

**TOWN OF RIVERHEAD  
FINANCIAL STATEMENTS**

December 31, 2012

**TOWN OF RIVERHEAD**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
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**TOWN OF RIVERHEAD**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
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# **INTRODUCTORY SECTION**

**TOWN OF RIVERHEAD**  
**PRINCIPAL OFFICIALS**  
December 31, 2012

**ELECTED OFFICIALS**

Sean M. Walter  
John Dunleavy  
James Wooten  
George Gabrielsen  
Jodi Giglio

Supervisor  
Councilman  
Councilman  
Councilman  
Councilwoman

Laverne Tennenberg  
Paul Leszczynski  
Mason E. Haas  
George Woodson  
Laurie Zaneski  
Diane M. Wilhelm  
Richard Ehlers  
Allen M. Smith

Chairwoman, Board of Assessors  
Board of Assessors  
Board of Assessors  
Highway Superintendent  
Receiver of Taxes  
Town Clerk  
Town Justice  
Town Justice

**DEPARTMENT HEADS**

Robert Kozakiewicz  
William Rothaar  
Jefferson Murphree  
Christina Kempner  
Ken Testa  
Meg Ferris  
Chief David Hegermiller  
Ray Coyne  
Judy Doll  
John Reeve  
Michael Reichel  
Gary Pendzick

Town Attorney  
Accounting Department  
Building/Planning Department  
Community Development  
Engineering Department  
Personnel Officer  
Police Department  
Recreation Department  
Senior Services  
Sanitation Department  
Sewer District  
Water Department

**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Riverhead Industrial Development Agency, the discretely presented component unit presented in the financial statements. As of December 31, 2012, the Town of Riverhead Industrial Development Agency has assets, net position and revenues of \$72,405, \$29,302 and \$165,794 respectively, for the year then ended. Those financial statements were audited by another auditor whose report thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the Town of Riverhead Industrial Development Agency, is based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Town of Riverhead Industrial Development Agency component unit presented discretely in these financial statements were audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**PERSONAL SERVICE. TRUSTED ADVICE.**

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

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NEW YORK, NY 10167  
T: 212.792.4075

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

## **Opinions**

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Riverhead, New York, as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Riverhead, New York's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the combining and individual nonmajor financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of the Town of Riverhead, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Riverhead's, New York internal control over financial reporting and compliance. and should be considered in assessing the results of our audit.



Hauppauge, New York  
September 25, 2013

## **REQUIRED SUPPLEMENTARY INFORMATION**

### **Management's Discussion and Analysis**

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**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

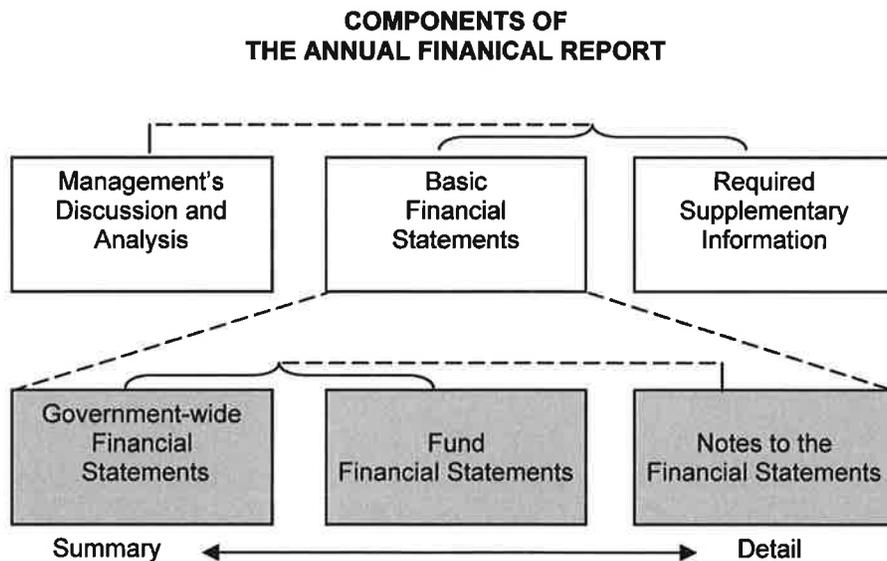
As management of the Town of Riverhead (the "Town"), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2012. Please read it in conjunction with the Town's financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of the Town exceed its liabilities at the close of 2012 by \$143,088,823 (net position). The net position of governmental activities was \$95,233,896 and the net position of business-type activities was \$47,854,927.
- The Town's total net position decreased by \$7,864,514 or 5.2%. The governmental net position decreased by \$7,116,912 and the business-type net position decreased by \$747,602.
- As of the close of 2012, the Town's governmental funds reported combined ending fund balances of \$36,258,794, a decrease of \$5,308,698 in comparison with the prior year. Of this amount, \$1,678,065 is not in spendable form or is required to remain intact. The remaining \$34,580,729 or approximately 95.4% of total fund balances is in spendable form with various levels of spending constraint: restricted, assigned, or unassigned making them available for spending at the Town's discretion.
- At the end of 2012, the Town's total fund balance for the General Fund was \$9,737,417, a decrease of 15.2% from the prior year. The assigned and unassigned fund balance for the General Fund was \$8,463,470, or 19.4% of total General Fund expenditures and other uses.
- The Town's total bonded debt outstanding, exclusive of premiums, was \$122,401,000 a decrease of \$11,615,001 or 8.7%. The Town's governmental funds decreased by \$10,149,127 and the Town's business-type funds decreased by \$1,465,874.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of the following components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.



**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

**OVERVIEW OF THE FINANCIAL STATEMENTS** (continued)

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The intent of the government-wide financial statements is to give the reader a long-term view of the Town's financial condition.

The Statement of Net Position presents financial information on all of the Town's assets and liabilities, with the difference between the two reported as net position. This combines and consolidates the Town's current financial resources with capital assets and long-term obligations. Over time, increases or decreases in the Town's net position is one indicator of whether its financial health is improving or deteriorating. Readers will need to consider other nonfinancial 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.

The Statement of Activities presents information showing how the Town's net position changed during the most recent year. Revenues and expenses are reported by activity to give the reader an understanding of how each of the Town's activities is being supported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. This method is known as the accrual basis of accounting and is different from the modified accrual basis of accounting used in the Town's fund financial statements.

The Town's government-wide financial statements includes both the governmental activities of the Town itself (known as the primary government) and of its legally separate component unit for which the Town is financially accountable. Financial information for this component unit is reported separately (discretely presented) from the financial information presented for the primary government. Each of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The business-type activities of the Town include sewer and water services.

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

**Governmental Activities**

The Town's basic services are reported here, including: general government support, public safety, health, transportation, economic assistance and opportunity, culture and recreation and home and community services. Property taxes, sales taxes, mortgage 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**

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

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

**Fund Financial Statements**

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as an accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific or attaining certain objectives in accordance with special regulations, restrictions or limitations. The Town, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

**OVERVIEW OF THE FINANCIAL STATEMENTS** (continued)

**Fund Financial Statements** (continued)

Governmental Funds

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

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

The Town maintains fourteen (14) governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the five (5) major funds. The General Fund, Highway Fund, Debt Service Fund, Capital Projects Fund and Community Preservation Fund are reported as major funds. Data from the nine (9) other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the "Other Supplementary Information" section in this report.

The Town adopts an annual appropriated budget for its General Fund, Highway Fund, Debt Service Fund and Community Preservation Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with their adopted budgets. Budgetary comparison schedule for these major funds that have legally adopted budgets can be found in the section labeled "Required Supplementary Information Other Than Management's Discussion and Analysis".

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

Proprietary funds

The Town maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and water district funds. Internal service funds are used to accumulate and allocate costs internally among the Town's various functions. The Town uses its internal service funds to account for general liability risk management and worker's compensation programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements, but are included in a single column in the proprietary funds statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer district and water district funds since both are considered to be major funds of the Town. The proprietary fund financial statements can be found in the "Basic Financial Statements" section of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. 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. The Fiduciary Fund financial statement can be found in the "Basic Financial Statements" section of this report.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements.

**Other Information**

In addition to the basic financial statements this report contains supplementary information immediately following the notes to the financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

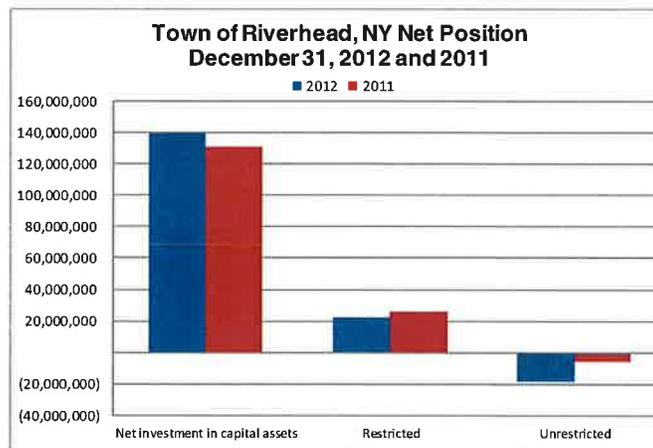
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$143,088,823 at the close of the most recent year. Our analysis below focuses on the net position and changes in net position of the Town's governmental and business-type activities.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Current and other assets	\$ 53,856,945	\$ 58,707,027	\$ 7,356,282	\$ 8,420,409	\$ 61,213,227	\$ 67,127,436
Capital assets	205,484,563	205,021,437	58,823,485	59,812,023	264,308,048	264,833,460
Total assets	259,341,508	263,728,464	66,179,767	68,232,432	325,521,275	331,960,896
<b>Liabilities</b>						
Current liabilities	26,293,295	22,605,884	3,642,829	3,851,374	29,936,124	26,457,258
Non-current liabilities	137,814,317	138,771,772	14,682,011	15,778,529	152,496,328	154,550,301
Total liabilities	164,107,612	161,377,656	18,324,840	19,629,903	182,432,452	181,007,559
<b>Net Position</b>						
Net investment in capital assets	93,934,522	86,135,423	45,481,887	44,575,487	139,416,409	130,710,910
Restricted	21,904,561	25,187,494	282,633	626,381	22,187,194	25,813,875
Unrestricted	(20,605,187)	(8,972,109)	2,090,407	3,400,661	(18,514,780)	(5,571,448)
Total net position	\$ 95,233,896	\$ 102,350,808	\$ 47,854,927	\$ 48,602,529	\$ 143,088,823	\$ 150,953,337

By far the largest portion of the Town's net position, \$139,416,409, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment, intangibles and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

The deficit balance in unrestricted Net Position does not necessarily indicate fiscal stress. The deficit balance of unrestricted net position arose primarily due to long-term liabilities, which include compensated absences, claims and judgments, landfill closure and postclosure care costs, and postemployment benefits healthcare costs (OPEB) that will be funded through future budgetary appropriations when they become payable in future periods.



**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

The total net position of the Town as of December 31, 2012 was \$143,088,823, a decrease of \$7,864,514 from the prior year. Of this amount \$139,416,409 was the net investment in capital assets, while \$22,187,194 was restricted by statute or other specific purpose leaving an \$18,514,780 unrestricted deficit.

Continued recognition of the Town's other postemployment benefits (OPEB) costs will result in decreases in net position in future years. The unfunded liability for postemployment benefits healthcare costs increased in 2012 by \$6,418,022 bringing the unfunded liability at year-end to \$24,549,320. Additional information on Postemployment Benefits Healthcare Costs can be found in Note 3.F to the financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<b>Program revenues:</b>						
Charges for services	\$ 2,904,188	\$ 5,041,278	\$ 7,065,054	\$ 6,059,451	\$ 9,969,242	\$ 11,100,729
Operating grants and contributions	1,041,411	2,648,042			1,041,411	2,648,042
Capital grants and contributions	2,738,766	2,403,533	118,435	949,747	2,857,201	3,353,280
	<u>6,684,365</u>	<u>10,092,853</u>	<u>7,183,489</u>	<u>7,009,198</u>	<u>13,867,854</u>	<u>17,102,051</u>
<b>General revenues:</b>						
Real property taxes	43,150,149	43,585,796	1,764,450	1,933,701	44,914,599	45,519,497
Real property tax items	442,076	487,195	367,548	451,043	809,624	938,238
Non-property tax items - sales tax	1,178,655	1,178,655	146,688	146,688	1,325,343	1,325,343
Community preservation fund 2% tax	2,210,549	1,937,325			2,210,549	1,937,325
Mortgage tax	922,797	778,491			922,797	778,491
Franchise tax	754,889	702,146			754,889	702,146
Investment earnings - unrestricted	460,210	146,417	1,141,811	633,427	1,602,021	779,844
Other compensation for loss	195,899	893,129			195,899	893,129
Federal and state aid	107,028	107,028			107,028	107,028
Other	921,707	547,681			921,707	547,681
	<u>50,343,959</u>	<u>50,363,863</u>	<u>3,420,497</u>	<u>3,164,859</u>	<u>53,764,456</u>	<u>53,528,722</u>
<b>Total revenues</b>	<u>57,028,324</u>	<u>60,456,716</u>	<u>10,603,986</u>	<u>10,174,057</u>	<u>67,632,310</u>	<u>70,630,773</u>
<b>Expenses</b>						
General government support	16,843,365	17,423,141			16,843,365	17,423,141
Public safety	26,906,255	24,158,416			26,906,255	24,158,416
Health	842,198	893,997			842,198	893,997
Transportation	6,376,090	6,724,114			6,376,090	6,724,114
Economic assistance and opportunity	2,043,429	2,355,332			2,043,429	2,355,332
Culture and recreation	2,914,809	2,564,197			2,914,809	2,564,197
Home and community services	4,275,173	7,028,754	10,087,588	9,684,807	14,362,761	16,713,561
Interest on debt	5,207,917	4,298,057			5,207,917	4,298,057
	<u>65,409,236</u>	<u>65,446,008</u>	<u>10,087,588</u>	<u>9,684,807</u>	<u>75,496,824</u>	<u>75,130,815</u>
<b>Total expenses</b>	<u>65,409,236</u>	<u>65,446,008</u>	<u>10,087,588</u>	<u>9,684,807</u>	<u>75,496,824</u>	<u>75,130,815</u>
Change in net position before transfers	(8,380,912)	(4,989,292)	516,398	489,250	(7,864,514)	(4,500,042)
Transfers	1,264,000	1,164,900	(1,264,000)	(1,164,900)	-0-	-0-
Change in net position	<u>(7,116,912)</u>	<u>(3,824,392)</u>	<u>(747,602)</u>	<u>(675,650)</u>	<u>(7,864,514)</u>	<u>(4,500,042)</u>
Net position - beginning	102,350,808	106,175,200	48,602,529	49,278,179	150,953,337	155,453,379
Net position - ending	<u>\$ 95,233,896</u>	<u>\$ 102,350,808</u>	<u>\$ 47,854,927</u>	<u>\$ 48,602,529</u>	<u>\$ 143,088,823</u>	<u>\$ 150,953,337</u>

The change in net position from all combined activities was a decrease of \$7,864,514. The governmental activities decreased by \$7,116,912 and the business-type decreased by \$747,602.

Key elements of the changes in governmental activities were:

- The recognition of OPEB costs of \$5,866,675 across various functions.
- The \$1,339,316 net increase in the Town's liability for compensated absences. The largest portion of this net increase, \$1,268,661 being for Public Safety resulting from the renegotiation of the PBA contract provision for lowering the paid sick time threshold from 140 days to 100 days for payment, accumulation and recording of the liability.
- The November 2011 bond issuance along with 2012 debt service payments resulted in a net interest expense increase of approximately \$910,000.
- Awarding of a new contract for garbage carting services resulted in a decrease in real property taxes and home and community expenses. The new contract saved the Town approximately \$1,600,000.
- Home and community services variance was partially due to the non-recurring expense in 2011, of \$1,100,000, for renovations to Atlantis Marine World.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (continued)

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

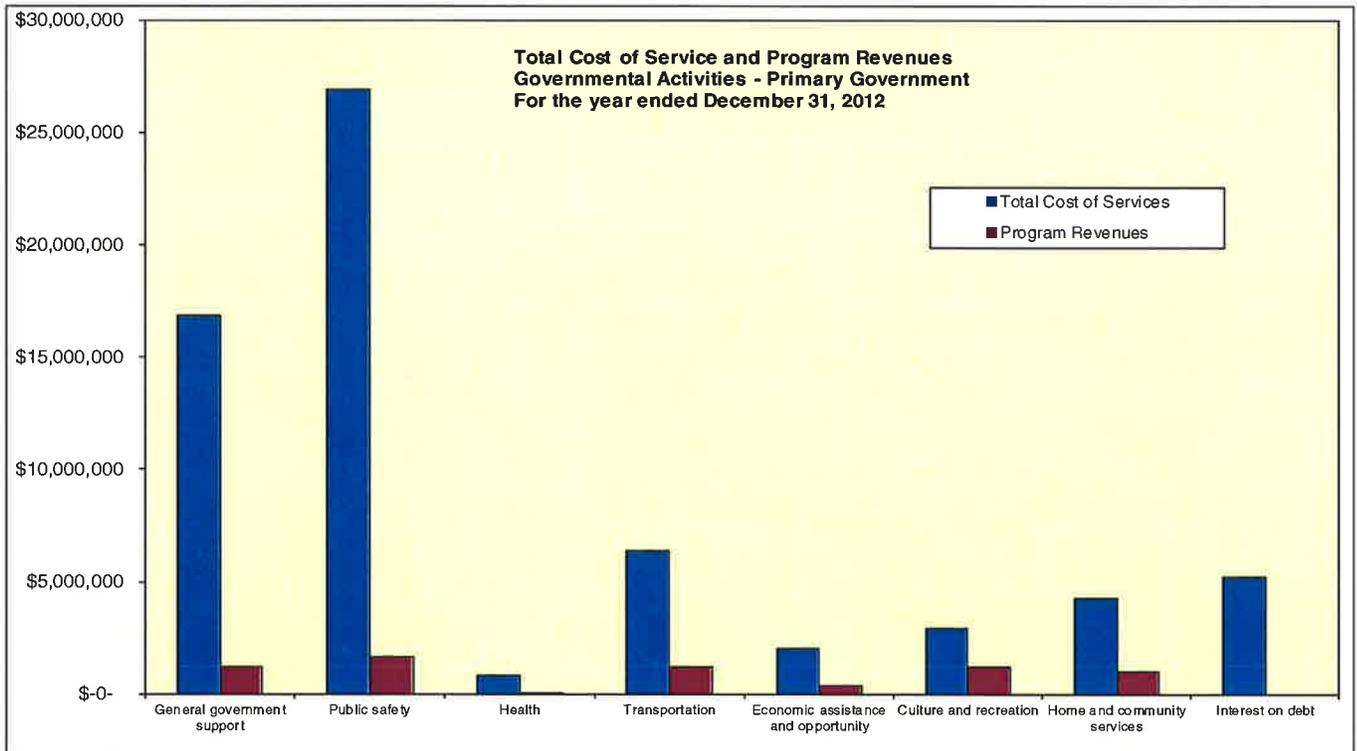
- The recognition of OPEB costs of \$551,347.
- The November 2011 bond issuance along with 2012 debt service payments resulted in a net interest expense increase of approximately \$123,000.
- The review of cell tower leases resulting in additional revenues of \$442,229.

**Governmental Activities**

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

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

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2012	2011	2012	2011	2012	2011
General government support	\$ 16,843,365	\$ 17,423,141	\$ 1,207,085	\$ 2,067,947	\$ 15,636,280	\$ 15,355,194
Public safety	26,906,255	24,158,416	1,661,913	2,049,733	25,244,342	22,108,683
Health	842,198	893,997	47,086	44,280	795,112	849,717
Transportation	6,376,090	6,724,114	1,167,389	2,000,246	5,208,701	4,723,868
Economic assistance and opportunity	2,043,429	2,355,332	393,335	349,869	1,650,094	2,005,463
Culture and recreation	2,914,809	2,564,197	1,213,309	1,130,123	1,701,500	1,434,074
Home and community services	4,275,173	7,028,754	994,248	2,450,655	3,280,925	4,578,099
Interest on debt	5,207,917	4,298,057			5,207,917	4,298,057
	<u>\$ 65,409,236</u>	<u>\$ 65,446,008</u>	<u>\$ 6,684,365</u>	<u>\$ 10,092,853</u>	<u>\$ 58,724,871</u>	<u>\$ 55,353,155</u>



The cost of the governmental activities this year was \$65,409,236. The cost of these services after being partially subsidized by program revenues of \$6,684,365 was \$58,724,871.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

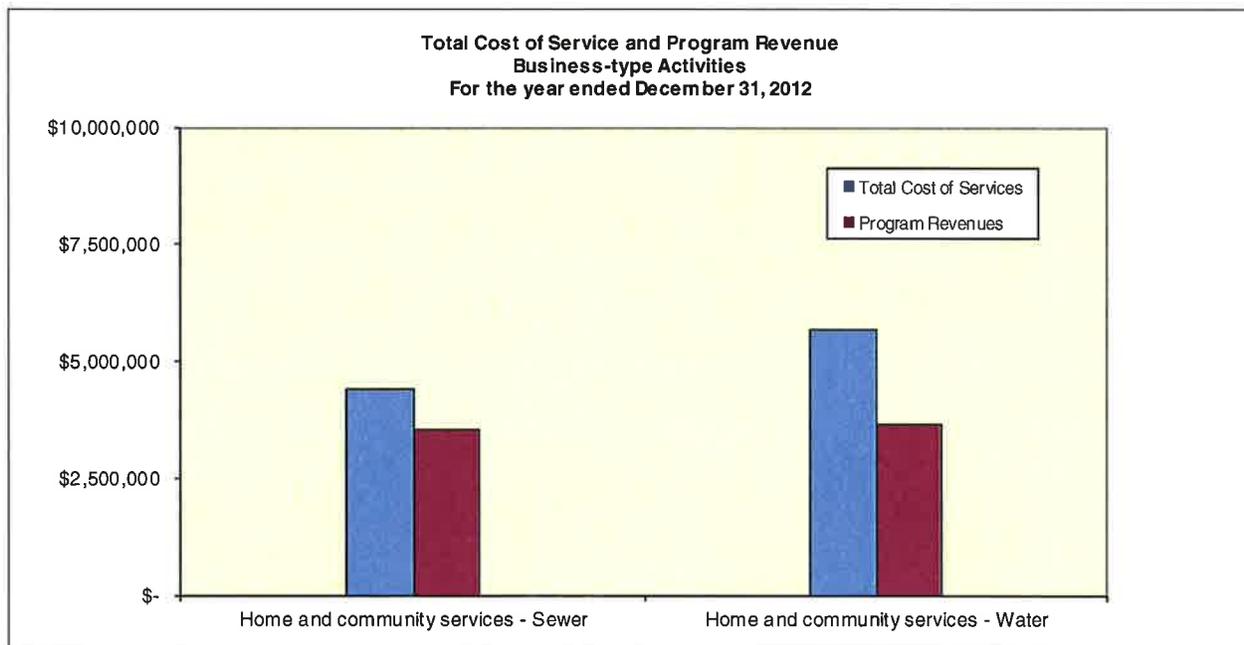
**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (continued)

**Business-type Activities**

The following chart illustrates the total expenses by net cost for the Town's business-type activities.

**Total Cost of Services, Program Revenues and Net Cost of Services**  
**Business-type Activities - Primary Government**  
**For the years ended December 31,**

	2012	2011	2012	2011	2012	2011
	Total Cost of Services (Expenses)		Program Revenue		Net Cost of Services	
Home and community services - Sewer	\$ 4,413,457	\$ 4,201,713	\$ 3,526,390	\$ 3,399,426	\$ 887,067	\$ 802,287
Home and community services - Water	5,674,131	5,483,094	3,657,099	3,609,772	2,017,032	1,873,322
	<u>\$ 10,087,588</u>	<u>\$ 9,684,807</u>	<u>\$ 7,183,489</u>	<u>\$ 7,009,198</u>	<u>\$ 2,904,099</u>	<u>\$ 2,675,609</u>

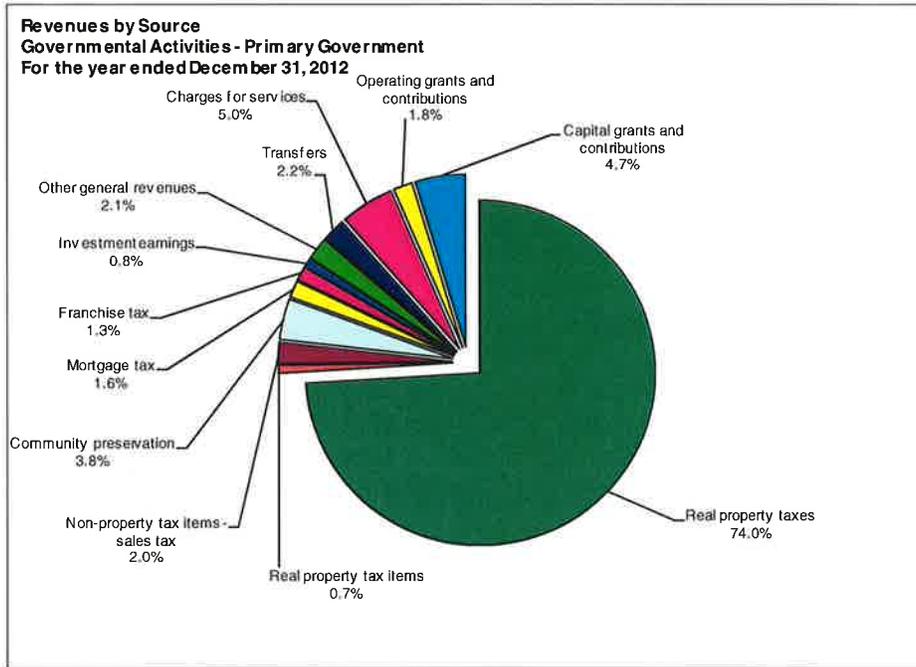


The cost of the business-type activities this year was \$10,087,588. The cost of these services after being partially subsidized by program revenues of \$7,183,489 was \$2,904,099.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (continued)

The following graph and chart illustrate the revenues by source for the Town's governmental funds.



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

	2012	2011
Real property taxes	\$ 43,150,149	\$ 43,585,796
Real property tax items	442,076	487,195
Non-property tax items - sales tax	1,178,655	1,178,655
Community preservation fund 2% tax	2,210,549	1,937,325
Mortgage tax	922,797	778,491
Franchise tax	754,889	702,146
Investment earnings - unrestricted	460,210	146,417
Other general revenues	1,224,634	1,547,838
Transfers	1,264,000	1,164,900
Charges for services	2,904,188	5,041,278
Operating grants and contributions	1,041,411	2,648,042
Capital grants and contributions	2,738,766	2,403,533
	<u>\$ 58,292,324</u>	<u>\$ 61,621,616</u>

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

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

Governmental Funds

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

There are no restrictions that are expected to have a significant effect on the availability of fund resources for future use.

**TOWN OF RIVERHEAD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS** (continued)

At December 31, 2012, the Town's governmental funds reported total ending fund balances of \$36,258,794, a decrease of \$5,308,698 or 12.8% in comparison with the prior year. The category breakdown is as follows:

- **Nonspendable fund balance** - \$1,678,065 (inherently nonspendable) includes the portion of net resources that cannot be spent because they must be maintained intact.
- **Restricted fund balance** - \$21,599,324 (externally enforceable limitations on use) include amounts subject to limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments.
- **Assigned fund balance** - \$8,811,218 (limitation resulting from intended use) consists of amounts where the intended use is established by the highest level of decision making.
- **Unassigned fund balance** - \$4,170,187 (residual net resources) is the total fund balance in the General Fund of \$4,173,214 and the negative unassigned deficit in the Business Improvement District of \$3,027 in excess of nonspendable, restricted and assigned fund balance.

The Town began the year with an anticipated \$6,941,200 decrease resulting from the appropriation of prior year fund balance for the 2012 budget. Other changes in total governmental fund balances were primarily due to:

- The March bond refunding resulted in additional interest savings of \$277,000 for 2012.
- Health insurance was originally budgeted based on information available at the time, at a 15% increase and came in at 8%, resulting in a saving of approximately \$859,000 across all governmental funds.

These items are discussed in greater detail in the individual fund analyses that follow.

**General Fund**

The General Fund is the chief operating fund of the Town. At the end of the current year, the total fund balance of the General Fund was \$9,737,417, decreasing \$1,742,877, or 15.2%, from the prior year. Of this amount, \$1,273,947 is not in spendable form (prepaid items and inventory). The remaining \$8,463,470 of the fund balance is in spendable form as follows: \$3,082,680 has been assigned by the Town Board for the subsequent year's budget, \$374,789 has been assigned for insurance and \$589,170 has been assigned for other miscellaneous designations; \$243,617 has been assigned for purchase orders by the Town Finance Administrator, and the remaining \$4,173,214 represents spendable, unassigned fund balance.

The major components of the fund balance decrease of \$1,742,877 were:

- There was a budgeted reduction in prior year fund balance of \$2,600,000.
- Trust and Agency reconciliation project resulted in recoveries of \$301,650.
- Amounts budgeted in use of money included wireless rentals of approximately \$308,000 that did not materialize.
- Amounts are eliminated for interfund fuel purchases of approximately \$470,000.
- Expenditures for employee benefits, the majority of which was health insurance, came in \$682,057 lower than expected because conservative budgeting was done at the higher end of the range.

**Highway Fund**

At the end of the current year, the total fund balance of the Highway Fund was \$2,348,001, increasing \$52,737, or 2.3%, from the prior year. Of this amount, \$82,843 is not in spendable form (prepaid items). The remaining \$2,265,158 of the fund balance is in spendable form as follows \$42,659 has been assigned for insurance, \$241,000 has been assigned for purchase orders by the Town Finance Administrator and the remaining \$1,981,499 is assigned for general highway purposes.

The main reasons for the fund balance increase of \$52,737 were:

- Miscellaneous revenues consisted of recoveries related to the reconciliation of the Trust & Agency accounts of \$22,672 and demolition services charged paid by the various capital projects in the amount of \$76,446.
- Expenditures related to insurance were lower than expected by \$74,984.
- Supplemental transportation appropriated and re-appropriated fund balance of \$525,324, of which \$325,000 was for equipment that was not purchased, \$100,000 for snow removal, and \$88,000 for unspent salaries, equipment repairs, and gasoline and oil.

**TOWN OF RIVERHEAD**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS** (continued)

**Highway Fund** (continued)

The main reasons for the fund balance increase of \$52,737 were: (continued)

- Payments for fringe benefits including health insurance were lower than expected by \$105,988.
- Bond refunding in 2012 resulted in interest savings of \$51,279.

**Capital Projects Fund**

At the end of the current year, the Capital Projects Fund had a total fund balance of \$938,273. Of this amount \$305,237 was not in spendable form (long-term receivable), \$435,315 was restricted for capital purposes and \$197,721 was restricted for purchase orders.

**Community Preservation Fund**

At the end of the current year, the Community Preservation Fund had a total fund balance of \$19,978,350. Of this amount \$4,567,300 was restricted for debt service and the remaining \$15,421,050 is restricted for Community Preservation purposes.

The major components of the fund balance decrease of \$3,652,410 were:

- There was a budgeted reduction in fund balance of \$4,237,400.
- The land transfer tax revenue came in \$410,549 higher than expected.
- There were no land acquisition related expenditures in 2012 which resulted in an expenditure savings of \$113,500.
- Bond refunding in 2012 resulted in savings of \$122,786.

**Nonmajor Governmental Funds**

The net change in fund balances was a decrease of \$45,595 over the nine nonmajor funds, the most notable as follows:

- The largest decrease was in the Special Trust Fund, of \$533,612; primarily due to the use of fund balance for improvements at the Calverton Recreation Park.
- The Refuse and Garbage District had an increase of \$229,745. The Town awarded the contract for garbage carting services to a new vendor at the end of 2011. This new contract resulted in a large savings in 2012 compared to the amount originally budgeted for that service.
- The Ambulance District had an increase of \$170,397 due to expenditures for vehicles and the RVAC contract coming in lower than budgeted.
- The East Creek Docking Facility District had an increase of \$52,325. Bond refunding in 2012 resulted in savings of \$21,736 and expenditures for facility improvements and insurance and came in lower than budgeted by \$27,023.
- The Community Development Fund had an increase of \$270,700 primarily due to unanticipated revenues for the rental of the runway, for vehicles damaged by Hurricane Sandy.

**Proprietary Funds**

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

Unrestricted Net Position (deficit) of the sewer and water proprietary funds at the end of the year amounted to \$4,287,377 and (\$2,196,970) respectively. The total net position change was a decrease of \$747,602; a decrease of \$270,437 in the Sewer Fund and \$477,165 in the Water Fund.

- The key elements of the changes in business-type activities was the recognition of 2012 OPEB costs of \$229,885 and \$321,462 in the Sewer and Water Funds respectively.
- In the Sewer Fund, Calverton sewer connection fees came in \$68,378 higher than expected.
- In the Water Fund, although water sales came in \$130,000 less than anticipated, actual sales were up \$758,000 over prior year due to an increase in water rates implemented in the third quarter of 2012.
- The Water fund review of cell tower leases resulted in additional revenues of \$442,229.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 December 31, 2012

**FINANCIAL ANALYSIS OF THE TOWN'S FUNDS** (continued)

**General Fund Budgetary Highlights**

During the year, there was an \$843,952 or 1.9% increase in overall spending between the original and final amended budget, inclusive of transfers. There are no variances that are expected to have a significant effect on future services or liquidity. Please see the "General Fund" section for more details on the comparison of final budgets and actual amounts. The following are the main components of the increase in appropriations:

- Budgeted transfers out totaling \$210,875 to fund various capital projects.
- Home and community services increased by \$105,916 for planning consultants at EPCAL and for the Industrial Development Agency to manage and monitor the Empire Development Zone.
- Public Safety expenditures increased by \$119,435 for Police vehicles and equipment.
- Prior year encumbrances, included in the final budget, that were spent in 2012 of \$209,558.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

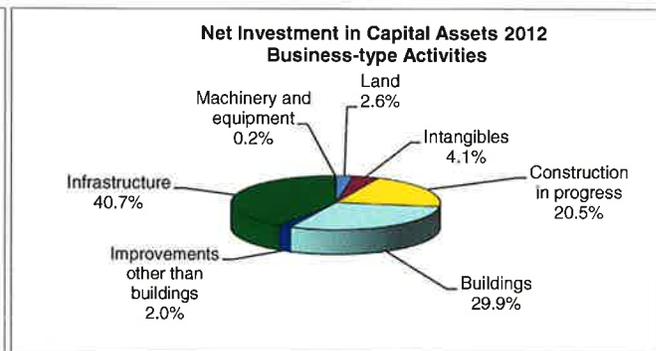
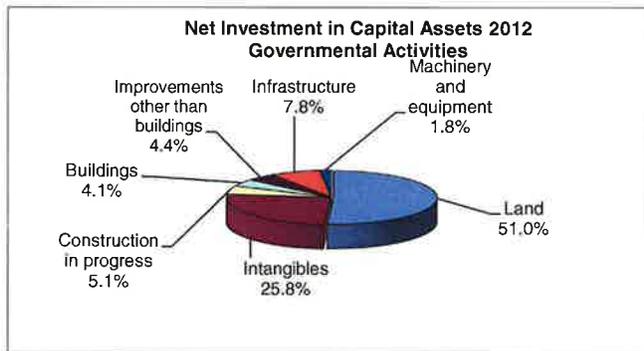
The Town's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to \$264,308,048 (net of accumulated depreciation). This investment in capital assets includes land, non-depreciable intangible assets, equipment, improvements, infrastructure, depreciable intangible assets and construction in progress.

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

- Highway road improvements throughout the Town were completed for \$642,699.
- Land purchases of \$329,679.
- Improvements of \$740,886 were made to Calverton Recreational Park.
- The Water District completed the Route 105 Transmission Main and the Calverton Water Extension projects for \$290,116 and \$423,230, respectively.
- The Sewer District acquired land in 2012 for \$163,066.

**Capital Assets - Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 104,792,910	\$ 104,463,231	\$ 1,516,994	\$ 1,353,928	\$ 106,309,904	\$ 105,817,159
Intangible development rights and easements	52,966,917	52,966,917	2,378,757	2,378,757	55,345,674	55,345,674
Construction in progress	10,494,782	12,657,145	12,073,188	12,246,854	22,567,970	24,903,999
Buildings	8,517,308	8,791,574	17,577,096	18,187,900	26,094,404	26,979,474
Improvements other than buildings	9,111,872	6,126,620	1,161,379	1,276,077	10,273,251	7,402,697
Infrastructure	16,081,394	16,329,407	23,918,748	24,072,319	40,000,142	40,401,726
Machinery and equipment	3,490,297	3,654,035	145,990	227,255	3,636,287	3,881,290
Intangibles - software	29,083	32,508	51,333	68,933	80,416	101,441
<b>Total capital assets</b>	<b>\$ 205,484,563</b>	<b>\$ 205,021,437</b>	<b>\$ 58,823,485</b>	<b>\$ 59,812,023</b>	<b>\$ 264,308,048</b>	<b>\$ 264,833,460</b>



Additional information on the Town's capital assets is shown in Note 3.C to the financial statements.

**TOWN OF RIVERHEAD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012

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

**Debt Administration**

At the end of 2012 the Town had total bonded debt outstanding of \$122,401,000. For the year ended December 31, 2012 the Town's total combined debt decreased by \$11,615,001 or 8.7%. The entire debt is backed by the full faith and credit of the Town of Riverhead.

**Outstanding Debt  
as of December 31,**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 109,050,285	\$ 119,199,412	\$ 13,350,715	\$ 14,816,589	\$ 122,401,000	\$ 134,016,001
Total	\$ 109,050,285	\$ 119,199,412	\$ 13,350,715	\$ 14,816,589	\$ 122,401,000	\$ 134,016,001

The Town maintains an "Aa2" rating from Moody's Investors Service.

New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year average full valuation. The debt limit excludes water debt and sewer debt and the business-type activities. The current debt limitation for the Town is \$444,148,760 which is significantly in excess of the Town's outstanding general obligation debt. The percentage of debt limit exhausted is 24.55%.

In November 1998, the voters of the Town approved the implementation of a real estate transfer tax in the amount of 2% against the proceeds of the sale of real property in excess of \$150,000 for developed property and in excess of \$75,000 for undeveloped property. The tax is to be collected on every transaction through the year 2030. These funds are dedicated by the Town Board to pay the debt service generated by the acquisition of open space and purchase of farmland development rights.

Additional information on the Town's indebtedness is shown in Note 3.D to the financial statements.

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

Next year's budget will increase by \$1,353,656, 1.98%, with the majority of this increase spending for the General Fund \$1,116,080, Highway \$177,300, Street Lighting \$155,700, and Riverhead Scavenger Waste \$64,700. Spending decreases will be in Refuse and Garbage, \$294,974, Ambulance District, \$20,600 and Public Parking, \$17,300. Several other districts had minor increases or decreases.

Assessed values increased in 2013 by \$256,355 over 2012 or 0.03%.

The Town wide tax rate increased by \$2.94 per \$1,000 of assessed value.

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. Beginning in 2012, and lasting through at least June 15, 2016, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. There are permitted exceptions and adjustments. The Town did not exceed the 2% cap, inclusive of allowable exclusions, in 2013.

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

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Town's finances. If you have any questions about this report or need any additional information, contact the Financial Administrator at 1295 Pulaski Street, Riverhead, New York 11901 or by telephone 631-727-3200.

## **BASIC FINANCIAL STATEMENTS**

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**TOWN OF RIVERHEAD**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF NET POSITION**  
December 31, 2012

	Primary Government			Component Unit IDA
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 18,652,009	\$ 8,088,216	\$ 26,740,225	\$ 64,128
Cash - restricted	23,884,056		23,884,056	
Accounts receivable	473,562	443,544	917,106	6,594
Billings receivable		1,106,810	1,106,810	
Due from other governments	6,181,112	570,027	6,751,139	
Internal balances	2,988,141	(2,988,141)	-0-	
Prepays	1,229,908	100,548	1,330,456	
Inventory of materials and supplies	142,920	35,278	178,198	
<b>Total current assets</b>	<b>53,551,708</b>	<b>7,356,282</b>	<b>60,907,990</b>	<b>70,722</b>
<b>Non-current assets:</b>				
Long-term receivable	305,237		305,237	
Non-depreciable capital assets	168,254,609	15,968,939	184,223,548	
Capital assets, net of accumulated depreciation	37,229,954	42,854,546	80,084,500	1,683
<b>Total non-current assets</b>	<b>205,789,800</b>	<b>58,823,485</b>	<b>264,613,285</b>	<b>1,683</b>
<b>Total assets</b>	<b>259,341,508</b>	<b>66,179,767</b>	<b>325,521,275</b>	<b>72,405</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	2,762,681	718,762	3,481,443	38,837
Retainage payable		117,944	117,944	
Accrued interest payable	971,053	54,365	1,025,418	
Due to other governments	20,052		20,052	
Unearned revenue/deferred revenue	11,255,616	1,095,487	12,351,103	
Other liabilities		34,572	34,572	
<b>Non-current liabilities due within one year:</b>				
General obligation bonds payable	8,733,534	1,516,749	10,250,283	
Compensated absences payable	984,594	104,950	1,089,544	
Claims and judgments payable	1,501,458		1,501,458	
Estimated liability for landfill closure and postclosure care costs	64,307		64,307	
<b>Total current liabilities</b>	<b>26,293,295</b>	<b>3,642,829</b>	<b>29,936,124</b>	<b>38,837</b>
<b>Non-current liabilities due in more than one year:</b>				
General obligation bonds payable	103,609,580	11,833,966	115,443,546	
Compensated absences payable	8,401,435	895,522	9,296,957	4,266
Claims and judgments payable	2,048,295		2,048,295	
Estimated liability for landfill closure and postclosure care costs	1,158,210		1,158,210	
Postemployment benefits healthcare costs	22,596,797	1,952,523	24,549,320	
<b>Total non-current liabilities</b>	<b>137,814,317</b>	<b>14,682,011</b>	<b>152,496,328</b>	<b>4,266</b>
<b>Total liabilities</b>	<b>164,107,612</b>	<b>18,324,840</b>	<b>182,432,452</b>	<b>43,103</b>
<b>NET POSITION</b>				
Net investment in capital assets	93,934,522	45,481,887	139,416,409	
Restricted for:				
Debt service fund		141,037	141,037	
Capital projects	938,273		938,273	
Community preservation fund	19,978,350		19,978,350	
Home and community services	987,938	141,596	1,129,534	
Unrestricted	(20,605,187)	2,090,407	(18,514,780)	29,302
<b>Total net position</b>	<b>\$ 95,233,896</b>	<b>\$ 47,854,927</b>	<b>\$ 143,088,823</b>	<b>\$ 29,302</b>

**TOWN OF RIVERHEAD**  
**GOVERNMENT-WIDE FINANCIAL STATEMENT**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2012

Function/ Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General government support	\$ 16,843,365	\$ 216,125	\$ 10,953	\$ 980,007
Public safety	26,906,255	1,345,032	229,804	87,077
Health	842,198	47,086		
Transportation	6,376,090	162,526		1,004,863
Economic assistance and opportunity	2,043,429	101,159	292,176	
Culture and recreation	2,914,809	825,565	41,455	346,289
Home and community services	4,275,173	206,695	467,023	320,530
Interest on debt	5,207,917			
Total governmental activities	\$ 65,409,236	\$ 2,904,188	\$ 1,041,411	\$ 2,738,766
Business-type Activities:				
Home and community services - Sewer	\$ 4,413,457	\$ 3,448,008		\$ 78,382
Home and community services - Water	5,674,131	3,617,046		40,053
Total business-type activities	10,087,588	7,065,054		118,435
Total Primary Government	\$ 75,496,824	\$ 9,969,242	\$ 1,041,411	\$ 2,857,201
<b>COMPONENT UNIT:</b>				
Industrial Development Agency (IDA)	\$ 187,669	\$ 165,735		
Total component unit	\$ 187,669	\$ 165,735		

**General revenues:**

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

**Transfers**

Total general revenues and transfers

Change in net position

**Net position - beginning**

**Net position - ending**

See notes to the financial statements

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Industrial Development Agency</b>
\$ (15,636,280)		\$ (15,636,280)	
(25,244,342)		(25,244,342)	
(795,112)		(795,112)	
(5,208,701)		(5,208,701)	
(1,650,094)		(1,650,094)	
(1,701,500)		(1,701,500)	
(3,280,925)		(3,280,925)	
(5,207,917)		(5,207,917)	
<u>\$ (58,724,871)</u>		<u>\$ (58,724,871)</u>	
	\$ (887,067)	\$ (887,067)	
	(2,017,032)	(2,017,032)	
	(2,904,099)	(2,904,099)	
<u>\$ (58,724,871)</u>	<u>\$ (2,904,099)</u>	<u>\$ (61,628,970)</u>	
			\$ (21,934)
			<u>\$ (21,934)</u>
\$ 43,150,149	\$ 1,764,450	\$ 44,914,599	
442,076	367,548	809,624	
1,178,655	146,688	1,325,343	
2,210,549		2,210,549	
922,797		922,797	
754,889		754,889	
460,210	1,141,811	1,602,021	\$ 59
195,899		195,899	
107,028		107,028	
921,707		921,707	
1,264,000	(1,264,000)	-0-	
<u>51,607,959</u>	<u>2,156,497</u>	<u>53,764,456</u>	<u>59</u>
(7,116,912)	(747,602)	(7,864,514)	(21,875)
<u>102,350,808</u>	<u>48,602,529</u>	<u>150,953,337</u>	<u>51,177</u>
<u>\$ 95,233,896</u>	<u>\$ 47,854,927</u>	<u>\$ 143,088,823</u>	<u>\$ 29,302</u>

**TOWN OF RIVERHEAD**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2012

MAJOR FUNDS

	General	Highway	Debt Service	Capital Projects
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,007,771	\$ 4,224,755		
Cash - restricted				\$ 2,190,732
Accounts receivable	422,290			18,171
Due from other funds	8,320,566			1,052,884
Due from other governments	1,454,328	1,043		3,259,349
Prepays	1,131,027	82,843		
Inventory	142,920			
<b>Total assets</b>	<b>\$ 19,478,902</b>	<b>\$ 4,308,641</b>	<b>\$ -0-</b>	<b>\$ 6,521,136</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,540,324	\$ 208,009		\$ 312,260
Due to other funds	508,887	60,028		5,269,932
Due to other governments	19,722			330
Deferred revenue	7,672,552	1,692,603		341
<b>Total liabilities</b>	<b>9,741,485</b>	<b>1,960,640</b>		<b>5,582,863</b>
<b>FUND BALANCES (DEFICITS)</b>				
Nonspendable	1,273,947	82,843		305,237
Restricted				633,036
Assigned	4,290,256	2,265,158		
Unassigned	4,173,214			
<b>Total fund balances (deficits)</b>	<b>9,737,417</b>	<b>2,348,001</b>		<b>938,273</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 19,478,902</b>	<b>\$ 4,308,641</b>	<b>\$ -0-</b>	<b>\$ 6,521,136</b>

See notes to the financial statements

Community Preservation	Other Governmental Funds	Total Governmental Funds
\$ 19,803,786	\$ 3,803,308	\$ 16,035,834
154	1,889,538	23,884,056
176,910	33,101	473,562
	13,640	9,387,244
	1,344,430	6,236,060
	16,038	1,229,908
		142,920
<u>\$ 19,980,850</u>	<u>\$ 7,100,055</u>	<u>\$ 57,389,584</u>
\$ 2,500	\$ 698,748	\$ 2,759,341
	1,254,434	7,095,781
	1,890,120	20,052
		11,255,616
<u>2,500</u>	<u>3,843,302</u>	<u>21,130,790</u>
\$ 19,978,350	16,038	1,678,065
	987,938	21,599,324
	2,255,804	8,811,218
	(3,027)	4,170,187
<u>19,978,350</u>	<u>3,256,753</u>	<u>36,258,794</u>
<u>\$ 19,980,850</u>	<u>\$ 7,100,055</u>	<u>\$ 57,389,584</u>

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**TOWN OF RIVERHEAD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**  
December 31, 2012

**Total fund balances - governmental funds** \$ 36,258,794

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

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

Capital assets - non-depreciable	\$ 168,254,609	
Capital assets - depreciable	155,896,954	
Accumulated depreciation	<u>(118,667,000)</u>	205,484,563

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in the government activities in the government wide statement of net assets (net of amount allocated to capital assets and long-term liabilities). 3,309,513

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 Position.

General obligation bonds	(109,050,285)	
Compensated absences	(9,386,029)	
Claims and judgments	(3,549,753)	
Estimated liability for landfill closure and postclosure care costs	(1,222,517)	
Other postemployment benefits	<u>(22,596,797)</u>	(145,805,381)

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

Premiums on debt issuance included in the Statement of Net Assets		(3,292,829)
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Due from other governments applicable to the Town's governmental activities not due and receivable in the current period, and accordingly, are not reported in the funds. However, these assets are included in the Statement of Net Position. 250,289

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 Position. (971,053)

**Net position of governmental activities** \$ 95,233,896

**TOWN OF RIVERHEAD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year ended December 31, 2012

	MAJOR FUNDS			
	General	Highway	Debt Service	Capital Projects
<b>REVENUES</b>				
Real property taxes	\$ 30,124,300	\$ 6,693,700		
Real property tax items	438,869	2,345		
Non-property tax items	1,933,544			
Departmental income	2,266,907			
Intergovernmental charges	70,671			\$ 26,213
Use of money and property	180,649	8,074		441
Licenses and permits	71,005	17,475		
Fines and forfeitures	507,518			
Sale of property and compensation for loss	168,081	4,856		34,057
Miscellaneous local sources	558,554	99,118		46,823
Interfund revenues	2,561,510			
State and local aid	1,370,997			1,013,249
Federal aid	270,793			1,160,506
Total revenues	<u>40,523,398</u>	<u>6,825,568</u>		<u>2,281,289</u>
<b>EXPENDITURES</b>				
Current:				
General government support	8,456,757	869,716		
Public safety	15,689,237			
Health	11,362			
Transportation	380,109	3,468,759		
Economic assistance and opportunity	955,887			
Culture and recreation	1,665,683			
Home and community services	1,313,580			
Employee benefits	10,271,529	1,064,218		
Capital Outlay:				3,531,883
Debt Service:				
Principal			\$ 7,844,384	
Interest			4,791,812	
Bond issuance costs			247,706	
Total expenditures	<u>38,744,144</u>	<u>5,402,693</u>	<u>12,883,902</u>	<u>3,531,883</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>1,779,254</u>	<u>1,422,875</u>	<u>(12,883,902)</u>	<u>(1,250,594)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,264,000	5,450	11,566,533	1,341,041
Transfers out	(4,786,131)	(1,375,588)		(11,000)
Payments to refunded bond escrow agent			(36,540,100)	
Refunding bonds issued			34,235,357	
Premium on debt issuance			3,622,112	
Total other financing sources (uses)	<u>(3,522,131)</u>	<u>(1,370,138)</u>	<u>12,883,902</u>	<u>1,330,041</u>
<b>Net change in fund balance</b>	<u>(1,742,877)</u>	<u>52,737</u>		<u>79,447</u>
<b>Fund balances at beginning of year</b>	<u>11,480,294</u>	<u>2,295,264</u>	<u>-0-</u>	<u>858,826</u>
<b>Fund balances at end of year</b>	<u>\$ 9,737,417</u>	<u>\$ 2,348,001</u>	<u>\$ -0-</u>	<u>\$ 938,273</u>

See notes to the financial statements

Community Preservation	Other Governmental Funds	Total Governmental Funds
	\$ 6,332,149	\$ 43,150,149
	861	442,075
\$ 2,210,549	194,649	4,144,093
	8,407	2,461,556
83,155	490,445	105,291
		762,764
		88,480
		507,518
		206,994
		704,495
		2,561,510
	647,173	3,031,419
	256,400	1,687,699
<u>2,293,704</u>	<u>7,930,084</u>	<u>59,854,043</u>
	1,082,750	10,409,223
	960,138	15,689,237
	1,332,282	971,500
	318,182	5,181,150
	52,551	1,274,069
2,500	3,262,458	1,718,234
	170,627	4,578,538
		11,506,374
		3,531,883
		7,844,384
		4,791,812
		247,706
<u>2,500</u>	<u>7,178,988</u>	<u>67,744,110</u>
<u>2,291,204</u>	<u>751,096</u>	<u>(7,890,067)</u>
		14,177,024
(5,943,614)	(796,691)	(12,913,024)
		(36,540,100)
		34,235,357
		3,622,112
<u>(5,943,614)</u>	<u>(796,691)</u>	<u>2,581,369</u>
(3,652,410)	(45,595)	(5,308,698)
<u>23,630,760</u>	<u>3,302,348</u>	<u>41,567,492</u>
<u>\$ 19,978,350</u>	<u>\$ 3,256,753</u>	<u>\$ 36,258,794</u>

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**TOWN OF RIVERHEAD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2012

Net change in fund balances - total governmental funds \$ (5,308,698)

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

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

Capital outlay	\$ 3,595,959	
Depreciation expense	(3,132,833)	
		463,126

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

Deferred Revenue		(3,292,829)
Mortgage tax		14,784

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

Claims and judgments payable	(925,776)	
Other change in net position	<u>(774,230)</u>	
		(1,700,006)

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

Debt issued	(34,235,357)	
Repayment of debt principal	44,384,484	
Compensated absences	(1,339,316)	
Estimated liability for landfill closure and postclosure care costs	179,680	
Other postemployment benefits	(5,866,675)	
Accrued interest payable	<u>(416,105)</u>	
		<u>2,706,711</u>

Change in net position of governmental activities \$ (7,116,912)

**TOWN OF RIVERHEAD**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
December 31, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 6,200,705	\$ 1,887,511	\$ 8,088,216	\$ 2,616,175
Accounts receivable		443,544	443,544	
Billings receivables, net of allowance of \$15,264 in Sewer	72,632	1,034,178	1,106,810	
Due from other funds				696,678
Due from other governments	146,797	423,230	570,027	
Prepays	43,212	57,336	100,548	
Inventory		35,278	35,278	
Total current assets	6,463,346	3,881,077	10,344,423	3,312,853
<b>Non-current assets:</b>				
<b>Capital assets:</b>				
Land	738,977	778,017	1,516,994	
Intangibles - non-depreciable easements		2,378,757	2,378,757	
Construction work in progress	6,198,147	5,875,041	12,073,188	
Buildings	22,766,748	11,016,872	33,783,620	
Improvements other than buildings	1,847,847	134,711	1,982,558	
Machinery and equipment	946,307	7,287,087	8,233,394	
Infrastructure	21,024,792	42,257,357	63,282,149	
Intangibles - depreciable		88,000	88,000	
Less accumulated depreciation/amortization	(33,130,310)	(31,384,865)	(64,515,175)	
Capital assets, net of accumulated depreciation	20,392,508	38,430,977	58,823,485	
Total non-current assets	20,392,508	38,430,977	58,823,485	
<b>Total assets</b>	<b>26,855,854</b>	<b>42,312,054</b>	<b>69,167,908</b>	<b>3,312,853</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	252,316	466,446	718,762	3,340
Retainage payable		117,944	117,944	
Customers deposits payable		34,572	34,572	
General obligation bonds payable	420,617	1,096,132	1,516,749	
Claims and judgments payable				1,501,458
Compensated absences payable	28,376	76,574	104,950	
Due to other funds	37,664	2,950,477	2,988,141	
Unearned revenue/deferred revenue	692,553	402,934	1,095,487	
Total current liabilities	1,447,629	5,183,341	6,630,970	1,504,798
<b>Non-current liabilities:</b>				
General obligation bonds payable	3,370,852	8,463,114	11,833,966	
Claims and judgments payable				2,048,295
Compensated absences payable	242,129	653,393	895,522	
Postemployment benefits healthcare costs	917,191	1,035,332	1,952,523	
Total non-current liabilities	4,530,172	10,151,839	14,682,011	2,048,295
<b>Total liabilities</b>	<b>5,977,801</b>	<b>15,335,180</b>	<b>21,312,981</b>	<b>3,553,093</b>
<b>NET POSITON</b>				
Net investment in capital assets	16,574,962	28,906,925	45,481,887	
Restricted for capital purposes				
Restricted for debt service		141,037	141,037	
Restricted for other purposes	15,714	125,882	141,596	
Unrestricted	4,287,377	(2,196,970)	2,090,407	(240,240)
<b>Total net positon</b>	<b>\$ 20,878,053</b>	<b>\$ 26,976,874</b>	<b>\$ 47,854,927</b>	<b>\$ (240,240)</b>

**TOWN OF RIVERHEAD**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
Year ended December 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities- Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	
<b>OPERATING REVENUES</b>				
Charges for sales and services:				
Water sales		\$ 3,506,152	\$ 3,506,152	
Sewer rents	\$ 2,189,082		2,189,082	
Sewer charges	1,244,534		1,244,534	
Departmental income		64,799	64,799	
Water service charges		46,095	46,095	
Service other departments				\$ 696,678
Other services	14,392		14,392	
Total operating revenues	<u>3,448,008</u>	<u>3,617,046</u>	<u>7,065,054</u>	<u>696,678</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and services:				
Administration	1,207,510	1,522,185	2,729,695	145,865
Insurance				13,170
Judgments and claims				2,245,627
Sewerage treatment disposal	1,663,558		1,663,558	
Source of supply, power and pump		1,595,482	1,595,482	
Depreciation/amortization	653,314	1,206,042	1,859,356	
Employee benefits	769,457	985,385	1,754,842	
Total operating expenses	<u>4,293,839</u>	<u>5,309,094</u>	<u>9,602,933</u>	<u>2,404,662</u>
<b>Operating income (loss)</b>	<u>(845,831)</u>	<u>(1,692,048)</u>	<u>(2,537,879)</u>	<u>(1,707,984)</u>
<b>NON-OPERATING REVENUE (EXPENSE)</b>				
Investment earnings - unrestricted	121,994	77,188	199,182	7,978
Interest expense	(119,618)	(359,799)	(479,417)	
Bond issuance costs not being amortized		(5,238)	(5,238)	
Tower rentals and miscellaneous		942,629	942,629	
Developers' fees	78,382	40,053	118,435	
Real property taxes and tax items	538,800	1,225,650	1,764,450	
Other real property tax items	367,548		367,548	
Non-property tax distribution by county	146,688		146,688	
Total non-operating revenue (expense)	<u>1,133,794</u>	<u>1,920,483</u>	<u>3,054,277</u>	<u>7,978</u>
Income (loss) before transfers	287,963	228,435	516,398	(1,700,006)
Transfers out	(558,400)	(705,600)	(1,264,000)	
<b>Change in net position</b>	<u>(270,437)</u>	<u>(477,165)</u>	<u>(747,602)</u>	<u>(1,700,006)</u>
Total net position - beginning	21,148,490	27,454,039	48,602,529	1,459,766
<b>Total net position - ending</b>	<u>\$ 20,878,053</u>	<u>\$ 26,976,874</u>	<u>\$ 47,854,927</u>	<u>\$ (240,240)</u>

**TOWN OF RIVERHEAD**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year ended December 31, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers and users	\$ 4,002,815	\$ 3,041,304	\$ 7,044,119	\$ 696,678
Cash payments contractual expense	(2,192,961)	(1,889,915)	(4,082,876)	(1,975,464)
Cash payments employees	(1,678,385)	(2,080,307)	(3,758,692)	282,154
Other revenues	14,392	64,799	79,191	
<b>Net cash provided (used) by operating activities</b>	<b>145,861</b>	<b>(864,119)</b>	<b>(718,258)</b>	<b>(996,632)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Real property taxes and tax items	906,348	1,225,650	2,131,998	
Non-property tax distribution by county	146,688		146,688	
Tower rentals		942,629	942,629	
Developer refunds and other miscellaneous expenses		(75,611)	(75,611)	
Transfers to/from other funds	(519,165)	36,796	(482,369)	(696,678)
<b>Net cash provided (used) by noncapital and related financing activities</b>	<b>533,871</b>	<b>2,129,464</b>	<b>2,663,335</b>	<b>(696,678)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal paid on capital debt	(497,803)	(968,071)	(1,465,874)	
Interest paid on capital debt	(122,934)	(363,373)	(486,307)	
Bond issuance costs not being amortized		(5,238)	(5,238)	
Capital contributions by developer's	78,382	115,664	194,046	
Payments to contractors	(476,777)	(394,041)	(870,818)	
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(1,019,132)</b>	<b>(1,615,059)</b>	<b>(2,634,191)</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest income	121,994	77,188	199,182	7,978
<b>Net cash provided by investing activities</b>	<b>121,994</b>	<b>77,188</b>	<b>199,182</b>	<b>7,978</b>
Net increase (decrease) in cash and cash equivalents	(217,406)	(272,526)	(489,932)	(1,685,332)
Cash and cash equivalents at January 1, 2012	6,418,111	2,160,037	8,578,148	4,301,507
<b>Cash and cash equivalents at December 31, 2012</b>	<b>\$ 6,200,705</b>	<b>\$ 1,887,511</b>	<b>\$ 8,088,216</b>	<b>\$ 2,616,175</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (845,831)	\$ (1,692,048)	\$ (2,537,879)	\$ (1,707,984)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	653,314	1,206,042	1,859,356	
(Increase) decrease in due to/from other governments		(13,108)	(13,108)	
(Increase) decrease in accounts receivable		(393,544)	(393,544)	
(Increase) decrease in billings receivable	440,236	(239,757)	200,479	
(Increase) decrease in inventory		9,099	9,099	
(Increase) decrease in prepaid expense	(3,259)	(7,103)	(10,362)	
Increase (decrease) in deferred revenue	128,963	135,466	264,429	
Increase (decrease) in compensated absences	935	5,968	6,903	
Increase (decrease) in postemployment healthcare benefits	229,885	321,462	551,347	
Increase (decrease) in accounts payable/accrued liabilities	(466,676)	(138,639)	(605,315)	(214,424)
Increase (decrease) in retainage payable		(53,026)	(53,026)	
Increase (decrease) in claims and judgments				925,776
Increase (decrease) in accrued liabilities	8,294	(4,931)	3,363	
Total adjustments	<b>991,692</b>	<b>827,929</b>	<b>1,819,621</b>	<b>711,352</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 145,861</b>	<b>\$ (864,119)</b>	<b>\$ (718,258)</b>	<b>\$ (996,632)</b>

**TOWN OF RIVERHEAD**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
December 31, 2012

		Agency Fund	
<b>ASSETS</b>			
Cash	\$	21,117,660	
Accounts receivable		54,634	
		21,172,294	<b>Total assets</b>
	\$	21,172,294	
 <b>LIABILITIES</b>			
Due to school districts	\$	19,432,447	
Other agency liabilities		1,739,847	
		21,172,294	<b>Total liabilities</b>
	\$	21,172,294	

**TOWN OF RIVERHEAD**  
**INDEX FOR NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Riverhead (the "Town"), which was established in 1792, is governed by Town Law and other general laws of the State of New York and various local laws. The Town Board is the legislative body responsible for overall operations. The Town Board consists of the Supervisor who is elected for a term of two years and four council members who are elected for terms of four years. The Town Board appoints the Town Attorney whose term is fixed by Town Law. The Town Clerk and Receiver of Taxes are elected and serve for four years terms. 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 basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals.

The most significant of the Town's accounting policies are described below.

**A. REPORTING ENTITY**

The financial reporting entity consists of (a) the primary government, which is the Town; (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.

The decision to include a potential component unit in the Town of Riverhead reporting entity is based on several criteria; including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the following is a summary of certain entities considered in determining the Town's reporting entity.

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

Inclusion of the Community Development Agency as a component unit of the Town of Riverhead reported as a special revenue fund type is required solely because the members of the Community Development Agency are the same as the members of the Town Board of the Town of Riverhead. When acting as a member of the Community Development Agency, however, a member has a fiduciary responsibility to the Community Development Agency and not to the Town of Riverhead.

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

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

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

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**A. REPORTING ENTITY** (continued)

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

The Riverhead IDA Economic Job Development Corporation (LDC) is considered a component unit of the RIDA. The LDC is a non-profit organization formed by the Town. It shares its' membership and purpose with the IDA. The LDC was incorporated on February 3, 2011 and was not active during 2011.

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

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

Riverhead Industrial Development Agency  
200 Howell Avenue  
Riverhead, NY 11901

**B. GOVERNMENT-WIDE AND FUND FINANCIALS STATEMENTS**

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Town as a whole and its component units. For the most part, the effect of interfund activity has been eliminated from the government-wide financial statements, except for interfund services provide and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function, and 3) interest earned on grants or capital projects that is required to be used to support a particular program or project. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses to specific functions in the Statement of Activities.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing and delivering services and/or goods in connection with the proprietary fund's principal ongoing operations. Operating expenses include the cost of personnel (salaries and benefits), materials and supplies, direct costs, equipment and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues (such as interest earnings) and expenses (such as interest expense).

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. GOVERNMENT-WIDE AND FUND FINANCIALS STATEMENTS** (continued)

**Fund Financial Statements**

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. Certain funds of the Town are utilized to account for resources derived from and/or expenditures applicable to an area less than the entire town. The focus of the governmental funds financial statements is on the major funds. 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. Government funds are further classified as major and nonmajor 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 and report all financial resources not accounted for and reported in another fund.

Highway Fund – a special revenue fund is used to account for revenues and expenditures for highway purposes. This includes all operations relating to the repair and maintenance of Town roads.

Debt Service Fund – is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and for financial resources that are being accumulated for principal and interest in future years. The fund balance of the Debt Service Fund, if any, is restricted to signify the amounts that are restricted exclusively for debt service expenditures.

Capital Projects Fund – is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets other than those financed by proprietary funds. This includes financial resources to be used for the acquisition, construction, renovation, expansion and major improvement of various Town facilities, thoroughfares, arterial streets and drainage improvements, improvements and construction of parks and recreational facilities and acquisition of land and other large nonrecurring projects, other than those financed by proprietary funds. It is also used to account for some grants received from Federal, State and/or County sources.

Special Revenue Funds – are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Special Revenue Funds include the following:

Community Preservation Fund – is used to account for financial resources for land acquisition and preservation of open space. The voters of the Town approved the implementation of a real estate transfer tax in the amount of 2% against the proceeds of the sale of real property in excess of \$150,000 for developed property and in excess of \$75,000 for undeveloped property. The tax is to be collected on every transaction through the year 2030. The proceeds of this tax are required to be set aside and used to pay the cost of the acquisition of real property, or development rights in farmland for the preservation of open space in the Town.

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. GOVERNMENT-WIDE AND FUND FINANCIALS STATEMENTS** (continued)

**Fund Financial Statements** (continued)

Additionally, the Town reports the following nonmajor funds:

Special Revenue Funds include the following:

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

Special Trust Fund – includes funds collected as impact fees from newly approved residential subdivisions and condominiums. The Town Board set the fee of \$2,000 per parcel by Town Board Resolution on April 2, 1991. On September 19, 2000 the Town Board approved an increase to \$5,000 per parcel.

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

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

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

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

Refuse and Garbage District Fund – includes all operations of the closed Town Landfill and includes contracted residential garbage pickup. Prior to 1992 when the district was created, landfill operations were part of the General Fund and there was no residential pickup. On January 1, 1997, the Town closed the transfer station at the Town Landfill. Commercial carters are contracted with the Town to provide residential collection of solid waste and are responsible for the ultimate disposal of this solid waste. Only residential properties contribute to the operations of the district via real property taxes on a benefit derived basis.

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

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

**Proprietary Fund Financial Statements**

Proprietary Funds – are used to account for ongoing activities which are similar to those often found in the private sector. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position and a Statement of Cash Flows for each major proprietary fund.

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

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. GOVERNMENT-WIDE AND FUND FINANCIALS STATEMENTS** (continued)

**Proprietary Fund Financial Statements** (continued)

The Town reports the following major proprietary funds:

The Sewer District Fund, which is comprised of:

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

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

Riverhead Scavenger Waste District Fund – includes all the operations relating to scavenger or septic system waste from properties outside the two sewer districts. A Joint Scavenger Waste District was established in 1979 as a joint activity between the Towns of Riverhead and Southampton. This joint activity terminated on December 31, 2001 and this fund was established on January 1, 2002. This fund also includes its own capital projects.

The Water District Fund:

The Water District Fund – includes operations relating to potable water within the Town. This district does not encompass the entire Town. This fund also includes its own capital projects. The water district was converted to an Enterprise Fund in 2002.

Additionally, the Town reports the following fund type:

**Internal Service Funds** - are used to account for special activities or services provided by one department to other departments on a cost-reimbursement basis.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the Town's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (general government support, public safety, health, transportation, economic assistance and opportunity, culture and recreation, home and community services, etc.). When appropriate, surplus or deficits in the Internal Service Funds may be allocated back to customers at the government-wide level Statement of Activities. This creates a reconciling item between the business-type activities column and the proprietary fund statements.

The Internal Service Fund includes the following funds:

Self-Insurance Fund – Worker's Compensation – is a fund that the Town uses as a self-insurance program covering workers' compensation costs for all employees and this fund is used to report this activity. The Town obtained catastrophic loss coverage beginning with the fourth quarter of 1993. For 2012, workers' compensation has a Self-Insured Retention (SIR) of \$250,000 for police personnel and a Self-Insured Retention (SIR) of \$175,000 for all non-police personnel.

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. GOVERNMENT-WIDE AND FUND FINANCIALS STATEMENTS** (continued)

**Proprietary Fund Financial Statements** (continued)

**Internal Service Funds** (continued)

Self-Insurance Fund – Risk Retention Fund – is used to account for the Town's self-insurance program that was adopted in 1987 when insurance liability coverage was becoming increasingly difficult to obtain and the cost of liability insurance was becoming prohibitive. Beginning in the fourth quarter of 1993, the Town obtained catastrophic loss coverage. For 2012, property had a \$100,000 SIR with a limit of \$10,000,000 for the building and contents. Liability had a \$150,000 SIR with a limit of \$10,000,000. This fund is accounted for as Risk Retention in the internal service fund.

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

As a general rule the effect of interfund has been eliminated from the government-wide financial statements. Exceptions to this general rule are internal service fund charges and charges between the Town's Sewer and Water Enterprise Funds and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues of the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function, and 3) interest earned on grants or capital projects that is required to be used to support a particular program or project. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes the Town has the authority to impose.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation of capital assets. All revenues and expenses not meeting the definition are reported as non-operating revenues and expenses.

**Fiduciary Funds**

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

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

The Town has presented the following fiduciary funds:

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

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town generally considers revenues to be available if they are collected within sixty (60) days of the end of the current period. However, certain revenues maybe considered available if received within one year after the end of the current year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closure and postclosure care costs, pollution remediation obligations and other postemployment benefits are recorded when payment is due.

Revenues susceptible to accrual are sales tax, mortgage tax, franchise fees, state and federal aid, intergovernmental revenue and operating transfers. All other governmental fund revenues are recognized when received. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements are met. Expenditures for prepaids are recognized when incurred.

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net position and the change in net position.

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

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

**D. ASSETS, LIABILITIES, AND NET POSITION/FUND BALANCE**

**1. CASH AND INVESTMENTS**

Cash consists of funds deposited in demand accounts, both interest bearing and non-interest bearing, time deposit accounts and petty cash. For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity when purchased of three months or less to be cash equivalents.

State statutes, Town bond ordinances and Town resolutions authorize the Town's investments. In addition, the Town has its own written investment policy. Town monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The Town Supervisor is authorized to use demand accounts, special time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities. All demand deposits and special time deposit accounts are carried at cost. The Town has no investments at December 31, 2012.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**D. ASSETS, LIABILITIES, AND NET POSITION/FUND BALANCE** (continued)

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

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

The Town's deposits were fully insured or collateralized as required by the state statutes at December 31, 2012.

**2. RESTRICTED ASSETS**

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

**3. RECEIVABLES AND PAYABLES**

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

Interfund transactions, exclusive of interfund services provided and used, have been eliminated from the government-wide financial statements. In the funds statements, interfund transactions include:

**a) Interfund Revenues**

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

**b) Transfers**

Transfers represent payments to the Debt Service Fund from the other funds for their appropriate share of the debt service and indirect expense allocations between the Enterprise Funds and the General Fund. Other transactions between funds include residual equity transfers to close out completed capital projects as well as transfers to fund certain capital projects.

**4. DUE FROM/TO OTHER FUNDS**

During the course of operations the government has activity between funds for various purposes. Balances of interfund amounts receivable or payable have been recorded in the fund financial statements to the extent that certain transactions between funds had not been paid or received as of the year-end. Certain eliminations are made in the preparation of the government-wide financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**D. ASSETS, LIABILITIES, AND NET POSITION/FUND BALANCE (continued)**

**5. INVENTORY AND PREPAID ITEMS**

Inventory in the General Fund and the Proprietary Funds is valued at cost. Inventory in these funds is accounted for under the purchase method, utilizing the first-in, first-out method (FIFO).

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both the government-wide and fund financial statements.

In governmental funds, amounts reported as inventories and prepaid items are equally offset by nonspendable fund balance amounts, indicating that they do not constitute "available spendable resources" even though they are a component of net current assets.

**6. CAPITAL ASSETS**

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets purchased or acquired with an original cost of \$5,000 or more and a five year useful life are reported at historical cost or estimated historical cost. Infrastructure assets capitalized with an original cost of \$5,000 or more are reported at historical cost. Contributed assets are valued at their fair market value on the date donated. Other costs incurred for repairs and maintenance are expensed as incurred. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant or equipment.

Intangible assets lack a physical substance, are nonfinancial in nature, and have an estimated useful life extending beyond a single reporting period. The Town does not capitalize internally generated capital assets produced by Town labor. The Town will capitalize all other intangible assets exceeding \$50,000 and having a useful life of more than three years. Intangibles with indefinite useful lives may be capitalized (if it exceeds the threshold) and not amortized. The term depreciation, as used in these footnotes, includes amortization of intangible assets. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Governmental Funds:</u>	
Buildings	50 years
Buildings - highway salt barn	25 years
Buildings - municipal garage	30 years
Improvements other than buildings	15 years
Improvements other than buildings - municipal garage	10 years
Improvements other than buildings - fuel tanks and pumps	20 years
Intangibles	5 years
Machinery and equipment:	
Equipment	5 years
Equipment - autos and pick-ups	5 years
Equipment - heavy trucks	10 years
Equipment - boat	10 years
Equipment - traffic lights	15 years
Infrastructure/Improvements:	
Drainage and sidewalks	30 years
Parking lots	15 years
Roads	20 years
<u>Proprietary Funds:</u>	
Buildings:	
Calverton sewer district	20 years
Riverhead sewer district	50 years
Riverhead water district	40 years
Intangibles:	
Riverhead water district	5 years
Machinery and equipment:	
Equipment - autos and pick-ups:	
Riverhead sewer district	5 years
Riverhead water district	5 years
Equipment - heavy trucks:	
Riverhead sewer district	10 years
Riverhead water district	5 years
Infrastructure/Improvements:	
Calverton sewer district	20 years
Riverhead sewer district	15 years
Riverhead water district - water pipes	50 years
Riverhead water district - improvements	15 years

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**D. ASSETS, LIABILITIES AND NET POSITION/FUND BALANCE** (continued)

**6. CAPITAL ASSETS** (continued)

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

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

**7. UNEARNED REVENUE/DEFERRED REVENUE**

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

**8. LONG-TERM OBLIGATIONS**

In the government-wide financial statements and in the proprietary fund types of the fund financial statements, liabilities for long-term obligations consisting of general obligation bonds, compensated absences, judgments and claims, liability for landfill closure and postclosure care costs, pollution remediation, and other postemployment benefits are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs, that are material, are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period, in the fund servicing the debt. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

Bond issuance costs that are immaterial are charged as an operating expense. Premiums that are immaterial will not be amortized.

**9. NET POSITION AND FUND EQUITY CLASSIFICATIONS**

In the government-wide financial statements and proprietary fund financial statements, net position is reported in three categories:

- 1) Net investment in capital assets—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. Accounts payable in the Capital Projects Fund are capital related debt and are used in the calculation of net invested in capital assets.
- 2) Restricted—Consists of net position 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
- 3) Unrestricted—All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**D. ASSETS, LIABILITIES AND POSITION ASSETS/FUND BALANCE** (continued)

**9. NET POSITION AND FUND EQUITY CLASSIFICATIONS** (continued)

In the fund financials statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are 1) nonspendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (i.e. prepaid items or inventories), or (b) will not convert to cash within the current period (i.e. long term receivables and financial assets held for resale), or (c) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- 2) Restricted fund balance reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance reflects amounts that can only be used for specific purposes by a government using its highest and most binding level of decision making authority. The Town's highest decision making authority is the Town Board, who by adoption of a Town ordinance prior to year end, can commit fund balance. Those committed amounts cannot be used for any other purpose unless the Town Board removes or changes the specified use by taking the same type of action imposing the commitment.
- 4) Assigned fund balance reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. The Town Board and the Finance Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
- 5) Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

**10. NET POSITION AND FUND BALANCE FLOW ASSUMPTIONS**

When outlays for a particular purpose can be funded from both restricted and unrestricted resources it is the government's policy to consider restricted – net position to have been depleted before unrestricted – net policy is applied.

When both restricted and unrestricted fund balance resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources – committed, assigned and unassigned - in order as needed.

**11. FUND BALANCE POLICIES**

The Town has, by resolution, adopted a fund balance policy that states the Town will make all reasonable efforts to maintain a total unrestricted (the total of committed, assigned, and unassigned) fund balance in its General Fund, including reserves, of no less than 15% of its total operating budget. If an emergency or a need were to occur that necessitated the appropriation of funds that would result in reducing the General Fund's fund balance below 15% of operating expenditures, a resolution of the Town Board, by simple majority, would be necessary to approve such appropriation. Unrestricted fund balance below the minimum cannot be replaced unless during the succeeding year expenditures are less than amounts budgeted and/or non-tax revenues are higher than projected.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**E. REVENUES AND EXPENDITURES**

**1. REAL PROPERTY TAX ASSESSEMENT AND COLLECTION PROCEDURES**

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

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

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

**2. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS**

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their dependents. For Town management and Town elected officials eligibility requirements for coverage in retirement are five consecutive years of service with the Town for all individuals hired or elected prior to November 4, 2009; for Civil Service Employee Association member this date is October 7, 2008, and 10 consecutive years of service with the Town for all individuals hired or elected thereafter, and the employee must either (1) be in service to the Town on the last date immediately prior to retirement in the NYSERS; or (2) have been in service to the Town as his/her last public sector employer, and have continuously self-paid his/her health insurance premiums to, and remained enrolled in, the Town's health insurance plan between the last date of service with the Town and the date of vesting and also be eligible for the receipt of benefits from the NYSERS.

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

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

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

The liability for these other postemployment benefits payable is recorded as long-term debt in the government-wide statements.

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

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

**3. COMPENSATED ABSENCES**

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

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

**F. ENCUMBRANCES**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purpose, is employed in the governmental funds. Encumbrances are reported as restrictions, commitments, or assignments 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. Appropriations for all governmental funds except the Capital Projects Fund lapse at year-end. However, encumbrances reserved against fund balance are re-appropriated in the ensuing year.

**G. USE OF ESTIMATES**

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

**H. NEW ACCOUNTING PRONOUNCEMENTS**

The Town has adopted all of the current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. During the year ended December 31, 2012, the Town adopted:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA*

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

**I. SUBSEQUENT EVENTS**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date of the financial statements.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

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

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

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

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**B. FUND EQUITY**

**FUND BALANCE**

The following table provides the detail regarding fund balance categories and classifications for the governmental funds which show components of nonspendable fund balances, as well as the purposes for restricted, and assigned fund balance. The unassigned fund balance is also shown.

	General Fund	Highway Fund	Capital Projects Funds	Community Preservation Fund	Other Governmental Funds	Total
<b>Fund Balances:</b>						
<b>Nonspendable:</b>						
Long-term receivables			\$ 305,237			\$ 305,237
Inventory	\$ 142,920					142,920
Prepaid items	1,131,027	\$ 82,843			\$ 16,038	1,229,908
Total Nonspendable	<u>1,273,947</u>	<u>82,843</u>	<u>305,237</u>		<u>16,038</u>	<u>1,678,065</u>
<b>Restricted for:</b>						
Debt service				\$ 4,557,300		4,557,300
Community preservation - 2% tax				15,421,050		15,421,050
Capital projects			435,315			435,315
Purchases on order and/or contractual obligations			197,721		7,826	205,547
Home and community services					980,112	980,112
Total Restricted			<u>633,036</u>	<u>19,978,350</u>	<u>987,938</u>	<u>21,599,324</u>
<b>Assigned to:</b>						
Subsequent year's budget	3,082,680				836,400	3,919,080
Insurance reserve	374,789	42,659			32,185	449,633
Purchases on order and/or contractual obligations	243,617	241,000			59,005	543,622
Miscellaneous designations	589,170					589,170
Special revenue funds		1,981,499			1,328,214	3,309,713
Total Assigned	<u>4,290,256</u>	<u>2,265,158</u>	<u>-0-</u>	<u>-0-</u>	<u>2,255,804</u>	<u>8,811,218</u>
<b>Unassigned, reported in</b>						
General fund	4,173,214					4,173,214
Business Improvement District					(3,027)	(3,027)
Total Unassigned	<u>4,173,214</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(3,027)</u>	<u>4,170,187</u>
Total Fund Balances	<u>\$ 9,737,417</u>	<u>\$ 2,348,001</u>	<u>\$ 938,273</u>	<u>\$ 19,978,350</u>	<u>\$ 3,256,753</u>	<u>\$ 36,258,794</u>

**DEFICIT NET POSITION**

The Internal Service Fund deficit of \$240,240 resulted from a settlement after the balance sheet date that was allocated to the funds in 2013.

**FUND BALANCE RESERVES AND DESIGNATIONS**

**Miscellaneous Designations**

The majority of the \$589,170 in miscellaneous reserves in the General Fund consists of the following designated fund balances: \$307,891 is designated for the building operations of the Stotzky Park child care building, \$131,261 is designated for the Town Board special programs, \$39,691 is designated for the Empire Zone and \$47,834 is designated for the Senior Day Care Center.

**Debt Service**

The debt service reserve in the Community Preservation Fund and Proprietary Fund Water District are the amounts that are being held specifically for debt service payments related to that fund.

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**3. DETAILED NOTES ON ALL FUNDS**

**A. CASH AND CASH EQUIVALENTS**

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

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

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

At December 31, 2012 the Town's deposits totaled \$71,741,941 and the bank balances totaled \$58,273,934. The respective bank balances consisted solely of deposits. Of the total bank balance, \$14,070,268 was covered by the Federal Depository Insurance Corporation (FDIC) and \$44,203,666 was covered by collateral held by the Town's agent, a third party financial institution, in the Town's name.

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

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

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

As of December 31, 2012, the Town of Riverhead did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

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**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**B. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

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

At December 31, 2012, individual fund interfund receivable and payable balances represent either loans, services provided, or reimbursements which are expected to be paid currently. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditure/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. These balances, representing various short-term loans for operating purposes, are stated as follows:

	Receivable	Payable
Governmental Activities:		
Major Funds:		
General Fund	\$ 8,320,566	\$ 508,887
Highway Fund		60,028
Capital Projects Fund	1,052,884	5,269,932
Community Preservation Fund	154	2,500
Nonmajor Funds:		
Other Governmental Funds	13,640	1,254,434
Total Governmental Funds	9,387,244	7,095,781
Business-type Activities:		
Sewer District Funds		37,664
Water District Funds		2,950,477
Internal Service Funds	696,678	
Total Business-Type Activities	696,678	2,988,141
Total	\$ 10,083,922	\$ 10,083,922

At December 31, 2012, individual fund interfund transfers balances for Governmental and Proprietary Funds representing legally authorized transfers, were as follows:

	Transfer In	Transfer Out
Governmental Activities:		
Major Funds:		
General Fund	\$ 1,264,000	\$ 4,786,131
Highway Fund	5,450	1,375,588
Debt Service Fund	11,566,533	
Capital Projects Fund	1,341,041	11,000
Community Preservation Fund		5,943,614
Nonmajor Funds:		
Other Governmental Funds		796,691
Total Governmental Funds	14,177,024	12,913,024
Business-type activities:		
Sewer District Funds		558,400
Water District Funds		705,600
Total Business-Type Activities	-0-	1,264,000
Total	\$ 14,177,024	\$ 14,177,024

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**C. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012 was as follows:

**Primary Government**

	Balance 1/1/2012	Additions	Transfers/ Disposals/ Reclass	Balance 12/31/2012
<b><u>Governmental Activities:</u></b>				
Capital assets not being depreciated/amortized				
Land and landfills	\$ 104,463,231	\$ 329,679		\$ 104,792,910
Intangibles - development rights/easements	52,966,917			52,966,917
Construction work in progress	12,657,145	3,688,528	\$ 5,850,891	10,494,782
Total capital assets not being depreciated	<u>170,087,293</u>	<u>4,018,207</u>	<u>5,850,891</u>	<u>168,254,609</u>
Depreciable/amortizable capital assets				
Buildings	12,717,338			12,717,338
Improvements	10,960,714	3,805,938		14,766,652
Infrastructure	106,425,416	935,854		107,361,270
Machinery and equipment	20,862,225	675,352	602,475	20,935,102
Intangibles - software	105,093	11,499		116,592
Total depreciable capital assets	<u>151,070,786</u>	<u>5,428,643</u>	<u>602,475</u>	<u>155,896,954</u>
Less accumulated depreciation/amortization				
Buildings	3,925,764	274,266		4,200,030
Improvements	4,834,094	820,686		5,654,780
Infrastructure	90,096,009	1,183,867		91,279,876
Machinery and equipment	17,208,190	839,090	602,475	17,444,805
Intangibles - software	72,585	14,924		87,509
Total accumulated depreciation	<u>\$ 116,136,642</u>	<u>\$ 3,132,833</u>	<u>\$ 602,475</u>	<u>\$ 118,667,000</u>
Total net depreciable capital assets				<u>37,229,954</u>
Total net capital assets				<u>\$ 205,484,563</u>

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**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**C. CAPITAL ASSETS (continued)**

	Balance 1/1/2012	Additions	Transfers/ Disposals/ Reclass	Balance 12/31/2012
<b>Business-type Activities:</b>				
Capital assets not being depreciated/amortized				
Land	\$ 1,353,928	\$ 163,066		\$ 1,516,994
Intangibles - development rights/easements	2,378,757			2,378,757
Construction work in progress	12,246,854	890,875	\$ 1,064,541	12,073,188
Total capital assets not being depreciated	<u>15,979,539</u>	<u>1,053,941</u>	<u>1,064,541</u>	<u>15,968,939</u>
Depreciable/amortizable capital assets				
Buildings	33,783,620			33,783,620
Improvements	1,971,628	10,930		1,982,558
Infrastructure	62,424,453	857,696		63,282,149
Machinery and equipment	8,238,572	12,792	17,970	8,233,394
Intangibles - software	88,000			88,000
Total depreciable capital assets	<u>106,506,273</u>	<u>881,418</u>	<u>17,970</u>	<u>107,369,721</u>
Less accumulated depreciation/amortization				
Buildings	15,595,720	610,804		16,206,524
Improvements	695,151	126,028		821,179
Infrastructure	38,352,534	1,010,867		39,363,401
Machinery and equipment	8,011,317	94,057	17,970	8,087,404
Intangibles - software	19,067	17,600		36,667
Total accumulated depreciation	<u>\$ 62,673,789</u>	<u>\$ 1,859,356</u>	<u>\$ 17,970</u>	<u>\$ 64,515,175</u>
Total net depreciable capital assets				<u>42,854,546</u>
Total net capital assets				<u>\$ 58,823,485</u>
<b>Governmental Activities:</b>				
General government support				\$ 607,954
Public safety				225,676
Health				50,117
Transportation				1,271,531
Economic assistance and opportunity				278,830
Culture and recreation				593,631
Home and community services				105,094
Total depreciation expense - governmental activities				<u>\$ 3,132,833</u>
<b>Business-type Activities:</b>				
Home and community services - Sewer				\$ 653,314
Home and community services - Water				1,206,042
Total depreciation expense - business-type activities				<u>\$ 1,859,356</u>

The Town of Riverhead evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Town's policy is to record an impairment loss in the period when the Town determines that the carrying amount of the asset will not be recoverable. At December 31, 2012, the Town has not recorded any such impairment losses.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**D. INDEBTEDNESS**

**Short-term Debt**

**Bond Anticipation Notes (BANs)** – Bond anticipation notes (BANs) are generally used as a temporary means of financing capital expenditures in the Capital Projects Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. BANs issued for assessable improvement projects, as found in the Water and/or Sewer Districts, may be renewed for periods equivalent to maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. Liabilities for BANs are generally accounted for in the Capital Projects Fund and Proprietary Funds. BANs are expected to be paid from the proceeds of future bond issues after renewal of these notes or by the stipulated annual reductions of principal. Payments of this short-term debt are made through the debt service fund. At December 31, 2012 there were no outstanding BANs.

**Long-term Debt**

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

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the Town to rebate excess arbitrage earnings from bond proceeds to the federal government. There were no excess arbitrage earnings for the year ended December 31, 2012.

The long-term liabilities, which are backed by the full faith and credit of the Town bear interest at various rates from 0.785% to 5.000% and have maturity dates from 2013 through 2031.

**Primary Government**

	Balance 1/1/2012	Issued	Redeemed	Refunded	Balance 12/31/2012
<b>Governmental Activities:</b>					
General	\$ 46,708,300	\$ 19,062,059	\$ 3,292,069	\$ 20,332,900	\$ 42,145,390
Highway	8,289,970	1,526,969	746,269	1,594,200	7,476,470
Community Preservation	61,896,224	13,487,194	3,692,226	14,447,700	57,243,492
Nonmajor	2,304,918	159,135	113,820	165,300	2,184,933
Total government activities	<u>119,199,412</u>	<u>34,235,357</u>	<u>7,844,384</u>	<u>36,540,100</u>	<u>109,050,285</u>
<b>Business-type Activities:</b>					
Sewer Districts	4,289,272	1,070,650	431,553	1,136,900	3,791,469
Water Districts	10,527,317	723,993	919,064	773,000	9,559,246
Total business-type activities	<u>14,816,589</u>	<u>1,794,643</u>	<u>1,350,617</u>	<u>1,909,900</u>	<u>13,350,715</u>
Total general obligation bonds	<u>\$ 134,016,001</u>	<u>\$ 36,030,000</u>	<u>\$ 9,195,001</u>	<u>\$ 38,450,000</u>	<u>\$ 122,401,000</u>

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**D. INDEBTEDNESS (continued)**

**Long-term Debt (continued)**

**General Obligation Bonds (continued)**

At December 31, 2012, bonds payable consisted of the following individual issues:

**Primary Government**

**Governmental activities:**

<u>Issue</u>	<u>Purpose</u>	<u>Average Rate</u>	<u>Outstanding Amount</u>	<u>Final Maturity</u>
General Obligation Serial Bonds-2003	Refunding Bond	2.250%-4.000%	\$ 19,191	March 1, 2013
General Obligation Serial Bonds-2004A	Refunding Bond	1.500%-3.500%	55,000	June 15, 2016
General Obligation Serial Bonds-2004B	Refunding Bond	2.500%-5.000%	881,100	January 15, 2016
General Obligation Serial Bonds-2005	Public Improvement	3.750%-4.000%	9,525,200	August 1, 2022
General Obligation Serial Bonds-2006	Public Improvement	3.750%-4.000%	20,850,000	December 1, 2027
General Obligation Serial Bonds-2008	Public Improvement	3.250%-4.000%	29,675,000	December 2, 2030
General Obligation Serial Bonds-2008	Refunding Bond	3.000%-5.000%	937,000	May 15, 2020
General Obligation Serial Bonds-2011	Public Improvement	2.500%-3.750%	16,565,000	November 15, 2031
General Obligation Serial Bonds-2012	Refunding Bond	2.000%-5.000%	30,542,794	June 1, 2022
			<u>\$ 109,050,285</u>	

**Business-type activities:**

<u>Issue</u>	<u>Purpose</u>	<u>Average Rate</u>	<u>Amount</u>	<u>Final Maturity</u>
General Obligation Serial Bonds-2003	Refunding Bond	2.250%-4.000%	\$ 205,809	March 1, 2013
General Obligation Serial Bonds-2004A	Refunding Bond	1.500%-3.500%	20,000	January 15, 2016
General Obligation Serial Bonds-2004B	Refunding Bond	2.500%-5.000%	1,418,900	June 15, 2016
General Obligation Serial Bonds-2005	Public Improvement	3.750%-4.000%	74,800	August 1, 2022
General Obligation Serial Bonds-2008	Refunding Bond	3.000%-5.000%	1,903,000	May 15, 2020
General Obligation Serial Bonds-2011A	Refunding Bond	1.014%-3.301%	1,485,000	February 15, 2018
General Obligation Serial Bonds-2011C	Refunding Bond	0.785%-4.665%	1,145,000	October 15, 1931
General Obligation Serial Bonds-2011	Public Improvement	2.500%-3.750%	5,476,000	November 15, 2031
General Obligation Serial Bonds-2012	Refunding Bond	2.000%-5.000%	1,622,206	June 1, 2022
			<u>\$ 13,350,715</u>	
Total General Obligation Bonds			<u>\$ 122,401,000</u>	

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**D. INDEBTEDNESS (continued)**

**Long-term Debt (continued)**

**General Obligation Bonds (continued)**

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

**Primary Government**

**Governmental activities:**

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2013	\$ 8,404,251	\$ 4,041,041	\$ 12,445,292
2014	8,444,115	3,763,978	12,208,093
2015	8,524,587	3,454,112	11,978,699
2016	8,706,437	3,134,824	11,841,261
2017	8,198,895	2,820,362	11,019,257
2018-2022	41,527,000	9,299,270	50,826,270
2023-2027	20,145,000	3,325,538	23,470,538
2028-2031	5,100,000	408,000	5,508,000
Totals	<u>\$ 109,050,285</u>	<u>\$ 30,247,125</u>	<u>\$ 139,297,410</u>

**Business-type activities:**

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2013	\$ 1,516,749	\$ 411,484	\$ 1,928,233
2014	1,335,885	365,878	1,701,763
2015	1,370,413	320,735	1,691,148
2016	1,318,563	276,828	1,595,391
2017	1,006,105	241,782	1,247,887
2018-2022	3,533,000	807,814	4,340,814
2023-2027	1,735,000	434,134	2,169,134
2028-2031	1,535,000	132,938	1,667,938
Totals	<u>\$ 13,350,715</u>	<u>\$ 2,991,593</u>	<u>\$ 16,342,308</u>
Total general obligation bonds	<u>\$ 122,401,000</u>	<u>\$ 33,238,718</u>	<u>\$ 155,639,718</u>

**Bonds Authorized and Unissued**

At December 31, 2012 the Town had \$37,707,000 in general obligation bonds, which were authorized and unissued.

As of December 31, 2012 the total long-term outstanding indebtedness of the Town aggregated to \$122,401,000. Of this amount, \$109,050,285 was subject to the constitutional debt limit and represented approximately 24.55% of its statutory debt limit.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**D. INDEBTEDNESS (continued)**

**Long-term Debt (continued)**

**Changes in Long-term Debt**

Long-term liability activities for the year ended December 31, 2012 are as follows:

**Primary Government**

	Balance 1/1/2012	Increases	Reductions	Balance 12/31/2012	Non-current liabilities due within one year	Non-current liabilities
<b>Governmental funds:</b>						
General obligation bonds	\$ 119,199,412	\$ 34,235,357	\$ 44,384,484	\$ 109,050,285	\$ 8,404,251	\$ 100,646,034
Plus deferred amounts:						
Premiums on issuance		3,622,112	329,283	3,292,829	329,283	2,963,546
Total bonds payable	119,199,412	37,857,469	44,713,767	112,343,114	8,733,534	103,609,580
Employees retirement system						
Compensated absences	8,046,713	2,992,252	1,652,936	9,386,029	984,594	8,401,435
Claims and judgments	2,623,977	2,420,486	1,494,710	3,549,753	1,501,458	2,048,295
Estimated liability for landfill closure and postclosure care costs	1,402,197		179,680	1,222,517	64,307	1,158,210
Postemployment benefits healthcare costs	16,730,122	6,920,219	1,053,544	22,596,797		22,596,797
	<u>\$ 148,002,421</u>	<u>\$ 50,190,426</u>	<u>\$ 49,094,637</u>	<u>\$ 149,098,210</u>	<u>\$ 11,283,893</u>	<u>\$ 137,814,317</u>
<b>Business-type activities:</b>						
General obligation bonds	\$ 14,816,589	\$ 1,794,643	\$ 3,260,517	\$ 13,350,715	\$ 1,516,749	\$ 11,833,966
Compensated absences	993,569	330,724	323,821	1,000,472	104,950	895,522
Other postemployment benefits	1,401,176	658,649	107,302	1,952,523		1,952,523
	<u>\$ 17,211,334</u>	<u>\$ 2,784,016</u>	<u>\$ 3,691,640</u>	<u>\$ 16,303,710</u>	<u>\$ 1,621,699</u>	<u>\$ 14,682,011</u>

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

**Conduit Debt Obligations**

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

As of December 31, 2012 there were fourteen (14) Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$78,125,136.

**Advanced Refunding**

The Town issued \$36,030,000 of Town of Riverhead Refunding Serial Bonds, 2012, at various rates of interest ranging from 2.000% to 5.000% to advance refund \$38,450,000 of the Town of Riverhead General Obligation Serial Bonds series 2003 and 2003B and pay the related costs of issuance. The net proceeds of \$39,841,986 (including the premium of \$3,811,986 and payment of \$260,691 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the refunded bonds. As a result the 2003 bonds are considered defeased.

The Town advance refunded the 2003 and 2003B bonds to reduce its total debt service payments over the next ten years by \$4,327,499 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$3,803,748.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**Prior-Year Defeasance of Debt**

In the current year, the Town defeased certain general obligations and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. All of the refunded issues were called in 2012. At December 31, 2012, there are no general obligation bonds outstanding considered defeased.

**E. RETIREMENT SYSTEM**

Plan Description

The Town of Riverhead participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits.

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be found at <http://www.osc.state.ny.us/retire/publications/index.php> or obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first 10 years of membership and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determines rates expressed as proportions of payroll members, used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Contributions consist of a group term life insurance portion (GTLI) and a regular pension contribution. Contribution rates for the plan year ended March 31, 2012 are as follows:

**Contribution Rates**

<u>Tier</u>	<u>Plan/Option</u>	<u>ERS Rate</u>	<u>Tier</u>	<u>Plan/Option</u>	<u>PRFS Rate</u>
1	75I	21.3%			
2	75I	19.5%			
			2	384E2	21.2%
3	A14	15.6%			
4	A15	15.6%			
5	A15	12.6%			
			5	384E	20.3%

The Town is required to contribute at an actuarially determined rate. The actual contributions were equal to 100 percent of the actuarially required amounts. There are no contributions related to an early retirement incentive for Town employees. The credits and miscellaneous adjustments represent modification made by the NYSERS to the prior year's contributions due to differences between estimated and actual salaries for the plan year.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**E. RETIREMENT SYSTEM (continued)**

Funding Policy (continued)

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

<b>Annual Required Contribution - ERS</b>					
<u>Amount</u>	<u>% of Covered Payroll</u>	<u>Credits &amp; Miscellaneous Adjustments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>	
2012	\$ 2,531,099	16.89%	\$ (77,622)	\$ (22,778)	\$ 2,430,699
2011	2,236,582	15.18%	(9,474)	(20,033)	2,207,075
2010	1,631,045	10.48%	(738)	(15,610)	1,614,697

<b>Annual Required Contribution - PFRS</b>					
<u>Amount</u>	<u>% of Covered Payroll</u>	<u>Credits &amp; Miscellaneous Adjustments</u>	<u>Prepayment Discount</u>	<u>Total Payment</u>	
2012	\$ 2,883,873	23.77%	\$ (11,403)	\$ (25,953)	\$ 2,846,517
2011	2,399,166	20.62%	123,710	(22,779)	2,500,097
2010	1,903,677	16.83%	105,278	(19,235)	1,989,720

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

- For State fiscal year 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the Systems' average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

The law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program. Town of Riverhead did not participate in this program and therefore has no outstanding liability at December 31, 2012.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS**

Plan Description

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

Benefits are provided as explained in the section entitled "Postemployment Benefits Healthcare Costs" located in the "Summary of Significant Accounting Policies". The retiree and their spouse are also eligible for Medicare Part B reimbursement in 2012 is \$1,198.80 per individual.

Upon death of a retiree the Town ceases to pay the full healthcare costs for the un-remarried survivor after three months. The survivor may, however, elect to continue coverage in NYSHIP beyond the three months grace period but is required to pay the full healthcare costs. Such survivors continue to receive the Medicare reimbursement, if eligible. These contracts may be renegotiated at various times in the future.

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

The number of participants as of January 1, 2012, the effective date of the OPEB valuation, follows. For active members it is assumed that 65% will have covered spouses at retirement. There have been no significant changes in the number or the type of coverage since that date.

	<u>Primary Government</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Active employees	313	283	30
Retired employees and spouses	150	135	15
Surviving spouse of deceased retirees	19	17	2
Total	<u>482</u>	<u>435</u>	<u>47</u>

Funding Policy

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

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2012, the Town's annual other postemployment benefits cost (expenses) of \$7,578,868 is not equal to the Annual Required Contribution (ARC), which is \$7,663,289. Considering the annual expense as well as the payment of current health insurance premiums and Medicare reimbursements, which totaled \$1,160,846 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$6,418,022 for the year ended December 31, 2012. The Town's IDA, a component unit, does not have a policy to pay for postemployment benefits.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)**

Benefit Obligations and Normal Cost

	Medical Dental and Medicare B		
	Primary Government	Governmental Activities	Business-Type Activities
Actuarial Accrued Liability (AAL)			
Active employees	\$ 50,461,823	\$ 45,206,422	\$ 5,255,401
Retired employees	29,000,258	26,962,713	2,037,545
Total Actuarial Accrued Liability (AAL)	79,462,081	72,169,135	7,292,946
Actuarial value of plan assets	-0-	-0-	-0-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 79,462,081</u>	<u>\$ 72,169,135</u>	<u>\$ 7,292,946</u>
Funded ratio	0%	0%	0%
Normal cost at the beginning of the year	\$ 3,371,000	\$ 3,117,000	\$ 254,000
Amortization cost at the beginning of the year	\$ 2,890,000	\$ 2,635,000	\$ 255,000
Annual covered payroll	\$ 27,121,569	\$ 24,591,546	\$ 2,530,023
UAAL as a percentage of covered payroll	293.0%	293.5%	288.3%

The Town's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The unfunded actuarial accrued liability for the Town as of the January 1, 2012 valuation amounted to \$79,462,081.

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

Level Percentage of Payroll Amortization

Calculation of ARC under the Projected Unit Credit Cost Method

	Primary Government	Governmental Activities	Business-Type Activities
Normal cost	\$ 3,981,630	\$ 3,651,741	\$ 329,889
Amortization of unfunded actuarial liability (UAAL) over 30 years	3,411,986	3,099,268	312,718
Interest	269,673	246,522	23,151
Annual required contribution (ARC)	7,663,289	6,997,531	665,758
Interest on net OPEB obligation	725,252	664,183	61,069
Adjustment to ARC	(809,673)	(741,495)	(68,178)
Annual OPEB Cost	7,578,868	6,920,219	658,649
Less: Contribution for year ended December 31, 2012	1,160,846	1,053,544	107,302
Increase in other postemployment benefits liability	6,418,022	5,866,675	551,347
Other postemployment benefits liability at December 31, 2011	18,131,298	16,730,122	1,401,176
Other postemployment benefits liability at December 31, 2012	<u>\$ 24,549,320</u>	<u>\$ 22,596,797</u>	<u>\$ 1,952,523</u>
Percentage of annual OPEB cost contributed	15.3%	15.2%	16.3%

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**F. POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS (continued)**

Funded Status and Funding Progress

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current year and the preceding two years is were:

	Annual OPEB Cost	Annual Contribution Made	Percentage Contributed	Net OPEB Obligation
2012	\$ 7,578,868	\$ 1,160,846	15.3%	\$ 24,549,320
2011	6,284,179	1,134,853	18.1%	18,131,298
2010	5,810,886	1,036,061	17.8%	12,981,972

The primary government's funded status of the plan as of January 1, 2012 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - (AAL) Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2012	\$ -0-	\$ 79,462,081	\$ 79,462,081	0%	\$ 27,121,569	293.0%

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

Actuarial Methods and Assumptions

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

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

In the January 1, 2012 actuarial valuation, the liabilities were computed using the projected unit credit method, the level percentage of payroll amortization method, and an open 30 year amortization period to amortize the initial unfunded liability. The actuarial assumptions utilized a 4.0% discount rate, a 2.5% payroll growth rate and assume that the benefits are not prefunded. The valuation assumes a 7.7% health care trend rate for 2012. The NYSHIP healthcare cost trend decreases in decrements to a rate of 5.9% after eight years.

A copy of the Town of Riverhead's Retiree Medical Program, January 1, 2012 Valuation is available by contacting the Town of Riverhead, Office of the Financial Administrator, 1295 Pulaski Street, Riverhead, New York 11901.

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**G. COMPENSATED ABSENCES**

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

Vested vacation, personal leave and sick leave accumulated by governmental fund type employees have been recorded in the statement of net position. Vested vacation, personal leave and sick leave accumulated by business type employees have been recorded in proprietary funds as a liability and expense. Payment of vacation, personal leave, and sick leave recorded as long term liabilities are dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for payments of vacations, personal leave and sick leave when such payments become due. As of December 31, 2012 the value of the accumulated vacation, personal leave and sick leave for governmental and business-type activities was \$9,386,029 and \$1,000,472, respectively, for an aggregate total of \$10,386,501.

**4. COMMITMENTS AND CONTINGENCIES**

**A. RISK MANAGEMENT**

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

Liability

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

Property

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

Miscellaneous

The Town has ancillary insurance policies for the East Creek Marina, Calverton Airport, Recreation Accidents and Crime and Fidelity. The East Creek Marina policy has a \$2,500 deductible with coverage up to \$2,000,000 per occurrence and \$2,000,000 annual aggregate. The Calverton Airport policy has a \$1,000 deductible with coverage up to \$5,000,000 per occurrence. The Recreation Accident policy has a \$250 deductible with coverage of \$250,000 maximum with \$10,000 accidental death benefit. The Crime and Fidelity policy has the following deductibles and limits: \$2,500 deductible for Inside the Premises – Theft of Money and Securities and Outside the Premises with a limit of \$250,000; and \$5,000 deductible for Employee Theft and Faithful Performance with a \$500,000 limit.

**TOWN OF RIVERHEAD**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**A. RISK MANAGEMENT (continued)**

Workers Compensation/Unemployment Benefits

The Town is self-insured for workers' compensation insurance. Estimated benefits to be paid are appropriated in the various operating funds of the Town. The Town has provided an umbrella-type policy protecting against a catastrophic loss in the workers' compensation self-insurance protection program with \$175,000 retention per occurrence for non-police personnel and \$250,000 retention per occurrence for police personnel. The Town is also self-insured for unemployment benefits paid.

There have been no significant reductions in insurance coverage as compared to the prior year, and there were no settlements in excess of insurance coverage over the last three years.

Self-Insurance Fund

The Town uses a Self-Insurance Fund to account for its potential liability. As of December 31, 2012, the Self-Insurance Fund had assets of \$3,312,853 and liabilities of \$3,553,093. Included in this amount is \$2,158,350 for general liability claims and \$1,391,403 for worker's compensation claims. This amount includes litigation but not administration expenses.

The Town estimates its workers' compensation and general liability reserves by consulting with legal counsel, contracted third party administrators and assessing past experience with similar claims. Although the dollar amounts of the claims on file against the Town materially exceed the reserves recorded; the ultimate outcome of the claims cannot be presently determined. The Town is of the opinion that the ultimate settlement of the outstanding claims will not result in a material adverse effect on the Town's financial position.

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

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

	General Liability		Workers' Compensation	
	2012	2011	2012	2011
Unpaid claims and claim adjustment expenditures at the beginning of the year	\$ 1,514,728	\$ 1,332,088	\$ 1,109,249	\$ 949,856
Insured claims and claim adjustment Expenditures:				
Provision for the insured events of the current year and increases in provision for insured events of prior years	1,435,273	1,457,295	985,213	772,069
Total incurred claims and claim adjustment expenditures	2,950,001	2,789,383	2,094,462	1,721,925
Payments:				
Claim and claim adjustment expenditures attributable to insured events of the current and prior years	791,651	1,274,655	703,059	612,676
Total unpaid claims and claim adjustment expenditures at the end of the year	<u>\$ 2,158,350</u>	<u>\$ 1,514,728</u>	<u>\$ 1,391,403</u>	<u>\$ 1,109,249</u>

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. LITIGATION**

The Town is subject to a number of lawsuits in the ordinary conduct of its municipal affairs. Except as noted below, the Town Attorney is of the opinion that adverse decisions in those suits, either individually or in the aggregate, will not have a material adverse effect on the financial condition of the Town.

**F1 Long Island, LLC and Marc Liebowitz:** The Plaintiffs have commenced two actions alleging constitutional and other violations surrounding, among other things, the denial of their site plan application before the Planning Board. In the Supreme Court proceeding, the plaintiffs are seeking to force an approval of their project. The Town moved to dismiss the proceeding and the motion was marked submitted on or about August 23, 2010. By order of the court dated June 26, 2012, the state court proceeding in the Supreme Court was dismissed in its entirety.

In the federal action plaintiffs seek an unspecified sum in damages, and attorney fees, against the Town of Riverhead based on the allegation that they were treated differently from the Hampton Jitney. The Town successfully moved to dismiss the federal complaint but the Court permitted plaintiffs the opportunity to file an amended complaint solely with respect to their equal protection claim. On April 23, 2010, plaintiffs filed an amended complaint repleading only their equal protection claim. On June 16, 2010, the Town moved to dismiss the amended complaint. The Court denied the Town's motion to dismiss the amended complaint. Discovery has commenced including taking of depositions of some of the parties and witnesses. Efforts at reaching a settlement of the federal action have placed further discovery on hold.

**Kar-McVeigh, LLC v. Zoning Board of Appeals of Town of Riverhead:** The Plaintiff initiated a Supreme Court proceeding against the Town Board and the Zoning Board of Appeals seeking approval of the expansion of the restaurant-catering use on a particular property. The proceeding seeks an unspecified amount in damages. Since damages are typically unavailable in this type of proceeding, it is not anticipated that any damages will be awarded to the petitioner. The Court denied the Town's motion to dismiss the proceeding and the Town has filed a notice of appeal from the denial. The Court granted motion by the plaintiff for default judgment but denied any monetary judgment. The Town and the plaintiff have each filed a notice of appeal from this second decision. The plaintiff's motion to dismiss the second appeal was denied without prejudice. The appeals from each decision were perfected and decided on March 20, 2012. The Appellate Division determined that the court below correctly denied the motion to dismiss made by the Town but found that the court below acted improperly by granting the default judgment. Denial of plaintiff's appeal seeking monetary damages was affirmed. The Town has served an answer and appeared for oral argument regarding pending motions. By decision dated April 2, 2013 the court annulled the underlying determination by the Zoning Board of Appeals, ordered that the matter be remitted for further proceedings before the Zoning Board of Appeals and denied the motions of the parties for other relief as premature.

**Soundview Associates v. Town of Riverhead, et al.:** The plaintiffs are alleging constitutional violations in connection with their attempts to develop a 77,000 square foot "health spa" on real property in Baiting Hollow. The developer had previously transferred the development rights associated with this property to another part of the property leaving no development potential for the "health spa" project. The Supreme Court confirmed the Town's position in an earlier proceeding brought by Soundview Associates wherein the Town prevailed and the appeal was withdrawn. The damages sought in the federal action are \$25 million, plus attorney fees. In addition to the Town Board and the Planning Board, Dawn C. Thomas, Esq., Town Attorney and Richard A. Ehlers, Esq., counsel to the Planning Board are named individually. Discovery has concluded and the Town moved for summary judgment. By Memorandum and Order, the Court denied the Town's motion in part as it sought summary judgment that Plaintiff failed to allege an injury, and granted the remainder of the motion for summary judgment dismissing the Plaintiff's alleging substantive and procedural due process claims. The Town has further moved for summary judgment to the First Amendment claim and for summary judgment on qualified immunity relating to the First Amendment claim. The Town is waiting for a decision.

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. LITIGATION** (continued)

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

With the exception of the parties' experts, discovery has been concluded. All parties' motions for summary judgment have been denied. The parties are proceeding with expert disclosures for the purposes of proving and refuting damages and a trial is scheduled to commence on January 22, 2013. After disclosure of experts, the case was settled between the Town and the plaintiffs.

**Csorny, et al., v. Town of Riverhead, et al., CV 10 3996:** The case was settled by stipulation of settlement filed in January 2012.

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

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

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

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

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

**B. LITIGATION** (continued)

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

Regarding the Town's the potential exposure, the hearings have revealed that the damage to the funds, claimants' homes was substantial and, in some cases, catastrophic. It bears note, however, that FEMA managed through the New York State Office of Emergency Management, in the sum of \$2.2 million were awarded with respect to potential disaster relief payouts. The Town has set aside \$900,000 from Community Preservation Funds as the Town share for payouts in connection with FEMA disaster relief.

The Town has settled with all claimants after it entered into contracts to purchase and had closings to acquired real property owned by the claimants under the FEMA funds managed through the New York State Office of Emergency Management.

**Town of Riverhead v. Sophie Wilson:**

The Town commenced an eminent domain proceeding to acquire property to re-route Pulaski Street. An advance payment of \$615,000 was paid to the property owner based upon the appraisal acquired by the Town. The heirs of Sophie Wilson have filed a claim contesting the Town's valuation and seek damages of \$3,125,000. The case is pending in the Supreme Court, Suffolk County and the parties await exchange of appraisals.

As of December 31, 2012 the Town recorded no liability in these matters in excess of the SIR amounts disclosed in Note B.

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

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

**C. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and Federal Laws and Regulations require the Town to place a final cover on its Youngs Avenue Landfill Site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The landfill site stopped receiving waste on December 31, 1996. The Town reports a portion of these closure and postclosure care costs as a liability in each period based on landfill capacity used as of each balance sheet date. As the liability is based on 100% capacity there are no estimated costs for closure and postclosure remaining to be recognized. Postclosure care costs and monitoring activities for the site are estimated to be approximately \$198,000 for the remaining three of the first five years and \$30,000 each year for the remaining twenty-five years, with an inflation factor built in.

Accordingly as of December 31, 2012, the Town has recorded an estimated liability of \$1,222,517, in the government-wide financial statements, which represents the provision to be made in future budgets for unfunded postclosure care costs and monitoring activities. Actual costs for postclosure monitoring and maintenance are recorded in the General fund and may be higher or lower due to inflation, changes in technology, or changes in regulations or conditions on the ground.

**D. CONSTRUCTION AND OTHER CAPITAL ACQUISITION COMMITMENTS**

Construction in progress and other capital commitments for governmental activities capital projects are \$197,722 while Sewer and Water Proprietary Funds are \$259,631 and \$280,519 respectively, aggregating to \$737,872.

**E. GRANTS**

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

**TOWN OF RIVERHEAD**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**5. 2% TRANSFER TAX**

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

**6. NEW PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61 *"The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34"*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2012.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 65 *"Items Previously Reported as Assets and Liabilities"*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2012.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 66 *"Technical Corrections 2012 – an amendment of GASB Statements No. 10 and No. 62"*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2014.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68 *"Accounting and Financial Reporting for Pensions"* - an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

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

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

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**TOWN OF RIVERHEAD**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
Year ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Real property taxes	\$ 30,124,300	\$ 30,124,300	\$ 30,124,300	\$ -0-
Real property tax items	448,800	448,800	438,869	(9,931)
Non-property tax items	1,878,650	1,878,650	1,933,544	54,894
Departmental income	2,330,350	2,360,650	2,266,907	(93,743)
Intergovernmental charges	49,000	49,000	70,671	21,671
Use of money and property	615,400	615,400	180,649	(434,751)
Licenses and permits	86,900	86,900	71,005	(15,895)
Fines and forfeitures	520,000	520,000	507,518	(12,482)
Sale of property and compensation for loss	130,300	142,313	168,081	25,768
Miscellaneous revenue	4,100	46,352	558,554	512,202
Interfund revenues	2,967,400	3,067,400	2,561,510	(505,890)
State and local aid	1,392,000	1,393,236	1,370,997	(22,239)
Federal aid	34,000	109,735	270,793	161,058
Total revenues	<u>40,581,200</u>	<u>40,842,736</u>	<u>40,523,398</u>	<u>(319,338)</u>
<b>EXPENDITURES</b>				
Current:				
General government support	9,197,100	9,439,883	8,456,757	983,126
Public safety	15,223,300	15,700,661	15,689,237	11,424
Health	8,800	11,800	11,362	438
Transportation	379,150	394,650	380,109	14,541
Economic assistance and opportunity	952,400	963,788	955,887	7,901
Culture and recreation	1,567,200	1,675,213	1,665,683	9,530
Home and community services	1,183,900	1,329,546	1,313,580	15,966
Employee benefits	11,004,650	10,953,586	10,271,529	682,057
Total expenditures	<u>39,516,500</u>	<u>40,469,127</u>	<u>38,744,144</u>	<u>1,724,983</u>
<b>Excess of revenues over expenditures</b>	<u>1,064,700</u>	<u>373,609</u>	<u>1,779,254</u>	<u>1,405,645</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,264,000	1,264,000	1,264,000	-0-
Transfers out	(4,928,700)	(4,820,025)	(4,786,131)	33,894
Total other financing sources (uses)	<u>(3,664,700)</u>	<u>(3,556,025)</u>	<u>(3,522,131)</u>	<u>33,894</u>
<b>Net change in fund balances</b>	<u>\$ (2,600,000)</u>	<u>\$ (3,182,416)</u>	<u>(1,742,877)</u>	<u>\$ 1,439,539</u>
<b>Fund balances at beginning of year</b>			<u>11,480,294</u>	
<b>Fund balances at end of year</b>			<u>\$ 9,737,417</u>	

**TOWN OF RIVERHEAD**  
**HIGHWAY FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
Year ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Real property taxes	\$ 6,693,700	\$ 6,693,700	\$ 6,693,700	\$ -0-
Real property tax items			2,345	2,345
Intergovernmental charges		12,000		(12,000)
Use of money and property	18,000	18,000	8,074	(9,926)
Licenses and permits	20,000	20,000	17,475	(2,525)
Sale of property and compensation for loss	1,500	1,500	4,856	3,356
Miscellaneous revenue			99,118	99,118
Total revenues	<u>6,733,200</u>	<u>6,745,200</u>	<u>6,825,568</u>	<u>80,368</u>
<b>EXPENDITURES</b>				
Current:				
General government support	944,700	944,700	869,716	74,984
Transportation	3,573,700	4,099,024	3,468,759	630,265
Employee benefits	1,170,300	1,170,300	1,064,218	106,082
Total expenditures	<u>5,688,700</u>	<u>6,214,024</u>	<u>5,402,693</u>	<u>811,331</u>
<b>Excess of revenues over expenditures</b>	<u>1,044,500</u>	<u>531,176</u>	<u>1,422,875</u>	<u>891,699</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in		5,450	5,450	-0-
Transfers out	(1,044,500)	(1,426,867)	(1,375,588)	51,279
Total other financing (uses)	<u>(1,044,500)</u>	<u>(1,421,417)</u>	<u>(1,370,138)</u>	<u>51,279</u>
<b>Net change in fund balances</b>	<u>\$ -0-</u>	<u>\$ (890,241)</u>	<u>52,737</u>	<u>\$ 942,978</u>
<b>Fund balances at beginning of year</b>			<u>2,295,264</u>	
<b>Fund balances at end of year</b>			<u>\$ 2,348,001</u>	

**TOWN OF RIVERHEAD**  
**DEBT SERVICE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
Year ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
Debt service:				
Principal	\$ 7,376,400	\$ 8,376,400	\$ 7,844,384	\$ 532,016
Interest	4,741,200	6,363,312	4,791,812	1,571,500
Bond issuance costs		1,000,000	247,706	752,294
Total expenditures	<u>12,117,600</u>	<u>15,739,712</u>	<u>12,883,902</u>	<u>2,855,810</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(12,117,600)</u>	<u>(15,739,712)</u>	<u>(12,883,902)</u>	<u>2,855,810</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,117,600	12,117,600	11,566,533	(551,067)
Payments to refunded bond escrow agent			(36,540,100)	36,540,100
Refunding bonds issued			34,235,357	(34,235,357)
Premiums of debt issuance		3,622,112	3,622,112	
Total other financing sources (uses)	<u>12,117,600</u>	<u>15,739,712</u>	<u>12,883,902</u>	<u>1,753,676</u>
<b>Net change in fund balances</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>-0-</u>	<u>\$ 4,609,486</u>
<b>Fund balances at beginning of year</b>			<u>-0-</u>	
<b>Fund balances at end of year</b>			<u>\$ -0-</u>	

**TOWN OF RIVERHEAD**  
**COMMUNITY PRESERVATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**Year ended December 31, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Non-property tax items	\$ 1,800,000	\$ 1,800,000	\$ 2,210,549	\$ 410,549
Use of money and property	20,000	20,000	83,155	63,155
Total revenues	<u>1,820,000</u>	<u>1,820,000</u>	<u>2,293,704</u>	<u>473,704</u>
<b>EXPENDITURES</b>				
Current:				
Home and community services	116,000	116,000	2,500	113,500
Total expenditures	<u>116,000</u>	<u>116,000</u>	<u>2,500</u>	<u>113,500</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>1,704,000</u>	<u>1,704,000</u>	<u>2,291,204</u>	<u>587,204</u>
<b>OTHER FINANCING (USES)</b>				
Transfers out	(5,941,400)	(6,066,400)	(5,943,614)	122,786
Total other financing sources (uses)	<u>(5,941,400)</u>	<u>(6,066,400)</u>	<u>(5,943,614)</u>	<u>122,786</u>
<b>Net change in fund balances</b>	<u>\$ (4,237,400)</u>	<u>\$ (4,362,400)</u>	<u>(3,652,410)</u>	<u>\$ 709,990</u>
<b>Fund balances at beginning of year</b>			23,630,760	
<b>Fund balances at end of year</b>			<u>\$ 19,978,350</u>	

**TOWN OF RIVERHEAD**  
**TOWN OF RIVERHEAD RETIREE MEDICAL PROGRAM**  
**POSTEMPLOYMENT BENEFITS HEALTHCARE COSTS**  
**SCHEDULE OF FUNDING PROGRESS**  
December 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability - (AAL) Projected Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2012	\$ -0-	\$ 79,462,081	\$ 79,462,081	0%	\$ 27,121,569	293.0%
1/1/2011	-0-	75,633,000	75,633,000 *	0%	26,875,823	281.4%
1/1/2010	-0-	70,608,000	70,608,000	0%	25,320,003	278.9%
1/1/2009	-0-	59,521,000	59,521,000 *	0%	25,263,938	235.6%
1/1/2008	-0-	55,374,800	55,374,800	0%	22,667,312	244.3%

\*Roll-forward

## **OTHER SUPPLEMENTARY INFORMATION**

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

**TOWN OF RIVERHEAD**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
December 31, 2012

	Special Revenue Funds			
	Special Grant	Special Trust	Business Improvement District	East Creek Docking Facility
<b>ASSETS</b>				
Cash and cash equivalents		\$ 159,043	\$ 26,496	\$ 202,364
Cash - restricted	\$ 404,212			
Accounts receivable	32,990			
Due from other funds		2,867		
Due from other governments	97,161			1,033
Prepays				
Total assets	<u>\$ 534,363</u>	<u>\$ 161,910</u>	<u>\$ 26,496</u>	<u>\$ 203,397</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 30,230		\$ 271	\$ 12,772
Retainage payable				
Due to other funds	111,548		2,992	3,897
Deferred revenue			26,260	
Total liabilities	<u>141,778</u>		<u>29,523</u>	<u>16,669</u>
<b>FUND BALANCES</b>				
Nonspendable				
Restricted	392,585			
Assigned		\$ 161,910		186,728
Unassigned			(3,027)	
Total fund balances	<u>392,585</u>	<u>161,910</u>	<u>(3,027)</u>	<u>186,728</u>
Total liabilities and fund balances	<u>\$ 534,363</u>	<u>\$ 161,910</u>	<u>\$ 26,496</u>	<u>\$ 203,397</u>

Street Lighting District	Ambulance	Refuse and Garbage	Public Parking	Community Development	Total Nonmajor Governmental Funds
\$ 627,796	\$ 1,102,612	\$ 1,429,453	\$ 255,544	\$ 1,485,326	\$ 3,803,308
111		7,773	3,000		1,889,538
7,268		6,127	2,643	1,246,236	33,101
<u>\$ 635,175</u>	<u>\$ 1,102,612</u>	<u>\$ 1,443,353</u>	<u>\$ 261,187</u>	<u>\$ 2,731,562</u>	<u>\$ 7,100,055</u>
\$ 107,457	\$ 6,973	\$ 7,396	\$ 10,134	\$ 523,515	\$ 698,748
26,188	6,899	44,767	867	1,057,276	1,254,434
<u>251,390</u>	<u>326,000</u>	<u>692,820</u>	<u>38,232</u>	<u>555,418</u>	<u>1,890,120</u>
<u>385,035</u>	<u>339,872</u>	<u>744,983</u>	<u>49,233</u>	<u>2,136,209</u>	<u>3,843,302</u>
7,268		6,127	2,643		16,038
242,872	762,740	692,243	209,311	595,353	987,938
<u>250,140</u>	<u>762,740</u>	<u>698,370</u>	<u>211,954</u>	<u>595,353</u>	<u>2,255,804</u>
<u>\$ 635,175</u>	<u>\$ 1,102,612</u>	<u>\$ 1,443,353</u>	<u>\$ 261,187</u>	<u>\$ 2,731,562</u>	<u>\$ 7,100,055</u>

**TOWN OF RIVERHEAD**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
Year ended December 31, 2012

	Special Revenue Funds			
	Special Grant	Special Trust	Business Improvement District	East Creek Docking Facility
<b>REVENUES</b>				
Real property taxes			\$ 104,000	
Other real property tax items			36	
Departmental income		\$ 23,000		\$ 171,649
Intergovernmental charges				
Use of money and property	\$ 533	521	49	258
State and local aid	417,633			1,033
Federal aid	256,400			
Total revenues	<u>674,566</u>	<u>23,521</u>	<u>104,085</u>	<u>172,940</u>
<b>EXPENDITURES</b>				
Current;				
General governmental support	21,336		25,202	25,864
Health				
Transportation				
Economic assistance and opportunity			109,752	
Culture and recreation				52,551
Home and community services	575,391			
Employee benefits				1,464
Total expenditures	<u>596,727</u>	<u>23,521</u>	<u>134,954</u>	<u>79,879</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>77,839</u>	<u>23,521</u>	<u>(30,869)</u>	<u>93,061</u>
<b>OTHER FINANCING (USES)</b>				
Operating transfers out	(58,509)	(557,133)		(40,736)
Total other financing sources (uses)	<u>(58,509)</u>	<u>(557,133)</u>		<u>(40,736)</u>
<b>Net change in fund balance</b>	19,330	(533,612)	(30,869)	52,325
<b>Fund balances at beginning of year</b>	<u>373,255</u>	<u>695,522</u>	<u>27,842</u>	<u>134,403</u>
<b>Fund balances at end of year</b>	<u>\$ 392,585</u>	<u>\$ 161,910</u>	<u>\$ (3,027)</u>	<u>\$ 186,728</u>

Street Lighting District	Ambulance	Refuse and Garbage	Public Parking	Community Development	Total Nonmajor Governmental Funds
\$ 1,014,300 355	\$ 1,341,975 470	\$ 3,699,374	\$ 172,500		\$ 6,332,149
		8,407			194,649
1,398	2,005	2,650	573	\$ 482,458 228,507	8,407 490,445 647,173 256,400
<u>1,016,053</u>	<u>1,344,450</u>	<u>3,710,431</u>	<u>173,073</u>	<u>710,965</u>	<u>7,930,084</u>
126,832	148,128 960,138	715,526	18,484	1,378	1,082,750 960,138
1,049,283			54,492	228,507 208,430	1,332,282 318,182 52,551 3,262,458 170,627
97,169		2,687,067 70,185	1,809		
<u>1,273,284</u>	<u>1,108,266</u>	<u>3,472,778</u>	<u>74,785</u>	<u>438,315</u>	<u>7,178,988</u>
<u>(257,231)</u>	<u>236,184</u>	<u>237,653</u>	<u>98,288</u>	<u>272,650</u>	<u>751,096</u>
<u>(13,268)</u>	<u>(65,787)</u>	<u>(7,908)</u>	<u>(51,400)</u>	<u>(1,950)</u>	<u>(796,691)</u>
<u>(13,268)</u>	<u>(65,787)</u>	<u>(7,908)</u>	<u>(51,400)</u>	<u>(1,950)</u>	<u>(796,691)</u>
(270,499)	170,397	229,745	46,888	270,700	(45,595)
520,639	592,343	468,625	165,066	324,653	3,302,348
<u>\$ 250,140</u>	<u>\$ 762,740</u>	<u>\$ 698,370</u>	<u>\$ 211,954</u>	<u>\$ 595,353</u>	<u>\$ 3,256,753</u>