,909	
Public safety	22,664,706	1,229,357	165,567	\$ 65,435
Health	725,984	42,610		
Transportation	5,563,156	129,338	177,334	3,937,474
Economic assistance and opportunity	1,808,681	93,489	301,035	
Culture and recreation	2,410,108	645,720	148,717	1,612,191
Home and community services	4,130,066	1,132,039	911,669	108,865
Interest on debt	4,519,201			
Total governmental activities	\$ 60,707,096	\$ 5,148,050	\$ 1,775,231	\$ 5,723,965
Business-type Activities:				
Sewer	\$ 4,116,045	\$ 3,211,804		\$ 138,457
Water	5,266,275	3,245,678		
Total business-type activities	9,382,320	6,457,482	\$ -0-	138,457
Total Primary Government	\$ 70,089,416	\$ 11,605,532	\$ 1,775,231	\$ 5,862,422
COMPONENT UNIT:				
Industrial Development Agency (IDA)	\$ 171,246	\$ 155,309		
Total component unit	\$ 171,246	\$ 155,309		

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

Net assets - ending

See notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Industrial Development Agency
\$ (16,938,788)		\$ (16,938,788)	
(21,204,347)		(21,204,347)	
(683,374)		(683,374)	
(1,319,010)		(1,319,010)	
(1,414,157)		(1,414,157)	
(3,480)		(3,480)	
(1,977,493)		(1,977,493)	
(4,519,201)		(4,519,201)	
<u>\$ (48,059,850)</u>		<u>\$ (48,059,850)</u>	
	\$ (765,784)	\$ (765,784)	
	(2,020,597)	(2,020,597)	
	(2,786,381)	(2,786,381)	
<u>\$ (48,059,850)</u>	<u>\$ (2,786,381)</u>	<u>\$ (50,846,231)</u>	
			<u>\$ (15,937)</u>
			<u>\$ (15,937)</u>
\$ 41,684,475	\$ 2,013,400	\$ 43,697,875	
435,944	428,252	864,196	
1,178,655	146,688	1,325,343	
2,288,395		2,288,395	
1,120,206		1,120,206	
675,409		675,409	
321,569	519,115	840,684	\$ 198
344,798		344,798	
109,212		109,212	
662,884		662,884	
1,008,600	(1,008,600)	-0-	
<u>49,830,147</u>	<u>2,098,855</u>	<u>51,929,002</u>	<u>198</u>
1,770,297	(687,526)	1,082,771	(15,739)
104,404,903	49,965,705	154,370,608	148,723
<u>\$ 106,175,200</u>	<u>\$ 49,278,179</u>	<u>\$ 155,453,379</u>	<u>\$ 132,984</u>

**TOWN OF RIVERHEAD
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010**

	MAJOR FUNDS			
	General	Highway	Debt Service	Capital Projects
ASSETS				
Cash and cash equivalents	\$ 6,479,225	\$ 3,595,302		\$ 1,541,834
Cash - restricted			\$ 6,872,549	
Accounts receivable	268,347			21,806
Accrued interest receivable	84	379	904	101
Due from other funds	12,001,140	869,121	1,479,242	1,643,008
Due from other governments	2,738,159	1,043		2,533,443
Prepays	784,963	55,191		
Inventory	150,916			
Other assets	3,000			
Total assets	\$ 22,425,834	\$ 4,521,036	\$ 8,352,695	\$ 5,740,192
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,993,092	\$ 246,035		\$ 982,898
Retainage payable				119,200
Due to other funds	1,126,547	14,973	\$ 7,213,722	11,354,986
Deferred revenue	6,503,033	1,398,118		48,724
Total liabilities	9,622,672	1,659,126	7,213,722	12,505,808
Fund Balances:				
Reserved for:				
Encumbrances	465,822	162,229		1,105,699
Debt service			1,138,973	207,786
Community preservation				
Prepays	784,963	55,191		
Unreserved, designated for:				
Subsequent year's budget	2,600,000			
Subsequent year's debt service				
Miscellaneous designations	654,450			
Unreserved, undesignated reported in:				
General fund	8,297,927			
Special revenue funds		2,644,490		
Capital funds				(8,079,101)
Total fund balances (deficits)	12,803,162	2,861,910	1,138,973	(6,765,616)
Total liabilities and fund balances (deficits)	\$ 22,425,834	\$ 4,521,036	\$ 8,352,695	\$ 5,740,192

See notes to the financial statements

Community Preservation	Other Governmental Funds	Total Governmental Funds
	\$ 4,492,539	\$ 16,108,900
\$ 7,717,909	4,022,368	18,612,826
	34,530	324,683
476	1,256	3,200
10,805,816	536,057	27,334,384
134,836	2,683,692	8,091,173
	10,180	850,334
		150,916
		3,000
<u>\$ 18,659,037</u>	<u>\$ 11,780,622</u>	<u>\$ 71,479,416</u>
	\$ 986,242	\$ 4,208,267
	306,876	426,076
	4,842,024	24,552,252
	1,710,338	9,660,213
<u>-0-</u>	<u>7,845,480</u>	<u>38,846,808</u>
	809,921	2,543,671
\$ 8,668,502	548,956	10,564,217
5,412,035		5,412,035
	10,180	850,334
		2,600,000
4,578,500		4,578,500
		654,450
		8,297,927
	2,566,085	5,210,575
		(8,079,101)
<u>18,659,037</u>	<u>3,935,142</u>	<u>32,632,608</u>
<u>\$ 18,659,037</u>	<u>\$ 11,780,622</u>	<u>\$ 71,479,416</u>

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TOWN OF RIVERHEAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
December 31, 2010

Total fund balances - governmental funds \$ 32,632,608

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	\$ 168,079,311	
Capital assets - depreciable	147,835,533	
Accumulated depreciation	<u>(113,360,200)</u>	202,554,644

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). 4,193,544

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	(109,954,737)	
Compensated absences	(7,320,655)	
Claims and judgments	(2,281,944)	
Estimated liability for landfill closure and postclosure care costs	(1,340,113)	
Other postemployment benefits	<u>(11,987,177)</u>	(132,884,626)

Due from other governments applicable to the Town's governmental activities not due and receivable in the current period, and accordingly, are not reported in the funds. However, these assets are included in the Statement of Net Assets. 218,312

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. (539,282)

Net assets of governmental activities \$ 106,175,200

TOWN OF RIVERHEAD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended December 31, 2010

	MAJOR FUNDS			
	General	Highway	Debt Service	Capital Projects
REVENUES				
Real property taxes	\$ 27,620,433	\$ 6,287,320		
Real property tax items	435,944			
Non-property tax items	1,854,064			
Departmental income	1,983,760			
Intergovernmental charges	57,694	4,608		
Use of money and property	306,413	17,749	\$ 58,580	\$ 5,023
Licenses and permits	89,623	18,650		
Fines and forfeitures	1,482,408			
Sale of property and compensation for loss	182,529	41,103		
Miscellaneous local sources	88,124			56,166
Interfund revenues	2,372,613			
State and local aid	2,068,871	19,482		652,718
Federal aid	290,264	117,928		1,469,847
Total revenues	<u>38,832,740</u>	<u>6,506,840</u>	<u>58,580</u>	<u>2,183,754</u>
EXPENDITURES				
Current:				
General government support	9,271,068	881,893		
Public safety	14,726,455			
Health	7,764			
Transportation	370,944	3,205,162		
Economic assistance and opportunity	966,269			
Culture and recreation	1,694,159			
Home and community services	2,042,960			
Employee benefits	8,386,936	850,102		
Capital Outlay:				
General government support				2,753,295
Public safety				67,875
Transportation				1,476,841
Culture and recreation				2,016,599
Home and community services				892,792
Debt Service:				
Principal			7,167,414	
Interest			4,546,723	
Total expenditures	<u>37,466,555</u>	<u>4,937,157</u>	<u>11,714,137</u>	<u>7,207,402</u>
Excess (deficiency) of revenues over expenditures	<u>1,366,185</u>	<u>1,569,683</u>	<u>(11,655,557)</u>	<u>(5,023,648)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,266,861		11,716,564	302,365
Transfers out	(4,537,850)	(1,153,961)		(583,107)
Total other financing sources (uses)	<u>(3,270,989)</u>	<u>(1,153,961)</u>	<u>11,716,564</u>	<u>(280,742)</u>
Net change in fund balance	(1,904,804)	415,722	61,007	(5,304,390)
Fund balances (deficits) at beginning	<u>14,707,966</u>	<u>2,446,188</u>	<u>1,077,966</u>	<u>(1,461,226)</u>
Fund balances (deficits) at end of year	<u>\$ 12,803,162</u>	<u>\$ 2,861,910</u>	<u>\$ 1,138,973</u>	<u>\$ (6,765,616)</u>

See notes to the financial statements

Community Preservation	Other Governmental Funds	Total Governmental Funds
	\$ 7,776,722	\$ 41,684,475
		435,944
\$ 2,288,395		4,142,459
	224,695	2,208,455
		62,302
32,714	83,007	503,486
		108,273
		1,482,408
	125,000	348,632
		144,290
		2,372,613
	251,356	2,992,427
	3,561,388	5,439,427
<u>2,321,109</u>	<u>12,022,168</u>	<u>61,925,191</u>
	943,737	11,096,698
		14,726,455
	824,908	832,672
	4,392,978	7,969,084
	194,636	1,160,905
	69,013	1,763,172
218	4,678,467	6,721,645
	150,959	9,387,997
		2,753,295
		67,875
		1,476,841
		2,016,599
		892,792
		7,167,414
		4,546,723
<u>218</u>	<u>11,254,698</u>	<u>72,580,167</u>
<u>2,320,891</u>	<u>767,470</u>	<u>(10,654,976)</u>
	324,846	13,610,636
(6,043,703)	(283,415)	(12,602,036)
(6,043,703)	41,431	1,008,600
(3,722,812)	808,901	(9,646,376)
<u>22,381,849</u>	<u>3,126,241</u>	<u>42,278,984</u>
<u>\$ 18,659,037</u>	<u>\$ 3,935,142</u>	<u>\$ 32,632,608</u>

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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, 2010

Net change in fund balances - total governmental funds \$ (9,646,376)

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	\$ 10,964,475	
Depreciation expense, exclusive of internal service funds assets	<u>(2,664,158)</u>	
		8,300,317

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	(10,240)
------------------	----------

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

Deferred Revenue	26,348
Mortgage tax	218,312

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	(614,541)
Other change in net assets	409,747

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

Repayment of debt principal	7,167,414
Compensated absences	(382,926)
Estimated liability for landfill closure and postclosure care costs	659,975
Other postemployment benefits	(4,395,495)
Accrued interest payable	<u>37,762</u>

Change in net assets of governmental activities	<u><u>\$ 1,770,297</u></u>
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TOWN OF RIVERHEAD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 9,102,708	\$ 1,182,147	\$ 10,284,855	\$ 4,680,107
Accrued interest receivable	1,299	51	1,350	455
Billings receivables	38,933	1,229,791	1,268,724	
Due from other funds	16,623		16,623	236,869
Due from other governments	575,049		575,049	
Prepays	28,625	32,323	60,948	
Inventory		44,774	44,774	
Total current assets	<u>9,763,237</u>	<u>2,489,086</u>	<u>12,252,323</u>	<u>4,917,431</u>
Non-current assets:				
Capital assets:				
Land	575,911	727,734	1,303,645	
Intangibles - non-depreciable easements		2,378,757	2,378,757	
Construction work in progress	2,822,947	2,435,308	5,258,255	
Buildings	22,766,748	11,016,872	33,783,620	
Improvements other than buildings	1,811,939	134,711	1,946,650	
Machinery and equipment	874,028	7,326,508	8,200,536	
Infrastructure	21,049,770	41,399,661	62,449,431	
Intangibles - depreciable		88,000	88,000	
Less accumulated depreciation/amortization	<u>(31,790,383)</u>	<u>(29,002,022)</u>	<u>(60,792,405)</u>	
Total capital assets (net of accumulated depreciation/amortization)	<u>18,110,960</u>	<u>36,505,529</u>	<u>54,616,489</u>	
Total non-current assets	<u>18,110,960</u>	<u>36,505,529</u>	<u>54,616,489</u>	
Total assets	<u>27,874,197</u>	<u>38,994,615</u>	<u>66,868,812</u>	<u>4,917,431</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	471,350	833,696	1,305,046	147,317
Retainage payable	15,183	23,509	38,692	
Bond interest and matured bonds payable	37,572	32,199	69,771	
Customers deposits payable		36,388	36,388	
General obligation bonds payable	428,384	1,071,290	1,499,674	
Compensated absences payable	31,226	75,535	106,761	
Due to other funds	198	2,458,856	2,459,054	576,570
Unearned revenue/deferred revenue	589,792	304,461	894,253	
Total current liabilities	<u>1,573,705</u>	<u>4,835,934</u>	<u>6,409,639</u>	<u>723,887</u>
Non-current liabilities:				
General obligation bonds payable	4,289,272	5,051,317	9,340,589	
Claims and judgments payable				2,281,944
Compensated absences payable	247,324	598,286	845,610	
Postemployment benefits healthcare costs	495,867	498,928	994,795	
Total non-current liabilities	<u>5,032,463</u>	<u>6,148,531</u>	<u>11,180,994</u>	<u>2,281,944</u>
Total liabilities	<u>6,606,168</u>	<u>10,984,465</u>	<u>17,590,633</u>	<u>3,005,831</u>
NET ASSETS				
Invested in capital assets, net of related debt	13,023,438	29,688,589	42,712,027	
Restricted - expendable				
Restricted for debt service	907,532	238,592	1,146,124	
Restricted for other purposes	399,784	505,575	905,359	
Unrestricted	6,937,275	(2,422,606)	4,514,669	1,911,600
Total net assets	<u>\$ 21,268,029</u>	<u>\$ 28,010,150</u>	<u>\$ 49,278,179</u>	<u>\$ 1,911,600</u>

TOWN OF RIVERHEAD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year ended December 31, 2010

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
OPERATING REVENUES				
Charges for sales and services:				
Water sales		\$ 3,193,240	\$ 3,193,240	
Sewer rents	\$ 2,273,733		2,273,733	
Sewer charges	918,409		918,409	
Departmental income		5,224	5,224	
Water service charges		47,214	47,214	
Service other departments				\$ 1,261,900
Other services	19,662		19,662	
Total operating revenues	<u>3,211,804</u>	<u>3,245,678</u>	<u>6,457,482</u>	<u>1,261,900</u>
OPERATING EXPENSES				
Cost of sales and services:				
Administration	1,239,318	1,515,533	2,754,851	18,882
Insurance				22,288
Judgments and claims				1,449,406
Sewerage treatment disposal	1,421,724		1,421,724	
Source of supply, power and pump		1,464,248	1,464,248	
Depreciation/amortization	678,204	1,215,182	1,893,386	
Employee benefits	616,102	701,375	1,317,477	
Total operating expenses	<u>3,955,348</u>	<u>4,896,338</u>	<u>8,851,686</u>	<u>1,490,576</u>
Operating income (loss)	<u>(743,544)</u>	<u>(1,650,660)</u>	<u>(2,394,204)</u>	<u>(228,676)</u>
NON-OPERATING REVENUE (EXPENSE)				
Investment earnings - unrestricted	45,476	49,949	95,425	23,882
Interest expense	(160,697)	(288,895)	(449,592)	
Developer refunds and other miscellaneous expenses		(81,042)	(81,042)	
Tower rentals and miscellaneous		423,690	423,690	
Developer's fees	138,457		138,457	
Real property taxes and tax items	678,300	1,335,100	2,013,400	
Other real property tax items	428,252		428,252	
Non-property tax distribution by county	146,688		146,688	
Total non-operating revenue (expense)	<u>1,276,476</u>	<u>1,438,802</u>	<u>2,715,278</u>	<u>23,882</u>
Income (loss) before transfers	532,932	(211,858)	321,074	(204,794)
Transfers out	(498,500)	(510,100)	(1,008,600)	
Change in net assets	<u>34,432</u>	<u>(721,958)</u>	<u>(687,526)</u>	<u>(204,794)</u>
Total Net Assets - beginning	21,233,597	28,732,108	49,965,705	2,116,394
Total net assets - ending	<u>\$ 21,268,029</u>	<u>\$ 28,010,150</u>	<u>\$ 49,278,179</u>	<u>\$ 1,911,600</u>

TOWN OF RIVERHEAD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended December 31, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 2,993,694	\$ 2,480,828	\$ 5,474,522	\$ 1,261,900
Cash payments contractual expense	(1,176,643)	(1,168,610)	(2,345,253)	(1,530,324)
Cash payments employees	(1,594,255)	(1,802,300)	(3,396,555)	(18,750)
Other revenues	19,662	5,224	24,886	
Net cash provided (used) by operating activities	<u>242,458</u>	<u>(484,858)</u>	<u>(242,400)</u>	<u>(287,174)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Real property taxes and tax items	1,106,552	1,335,100	2,441,652	
Non-property tax distribution by county	146,688		146,688	
Tower rentals		423,690	423,690	
Developer refunds and other miscellaneous expenses		(81,042)	(81,042)	
Transfers to/from other funds	(514,746)	1,337,017	822,271	(79,888)
Net cash provided (used) by noncapital and related financing activities	<u>738,494</u>	<u>3,014,765</u>	<u>3,753,259</u>	<u>(79,888)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal paid on capital debt	(417,387)	(1,055,199)	(1,472,586)	
Premium from refunding debt	(1,640)	(44,824)	(46,464)	
Interest paid on capital debt	(166,135)	(297,290)	(463,425)	
Capital contributions by developer's	138,457		138,457	
Payments to contractors	(581,743)	(1,832,555)	(2,414,298)	
Net cash provided (used) by capital and related financing activities	<u>(1,028,448)</u>	<u>(3,229,868)</u>	<u>(4,258,316)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	44,177	49,898	94,075	23,428
Net cash provided (used) by investing activities	<u>44,177</u>	<u>49,898</u>	<u>94,075</u>	<u>23,428</u>
Net increase (decrease) in cash and cash equivalents	(3,319)	(650,063)	(653,382)	(343,634)
Cash and cash equivalents at January 1, 2010	9,106,027	1,832,210	10,938,237	5,023,741
Cash and cash equivalents at December 31, 2010	<u>\$ 9,102,708</u>	<u>\$ 1,182,147</u>	<u>\$ 10,284,855</u>	<u>\$ 4,680,107</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (743,544)	\$ (1,650,660)	\$ (2,394,204)	\$ (228,676)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	678,204	1,215,182	1,893,386	
(Increase) decrease in billings receivable	(53,266)	(626,950)	(680,216)	
(Increase) decrease in inventory				
(Increase) decrease in prepaid expense	(11,429)	(10,523)	(21,952)	
(Increase) decrease in other assets	638	17,421	18,059	
Increase (decrease) in deferred revenue	(145,182)	(132,676)	(277,858)	
Increase (decrease) in compensated absences	48,078	47,775	95,853	
Increase (decrease) in postemployment healthcare benefits	177,070	202,260	379,330	
Increase (decrease) in accounts payable/accrued liabilities	268,785	446,714	715,499	(673,039)
Increase (decrease) in retainage payable	15,183	(142)	15,041	
Increase (decrease) in claims and judgments				614,541
Increase (decrease) in accrued liabilities	7,921	6,741	14,662	
Total adjustments	<u>986,002</u>	<u>1,165,802</u>	<u>2,151,804</u>	<u>(58,498)</u>
Net cash provided (used) by operating activities	<u>\$ 242,458</u>	<u>\$ (484,858)</u>	<u>\$ (242,400)</u>	<u>\$ (287,174)</u>

TOWN OF RIVERHEAD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2010

		Agency Fund
ASSETS		
Cash		\$ 16,828,019
	Total assets	\$ 16,828,019
 LIABILITIES		
Due to school districts		\$ 15,139,544
Other agency liabilities		1,688,475
	Total liabilities	\$ 16,828,019

TOWN OF RIVERHEAD
INDEX FOR NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, as amended.

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, as amended, 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 (CDA) 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, as amended, 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, 2010

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.

Town generated 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 Riverhead Industrial Development Agency is a public benefit corporation 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 Riverhead Industrial Development Agency can be obtained by contacting:

Riverhead Industrial Development Agency
1 East Main Street
Riverhead, NY 11901

2. BASIS OF PRESENTATION

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

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, 2010

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 charged 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, 2010

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 obligations 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 some 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, 2010

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:

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.

Community Development Fund – is used to account for the operations of CDA property located at the Calverton Enterprise Park.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 personnel 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, 2010

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 Internal Service Fund includes the following funds:

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 2010, 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 2009, 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, 2010

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 the Proprietary 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. For this purpose, the Town considers all revenues available if they are collected within sixty (60) days after the year end. Revenues susceptible to accrual are sales tax, mortgage tax, franchise fees, state and federal aid, intergovernmental revenue and operating transfers. All other governmental fund revenues are recognized when received. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closure and postclosure costs and other postemployment benefit obligations, are recorded only when payment is due. Expenditures for prepaids are recognized when incurred.

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, 2010

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, special time deposit 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, special time deposit accounts and certificates of deposit are carried at cost. The Town has no investments at December 31, 2010.

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 were fully insured or collateralized as required by the state statutes at December 31, 2010.

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 relating to governmental-type activities primarily include amounts due from federal, state, and other local governments; individuals and entities for services provided by the Town, as well as amounts due related to various grant and franchise agreements. Receivables relating to business-type activities primarily consist of amounts due from residents and other entities for services rendered. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred and are recorded net of an allowance.

INVENTORY OF MATERIAL AND SUPPLIES

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

PREPAIDS

Prepaid balances in the financial statements represent various payments, made by the Town in the current year primarily for retirement benefits that will benefit a future period.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 recorded on governmental fixed assets in the fund financial statements, nor has interest on governmental 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
Buildings - municipal garage	30 years
Improvements other than buildings	15 years
Improvements other than buildings - municipal garage	10 years
Improvements other than buildings - fuel tanks and pumps	20 years
Intangibles	5 years
Machinery and equipment:	
Equipment	5 years
Equipment - autos and pick-ups	5 years
Equipment - heavy trucks	10 years
Equipment - traffic lights	15 years
Infrastructure/Improvements:	
Drainage and sidewalks	30 years
Parking lots	15 years
Roads	20 years
 <u>Proprietary Funds:</u>	
Buildings:	
Calverton sewer district	20 years
Riverhead sewer district	50 years
Riverhead water district	40 years
Intangibles:	
Riverhead water district	5 years
Machinery and equipment:	
Equipment - autos and pick-ups:	
Riverhead sewer district	5 years
Riverhead water district	5 years
Equipment - heavy trucks:	
Riverhead sewer district	10 years
Riverhead water district	5 years
Infrastructure/Improvements:	
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, 2010

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

Unearned revenue/deferred 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, 2010

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 to the County to collect. If the Town fails to collect the Town's portion of the Tax Warrant, that shortfall is remitted by the County to the Town in June.

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, 2010

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 November 4, 2009 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.

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, 2010

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 of 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.”

Accounts payable in the Capital Projects Fund are capital related debt and are used in the calculation of invested in capital assets, net of related debt.

In the fund statements, governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Portions of fund equity are segregated for future use and therefore not available for future appropriation or expenditure. Amounts reserved for encumbrances, 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 PRONOUNCEMENTS

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended December 31, 2010, the Town adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes requirements for reporting for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software and GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and financial reporting requirements for derivative instruments. Implementation of GASB 51 required a reclass from land to non-depreciable intangible assets and machinery and equipment to depreciable intangible assets, and as the Town does not engage in derivative instruments GASB 53 had no effect on the financial statements.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

2. FUND BALANCES

FUND DEFICITS

The deficits related to the Capital Projects Fund and the Community Development Fund are the result of differences in cash flow timing relating to the reimbursement of capital projects costs from Federal and State agencies and contractual commitments from bond proceeds, and are routinely resolved during subsequent fiscal years when the permanent financing is recognized.

Fund	Fund Deficit Unreserved and Undesignated	Total Fund Balance
Major Funds:		
Capital Projects Fund	\$ (8,079,101)	\$ (6,765,616)
Nonmajor Funds:		
Community Development	(326,912)	427,215

FUND BALANCE RESERVES AND DESIGNATIONS

Miscellaneous Designations

The majority of the \$654,450 in miscellaneous reserves in the General Fund, consists of the following designated fund balances: \$55,961 is designated for various recreation programs, \$251,734 is designated for the building operations of the Stotsky Park child care building, \$130,502 is designated for the Town Board special programs, \$120,438 is designated for the Empire Zone and \$47,555 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, 2010 the Town's deposits totaled \$66,514,707 and the bank balances totaled \$68,622,300. The respective bank balances consisted solely of deposits. Of the total bank balance, \$7,466,055 was covered by the Federal Depository Insurance Corporation (FDIC) and \$71,757,653 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, 2010

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, 2010, 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, 2010, individual fund interfund receivable and payable balances represent either loans, services provided, or reimbursements which 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	\$ 12,001,140	\$ 1,126,547
Highway Fund	869,121	14,973
Debt Service Fund	1,479,242	7,213,722
Capital Projects Fund	1,643,008	11,354,986
Community Preservation Fund	10,805,816	
Nonmajor Funds:		
Other Governmental Funds	536,057	4,842,024
Total Governmental Funds	27,334,384	24,552,252
Business-type Activities:		
Sewer District Funds	16,623	198
Water District Funds		2,458,856
Internal Service Funds	236,869	576,570
Total Business-Type Activities	253,492	3,035,624
Total	\$ 27,587,876	\$ 27,587,876

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

2. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

At December 31, 2010, individual fund interfund transfers balances for Governmental and Proprietary Funds representing legally authorized transfers, were as follows:

	Transfer In	Transfer Out
Major Funds:		
General Fund	\$ 1,266,861	\$ 4,537,850
Highway Fund		1,153,961
Debt Service Fund	11,716,564	
Capital Projects Fund	302,365	583,107
Community Preservation Fund		6,043,703
Nonmajor Funds:		
Other Governmental Funds	324,846	283,415
Total Governmental Funds	13,610,636	12,602,036
Business-type activities:		
Sewer District Funds		498,500
Water District Funds		510,100
Total Business-Type Activities	-0-	1,008,600
	\$ 13,610,636	\$ 13,610,636

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 were as follows:

Primary Government

	Balance 1/1/2010	Additions	Deletions/ Transfers	Balance 12/31/2010
<u>Governmental Activities:</u>				
Capital assets not being depreciated/amortized				
Land	\$ 101,188,072	\$ 2,765,713		\$ 103,953,785
Intangibles - development rights/easements	52,841,114			52,841,114
Construction work in progress	11,646,310	10,121,533	\$ 10,483,431	11,284,412
Total capital assets not being depreciated/amortized	165,675,496	12,887,246	10,483,431	168,079,311
Depreciable/amortizable capital assets				
Buildings	11,970,578			11,970,578
Improvements	8,676,863	1,855,190		10,532,053
Infrastructure	98,869,830	5,987,689		104,857,519
Machinery and equipment	19,808,892	680,687	119,289	20,370,290
Intangibles - software	67,999	37,094		105,093
Total depreciable/amortizable capital assets	139,394,162	8,560,660	119,289	147,835,533
Less accumulated depreciation/amortization				
Buildings	3,414,025	244,670		3,658,695
Improvements	3,648,277	589,062		4,237,339
Infrastructure	88,061,064	891,612		88,952,676
Machinery and equipment	15,649,885	924,489	119,289	16,455,085
Intangibles - software	42,080	14,325		56,405
Total accumulated depreciation/amortization	\$ 110,815,331	\$ 2,664,158	\$ 119,289	\$ 113,360,200
Total net depreciable/amortizable capital assets				34,475,333
Total net capital assets				\$ 202,554,644

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

3. CAPITAL ASSETS (continued)

	Balance 1/1/2010	Additions	Deletions	Balance 12/31/2010
<u>Business-type Activities:</u>				
Capital assets not being depreciated/amortized				
Land	\$ 1,303,645			\$ 1,303,645
Intangibles - development rights/easements	2,378,757			2,378,757
Construction work in progress	4,386,964	\$ 2,274,943	\$ 1,403,652	5,258,255
Total capital assets not being depreciated/amortized	<u>8,069,366</u>	<u>2,274,943</u>	<u>1,403,652</u>	<u>8,940,657</u>
Depreciable/amortizable capital assets				
Buildings	33,783,620			33,783,620
Improvements	1,946,650			1,946,650
Infrastructure	61,043,722	1,405,709		62,449,431
Machinery and equipment	8,151,237	49,299		8,200,536
Intangibles - software		88,000		88,000
Total depreciable/amortizable capital assets	<u>104,925,229</u>	<u>1,543,008</u>		<u>106,468,237</u>
Less accumulated depreciation/amortization				
Buildings	14,374,112	610,804		14,984,916
Improvements	427,563	124,242		551,805
Infrastructure	36,300,507	1,033,613		37,334,120
Machinery and equipment	7,796,837	123,260		7,920,097
Intangibles - software		1,467		1,467
Total accumulated depreciation/amortization	<u>\$ 58,899,019</u>	<u>\$ 1,893,386</u>		<u>\$ 60,792,405</u>
Total net depreciable/amortizable capital assets				<u>45,675,832</u>
Total net capital assets				<u>\$ 54,616,489</u>

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

Governmental activities:		
General government support		\$ 635,591
Public safety		165,368
Health		50,078
Transportation		1,208,924
Economic assistance and opportunity		292,935
Culture and recreation		228,073
Home and community services		83,189
Total depreciation expense - governmental activities		<u>\$ 2,664,158</u>
Business-type activities:		
Sewer		\$ 678,204
Water		1,215,182
Total depreciation expense - business-type activities		<u>\$ 1,893,386</u>

Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* has been implemented. Implementation required a reclass of the opening balances from land to non-depreciable intangibles and from machinery and equipment to depreciable intangibles. Additionally, the Town reclassified opening balances from improvements to infrastructure. There were no prior amounts to restate.

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, 2010, the Town has not recorded any such impairment losses.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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, 2010 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, 2010.

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 6.35% and have maturity dates from 2011 through 2031.

Primary Government

	Balance 1/1/2010	Issued	Redeemed	Balance 12/31/2010
Governmental activities:				
Capital Projects Fund:				
General	\$ 43,354,670		\$ 2,913,330	\$ 40,441,340
Highway	6,694,668		736,648	5,958,020
Community preservation	66,273,997		3,381,662	62,892,335
Nonmajor	798,816		135,774	663,042
Total government activities	<u>117,122,151</u>	<u>\$ -0-</u>	<u>7,167,414</u>	<u>109,954,737</u>
Business-type activities:				
Sewer districts	5,135,043		417,387	4,717,656
Water districts	7,177,806		1,055,199	6,122,607
Total business-type activities	<u>12,312,849</u>	<u>-0-</u>	<u>1,472,586</u>	<u>10,840,263</u>
Total general obligation bonds	<u>\$ 129,435,000</u>	<u>\$ -0-</u>	<u>\$ 8,640,000</u>	<u>\$ 120,795,000</u>

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

General Obligation Bonds (continued)

At December 31, 2010, bonds payable consisted of the following individual issues:

Primary Government

Governmental activities:

Issue	Purpose	Average Rate	Outstanding Amount	Final Maturity
General Obligation Serial Bonds-1991	Public Improvement	6.350%	\$ 30,000	May 1, 2011
General Obligation Serial Bonds-2003	Various	3.750%-4.500%	21,086,800	June 1, 2022
General Obligation Serial Bonds-2003	Refunding Bond	2.250%-4.000%	123,027	March 1, 2013
General Obligation Serial Bonds-2003	Public Improvement	3.625%-4.250%	18,628,200	November 15, 2022
General Obligation Serial Bonds-2004	Refunding Bond	2.500%-5.000%	1,290,500	June 15, 2016
General Obligation Serial Bonds-2004	Refunding Bond	1.500%-3.500%	140,000	January 15, 2016
General Obligation Serial Bonds-2005	Public Improvement	3.750%-4.000%	11,307,400	August 1, 2022
General Obligation Serial Bonds-2006	Public Improvement	3.750%-4.000%	23,481,500	December 1, 2027
General Obligation Serial Bonds-2008	Public Improvement	3.250%-4.000%	32,525,000	December 2, 2030
General Obligation Serial Bonds-2008	Refunding Bond	3.000%-5.000%	1,342,310	May 15, 2020
			<u>\$ 109,954,737</u>	

Business-type activities:

Issue	Purpose	Average Rate	Amount	Final Maturity
General Obligation Serial Bonds-1991	Public Improvement	6.350%	\$ 145,000	May 1, 2011
General Obligation Serial Bonds-1997	Rt. 58 Sewer Extension	4.050%-5.650%	1,925,000	August 15, 2019
General Obligation Serial Bonds-2002	Sewer Plant Upgrade	4.850%	1,255,000	October 15, 2031
General Obligation Serial Bonds-2003	Various	3.750%-4.500%	338,200	June 1, 2022
General Obligation Serial Bonds-2003	Refunding Bond	2.250%-4.000%	806,973	March 1, 2013
General Obligation Serial Bonds-2003	Public Improvement	3.625%-4.250%	1,721,800	November 15, 2022
General Obligation Serial Bonds-2004	Refunding Bond	2.500%-5.000%	2,109,500	June 15, 2016
General Obligation Serial Bonds-2004	Refunding Bond	1.500%-3.500%	30,000	January 15, 2016
General Obligation Serial Bonds-2005	Public Improvement	3.750%-4.000%	92,600	August 1, 2022
General Obligation Serial Bonds-2006	Public Improvement	3.750%-4.000%	18,500	December 1, 2027
General Obligation Serial Bonds-2008	Refunding Bond	3.000%-5.000%	2,397,690	May 15, 2020
			<u>\$ 10,840,263</u>	
Total General Obligation Bonds			<u>\$ 120,795,000</u>	

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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:	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
Years Ending December 31, 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	7,656,500	3,456,038	11,112,538
2015	7,736,900	3,167,657	10,904,557
2016-2020	38,259,800	11,290,279	49,550,079
2021-2025	23,101,400	4,382,419	27,483,819
2026-2030	10,900,000	1,164,000	12,064,000
Totals	<u>\$ 109,954,737</u>	<u>\$ 35,501,497</u>	<u>\$ 145,456,234</u>
Business-type activities:	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>
Years Ending December 31, 2011	\$ 1,499,674	\$ 390,063	\$ 1,889,737
2012	1,328,679	340,785	1,669,464
2013	1,251,510	293,830	1,545,340
2014	1,063,500	247,437	1,310,937
2015	1,103,100	203,338	1,306,438
2016-2020	3,535,200	515,770	4,050,970
2021-2025	673,600	114,710	788,310
2026-2030	320,000	43,112	363,112
2031	65,000	2,168	67,168
Totals	<u>\$ 10,840,263</u>	<u>\$ 2,151,213</u>	<u>\$ 12,991,476</u>
Total general obligation bonds	<u>\$ 120,795,000</u>	<u>\$ 37,652,710</u>	<u>\$ 158,447,710</u>

Bonds Authorized and Unissued

At December 31, 2010 the Town had \$63,108,000 in general obligation bonds, which were authorized and unissued.

As of December 31, 2010 the total long-term outstanding indebtedness of the Town aggregated to \$120,795,000. Of this amount, \$109,954,737 was subject to the constitutional debt limit and represented approximately 23.23% of its statutory debt limit.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

General Obligation Bonds (continued)

Prior-Year Defeasance of Debt

In 2009, 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. On May 15, 2010 the remaining \$3,675,000 of refunded bonds were called. At December 31, 2010 there were no outstanding bonds considered defeased.

Changes in Long-term Debt

Long-term liability activities for the year ended December 31, 2010 are as follows:

Primary Government

	Balance 1/1/2010	Increases	Reductions	Balance 12/31/2010	Non-current liabilities due within one year	Non-current liabilities
Governmental funds:						
Bonds Payable						
General obligation bonds	\$ 117,122,151		\$ 7,167,414	\$ 109,954,737	\$ 7,320,325	\$ 102,634,412
Plus deferred amounts:						
Premiums on issuance	26,348		26,348			
Total bonds payable	117,148,499	\$ -0-	7,193,762	109,954,737	7,320,325	102,634,412
Compensated absences	6,937,729	2,813,540	2,430,614	7,320,655	820,645	6,500,010
Claims and judgments	1,667,403	2,120,991	1,506,450	2,281,944	891,023	1,390,921
Estimated liability for landfill closure and post-closure care costs	2,000,088		659,975	1,340,113	60,000	1,280,113
Other postemployment benefits	7,591,682	5,336,493	940,998	11,987,177		11,987,177
	<u>\$ 135,345,401</u>	<u>\$ 10,271,024</u>	<u>\$ 12,731,799</u>	<u>\$ 132,884,626</u>	<u>\$ 9,091,993</u>	<u>\$ 123,792,633</u>
Business-type activities:						
General obligation bonds	\$ 12,312,849		\$ 1,472,586	\$ 10,840,263	\$ 1,499,674	\$ 9,340,589
Plus deferred amounts:						
Premiums on issuance	46,464		46,464			
Total bonds payable	12,359,313	\$ -0-	1,519,050	10,840,263	1,499,674	9,340,589
Compensated absences	856,518	342,153	246,300	952,371	106,761	845,610
Other postemployment benefits	615,465	474,393	95,063	994,795		994,795
	<u>\$ 13,831,296</u>	<u>\$ 816,546</u>	<u>\$ 1,860,413</u>	<u>\$ 12,787,429</u>	<u>\$ 1,606,435</u>	<u>\$ 11,180,994</u>

Other long-term liabilities for compensated absences, postemployment benefits 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

4. INDEBTEDNESS (continued)

Long-term Debt (continued)

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, 2010 there were fourteen (14) Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$96,077,053.

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 and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed as proportions of payroll members, used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

Funding Policy (continued)

Contributions consist of a group term life insurance portion (GTLI) and a regular pension contribution. Contribution rates for the plan year ended March 31, 2010 are as follows:

Contribution Rates

<u>Tier</u>	<u>Plan/Option</u>	<u>ERS Rate</u>	<u>Tier</u>	<u>Plan/Option</u>	<u>PRFS Rate</u>
1	75I	9.2%			
2	75I	8.5%	2	375I	10.3%
			2	384E2	15.3%
3	A14	6.9%			
4	A15	6.9%			

The Town is required to contribute at an actuarially determined rate. The actual contributions were equal to 100 percent of the actuarially required amounts. There are no contributions related to an early retirement incentive for Town employees. The credits and miscellaneous adjustments represent modification made by the NYSERS to the 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>
2010	\$ 1,631,045	10.48%	\$ (738)	\$ 15,610	\$ 1,614,697
2009	966,531	6.49%	2,172	9,275	959,428
2008	1,064,177	7.10%	1,024	10,199	1,055,002

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>
2010	\$ 1,903,677	16.83%	\$ 105,278	\$ 19,235	\$ 1,989,720
2009	1,519,198	14.56%	(20,154)	14,353	1,484,691
2008	1,508,070	14.69%	(111,903)	13,368	1,382,799

Chapter 57 of the Laws of 2010 of the State of New York was enacted that allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

- For State fiscal year 2010 -11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

5. RETIREMENT SYSTEM (continued)

Funding Policy (continued)

- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the Systems' average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

The law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program. Town of Riverhead did not participate in this program and therefore has no outstanding liability at December 31, 2010.

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.

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 for those who were Medicare enrollees prior to January 1, 2010, \$1,326 per year for those enrolling on January 1, 2010 through December 31, 2010, and \$1,385 per year for those who will enroll January 1, 2011 and after, if they are over the age of sixty-five. The Medicare Part B premium that is charged varies by income level.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

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, 2010, 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.

	Primary Government	Governmental Activities	Business-Type Activities
Active employees	327	295	32
Retired employees and spouses	128	116	12
Surviving spouse of deceased retirees	14	14	
Total	469	425	44

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, 2010, the Town's annual other postemployment benefits cost (expenses) of \$5,810,886 is not equal to the Annual Required Contribution (ARC), which is \$5,939,000. Considering the annual expense as well as the payment of current health insurance premiums and medicare reimbursements, which totaled \$1,036,061 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$4,774,825 for the year ended December 31, 2010. The Town's IDA, a component unit, does not have a policy to pay for postemployment benefits.

Benefit Obligations and Normal Cost

	Medical Dental and Medicare B		
	Primary Government	Governmental Activities	Business-Type Activities
Actuarial Accrued Liability (AAL)			
Active employees	\$ 48,002,000	\$ 43,040,000	\$ 4,962,000
Retired employees	22,606,000	21,288,000	1,318,000
Total Actuarial Accrued Liability (AAL)	70,608,000	64,328,000	6,280,000
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded actuarial accrued liability (UAAL)	\$ 70,608,000	\$ 64,328,000	\$ 6,280,000
Funded ratio	0%	0%	0%
Normal cost at the beginning of the year	\$ 2,918,900	\$ 2,712,200	\$ 206,700
Amortization cost at the beginning of the year	\$ 2,274,400	\$ 2,076,100	\$ 198,300
Annual covered payroll	\$ 26,875,823	\$ 24,341,499	\$ 2,534,324
UAAL as a percentage of covered payroll	262.7%	264.3%	247.8%

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Benefit Obligations and Normal Cost (continued)

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 as of the January 1, 2010 valuation amounted to \$70,608,000.

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	\$ 3,241,000	\$ 2,997,000	\$ 244,000
Amortization of unfunded actuarial liability (UAAL) over 30 years	2,698,000	2,458,000	240,000
Annual required contribution (ARC)	5,939,000	5,455,000	484,000
Interest on net OPEB obligation	328,286	303,667	24,619
Adjustment to ARC	(456,400)	(422,174)	(34,226)
Annual OPEB Cost	5,810,886	5,336,493	474,393
Less: Contribution for year ended December 31, 2010	1,036,061	940,998	95,063
Increase in other postemployment benefits liability	4,774,825	4,395,495	379,330
Other postemployment benefits liability at December 31, 2009	8,207,147	7,591,682	615,465
Other postemployment benefits liability at December 31, 2010	<u>\$ 12,981,972</u>	<u>\$ 11,987,177</u>	<u>\$ 994,795</u>
Percentage of annual OPEB cost contributed	17.8%	17.6%	20.0%

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 current year and the proceeding two years is were:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2010	\$ 5,810,886	\$ 1,036,061	17.8%	\$ 12,981,972
2009	5,200,495	983,212	18.9%	8,207,147
2008	4,922,600	932,736	18.9%	3,989,864

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

6. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)

Funded Status and Funding Progress (continued)

The primary government's funded status of the plan as of January 1, 2010 is as follows:

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)
1/1/2010	\$ -0-	\$ 70,608,000	\$ 70,608,000	0%	\$ 26,875,823	262.7%

The required scheduling of funding progress can be found immediately following the notes, in required supplementary information, and 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.

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.

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 short-term liability in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2010 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, a 3.0% payroll growth rate and assume that the benefits are not prefunded. The valuation assumes a 13.7% initial rate; 11.3% for post-65 costs enrollees, for NYSHIP for the year ended 2010. The NYSHIP healthcare cost trend decreases in decrements to a rate of 6.2% after four years. The valuation assumes a 0.0% initial rate and 5.0% cost trend for medicare part B benefits for the year ended 2010.

A copy of the Town of Riverhead's Retiree Medical Program, January 1, 2010 Valuation is available by contacting the Town of Riverhead, Office of the Financial Administrator, 1295 Pulaski Street., Riverhead, New York 11901.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

C. DETAILED NOTES ON ALL FUNDS (continued)

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, 2010 the value of the accumulated vacation, personal leave and sick leave for governmental and business-type activities was \$7,320,655 and \$952,371, respectively, for an aggregate total of \$8,273,026.

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.

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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

D. COMMITMENTS AND CONTINGENCIES (continued)

1. RISK MANAGEMENT (continued)

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, 2010, the Self-Insurance Fund had assets of \$4,917,431 and liabilities of \$3,005,831. Included in this amount is \$1,332,088 for general liability claims and \$949,856 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, 2010

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	
	2010	2009	2010	2009
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 698,797	\$ 730,583	\$ 968,606	\$ 773,217
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	<u>1,382,983</u>	<u>1,055,319</u>	<u>738,008</u>	<u>451,576</u>
Total incurred claims and claim adjustment expenditures	<u>2,081,780</u>	<u>1,785,902</u>	<u>1,706,614</u>	<u>1,224,793</u>
Payments				
Claim and claim adjustment expenditures attributable to insured events of the current and prior years.	<u>749,692</u>	<u>1,087,105</u>	<u>756,758</u>	<u>256,187</u>
Total unpaid claims and claim adjustment expenditures at the end of the year.	<u>\$ 1,332,088</u>	<u>\$ 698,797</u>	<u>\$ 949,856</u>	<u>\$ 968,606</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 Long Island, LLC and Marc Liebowitz: The Plaintiffs have commenced two actions alleging constitutional and other violations surrounding, among other things, the denial of their site plan application before the Planning Board. In the Supreme Court proceeding, the plaintiffs are seeking to force an approval of their project. The Town moved to dismiss the proceeding and the motion was marked submitted on or about August 23, 2010. We are waiting for a decision on the motion.

In the federal action plaintiffs seek an unspecified sum in damages, and attorney fees, against the Town of Riverhead based on the allegation that they were treated differently from the Hampton Jitney. 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, 2010, the Town moved to dismiss the amended complaint. The Court denied the Town's motion to dismiss the amended complaint. Discovery has commenced and is expected to proceed through December 31, 2011. The Town expects to move for summary judgment at the conclusion of discovery.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

D. COMMITMENTS AND CONTINGENCIES (continued)

2. LITIGATION (continued)

Kar-McVeigh, LLC v. Zoning Board of Appeals of Town of Riverhead: The Plaintiff initiated a Supreme Court proceeding against the Town Board and the Zoning Board of Appeals 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. The plaintiff's motion to dismiss the second appeal was denied without prejudice. The appeal from the first decision denying the Town's motion to dismiss has been perfected. The Town has also perfected the second appeal by June 30, 2011.

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 sought in the federal action are \$25 million, plus attorney fees. 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 concluded and the Town intends to move for summary judgment on or before November 28, 2011.

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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

D. COMMITMENTS AND CONTINGENCIES (continued)

2. LITIGATION (continued)

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. Discovery has been suspended while the parties attempt to settle the case.

Riverhead Park Corp., 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 is 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.

Hobson. ct. al. v. Town of Riverhead: This case involves eight separate Notices of Claim filed against the Town of Riverhead in connection with flooding that occurred on Horton Avenue on or about March 31, 2010. The named claimants include Louise Hobson, Joyce Anderson, Ivory Brown, Earlene Trent, Mary Hatcher, Esaw Langhorne and Juanita Langhorne, Sherman Trent, Porter Trent and Marie Trent. Each Notice of Claim alleges that in March, 2010, severe flooding occurring along Horton Avenue "due to the catch basins and drainage systems of said property." The Notices of Claim further contend that damage was sustained to the homes of each claimant during and after rainfall due to the defective and unrepaired condition of the street, storm drains, drain systems, drain sewers, sump, catch basins, pools, and pipes." Please note that a ninth flooding claim was recently rejected as untimely.

As of this report, several of the claimants have appeared for a municipal hearing. Given the facts developed thus far, outside counsel believes that the collective claims are of questionable liability against the Town, as it is well-settled that a municipality may not be subject to liability for the "negligent design" of a draining system. Moreover, to the extent that the claimants have asserted that the Town improperly maintained the drainage system in the area, to be held liable, the Town must have received prior written notice of the allegedly defective condition, as opposed to having mere actual knowledge of the problem.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

D. COMMITMENTS AND CONTINGENCIES (continued)

2. LITIGATION (continued)

Hobson. et. al. v. Town of Riverhead: (continued)

The claimants collectively filed a Summons and Complaint against the Town and the County of Suffolk; an Answer was interposed on behalf of the Town on August 3, 2011. The Answer raises several affirmative defenses as to several of the individual plaintiffs, in that they failed to serve a Notice of Claim and/or failed to appear for a Municipal Hearing. We have also raised affirmative defenses asserting that the Town is entitled to qualified and/or absolute immunity from suit, and that the Town did not receive prior written notice of the allegedly defective condition(s).

Regarding the Town's the potential exposure, the hearings have revealed that the damage to the claimants' homes was substantial and, in some cases, catastrophic. It bears note, however, that FEMA funds in the sum of \$2.99 million have been awarded with respect to potential disaster relief payouts. The Town has set aside \$900,000 from Community Preservation Funds as the Town share if the payouts occur. As of December 31, 2010 the Town recorded no liability in this matter.

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 POSTCLOSURE CARE COSTS

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

The Town entered into an agreement 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.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

D. COMMITMENTS AND CONTINGENCIES (continued)

3. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS (continued)

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 \$9,191,000 to date for landfill capping costs. Postclosure care and monitoring costs are estimated to be approximately \$1,340,113 over the next 30 years and are recorded a liability at December 31, 2010 in the government-wide financial statements. Actual costs for postclosure monitoring and maintenance may be higher or lower due to inflation, changes in technology, or changes in regulations or conditions on the ground.

4. CONSTRUCTION AND OTHER CAPITAL ACQUISITION COMMITMENTS

Construction in progress and other capital commitments for governmental activities capital projects are \$1,857,745 while sewer and water proprietary funds are \$2,752,911 and \$747,132 respectively, aggregating to \$5,357,788.

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.

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. SUBSEQUENT EVENTS

In September 2011 the Town received \$250,000 from a penalty clause relating to Repcal LLC who terminated its contract to buy 300 acres of Town owned Enterprise Park at Calverton Park.

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities that affects the Town and its municipal component units. Beginning in 2012, and lasting through at least June 15, 2016, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however the permitted increase will not be less than 1%. Local governments can exceed the tax levy limit by a 60% vote of the governing body, or local law. There are permitted exceptions and adjustments.

TOWN OF RIVERHEAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

F. SUBSEQUENT EVENTS (continued)

On October 21, 2011 Federal Emergency management Agency (FEMA) approved a grant for the purchase and demolition of 12 homes on Horton Avenue and implementation of a drainage improvement project. The project is for \$2,991,220 and the grant is for \$2,243,415 (75%) funded by FEMA and the remaining \$747,805 (25%) is the responsibility of the local governments. The Town of Riverhead set aside \$900,000 of CPF money for the required matching share.

G. NEW PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54 *"Fund Balance Reporting and Governmental Fund Type Definitions"*. The 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, 2010

The Town will adopt GASB 54 for the year ended December 31, 2011.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Schedules of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
Major Governmental Funds and Schedules

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.

TOWN OF RIVERHEAD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Real property taxes	\$ 27,620,433	\$ 27,620,433	\$ 27,620,433	\$ -0-
Real property tax items	430,500	430,500	435,944	5,444
Non-property tax items	1,753,655	1,753,655	1,854,064	100,409
Departmental income	2,058,650	2,060,400	1,983,760	(76,640)
Intergovernmental charges	16,500	16,500	57,694	41,194
Use of money and property	380,100	380,100	306,413	(73,687)
Licenses and permits	79,450	79,450	89,623	10,173
Fines and forfeitures	930,000	553,450	1,482,408	928,958
Sale of property and compensation for loss	567,300	638,048	182,529	(455,519)
Miscellaneous revenue	24,800	25,800	88,124	62,324
Interfund revenues	2,757,640	2,757,640	2,372,613	(385,027)
State and local aid	1,512,800	2,166,853	2,068,871	(97,982)
Federal aid		72,500	290,264	217,764
Total revenues	<u>38,131,828</u>	<u>38,555,329</u>	<u>38,832,740</u>	<u>277,411</u>
EXPENDITURES				
Current:				
General government support	10,169,635	10,118,245	9,271,068	847,177
Public safety	14,897,500	15,234,976	14,726,455	508,521
Health	8,800	8,800	7,764	1,036
Transportation	404,400	400,710	370,944	29,766
Economic assistance and opportunity	1,082,200	1,056,096	966,269	89,827
Culture and recreation	1,763,695	1,819,471	1,694,159	125,312
Home and community services	1,580,175	2,196,330	2,042,960	153,370
Employee benefits	9,434,673	8,988,623	8,386,936	601,687
Total expenditures	<u>39,341,078</u>	<u>39,823,251</u>	<u>37,466,555</u>	<u>2,356,696</u>
Excess (deficiency) of revenues over expenditures	<u>(1,209,250)</u>	<u>(1,267,922)</u>	<u>1,366,185</u>	<u>2,634,107</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,008,600	1,008,600	1,266,861	258,261
Transfers out	(4,520,100)	(4,537,850)	(4,537,850)	-0-
Total other financing sources (uses)	<u>(3,511,500)</u>	<u>(3,529,250)</u>	<u>(3,270,989)</u>	<u>258,261</u>
Net change in fund balances	<u>\$ (4,720,750)</u>	<u>\$ (4,797,172)</u>	<u>(1,904,804)</u>	<u>\$ 2,892,368</u>
Fund Balances at beginning of Year			14,707,966	
Fund balances at end of year			<u>\$ 12,803,162</u>	

TOWN OF RIVERHEAD
HIGHWAY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Real property taxes	\$ 6,287,320	\$ 6,287,320	\$ 6,287,320	\$ -0-
Intergovernmental charges			4,608	4,608
Use of money and property	80,000	27,000	17,749	(9,251)
Licenses and permits	20,000	20,000	18,650	(1,350)
Sale of property and compensation for loss	13,500	13,500	41,103	27,603
State and local aid			19,482	19,482
Federal aid			117,928	117,928
Total revenues	<u>6,400,820</u>	<u>6,347,820</u>	<u>6,506,840</u>	<u>159,020</u>
EXPENDITURES				
Current:				
General government support	904,600	904,600	881,893	22,707
Transportation	3,385,000	3,280,647	3,205,162	75,485
Employee benefits	1,125,220	1,124,759	850,102	274,657
Total expenditures	<u>5,414,820</u>	<u>5,310,006</u>	<u>4,937,157</u>	<u>372,849</u>
Excess of revenues over expenditures	<u>986,000</u>	<u>1,037,814</u>	<u>1,569,683</u>	<u>531,869</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(986,000)	(1,153,961)	(1,153,961)	-0-
Total other financing sources (uses)	<u>(986,000)</u>	<u>(1,153,961)</u>	<u>(1,153,961)</u>	<u>-0-</u>
Net change in fund balances	<u>\$ -0-</u>	<u>\$ (116,147)</u>	415,722	<u>\$ 531,869</u>
Fund balances at beginning of year			2,446,188	
Fund balances at end of year			<u>\$ 2,861,910</u>	

TOWN OF RIVERHEAD
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Use of money and property	\$ -0-	\$ -0-	\$ 58,580	\$ 58,580
Total revenues	<u>-0-</u>	<u>-0-</u>	<u>58,580</u>	<u>58,580</u>
EXPENDITURES				
Debt service:				
Principal	7,167,500	7,167,500	7,167,414	86
Interest	4,584,700	4,584,700	4,546,723	37,977
Total expenditures	<u>11,752,200</u>	<u>11,752,200</u>	<u>11,714,137</u>	<u>38,063</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,752,200)</u>	<u>(11,752,200)</u>	<u>(11,655,557)</u>	<u>96,643</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	11,752,200	11,752,200	11,716,564	(35,636)
Total other financing sources (uses)	<u>11,752,200</u>	<u>11,752,200</u>	<u>11,716,564</u>	<u>(35,636)</u>
Net change in fund balances	<u>\$ -0-</u>	<u>\$ -0-</u>	61,007	<u>\$ 61,007</u>
Fund Balances at beginning of Year			1,077,966	
Fund balances at end of year			<u>\$ 1,138,973</u>	

TOWN OF RIVERHEAD
COMMUNITY PRESERVATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Non-property tax items	\$ 6,174,000	\$ 6,174,000	\$ 2,288,395	\$ (3,885,605)
Use of money and property	40,000	40,000	32,714	(7,286)
Total revenues	<u>6,214,000</u>	<u>6,214,000</u>	<u>2,321,109</u>	<u>(3,892,891)</u>
EXPENDITURES				
Current:				
Home and community services	165,000	165,000	218	164,782
Total expenditures	<u>165,000</u>	<u>165,000</u>	<u>218</u>	<u>164,782</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,049,000</u>	<u>6,049,000</u>	<u>2,320,891</u>	<u>(3,728,109)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(6,049,000)	(6,049,000)	(6,043,703)	5,297
Total other financing sources (uses)	<u>(6,049,000)</u>	<u>(6,049,000)</u>	<u>(6,043,703)</u>	<u>5,297</u>
Net change in fund balances	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(3,722,812)</u>	<u>\$ (3,722,812)</u>
Fund balances at beginning			<u>22,381,849</u>	
Fund balances at end of year			<u>\$ 18,659,037</u>	

TOWN OF RIVERHEAD
TOWN OF RIVERHEAD RETIREE MEDICAL PROGRAM
POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS
SCHEDULE OF FUNDING PROGRESS

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)
1/1/2010	\$ -0-	\$ 70,608,000	\$ 70,608,000	0%	\$ 26,875,823	262.7%
1/1/2009	-0-	59,521,000	59,521,000	0%	25,263,938	235.6%
1/1/2008	-0-	55,374,800	55,374,800	0%	22,667,312	244.3%

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, 2010

	Special Revenue Funds			
	Special Grant	Special Trust	Business Improvement District	East Creek Docking Facility
ASSETS				
Cash and cash equivalents		\$ 526,544	\$ 161,518	\$ 341,615
Cash - restricted	\$ 519,645			
Accounts receivable	34,530			
Accrued interest receivable	62	22	21	56
Due from other funds		427,544		34,500
Due from other governments	48,032			
Prepays				
Total assets	<u>\$ 602,269</u>	<u>\$ 954,110</u>	<u>\$ 161,539</u>	<u>\$ 376,171</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 13,461			\$ 2,478
Retainage payable				
Due to other funds	182,385			
Deferred revenue	35,000		\$ 21,770	
Total liabilities	<u>230,846</u>		<u>21,770</u>	<u>2,478</u>
FUND BALANCES				
Reserved:				
Encumbrances	219		109	2,994
Debt service		\$ 421,428		
Prepays				
Unreserved, undesignated	371,204	532,682	139,660	370,699
Total fund balances	<u>371,423</u>	<u>954,110</u>	<u>139,769</u>	<u>373,693</u>
Total liabilities and fund balances	<u>\$ 602,269</u>	<u>\$ 954,110</u>	<u>\$ 161,539</u>	<u>\$ 376,171</u>

Street Lighting District	Ambulance	Refuse and Garbage	Public Parking	Community Development	Total Nonmajor Governmental Funds
\$ 793,263	\$ 938,690	\$ 1,589,277	\$ 141,632	\$ 3,502,723	\$ 4,492,539
99	108	95	5	788	4,022,368
			74,013		34,530
				2,635,660	1,256
6,153		4,027			536,057
\$ 799,515	\$ 938,798	\$ 1,593,399	\$ 215,650	\$ 6,139,171	\$ 11,780,622
\$ 56,904	\$ 3,712	\$ 14,219	\$ 4,303	\$ 891,165	\$ 986,242
2,069	127,304	16,351		306,876	306,876
216,178	280,756	1,119,414	37,220	4,513,915	4,842,024
275,151	411,772	1,149,984	41,523	5,711,956	1,710,338
33,655	15,637	2,330	850	754,127	809,921
102,806			24,722		548,956
6,153		4,027			10,180
381,750	511,389	437,058	148,555	(326,912)	2,566,085
524,364	527,026	443,415	174,127	427,215	3,935,142
\$ 799,515	\$ 938,798	\$ 1,593,399	\$ 215,650	\$ 6,139,171	\$ 11,780,622

TOWN OF RIVERHEAD
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended December 31, 2010

	Special Revenue Funds			
	Special Grant	Special Trust	Business Improvement District	East Creek Docking Facility
REVENUES				
Real property taxes			\$ 111,000	
Departmental income	\$ 85	\$ 45,000		\$ 179,610
Use of money and property	3,098	1,999	1,115	1,923
Sale of property and compensation for loss				
State and local aid	153,260			
Federal aid	55,645			
Total revenues	<u>212,088</u>	<u>46,999</u>	<u>112,115</u>	<u>181,533</u>
EXPENDITURES				
General governmental support			17,365	23,406
Health				
Transportation				
Economic assistance and opportunity			157,964	
Culture and recreation				69,013
Home and community services	219,664			
Employee benefits	870			314
Total expenditures	<u>220,534</u>	<u></u>	<u>175,329</u>	<u>92,733</u>
Excess (deficiency) of revenues over (under) Expenditures	<u>(8,446)</u>	<u>46,999</u>	<u>(63,214)</u>	<u>88,800</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in		324,846		
Operating transfers out	(109,985)		(8,630)	
Total other financing sources (uses)	<u>(109,985)</u>	<u>324,846</u>	<u>(8,630)</u>	
Net change in fund balance	(118,431)	371,845	(71,844)	88,800
Fund balances at beginning of year	<u>489,854</u>	<u>582,265</u>	<u>211,613</u>	<u>284,893</u>
Fund balances at end of year	<u>\$ 371,423</u>	<u>\$ 954,110</u>	<u>\$ 139,769</u>	<u>\$ 373,693</u>

Street Lighting District	Ambulance	Refuse and Garbage	Public Parking	Community Development	Total Nonmajor Governmental Funds
\$ 1,041,500	\$ 1,283,722	\$ 5,164,000	\$ 176,500		\$ 7,776,722
4,036	4,064	9,275	631	\$ 56,866	224,695
				125,000	83,007
				98,096	125,000
				3,505,743	251,356
					3,561,388
<u>1,045,536</u>	<u>1,287,786</u>	<u>5,173,275</u>	<u>177,131</u>	<u>3,785,705</u>	<u>12,022,168</u>
122,859	127,859	618,674	32,523	1,051	943,737
	824,908				824,908
730,002			59,037	3,603,939	4,392,978
				36,672	194,636
		4,458,803			69,013
73,039		70,263	6,473		4,678,467
<u>925,900</u>	<u>952,767</u>	<u>5,147,740</u>	<u>98,033</u>	<u>3,641,662</u>	<u>11,254,698</u>
<u>119,636</u>	<u>335,019</u>	<u>25,535</u>	<u>79,098</u>	<u>144,043</u>	<u>767,470</u>
					324,846
<u>(20,400)</u>	<u>(87,800)</u>	<u>(8,300)</u>	<u>(48,300)</u>		<u>(283,415)</u>
<u>(20,400)</u>	<u>(87,800)</u>	<u>(8,300)</u>	<u>(48,300)</u>		<u>41,431</u>
99,236	247,219	17,235	30,798	144,043	808,901
425,128	279,807	426,180	143,329	283,172	3,126,241
<u>\$ 524,364</u>	<u>\$ 527,026</u>	<u>\$ 443,415</u>	<u>\$ 174,127</u>	<u>\$ 427,215</u>	<u>\$ 3,935,142</u>