

**TOWN OF SOUTHOLD**

**AUDIT REPORTS**

December 31, 2006

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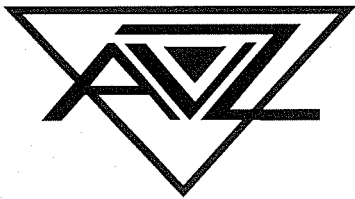
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**FINANCIAL  
SECTION**



CERTIFIED PUBLIC ACCOUNTANTS, BUSINESS ADVISORS AND CONSULTANTS

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## INDEPENDENT AUDITORS' REPORT

Honorable Supervisor and Town Board  
Town of Southold  
Southold, New York

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Southold, New York, as of December 31, 2006, and for the year then ended, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The financial statements supporting the financial activities of the Town of Southold's discretely presented component units with the exception of one, the Fishers Island Ferry District, were not audited as of the report date, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. Those financial activities represent approximately 34% of the net assets of the discretely presented component units. The financial statements of the Fishers Island Ferry District were audited by other auditors whose report thereon have been furnished to us and in our opinion, insofar as it relates to the amounts included for that one component unit, is based solely on the reports of the other auditors.

In our opinion, except for the effects of such adjustments if any as might have been determined to be necessary had the unaudited component units financial statements been audited and based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Southold, New York, as of December 31, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Southold, New York's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements of the Town of Southold, New York, and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Allrecht, Viggiano, Zurek + Capay, P.C.*

Hauppauge, New York  
September 11, 2007

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Management's Discussion and Analysis**

**TOWN OF SOUTHOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

The following is a discussion and analysis of the Town of Southold's financial performance, providing an overview of the Town's financial activities for the year ended December 31, 2006. Use this section in conjunction with the Town's basic financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee agent for the benefit of those outside of the government.

**Reporting the Town as a Whole**

**The Statement of Net Assets and the Statement of Activities**

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The Statement of Activities is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

- Governmental activities – The Town's basic services are reported here, including: general government support; public safety; public health; transportation; economic assistance and opportunity; culture and recreation and home and community services. Property taxes, sales taxes, franchise fees, fines, and state and federal grants finance these activities. The Town also charges fees to customers to help it cover the cost of certain services it provides.
- Component units – The Town includes seven separate legal entities in its report (one ferry district, one sanitation district, one mosquito district and four park districts). Although legally separate, these "component units" are important because the Town is financially accountable for them. Complete financial statements of the individual component units can be obtained from their respective administrative offices (Note A).

**TOWN OF SOUTHDOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

**Reporting the Town's Most Significant Funds**

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by state law and by bond covenants. However, the Town establishes many other funds to help it control and manage sources of funding and spending related to specific activities.

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

**The Town as Trustee**

Reporting the Town's Fiduciary Responsibilities

All of the Town's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE**

Our analysis below focuses on the net assets and changes in net assets of the Town's governmental activities.

Condensed Statement of Net Assets  
Governmental Activities  
as of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current and other assets	\$ 23,769,534	\$ 26,265,665
Capital assets	100,557,312	90,294,079
Total assets	<u>124,326,846</u>	<u>116,559,744</u>
<b>Liabilities</b>		
Current and other liabilities	15,552,211	16,289,370
Long-term liabilities	14,773,434	14,916,051
Total liabilities	<u>30,325,645</u>	<u>31,205,421</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	92,063,214	81,044,981
Unrestricted	1,937,987	4,309,342
Total net assets	<u>\$ 94,001,201</u>	<u>\$ 85,354,323</u>

**TOWN OF SOUTHOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

Total assets in the Town as of December 31, 2006 were \$124.3 million, an increase of 7.8 million. Total liabilities as of December 31, 2006 were \$30.3 million, which represents a decrease of \$800,000 from December 31, 2005. This results in a net asset balance of \$94 million, an increase of \$8.6 million. Of the Town's net asset balance \$92 million were invested in capital assets, net of related debt; while \$1.9 million was unrestricted.

Changes in Net Assets  
Governmental Activities  
for the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Program Revenues		
Charges for services	\$ 9,231,396	\$ 10,723,686
Operating grants and contributions	713,597	859,484
Capital grants and contributions	4,834,716	3,502,247
	<u>14,779,709</u>	<u>15,085,417</u>
General Revenues		
Real property taxes	21,709,445	20,795,041
Other real property tax items	102,986	80,369
Non-property tax items	846,016	628,857
Interest earnings	1,233,122	766,413
State aid - unrestricted	2,610,189	2,527,110
Other	463,671	709,352
	<u>26,965,429</u>	<u>25,507,142</u>
Total Revenues	<u>41,745,138</u>	<u>40,592,559</u>
Program Expenses		
General government support	6,843,661	6,621,408
Public safety	11,421,283	11,342,991
Public health	43,499	43,559
Transportation	7,298,698	6,627,876
Economic assistance and opportunity	1,354,610	1,208,467
Culture and recreation	713,164	356,167
Home and community services	4,912,384	4,961,051
Interest on debt	553,713	501,452
	<u>33,141,012</u>	<u>31,662,971</u>
Total Expenses	<u>33,141,012</u>	<u>31,662,971</u>
Increase in Net Assets	<u>\$ 8,604,126</u>	<u>\$ 8,929,588</u>

**TOWN OF SOUTHOOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

Net Cost of Services  
Governmental Activities  
for the year ended December 31, 2006

	Total Cost of Services
General government support	\$ 6,843,661
Public safety	11,421,283
Public health	43,499
Transportation	7,298,698
Economic assistance and opportunity	1,354,610
Culture and recreation	713,164
Home and community services	4,912,384
Interest on debt	553,713
	\$ 33,141,012

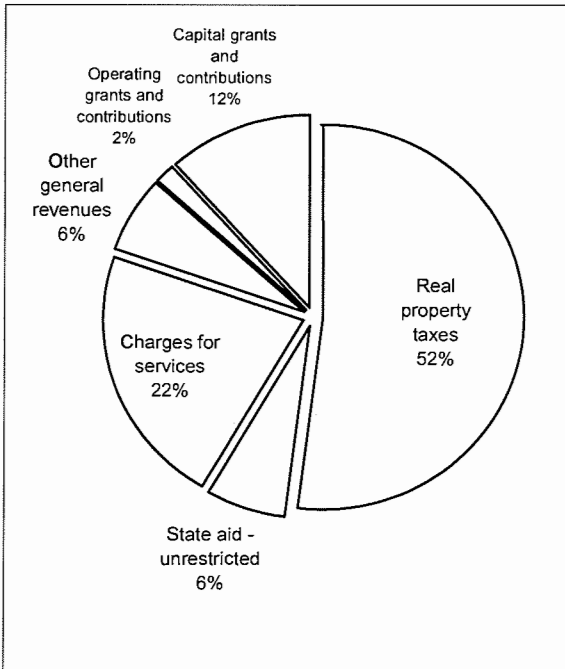
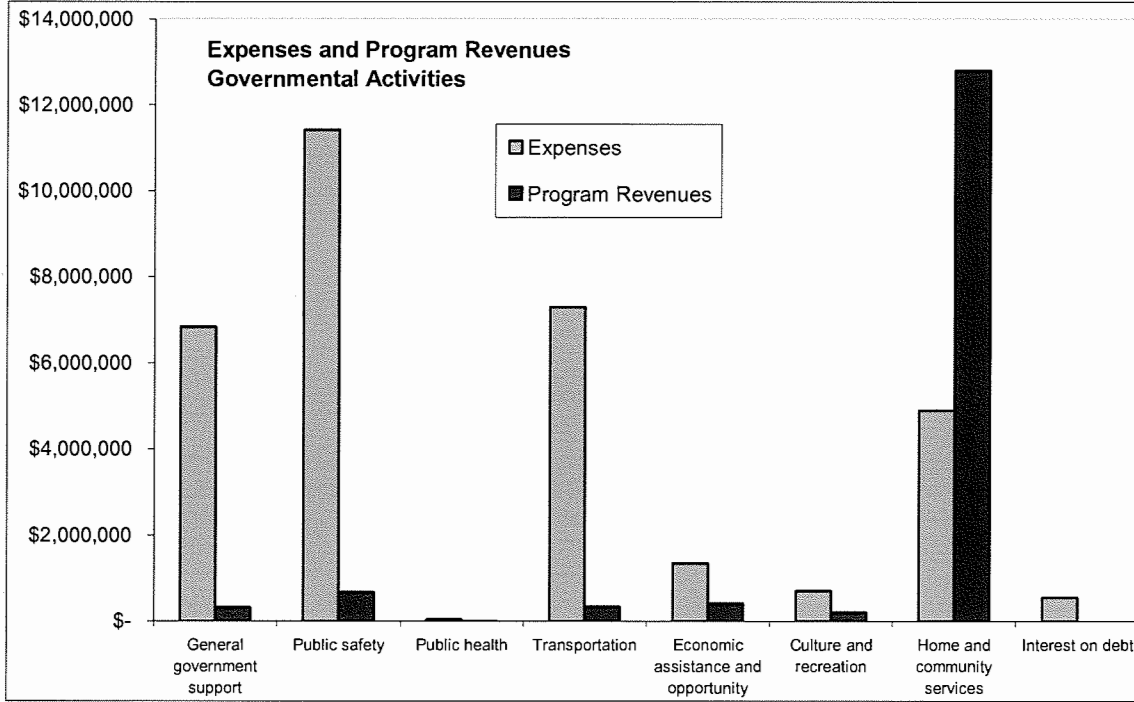
Net Cost of Services  
Governmental Activities  
for the year ended December 31, 2006

	Total Cost of Services	Program Revenues	Net Cost of Services
General government support	\$ 6,843,661	\$ 319,565	\$ 6,524,096
Public safety	11,421,283	674,617	10,746,666
Public health	43,499	10,185	33,314
Transportation	7,298,698	340,659	6,958,039
Economic assistance and opportunity	1,354,610	415,263	939,347
Culture and recreation	713,164	208,376	504,788
Home and community services	4,912,384	12,811,044	(7,898,660)
Interest on debt	553,713		553,713
	\$ 33,141,012	\$ 14,779,709	\$18,361,303

The cost of all governmental activities this year was \$33.1 million. The net cost of these services, however, after subsidized by program revenues including charges for services and program grants, was \$18.4 million. The Town's change in net assets after general revenues of \$27 million was an increase of \$8.6 million.

**TOWN OF SOUTHOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2006

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)**



**Revenue by Source**  
**Governmental Activities**  
 For the year ended December 31, 2006

Real property taxes	\$ 21,709,445
State aid - unrestricted	2,610,189
Charges for services	9,231,396
Other general revenues	2,645,795
Operating grants and contributions	713,597
Capital grants and contributions	4,834,716
	<u>\$ 41,745,138</u>

**TOWN OF SOUTHBOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

THE TOWN'S FUNDS

The general fund balance has decreased by approximately \$600,000 due primarily to actual expenditures in excess of revenues.

The following schedule presents a summary of the governmental funds – (general, special revenue, and capital projects) revenues and expenditures for the year ended December 31, 2006, and the amount of change and percentage of total in relation to the prior year.

	2006	2005	Increase (Decrease)	%
<b>REVENUES</b>				
Real property taxes	\$ 21,709,445	\$ 20,795,041	\$ 914,404	4.2%
Other real property tax items	102,986	80,369	22,617	22.0%
Non-property tax items	846,016	628,857	217,159	25.7%
Departmental income	2,753,784	2,850,836	(97,052)	-3.5%
Intergovernmental charges	6,142,177	7,453,845	(1,311,668)	-21.4%
Use of money and property	1,376,729	906,664	470,065	34.1%
Licenses and permits	432,058	426,269	5,789	1.3%
Fines and forfeitures	171,763	140,192	31,571	18.4%
Sale of property and compensation for loss	238,240	205,223	33,017	13.9%
Miscellaneous local sources	303,912	1,292,371	(988,459)	-325.2%
State aid	7,108,866	3,946,391	3,162,475	44.5%
Federal aid	595,604	1,909,023	(1,313,419)	-220.5%
Total Governmental Fund Revenues	<u>\$ 41,781,580</u>	<u>\$ 40,635,081</u>	<u>\$ 1,146,499</u>	<u>2.7%</u>
<b>EXPENDITURES</b>				
General government support	\$ 5,281,399	\$ 4,741,463	\$ 539,936	10.2%
Public safety	8,240,434	7,984,619	255,815	3.1%
Public health	40,092	40,152	(60)	-0.1%
Transportation	3,480,126	3,360,645	119,481	3.4%
Economic assistance and opportunity	949,740	901,139	48,601	5.1%
Culture and recreation	3,748,764	3,457,407	291,357	7.8%
Home and community services	530,270	315,273	214,997	40.5%
Employee benefits	6,797,351	6,803,164	(5,813)	-0.1%
Capital	13,324,188	12,788,366	535,822	4.0%
Debt service principal and interest	2,504,007	2,439,675	64,332	2.6%
Total Governmental Fund Expenditures	<u>\$ 44,896,371</u>	<u>\$ 42,831,903</u>	<u>\$ 2,064,468</u>	<u>4.6%</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year the Town Board revises the budget as needed so that expenditures do not exceed appropriations. In all Town funds, various transfers between appropriations were approved for this purpose.

**TOWN OF SOUTHOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

As of December 31, 2006 the Town had \$100.5 million in net capital assets including land, buildings, improvements, machinery and equipment, and infrastructure. The Town's component units had \$8.4 million in net capital assets including land, buildings, improvements, machinery and equipment, and sewer mains.

Capital Assets at December 31,

<u>Primary government</u>	2006	2005
Land	\$ 58,341,517	\$ 47,772,278
Construction in progress	220,114	1,608,081
Buildings	8,307,223	4,574,513
Improvements other than buildings	13,618,159	13,498,954
Machinery and equipment	9,916,143	9,522,815
Infrastructure	70,694,655	70,038,525
Total capital assets	<u>161,097,811</u>	<u>147,015,166</u>
Less accumulated depreciation	60,540,499	56,721,087
Primary government - Total net capital assets	<u>\$ 100,557,312</u>	<u>\$ 90,294,079</u>
<u>Component units</u>		
Land	\$ 2,213,759	\$ 2,213,759
Construction in progress	12,947,081	13,174,567
Buildings	3,566,885	3,540,111
Improvements other than buildings	3,220,732	2,575,589
Machinery and equipment	3,320,899	3,200,728
Infrastructure	2,145,280	2,138,386
Total capital assets	<u>27,414,636</u>	<u>26,843,140</u>
Less accumulated depreciation	6,074,572	5,639,830
Component units - Total net capital assets	<u>\$ 21,340,064</u>	<u>\$ 21,203,310</u>

**TOWN OF SOUTHOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2006

**CAPITAL ASSET AND DEBT ADMINISTRATION** (continued)

Capital Assets (continued)

The capital program is a long range financing guide and not a definitive plan. Each appropriation must be authorized by Town Board resolution before being undertaken. Each may be financed by issuance of general obligation bonds, which, at times, are preceded by issuance of bond anticipation notes for various periods of time depending on the probable usefulness of the purpose of expenditure. The following sets forth a summary of the Town's capital program.

(Dollars in thousands):

<u>Equipment</u>	<u>2007</u>
General Fund	\$ 540,467
Highway Fund	488,000
Special Districts	<u>305,000</u>
Total Equipment	<u>\$ 1,333,467</u>
<u>Improvements</u>	
General Fund	\$ 2,786,961
Highway Fund	300,000
Special Districts	<u>160,000</u>
Total Improvements	<u>\$ 3,246,961</u>
Total Program	<u>\$ 4,580,427</u>

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

Debt Administration

The Town of Southold's credit rating from Moody's Investors Services was A1 as of December 31, 2006. Subsequent to the year end the Town's credit rating was upgraded to Aa2.

Debt Limit - The Town has the power to contract indebtedness for any Town purpose so long as the principal amount thereof, subject to certain limited exceptions, shall not exceed seven percent of the average full valuation of taxable real estate of the Town, and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service.

The constitutional method for determining full valuation is calculated by taking the assessed valuation of taxable real estate as shown upon the latest completed assessment roll and dividing the same by the equalization rate as determined by the State Board of Equalization and Assessment. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuation of the last completed assessment roll and the four preceding assessment rolls and dividing such sum by five. Percentage of debt contracting power exhausted at December 31, 2006 was 3.35%.

At December 31, 2006, the Town had approximately \$8.5 million in long term general obligation bonds outstanding, of which \$8 million was for general Town purposes. Also outstanding at year-end were bond anticipation notes in the amount of \$7.7 million of which \$6 million was for general Town purposes.

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

**TOWN OF SOUTHOLD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2006

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Property Tax

The Town has adopted a budget for the 2006 fiscal year which factors in inflation and other adjustments to revenues and expenditures as well as prior year positive and negative fund balances. The 2006 budget includes an overall increase in real property tax revenues from the prior year of approximately 4.26% for the general Town governmental activities.

State Aid and Local Assistance

The Town receives financial assistance from New York State and from Suffolk County. During 2006, financial assistance included state aid consisting of mortgage tax of \$2.6 million, consolidated highway aid of \$276 thousand, and community preservation aid of approximately \$2.475 million. State aid per capita was \$90.4 thousand and County local government assistance was \$296.4 thousand. Additionally, if the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the Town, may be affected by a delay in the payment of state aid. The State is not constitutionally obligated to maintain or continue state aid to the Town. The Town's 2006 budget included similar amounts for this financial assistance.

Retirement System

In 2003 the Town of Southold adopted the New York State Early Retirement Incentive Program as authorized by Chapter 69 of the Laws of 2002. The option to retire early ran through December 31, 2002. The eligibility varied based on tier, age and years of service, but all options required that the employees be at least fifty (50) years of age and being vested in the New York State Retirement System. The Town funds its retirement billing currently.

As part of its contractual agreements with the unions, the Town of Southold also offers fully paid health insurance benefits (but not welfare benefits) for the retiree and their present spouse until death of the retiree.

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Southold, Office of the Town Comptroller, Southold, New York.

**BASIC FINANCIAL  
STATEMENTS**

**TOWN OF SOUTHD**  
**GOVERNMENT-WIDE FINANCIAL STATEMENT**  
**STATEMENT OF NET ASSETS**  
December 31, 2006

	Primary Governmental Activities	Component Units
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and investments	\$ 19,073,290	\$ 1,236,451
Accounts receivable, net of allowances	205,234	15,167
Due from fiduciary funds		
Due from other governments	2,541,813	
Due from primary government		360,178
State and federal aid receivables	801,197	237,056
Prepaid charges	997,151	39,171
Inventory of material and supplies	2,099	
Total Current Assets	23,620,784	1,888,023
<b>Non-Current Assets:</b>		
Deferred charges, net of accumulated amortization	148,750	
Non-depreciable capital assets	58,561,631	15,160,840
Depreciable capital assets, net of depreciation	41,995,681	6,179,224
Total Non-Current Assets	100,706,062	21,340,064
<b>Total Assets</b>	124,326,846	23,228,087
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	1,320,029	369,893
Accrued interest payable	261,058	69,176
Bond anticipation notes payable	7,729,000	2,185,000
Due to other governments	243,292	2,431
Due to fiduciary funds	12,601	
Unearned revenue	5,147,779	366,282
Non-current liabilities due within one year		
General obligation bonds payable	779,098	200,000
Due to Employees Retirement System	48,804	
Claims and judgments payable		50,000
Estimated liability for landfill closure and postclosure care costs	10,550	
Total Current Liabilities	15,552,211	3,242,782
<b>Non-Current Liabilities:</b>		
General obligation bonds payable	7,715,000	2,655,000
Compensated absences	6,475,661	
Claims and judgments payable		150,000
Estimated liability for landfill closure and postclosure care costs	582,773	
Total Non-Current Liabilities	14,773,434	2,805,000
<b>Total Liabilities</b>	30,325,645	6,047,782
<b>NET ASSETS</b>		
Investment in capital assets, net of related debt	92,063,214	15,579,033
Unrestricted	1,937,987	1,601,272
<b>Total Net Assets</b>	\$ 94,001,201	\$ 17,180,305

See notes to the financial statements

**TOWN OF SOUTHD**  
GOVERNMENT-WIDE FINANCIAL STATEMENT  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2006

Function/Program	Expenses	Program Revenues			Net Expenses (Revenues) and Change in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>PRIMARY GOVERNMENT</b>						
Government Activities:						
General government support	\$ 6,843,661	\$ 229,092	\$ 90,473		\$ 6,524,096	
Public safety	11,421,283	534,811	139,806		10,746,666	
Public health	43,499		10,185		33,314	
Transportation	7,298,698	9,484	28,838	\$ 302,337	6,958,039	
Economic assistance and opportunity	1,354,610	169,983	245,280		939,347	
Culture and recreation	713,164	208,376			504,788	
Home and community services	4,912,384	8,079,650	199,015	4,532,379	(7,898,660)	
Interest on debt	553,713				553,713	
Total Primary Government	<u>\$ 33,141,012</u>	<u>\$ 9,231,396</u>	<u>\$ 713,597</u>	<u>\$ 4,834,716</u>	<u>\$ 18,361,303</u>	
<b>COMPONENT UNITS</b>						
General government support	\$ 130,910					\$ 130,910
Public health	86,977					86,977
Transportation	2,751,284	\$ 2,013,785		\$ 810,646		(73,147)
Culture and recreation	837,563					837,563
Home and community services	473,074	32,938				440,136
Interest on debt	250,382					250,382
Total Component Units	<u>\$ 4,530,190</u>	<u>\$ 2,046,723</u>	<u>\$ 0</u>	<u>\$ 810,646</u>		<u>\$ 1,672,821</u>
<b>GENERAL REVENUES</b>						
					21,709,445	1,949,512
					102,986	1,124
					846,016	
					1,233,122	155,484
					2,610,189	
					463,671	42,684
					<u>26,965,429</u>	<u>2,148,804</u>
					8,604,126	475,983
					<u>85,397,075</u>	<u>16,704,322</u>
					<u>\$ 94,001,201</u>	<u>\$ 17,180,305</u>

See notes to financial statements.

**TOWN OF SOUTHDOLD**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2006

	MAJOR GOVERNMENTAL FUNDS			Non-Major Governmental Funds	Totals
	General	Highway	Capital Projects		
<b>ASSETS</b>					
Cash and Investments	\$ 8,339,472	\$ 1,574,794	\$ 7,806,802	\$ 1,352,222	\$ 19,073,290
Accounts Receivable	22,346		60	182,828	205,234
Due from Other Funds	190,208	461,241	234,970	475,547	1,361,966
Due from Trust Funds					
State and Federal Aid Receivable	110,153	276,337	325,950	88,757	801,197
Due from Other Governments	2,075,955		465,858		2,541,813
Supply Inventory	2,099				2,099
Prepays	426,200	57,894		53,559	537,653
Total Assets	<u>\$ 11,166,433</u>	<u>\$ 2,370,266</u>	<u>\$ 8,833,640</u>	<u>\$ 2,152,913</u>	<u>\$ 24,523,252</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 701,018	\$ 101,474	\$ 189,921	\$ 320,656	\$ 1,313,069
Retained Percentages			6,960		6,960
Bond Anticipation Notes Payable			7,729,000		7,729,000
Due to Other Funds	1,205,516	49,290	106,987	173	1,361,966
Due to Trust Funds	12,601				12,601
Due to Other Governments	243,292				243,292
Deferred Revenue	3,619,307	900,180		628,292	5,147,779
Total Liabilities	<u>5,781,734</u>	<u>1,050,944</u>	<u>8,032,868</u>	<u>949,121</u>	<u>15,814,667</u>
<b>FUND BALANCE</b>					
Fund Balances - Reserved:					
Encumbrances	13,284	129,285			142,569
Supply Inventory	2,099				2,099
Prepays	426,200			25,599	451,799
Insurance Claims	513,329				513,329
Fund Balance - Unreserved:					
Designated - Ensuing Year's Budget	2,185,000	486,500		470,228	3,141,728
Undesignated	2,244,787	686,637	800,772	707,965	4,440,161
Total Fund Equity	<u>5,384,699</u>	<u>1,319,322</u>	<u>800,772</u>	<u>1,203,792</u>	<u>8,708,585</u>
Total Liabilities and Fund Equity	<u>\$ 11,166,433</u>	<u>\$ 2,370,266</u>	<u>\$ 8,833,640</u>	<u>\$ 2,152,913</u>	<u>\$ 24,523,252</u>

See notes to the financial statements.

**TOWN OF SOUTHOLD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
December 31, 2006

Total Fund Balances - Governmental Funds \$ 8,708,585

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	58,561,631	
Capital assets - depreciable	102,536,180	
Accumulated depreciation	<u>(60,540,499)</u>	
		100,557,312

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

General obligation bonds payable	(8,494,098)	
Due to Employees Retirement System	(48,804)	
Compensated absences	(6,475,661)	
Estimated liability for landfill closure and postclosure care costs	<u>(593,323)</u>	
		(15,611,886)

Prepaid items included in the Statement of Net Assets	459,498
Deferred charges, included in the Statement of Net Assets	148,750

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.	<u>(261,058)</u>
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Net Assets of Governmental Activities	<u><u>\$ 94,001,201</u></u>
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See notes to financial statements.

**TOWN OF SOUTHOLD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the year ended December 31, 2006

	MAJOR GOVERNMENTAL FUNDS			Non-Major Governmental Funds	Totals
	General	Highway	Capital Projects		
<b>REVENUES</b>					
Real Property Taxes	\$ 14,872,736	\$ 4,095,347		\$ 2,741,362	\$ 21,709,445
Other Real Property Tax Items	85,808	12,689		4,489	102,986
Non-Property Tax Items	616,670			229,346	846,016
Departmental Income	477,849			2,275,935	2,753,784
Intergovernmental Charges	316,049		\$ 5,824,319	1,809	6,142,177
Use of Money and Property	684,166	140,578	456,713	95,272	1,376,729
Licenses and Permits	258,794	9,484		163,780	432,058
Fines and Forfeitures	171,763				171,763
Sale of Property and Compensation for Loss	95,057	7,521		135,662	238,240
Miscellaneous Local Sources	146,260		151,000	6,652	303,912
State Aid	2,725,177	276,337	3,980,074	127,278	7,108,866
Federal Aid	228,491		325,950	41,163	595,604
Total Revenues	<u>20,678,820</u>	<u>4,541,956</u>	<u>10,738,056</u>	<u>5,822,748</u>	<u>41,781,580</u>
<b>EXPENDITURES</b>					
Current					
General Government Support	5,177,745			103,654	5,281,399
Public Safety	7,371,280			869,154	8,240,434
Public Health	32,988			7,104	40,092
Transportation	452,050	3,028,076			3,480,126
Economic Assistance and Opportunity	949,740				949,740
Home and Community Services	384,983			3,363,781	3,748,764
Culture and Recreation	530,270				530,270
Employee Benefits	5,811,868	515,106		470,377	6,797,351
Capital Outlay			13,324,188		13,324,188
Principal and Interest	1,313,234	283,652	84,531	822,590	2,504,007
Total Expenditures	<u>22,024,158</u>	<u>3,826,834</u>	<u>13,408,719</u>	<u>5,636,660</u>	<u>44,896,371</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(1,345,338)</u>	<u>715,122</u>	<u>(2,670,663)</u>	<u>186,088</u>	<u>(3,114,791)</u>
<b>Other Financing Sources (Uses)</b>					
BANs Redeemed From Appropriations			1,228,735		1,228,735
Transfers In	2,253,944		159,218		2,413,162
Transfers Out	(1,531,369)	(452,648)		(429,145)	(2,413,162)
Total Other Financing Sources (Uses)	<u>722,575</u>	<u>(452,648)</u>	<u>1,387,953</u>	<u>(429,145)</u>	<u>1,228,735</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(622,763)</u>	<u>262,474</u>	<u>(1,282,710)</u>	<u>(243,057)</u>	<u>(1,886,056)</u>
<b>Fund Balances at Beginning of Year</b>	6,007,462	1,056,848	2,083,482	1,446,849	10,594,641
Fund Balances at End of Year	<u>\$ 5,384,699</u>	<u>\$ 1,319,322</u>	<u>\$ 800,772</u>	<u>\$ 1,203,792</u>	<u>\$ 8,708,585</u>

See notes to the financial statements.

## TOWN OF SOUTHOLD

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the year ended December 31, 2006

Net Change in Fund Balance \$ (1,886,056)

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	15,722,766	
Depreciation expense	(3,987,397)	
Loss on dispositions	<u>(1,472,136)</u>	
		10,263,233

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:

Prepaid charges	(61,786)
Deferred charges	(21,250)

The issuance of long-term debt and increase in obligations under capital leases provides current financial resources to governmental funds, while the repayment of the principal of long term debt and capital leases consumes the current financial resources of governmental funds.

Neither transaction has any effect on net assets.

Repayment of bond principal	755,000
Due to Employees Retirement System	45,189
Compensated absences	(695,835)
Claims and judgments payable	220,000
Estimated liability for landfill closure and postclosure care costs	19,072
Accrued interest payable	<u>(33,441)</u>

Change in Net Assets of Governmental Activities \$ 8,604,126

See notes to financial statements.

**TOWN OF SOUTHOLD**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
December 31, 2006

	Town	Fishers Island Ferry District	Totals
<b>ASSETS</b>			
Cash and investments	\$ 9,262,983	\$ 56,490	\$ 9,319,473
Other receivables		59,504	59,504
Due from other funds	12,601		12,601
Total Assets	\$ 9,275,584	\$ 115,994	\$ 9,391,578
<b>LIABILITIES</b>			
Due to other funds	\$ 8,152,880	\$ 115,994	\$ 8,268,874
Other liabilities	307		307
Deposits held	1,122,397		1,122,397
Total Liabilities	\$ 9,275,584	\$ 115,994	\$ 9,391,578

See notes to financial statements.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Southold (the "Town"), which was established in 1640, 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 five council members who are elected for terms of four years. The Town Board appoints the Town Attorney, Comptroller and the Commissioner of Public Works whose terms are fixed by Town Law. The Town Clerk, Receiver of Taxes, Superintendent of Highways, Justices and Town Trustees are all elected and serve for 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 of Southold have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

**1. REPORTING ENTITY**

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

The decision to include a potential component unit in the Town of Southold reporting entity is based on several criteria set forth in GASB Statement No. 14 including legal standing, 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 Southold's reporting entity.

Certain special districts of the Town of Southold provide sanitation, ferry, and park services to residents and businesses within the districts. These special districts are organized under New York State Town law and have separately elected boards. Special districts cannot issue bonded debt without the approval and the backing of the full faith and credit of the Town. Tax levies of the special districts are collected by the Town Receiver of Taxes. As a result of this fiscal dependency, the Town is financially accountable for these special districts. Accordingly, these special districts have been determined to be component units of the Town and are presented discretely in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government.

**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 reports information on the Town as a whole, except fiduciary activities, with separate columns for the primary governmental activities as well as the discretely presented component units.

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—investments in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**2. BASIS OF PRESENTATION** (continued)

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

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

**Fund Financial Statements**

The fund financial statements are similar to the financial statements presented in the previous model. The new emphasis is on the major funds in the fund financial statements. Non-major funds are summarized into a single column.

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

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

The Town reports the following major governmental funds:

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

Highway Funds - To account for the maintenance and operation of highways.

Capital Projects Fund - used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by special assessment funds and trust funds).

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**2. BASIS OF PRESENTATION** (continued)

**Fund Financial Statements** (continued)

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

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

General Fund Part Town - To provide general services outside the Village of Greenport.

Special Grant Fund - Segregate and account for projects funded by Community Development revenue.

Special District Funds - To provide special services to areas that encompass less than the whole town.

**Fiduciary Funds** - Fiduciary Funds are used to account for assets held by the Town in a trustee or custodial capacity.

Agency Fund - is for money (and/or property) received and held in the capacity of trustee, custodian or agent.

**Discretely Presented Component Units**

Certain special districts that have separately elected boards provide transportation, park, mosquito control, and sanitation services to residents and businesses within these districts, and follow government fund accounting principles. These districts, which are accounted for as discretely presented component units, are as follows:

The Fishers Island Ferry District, established in 1947  
Orient Mosquito District, established in 1916  
Fishers Island Garbage and Refuse District, established in 1952  
Cutchogue-New Suffolk Park District, established in 1953  
Orient-East Marion Park District, established in 1969  
Southold Park District, established in 1907  
Mattituck Park District, established in 1941

Complete financial statements of these component units can be obtained from their respective administrative offices:

Orient Mosquito District  
145 Platt Road  
Orient, NY 11957

Fishers Island Garbage  
& Refuse District  
Fishers Island, NY 06390

Cutchogue-New Suffolk  
Park District  
P.O. Box 311  
Cutchogue, NY 11935

Orient-East Marion  
Park District  
P.O. Box 12  
Orient, NY 11957

Southold Park District  
P.O. Box 959  
Southold, NY 11971

Mattituck Park District  
P.O. Box 1413  
Mattituck, NY 11952

Fishers Island Ferry District  
P.O. Box 1179  
Southold, NY 11971

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**3. BASIS OF ACCOUNTING/MEASUREMENT FOCUS**

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

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

In the funds statements, governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (measurable and available to finance current operations). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers all revenues available if they are collected within 60 days after the year end. Revenues susceptible to accrual include Suffolk County local assistance at year end on behalf of the Town, franchise fees, and charges for services, intergovernmental revenues and operating transfers. Permits, fees, and other similar revenues are not susceptible to accrual because generally they are not measurable until they are received in cash. In those instances where expenditures are the prime factor in determining eligibility for state and federal grants, revenues are recognized when the expenditure is incurred. In the Capital Projects Fund, long-term debt is recognized as revenue upon receipt of the proceeds. Expenditures are recorded on the accrual basis except that (a) expenditures for prepaid expenses are recognized when incurred; (b) principal and interest on indebtedness are recognized as expenditures when due; (c) compensated absences, such as vacation and sick leave, which vest or accumulate, are charged as expenditures when paid.

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

**4. ASSETS, LIABILITIES AND FUND EQUITY**

**RECEIVABLES**

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

**INVENTORY - MATERIALS AND SUPPLIES**

Inventory in the general and special revenue funds is valued at cost. Inventory in these funds is accounted for under the consumption method.

**TOWN OF SOUTHDOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4. ASSETS, LIABILITIES AND FUND EQUITY (continued)**

**CAPITAL ASSETS**

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	10-40 years
Improvements and other	20 years
Machinery and equipment	5-10 years
Infrastructure	20-30 years

Infrastructure assets, consisting of certain improvements other than buildings including roads, curbs, sidewalks, bridges, street lighting 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 REVENUE/UNEARNED INCOME**

Deferred revenues/uneared income 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 that have been deemed to be "measurable" but not "available" to finance current expenses pursuant to generally accepted accounting principles.

**PREPAIDS**

Prepays record payments to vendors that benefit future recording periods and are reported on the consumption basis. Prepays in the General and Special Revenue Funds represent insurance premiums paid for coverage that will benefit the subsequent period and for retirement benefits that will benefit a future period.

**LONG-TERM OBLIGATIONS**

The liabilities for long-term obligations consisting of general obligation bonds, compensated absences, due to employee retirement system, judgments, claims and liability for landfill closure and post closure costs are recognized in the government-wide financial statements.

In the fund 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.

**5. REVENUES AND EXPENDITURES**

**REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES**

In Suffolk County, the assessment and lien of real property for taxation is done by the County Department of Assessment. Real property taxes become a lien on December 1 for both school and general taxes. The Town's assessment rolls are used for the levy of real property taxes by the Town and the School Districts, as well as by the County and by Special Districts of the County and the Town.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5. REVENUES AND EXPENDITURES (continued)**

**REAL PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES (continued)**

The Town of Southhold Receiver of Taxes collects all real property taxes for the Town, Suffolk County, Town Special Districts and School Districts. These taxes are levied on December 1, and are due in two installments, 50% on December 1 and 50% on May 10, payable without penalty to January 10 and May 31, respectively. Penalties are imposed thereafter at the rate of one-twelfth of the rate of interest determined by the State Commissioner of Taxation and Finance, after which taxes are payable to the County Treasurer. The Town retains the total amount of Town, Highway and Town Special Districts levies from the amount collected, and forwards the balance collected to the County which assumes collection responsibility. The Town and Town's Special Districts therefore realize annually the 100% collection of real property taxes.

School District property taxes are also levied on December 1, and are also payable in two installments. School property taxes are due in two installments, 50% on December 1 and 50% on May 10 payable without penalty to January 10 and May 31, respectively. The County is also responsible for uncollected school taxes.

**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, quasi-external transactions, in the general fund represent amounts charged for services or facilities provided by the general fund. The amounts paid by the fund receiving the benefit of the service or facilities are reflected as an expenditure of that fund.

**b) Transfers**

Transfers represent payments to the debt service, general fund and capital projects funds from the other funds for their appropriate share of the debt service, general fund or capital project costs.

**COMPENSATED ABSENCES**

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and noncurrent obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements only the compensated absence liability payable from expendable available financial resources is incurred.

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

**6. EQUITY CLASSIFICATIONS**

In the Government-wide 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.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6. EQUITY CLASSIFICATIONS (continued)**

- 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 legislation.
- c) Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the Fund 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, inventory, insurance claims and debt service represent portions of fund equity, which are required to be segregated in accordance with state 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.

**B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. BUDGETARY DATA**

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

Budgetary controls for special revenue funds are established in accordance with the applicable grant agreement, which may cover a period other than the Town's fiscal year. Appropriate budgetary adjustments have been made to reflect these grant agreements during the Town's fiscal year.

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

- a) No later than October 1, the Supervisor submits a tentative budget to the Town Board for the fiscal year commencing the following fiscal year. The tentative budget includes the proposed means of financing for all funds.
- b) After public hearings are conducted to obtain taxpayer comments, no later than November 20, the Town Board adopts the budget.
- c) The Town Board must approve all modifications of the budget. However, the Supervisor is authorized to transfer certain budgeted amounts within departments.

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

**TOWN OF SATHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**B. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

**2. FUND BALANCES**

**DESIGNATION OF FUND BALANCE**

Portions of the unreserved balances at December 31, 2006 were designated for the subsequent year's operating budgets as follows:

Fund	Total Fund Balance Unreserved	Fund Balance Unreserved and Designated for Subsequent Year's Budget	Fund Balance Unreserved Undesignated
<b>Non-Major Funds:</b>			
Town Outside Village	\$ 908,193	\$ 484,599	\$ 423,594
Special Grant	5,000	5,000	
East West Fire Protection District	19,648	6,228	13,420
Southold Wastewater District	223,779		223,779
Fishers Island Sewer District	40,948		40,948
Solid Waste Management District	6,224		6,224
<b>Total</b>	<b>\$ 1,203,792</b>	<b>\$ 495,827</b>	<b>\$ 707,965</b>

**C. DETAILED NOTES ON ALL FUNDS**

**1. CASH AND INVESTMENTS**

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

The Town's investments are governed by a formal investment policy. The Town's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Town is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies and investments made by the Cooperative Liquid Asset Security System (CLASS).

CLASS is a cooperative investment plan consisting of U.S. Treasury Obligations and repurchase agreements relating to treasury obligations. Investments are stated at cost, which approximates market value. CLASS was established as a cooperative investment arrangement organized under the CLASS Municipal Cooperation Agreement made pursuant to New York General Municipal Law, Article 3A and 5-G.

Collateral is required for demand deposits and time deposits accounts at 105% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. The Town's collateral agreements are based on the Town's available balance.

**TOWN OF SOUTHDOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**C. DETAILED NOTES ON ALL FUNDS (continued)**

**1. CASH AND INVESTMENTS (continued)**

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

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, 2006 the Town's cash book balance was approximately \$29,624,000. This amount is inclusive of Fiduciary fund deposits of approximately \$9,300,000 but exclusive of petty cash of approximately \$2,200. The available bank balance was approximately \$32,500,000. Of the bank balance, \$1,100,000 was covered by Federal deposit insurance, and approximately \$40,706,000 was covered by collateral held by the Town's agent, a third-party financial institution, in the Town's name.

**2. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables for the primary government at December 31, 2006 were as follows:

	Amount Receivable	Amount Payable
General Fund – Town wide	\$ 190,208	\$ 1,171,758
Highway Fund	461,241	49,290
Capital Projects Fund	234,970	140,745
Part Town	115,236	
Special Grant	5,000	
East-West Fire District	56,488	
Southold Wastewater District	2,146	173
Fishers Island Sewer District	9,806	
Solid Waste Management District	286,871	
	\$ 1,361,966	\$ 1,361,966

Interfund receivable and payable balances for the primary government at December 31, 2006 are expected to be paid currently.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**C. DETAILED NOTES ON ALL FUNDS (continued)**

**3. CAPITAL ASSETS**

	Balance 1/1/06	Additions	Deletions	Balance 12/31/06
Primary government				
Capital assets not being depreciated				
Land	\$ 47,772,278	\$ 10,569,239	\$ -0-	\$ 58,341,517
Construction in progress	1,608,081	18,264	1,406,231	220,114
Total capital assets not being depreciated	<u>49,380,359</u>	<u>10,587,503</u>	<u>1,406,231</u>	<u>58,561,631</u>
Depreciable capital assets				
Buildings	4,574,513	3,732,710		8,307,223
Improvements other than buildings	13,498,954	119,205		13,618,159
Machinery and equipment	9,522,815	627,218	233,890	9,916,143
Infrastructure	70,038,525	656,130		70,694,655
Total depreciable capital assets	<u>97,634,807</u>	<u>5,135,263</u>	<u>233,890</u>	<u>102,536,180</u>
Less accumulated depreciation				
Buildings	2,068,530	137,736		2,206,266
Improvements other than buildings	3,542,084	390,004		3,932,088
Machinery and equipment	6,041,374	724,481	167,985	6,597,870
Infrastructure	45,069,099	2,735,176		47,804,275
Total accumulated depreciation	<u>\$ 56,721,087</u>	<u>\$ 3,987,397</u>	<u>\$ 167,985</u>	<u>60,540,499</u>
Total net depreciable capital assets				<u>41,995,681</u>
Total net capital assets				<u><u>\$ 100,557,312</u></u>

Depreciation expense was charged to governmental functions as follows:

General government support	\$ 249,268
Public safety	169,011
Transportation	2,949,839
Economic assistance and opportunity	37,610
Culture and recreation	62,609
Home and community services	519,060
	<u>\$ 3,987,397</u>

**TOWN OF SOUTHDOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**C. DETAILED NOTES ON ALL FUNDS (continued)**

**3. CAPITAL ASSETS (continued)**

	Balance 1/1/06	Additions	Deletions	Balance 12/31/06
Discretely presented component units				
Capital assets not being depreciated				
Land	\$ 2,213,759			\$ 2,213,759
Construction in progress	13,174,567	\$ 324,711	\$ 552,197	12,947,081
Total capital assets not being depreciated	<u>15,388,326</u>	<u>324,711</u>	<u>552,197</u>	<u>15,160,840</u>
Depreciable capital assets				
Buildings	3,540,111	26,774		3,566,885
Improvements other than buildings	2,575,589	645,143		3,220,732
Machinery and equipment	3,200,728	120,171		3,320,899
Infrastructure	2,138,386	6,894		2,145,280
Total depreciable capital assets	<u>11,454,814</u>	<u>798,982</u>		<u>12,253,796</u>
Less accumulated depreciation				
Buildings	1,289,733	83,842		1,373,575
Improvements other than buildings	1,061,574	117,672		1,179,246
Machinery and equipment	2,132,657	151,754		2,284,411
Infrastructure	1,155,866	81,474		1,237,340
Total accumulated depreciation	<u>\$ 5,639,830</u>	<u>\$ 434,742</u>		<u>6,074,572</u>
Total net depreciable capital assets				<u>6,179,224</u>
Total net capital assets				<u>\$ 21,340,064</u>

**4. INDEBTEDNESS**

**SHORT TERM DEBT**

**Bond Anticipation Notes (BANs)** – Bond anticipation notes (BANs) are 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. Liabilities for BANs are generally accounted for in the capital projects fund. BANs are expected to be paid from the proceeds of future bond issues after renewal of these notes. These BANs bear interest at various rates from 3.66% to 3.76% and are due at various dates through 2007.

When BANs are not redeemed with the proceeds of bond issues, but instead paid from budgetary appropriations, the principal amount paid is recorded as an expenditure in the operating fund and a financing source is recorded in the capital projects fund.

**TOWN OF SOUTHDOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**C. DETAILED NOTES ON ALL FUNDS (continued)**

**4. INDEBTEDNESS (continued)**

**SHORT TERM DEBT (continued)**

These notes are summarized as follows:

<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>
Various Purposes	\$ 6,619,000	3.66%
Various Purposes	1,110,000	3.73%
New London Wharf	1,625,000	3.70%
Fishers Island Garbage	560,000	3.76%
Total	<u>\$ 9,914,000</u>	

Of the \$9,914,000 in bond anticipation notes, \$7,729,000 relates to the primary government and the remaining \$2,185,000 relates to the component units.

**LONG TERM DEBT**

Summary of changes in long-term debt transactions for the year ended December 31, 2006 is as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Non-current</u>	<u>Non-current</u>
	<u>1/1/06</u>	<u>Increases</u>	<u>Reductions</u>	<u>12/31/06</u>	<u>liabilities due</u>	<u>liabilities</u>
					<u>within one year</u>	
<b>Primary Government:</b>						
General obligation bonds	\$ 9,249,098		\$ 755,000	\$ 8,494,098	\$ 779,098	\$ 7,715,000
Due to Employees Retirement System	93,993		45,189	48,804	48,804	-0-
Compensated absences	5,779,826	695,835		6,475,661		6,475,661
Claims and judgments	220,000		220,000	-0-		-0-
Estimated liability for landfill closure and post-closure care costs	612,395		19,072	593,323	10,550	582,773
<b>Component Units:</b>						
General obligation bonds	3,050,000		195,000	2,855,000	200,000	2,655,000
Claims and judgments	-0-	200,000		200,000	50,000	150,000

**General Obligation Bonds** - The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are backed by the full faith and credit of the Town, bear interest at various rates from 3.14% to 6.375% and have maturity dates in 2009 through 2021.

Future principal and interest payments to maturity for both the primary government and the component units are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 979,098	\$ 376,466
2008	995,000	345,307
2009	1,025,000	312,347
2010	1,000,000	277,956
2011	1,025,000	242,981
2012-2016	4,100,000	765,577
2017-2021	<u>2,225,000</u>	<u>167,650</u>
Totals	<u>\$ 11,349,098</u>	<u>\$ 2,488,284</u>

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**C. DETAILED NOTES ON ALL FUNDS (continued)**

**4. INDEBTEDNESS (continued)**

**LONG TERM DEBT (continued)**

Other long-term liabilities for claims and judgments, compensated absences, retirement system and the estimated liability for landfill closure and post closure costs are to be paid by the fund that gave rise to the liability.

**PRIOR YEAR DEFEASANCE OF DEBT**

In prior years, the Town defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not including in the Town's financial statements. At December 31, 2006, \$1,950,000 of these bonds outstanding are considered defeased.

**5. RETIREMENT SYSTEM**

Plan Description

The Town of Southold participates in the New York State and Local Employees' Retirement System (ERS) and Local Police and Fire Retirement System (PFRS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits.

Obligation 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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds.

A publicly available annual report containing financial statements and required supplemental information for the Employees' Retirement System may be obtained by writing to the New York State Retirement System, Governor Smith State Building, Albany, NY 12244.

Funding Policy

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

The Town is required to contribute at an actuarially determined rate. The actual contributions were equal to the actuarially required amounts and also include additional contributions to fund various early retirement incentives made available to the Town employees. The credits and miscellaneous adjustments represent modification made by the ERS for prior year's contributions.

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

	ERS	PFRS
2006	\$ 1,096,547	\$ 741,445
2005	\$ 1,068,200	\$ 1,016,937
2004	\$ 992,023	\$ 679,079

The Town's contribution to the system was 100% of the contributions required each year.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**C. DETAILED NOTES ON ALL FUNDS** (continued)

**6. POST EMPLOYMENT BENEFITS**

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town.

Health care benefits are provided through either a self-funded plan whose premiums are based on the benefits paid during the year or are provided in accordance with New York State Health Insurance Rules and Regulations (administered by the New York State Department of Civil Service) through the New York State Empire Plan (the "Empire Plan") whose premiums are based on the benefits paid throughout the State during the year.

The Town recognizes the cost of providing benefits by recording its share of insurance premiums or the actual benefits paid as expenditure in the year paid. The Town's union contracts and ordinances require that it provide its eligible enrollees with benefit coverage under either the self-funded plan or the Empire Plan. 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. During the 2006 year, \$3,261,660 was paid on behalf of 93 retirees and 223 active employees and is recorded as an expenditure in the General Fund.

**7. COMPENSATED ABSENCES**

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

Estimated vacation, sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the statements of net assets. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation, sick leave and compensatory absences when such payments become due. As of December 31, 2006, the value of the accumulated vacation time and sick leave was \$6,475,661 for the primary government.

**D. COMMITMENTS AND CONTINGENCIES**

**Risk Management**

The Town is self-insured for both medical insurance and general liability insurance. The amount of medical claims outstanding at December 31, 2006 is \$161,976. This amount has been reserved against fund balance in the General Fund.

In common with other municipalities, the Town receives numerous notices of claims. Prior to 2005, coverage for bodily injury and property damage was previously written on a primary non-self insured retention ("SIR") basis. Insurance market conditions and availability precluded the Town from obtaining coverage in 2005 without an SIR. As a result, in 2006 the Town self-insured for bodily injury and property damage up to a maximum of \$50,000 per claim. The \$50,000 limitation was the minimum retention amount available to the Town. Claims in excess of \$50,000 are covered by excess liability policies providing coverage for \$10,000,000 per occurrence and in the aggregate. Although the eventual outcome of these 2006 claims cannot presently be determined, the Town's third party administrator has estimated unsettled claims at December 31, 2006 to be \$83,863. These amounts have been reserved against fund balance in the General Fund. 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.

Since 2005, there have been no significant reductions in insurance coverage as compared to the prior year; in addition there were no settlements on excess of insurance coverage over the last three years. The Town is also self-insured for unemployment benefits paid.

**TOWN OF SOUTHOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**D. COMMITMENTS AND CONTINGENCIES (continued)**

**Landfill Closure and Post-Closure Care Costs**

State and federal laws and regulations require the Town to place a final cover on its landfill sites and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. The Town ceased accepting waste at its Cutchogue landfill as of October 8, 1993. The Town entered into a stipulation of settlement with the New York State Department of Environmental Conservation in October of 1994 in which all charges of operational violations at the Cutchogue landfill were dropped. Under the stipulation, the Town agreed to close and place a final cover over the landfill and to pay a civil penalty of \$650,000 over seven years. Construction of the final cover commenced in the summer of 2001 and was completed in the fall of 2003.

In addition to placement of the final cover on the landfill, state and federal regulations presently require the Town to perform certain maintenance and monitoring functions at the site for up to thirty years. Accordingly, as of December 31, 2006 the Town has recorded a liability of \$593,323 which represents the provision to be made in future budgets for post-closure landfill costs. Actual costs may vary due to inflation or deflation, changes in technology, or changes in regulations or applicable laws.

Actual costs associated with the placement of the final cover totaled \$7,681,719. Financing for closure activities was provided through a \$2,000,000 grant from the New York State Department of Environmental Conservation with the balance provided with a state subsidized loan through the New York State Environmental Facilities Corporation. Costs associated with post closure care will be covered by charges to future landfill users and future tax revenue.

**Lease Commitments and Leased Assets**

The Town leases property and equipment under operating leases. Total rental expenditures on such leases for the year ended December 31, 2006 were approximately \$191,773. Future obligations over the primary terms of the Town's leases as of December 31, 2006 are as follows:

2007	\$ 109,824
2008	109,028
2009	107,348 <sup>o</sup>
2010	86,909
2011 and thereafter	<u>563,901</u>
Total	<u>\$ 977,010</u>

**E. CONDENSED FINANCIAL STATEMENTS FOR THE DISCRETELY PRESENTED COMPONENT UNITS**

The following represents condensed financial statements for the discretely presented component units as of and for the year ended December 31, 2006:

**Condensed Statement of Net Assets:**

	Current Assets	Due from Primary Government	Capital Assets Net of Depreciation	Current Liabilities	Other Long-Term Liabilities	Net Assets
Fishers Island Ferry District	\$ 489,288	\$ 182,783	\$ 15,672,853	\$ 2,367,007	\$ 2,700,000	\$ 11,277,917
Fishers Island Refuse and Garbage	607,760	59,613	3,146,256	621,736		3,191,893
Cutchogue-New Suffolk Park District	108,649	16,414	123,200	16,414		231,849
Southold Park District	43,842	35,659	696,598	37,930		738,169
Orient-East Marion Park District	5,496	3,475	432,985	14,602		427,354
Mattituck Park District	255,998	52,925	1,242,272	166,858	105,000	1,279,337
Orient Mosquito District	16,812	9,309	25,900	18,235		33,786
	<u>\$ 1,527,845</u>	<u>\$ 360,178</u>	<u>\$ 21,340,064</u>	<u>\$ 3,242,782</u>	<u>\$ 2,805,000</u>	<u>\$ 17,180,305</u>

**TOWN OF SOUTHDOLD**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

**E. CONDENSED FINANCIAL STATEMENTS FOR THE DISCRETELY PRESENTED COMPONENT UNITS (continued)**

Condensed Statement of Activities:

	Program		General Revenue			Net Assets		
	Expenses	Revenue	Net Expense (Revenue)	Property Tax	Other	Change	1/1/06	12/31/06
Fishers Island Ferry District	\$ 3,061,265	\$ 2,013,785	\$ 1,047,480	\$ 400,000	\$ 854,443	\$ (206,963)	\$ 11,070,954	\$ 11,277,917
Fishers Island Refuse and Garbage	538,458	32,938	505,520	563,500	70,888	(128,868)	3,063,025	3,191,893
Cutchoque-New Suffolk Park District	160,014		160,014	141,000	917	18,097	249,946	231,849
Southold Park District	287,960		287,960	315,000	43,691	(70,731)	667,438	738,169
Orient-East Marion Park District	27,063		27,063	27,617	76	(630)	426,724	427,354
Mattituck Park District	368,453		368,453	426,110	37,511	(95,168)	1,184,169	1,279,337
Orient Mosquito District	86,977		86,977	76,285	2,412	8,280	42,066	33,786
	<u>\$ 4,530,190</u>	<u>\$ 2,046,723</u>	<u>\$ 2,483,467</u>	<u>\$ 1,949,512</u>	<u>\$ 1,009,938</u>	<u>\$ (475,983)</u>	<u>\$ 16,704,322</u>	<u>\$ 17,180,305</u>

**F. SUBSEQUENT EVENTS**

On April 15, 2007, the Town issued Serial Bonds for public improvements in the amount of \$14,650,000. These public improvements bonds are allocated as follows: \$9,987,900 for open space preservation, \$1,200,000 for land acquisition, \$3,000,000 for a solid waste management transfer station, \$315,000 for a settlement with New York State and \$147,100 for equipment. The interest rate on these bonds range from 4% during the initial year to 4.25% for the final 20 years. The bonds final maturity date is 2030.

**G. NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) approved new accounting standards applicable to "other post-employment benefits" (OPEB's) and "termination benefits", which are non-pension benefits provided after a person leaves employment, including retiree health care. Until now, these benefits have generally been administered by municipalities on a pay-as-you-go basis and have not been reported as a liability on financial statements.

GASB 45 and 47 requires municipalities which adhere to GAAP (Generally Accepted Accounting Principles) to account for OPEB and termination liabilities on an accrual basis much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and termination benefits and the fact that most municipalities have not set aside any funds against this liability.

Under GASB 45 and 47, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each municipality and then be periodically updated depending on the number of members within the plan.

The Town, as well as its component units are required to implement GASB 45 and 47 for the year ended December 31, 2007.

**REQUIRED SUPPLEMENTARY  
INFORMATION OTHER THAN  
MANAGEMENT DISCUSSION AND  
ANALYSIS**

**TOWN OF SOUTHOLD**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
Year ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/(Negative)
<b>REVENUES</b>				
Real Property Taxes	\$ 14,872,736	\$ 14,872,736	\$ 14,872,736	
Other Real Property Tax Items	68,500	68,500	85,808	\$ 17,308
Non-Property Tax Items	616,000	616,000	616,670	670
Departmental Income	342,100	585,100	477,849	(107,251)
Intergovernmental Charges	386,616	297,379	316,049	18,670
Use of Money and Property	460,000	460,000	684,166	224,166
Licenses and Permits	223,100	223,691	258,794	35,103
Fines and Forfeitures	112,000	112,000	171,763	59,763
Sale of Property and Compensation for Loss	74,050	77,505	95,057	17,552
Miscellaneous Local Sources	47,420	109,669	146,260	36,591
State Aid	2,434,897	2,561,687	2,725,177	163,490
Federal Aid		238,737	228,491	(10,246)
Total Revenues	<u>19,637,419</u>	<u>20,223,004</u>	<u>20,678,820</u>	<u>455,816</u>
<b>EXPENDITURES</b>				
General Government Support	6,116,403	6,175,733	5,177,745	997,988
Public Safety	7,297,533	7,392,386	7,371,280	21,106
Public Health	33,300	33,300	32,988	312
Transportation	442,710	472,173	452,050	20,123
Economic Assistance and Opportunity	1,030,920	1,022,324	949,740	72,584
Culture and Recreation	395,314	396,830	384,983	11,847
Home and Community Services	362,224	660,814	530,270	130,544
Employee Benefits	6,257,400	6,690,613	5,811,868	878,745
Debt Service - Principal and Interest	1,559,500	1,434,500	1,313,234	121,266
Total Expenditures	<u>23,495,304</u>	<u>24,278,673</u>	<u>22,024,158</u>	<u>2,254,515</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(3,857,885)</u>	<u>(4,055,669)</u>	<u>(1,345,338)</u>	<u>2,710,331</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	6,038,180	6,308,189	2,253,944	(4,054,245)
Transfers Out	(2,180,295)	(2,252,520)	(1,531,369)	721,151
Total Other Financing Sources (Uses)	<u>3,857,885</u>	<u>4,055,669</u>	<u>722,575</u>	<u>(3,333,094)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(622,763)</u>	<u>\$ (622,763)</u>
<b>Fund Balance at Beginning of Year</b>			<u>6,007,462</u>	
Fund Balance at End of Year			<u>\$ 5,384,699</u>	

See notes to the financial statements.

**TOWN OF SOUTHDOLD**  
**HIGHWAY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL**  
Year ended December 31, 2006

<b>REVENUES</b>	Original Budget	Final Budget	Actual	Variance with Final Budget Positive/(Negative)
Real Property Taxes	\$ 4,095,347	\$ 4,095,347	\$ 4,095,347	
Other Real Property Tax Items	8,500	8,500	12,689	\$ 4,189
Use of Money and Property	72,100	72,100	140,578	68,478
Licenses and Permits	6,500	6,500	9,484	2,984
Sale of Property and Compensation for Loss			7,521	7,521
State Aid	231,332	306,719	276,337	(30,382)
Total Revenues	<u>4,413,779</u>	<u>4,489,166</u>	<u>4,541,956</u>	<u>52,790</u>
<b>EXPENDITURES</b>				
Transportation	3,485,358	3,551,971	3,028,076	523,895
Employee Benefits	543,162	543,162	515,106	28,056
Debt Service - Principal and Interest	294,785	294,785	283,652	11,133
Total Expenditures	<u>4,323,305</u>	<u>4,389,918</u>	<u>3,826,834</u>	<u>563,084</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>				
	<u>90,474</u>	<u>99,248</u>	<u>715,122</u>	<u>615,874</u>
<b>Other Financing Uses</b>				
Operating Transfers In	355,900	355,900		(355,900)
Transfers Out	(446,374)	(455,148)	(452,648)	2,500
Total Other Financing Uses	<u>(90,474)</u>	<u>(99,248)</u>	<u>(452,648)</u>	<u>(353,400)</u>
<b>Net Change in Fund Balance</b>				
	<u>\$ -0-</u>	<u>\$ -0-</u>	262,474	<u>\$ 262,474</u>
<b>Fund Balance at Beginning of Year</b>				
			<u>1,056,848</u>	
<b>Fund Balance at End of Year</b>				
			<u>\$ 1,319,322</u>	

See notes to the financial statements.

**OTHER SUPPLEMENTARY  
INFORMATION**

**TOWN OF SOUTHOLD**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
December 31, 2006

	General Fund Part Town	Special Grant	East-West Fire Protection District	Southold Wastewater District	Fishers Island Sewer District	Solid Waste Management District	Totals
<b>ASSETS</b>							
Cash and investments	\$ 821,446		\$ 86,470	\$ 225,862	\$ 29,959	\$ 188,485	\$ 1,352,222
Accounts receivable, net of allowance	58,401				1,259	123,168	182,828
Due from other funds	115,236	\$ 5,000	56,488	2,146	9,806	286,871	475,547
Due from other governments		9,150				79,607	88,757
Prepaid expenditures	25,599					27,960	53,559
Total Assets	<u>\$ 1,020,682</u>	<u>\$ 14,150</u>	<u>\$ 142,958</u>	<u>\$ 228,008</u>	<u>\$ 41,024</u>	<u>\$ 706,091</u>	<u>\$ 2,152,913</u>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 21,800	\$ 9,150	\$ 12,656		\$ 76	\$ 276,974	\$ 320,656
Due to other funds				\$ 173			173
Deferred revenue	90,689		110,654	4,056		422,893	628,292
Total Liabilities	<u>112,489</u>	<u>9,150</u>	<u>123,310</u>	<u>4,229</u>	<u>76</u>	<u>699,867</u>	<u>949,121</u>
<b>FUND EQUITY</b>							
Fund balance - reserved:							
Prepaid expenses	25,599						25,599
Fund balance - unreserved:							
Designated - ensuing year's budget	459,000	5,000	6,228				470,228
Undesignated	423,594		13,420	223,779	40,948	6,224	707,965
Total Fund Equity	<u>908,193</u>	<u>5,000</u>	<u>19,648</u>	<u>223,779</u>	<u>40,948</u>	<u>6,224</u>	<u>1,203,792</u>
Total Liabilities and Fund Equity	<u>\$ 1,020,682</u>	<u>\$ 14,150</u>	<u>\$ 142,958</u>	<u>\$ 228,008</u>	<u>\$ 41,024</u>	<u>\$ 706,091</u>	<u>\$ 2,152,913</u>

**TOWN OF SOUTHOLD**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**  
Year ended December 31, 2006

	General Fund Part Town	Special Grant	East-West Fire Protection District	Southold Wastewater District	Fishers Island Sewer District	Solid Waste Management District	Totals
<b>REVENUES</b>							
Real property taxes	\$ 492,996		\$ 458,043	\$ 22,790		\$ 1,767,533	\$ 2,741,362
Other real property tax items	1,523		604	30	\$ 2	2,330	4,489
Non property tax items	229,346						229,346
Departmental income	656,644			17,060	29,117	1,573,114	2,275,935
Intergovernmental charges						1,809	1,809
Use of money and property	47,074		5,594	9,677	1,689	31,238	95,272
Licenses and permits	7,232					156,548	163,780
Sale of property and compensation for loss	6,738					128,924	135,662
Miscellaneous local sources	7	\$ 5,000				1,645	6,652
State aid	47,671					79,607	127,278
Federal aid		41,163					41,163
Total Revenues	<u>1,489,231</u>	<u>46,163</u>	<u>464,241</u>	<u>49,557</u>	<u>30,808</u>	<u>3,742,748</u>	<u>5,822,748</u>
<b>EXPENDITURES</b>							
General government support	103,654						103,654
Public safety	409,449		459,705				869,154
Public health	7,104						7,104
Home and community services	523,926	41,163			22,406	2,776,286	3,363,781
Employee benefits	214,993					255,384	470,377
Debt service - principal and interest				2,435		820,155	822,590
Total Expenditures	<u>1,259,126</u>	<u>41,163</u>	<u>459,705</u>	<u>2,435</u>	<u>22,406</u>	<u>3,851,825</u>	<u>5,636,660</u>
<b>Excess (Deficiency) of Revenues</b>							
<b>Over Expenditures</b>	230,105	5,000	4,536	47,122	8,402	(109,077)	186,088
<b>Other Financing Uses:</b>							
Operating transfers out	(209,971)					(219,174)	(429,145)
Total Other Financing Uses	<u>(209,971)</u>					<u>(219,174)</u>	<u>(429,145)</u>
<b>Net Change in Fund Balance</b>	20,134	5,000	4,536	47,122	8,402	(328,251)	(243,057)
<b>Fund Balances at Beginning of Year</b>	888,059		15,112	176,657	32,546	334,475	1,446,849
Fund Balances at End of Year	<u>\$ 908,193</u>	<u>\$ 5,000</u>	<u>\$ 19,648</u>	<u>\$ 223,779</u>	<u>\$ 40,948</u>	<u>\$ 6,224</u>	<u>\$ 1,203,792</u>

**DISCRETELY PRESENTED COMPONENT UNITS**

**TOWN OF SOUTHOLD**  
DISCRETELY PRESENTED COMPONENT UNITS  
COMBINING STATEMENT OF NET ASSETS  
December 31, 2006

	Fishers Island Ferry District	Fishers Island Refuse and Garbage District (Unaudited)	Cutchogue- New Suffolk Park District (Unaudited)	Southold Park District (Unaudited)	Orient-East Marion Park District (Unaudited)	Mattituck Park District (Unaudited)	Orient Mosquito District (Unaudited)	Totals
<b>ASSETS</b>								
<b>Current Assets:</b>								
Cash and investments	\$ 215,455	\$ 591,364	\$ 108,649	\$ 43,842	\$ 5,496	\$ 254,833	\$ 16,812	\$ 1,236,451
Accounts receivable, net of allowance	11,646	3,371				150		15,167
Due from primary government	182,783	59,613	16,414	35,659	3,475	52,925	9,309	360,178
State and federal receivables	237,056							237,056
Prepaid charges	25,131	13,025				1,015		39,171
Total Current Assets	<u>672,071</u>	<u>667,373</u>	<u>125,063</u>	<u>79,501</u>	<u>8,971</u>	<u>308,923</u>	<u>26,121</u>	<u>1,888,023</u>
<b>Non-Current Assets:</b>								
Non-depreciable capital assets	10,874,636	2,607,599	101,198	588,847	432,985	555,575		15,160,840
Depreciable capital assets, net of depreciation	4,798,217	538,657	22,002	107,751		686,697	25,900	6,179,224
Total Assets	<u>16,344,924</u>	<u>3,813,629</u>	<u>248,263</u>	<u>776,099</u>	<u>441,956</u>	<u>1,551,195</u>	<u>52,021</u>	<u>23,228,087</u>
<b>LIABILITIES</b>								
<b>Current Liabilities:</b>								
Accounts payable and accrued liabilities	343,215	3,743			11,127	11,808		369,893
Accrued interest payable	67,959					1,217		69,176
Due to other governments				2,271		160		2,431
Deferred Revenue	130,833	57,993	16,414	35,659	3,475	103,673	18,235	366,282
Bond anticipation notes payable	1,625,000	560,000						2,185,000
Non-current liabilities due within one year								
General obligation bonds payable	150,000					50,000		200,000
Claims and judgements payable	50,000							50,000
Total Current Liabilities	<u>2,367,007</u>	<u>621,736</u>	<u>16,414</u>	<u>37,930</u>	<u>14,602</u>	<u>166,858</u>	<u>18,235</u>	<u>3,242,782</u>
<b>Noncurrent Liabilities:</b>								
General obligation bonds payable	2,550,000					105,000		2,655,000
Claims and judgements payable	150,000							150,000
Total Liabilities	<u>5,067,007</u>	<u>621,736</u>	<u>16,414</u>	<u>37,930</u>	<u>14,602</u>	<u>271,858</u>	<u>18,235</u>	<u>6,047,782</u>
<b>NET ASSETS</b>								
Investment in capital assets, net of related debt	11,347,853	2,503,025		640,883		1,087,272		15,579,033
Unrestricted	(69,936)	688,868	231,849	97,286	427,354	192,065	33,786	1,601,272
Total Net Assets	<u>\$ 11,277,917</u>	<u>\$ 3,191,893</u>	<u>\$ 231,849</u>	<u>\$ 738,169</u>	<u>\$ 427,354</u>	<u>\$ 1,279,337</u>	<u>\$ 33,786</u>	<u>\$ 17,180,305</u>

**TOWN OF SOUTHOLD**  
DISCRETELY PRESENTED COMPONENT UNITS  
COMBINING STATEMENT OF ACTIVITIES  
Year ended December 31, 2006

	Fishers Island Ferry District	Fishers Island Refuse and Garbage District (Unaudited)	Cutchogue- New Suffolk Park District (Unaudited)	Southold Park District (Unaudited)	Orient-East Marion Park District (Unaudited)	Mattituck Park District (Unaudited)	Orient Mosquito District (Unaudited)	Totals
<b>REVENUES</b>								
Program revenues	\$ 2,013,785	\$ 32,938						\$ 2,046,723
Real property taxes	400,000	563,500	\$ 141,000	\$ 315,000	\$ 27,617	\$ 426,110	\$ 76,285	1,949,512
Other real property tax items	527				35	562		1,124
Interest and earnings	21,506	70,888	917	41,591	41	18,879	1,662	155,484
Federal Aid	810,646							810,646
Other	21,764			2,100		18,070	750	42,684
Total Revenues	<u>3,268,228</u>	<u>667,326</u>	<u>141,917</u>	<u>358,691</u>	<u>27,693</u>	<u>463,621</u>	<u>78,697</u>	<u>5,006,173</u>
<b>EXPENSES</b>								
General government support	130,910							130,910
Public health							86,977	86,977
Transportation	2,751,284							2,751,284
Culture and recreation			160,014	287,960	27,063	362,526		837,563
Home and community services	18,602	454,472						473,074
Interest	160,469	83,986				5,927		250,382
Total Expenses	<u>3,061,265</u>	<u>538,458</u>	<u>160,014</u>	<u>287,960</u>	<u>27,063</u>	<u>368,453</u>	<u>86,977</u>	<u>4,530,190</u>
<b>Changes in Net Assets</b>	<u>206,963</u>	<u>128,868</u>	<u>(18,097)</u>	<u>70,731</u>	<u>630</u>	<u>95,168</u>	<u>(8,280)</u>	<u>475,983</u>
<b>Net Assets at Beginning of Year</b>	<u>11,070,954</u>	<u>3,063,025</u>	<u>249,946</u>	<u>667,438</u>	<u>426,724</u>	<u>1,184,169</u>	<u>42,066</u>	<u>16,704,322</u>
Net Assets at End of Year	<u><u>\$11,277,917</u></u>	<u><u>\$ 3,191,893</u></u>	<u><u>\$ 231,849</u></u>	<u><u>\$ 738,169</u></u>	<u><u>\$ 427,354</u></u>	<u><u>\$ 1,279,337</u></u>	<u><u>\$ 33,786</u></u>	<u><u>\$17,180,305</u></u>