

**TOWN OF EAST HAMPTON  
COMMUNITY PRESERVATION FUND**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**For the Year Ended December 31, 2015**

**TOWN OF EAST HAMPTON  
COMMUNITY PRESERVATION FUND  
December 31, 2015**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Supervisor and Town Board  
Town of East Hampton  
East Hampton, New York

### Report on the Financial Statements

We have audited the accompanying financial statements of the Town of East Hampton Community Preservation Fund, as of and for the year ended December 31, 2015, and the related notes to the 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 entity'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 entity'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 opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of East Hampton Community Preservation Fund as of December 31, 2015, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Community Preservation Fund and do not purport to, and do not, present fairly the financial position of the Town of East Hampton, as of December 31, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Town of East Hampton Community Preservation Fund. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the 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 April 11, 2016, on our consideration of the Town of East Hampton Community Preservation Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 East Hampton Community Preservation Fund's internal control over financial reporting and compliance.

*Cullen & Danowski, LLP*  
April 11, 2016

**TOWN OF EAST HAMPTON  
COMMUNITY PRESERVATION FUND  
BALANCE SHEET  
December 31, 2015**

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**ASSETS**

Cash and Cash Equivalents	\$ 42,217,635
Cash with Fiscal Agent	2,100,503
Accounts Receivable	2,356
Due from Other Governments	3,142,758
Due from Trust and Agency Funds	3,283
Prepaid Expense	<u>22,473</u>
<b>Total Assets</b>	<u><u>\$ 47,489,008</u></u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES:**

Account Payable	<u>\$ 328,982</u>
Due to Other Funds:	
General Fund	5,611
Town Outside Village Fund	<u>7,666</u>
Due to Other Funds	<u>13,277</u>
<b>Total Liabilities</b>	<u>342,259</u>

**FUND BALANCE:**

Restricted for:	
Bond Indebtedness	682,226
Debt Service	231,155
Community Preservation	<u>46,233,368</u>

<b>Total Fund Balance</b>	<u>47,146,749</u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 47,489,008</u></u>

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the Year Ended December 31, 2015

**REVENUES**

Real Estate Transfer Taxes:	
2% Real Estate Transfer Tax	\$ 28,888,077
2% Real Estate Transfer Tax (Co-op Sales)	<u>1,471,845</u>
Real Estate Transfer Taxes	30,359,922
Use of Money and Property	75,864
Contributions	50,000
Miscellaneous	<u>5,318</u>
<b>Total Revenues</b>	<u><u>30,491,104</u></u>

**EXPENDITURES**

General Governmental Support:	
Real Estate Purchases	27,477,000
Acquisition Management	203,927
Management and Stewardship Fees	495,179
Outside Professional Fees	<u>9,300</u>
General Governmental Support	<u>28,185,406</u>
Debt Service	
Principal	2,056,775
Interest and Administrative Fees	<u>515,084</u>
Debt Service	<u>2,571,859</u>
<b>Total Expenditures</b>	<u><u>30,757,265</u></u>

Net Change in Fund Balance	(266,161)
Fund Balance, Beginning of Year	<u>47,412,910</u>
Fund Balance, End of Year	<u><u>\$ 47,146,749</u></u>

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of East Hampton Community Preservation Fund (Community Preservation Fund) was created by Section 64-e of Town law. Established in 1998 by a voter-approved referendum, the Community Preservation Fund began collecting revenue in 1999. It is a special revenue fund of the Town of East Hampton, New York (Town) and prepares and records its accounting transactions on the modified accrual basis of accounting, which is more fully described in Note 1.C. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the Community Preservation Fund are as follows:

**A. Organization and Background**

As described above, the Community Preservation Fund is a special revenue fund of the Town and operates pursuant to the various provisions of New York State statutes and provisions of Town law. The Community Preservation Fund is governed by the Town Board.

The Community Preservation Fund is supported by revenues from a 2% real estate transfer tax imposed by the Town pursuant to Article 31-D of New York State Tax Law. The authority to levy and collect the tax expires on December 31, 2030. This revenue is used to help protect and preserve the community character through the acquisition of interests or rights in real property within the Town and villages including the purchase and/or preservation of historic lands and buildings, parks and recreations properties, open space and forestlands, wetlands, beaches and shoreline, and farmland. The Town has also authorized the issuance of bonds to advance its purchasing ability, which are expected to be supported by future revenues of the Community Preservation Fund through the year 2030. Upon completion of the Community Preservation Project Plan, any remaining funds will be applied to reduce any bonded indebtedness or other obligations incurred.

**B. Basis of Presentation**

These financial statements only report the operations and related transactions of the Community Preservation Fund; whereby the audited financial statements of the Town of East Hampton include all Town funds. Additionally, the audited financial statements of the Town of East Hampton would include all non-current assets and non-current liabilities for all Town funds.

**C. Basis of Accounting and Measurement Focus**

These financial statements are accounted for on the modified accrual basis using the current financial resources measurement focus. Revenues are recognized when measurable and available. "Measurable" means the amount of the transaction can be reasonably determined, and "available" means the related cash resources are collectible within the current period or within the first 60 days of the following year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the fund. Proceeds of general long-term debt are reported as other financing sources.

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**D. Real Estate Transfer Tax**

In November 1998, the residents of the Town approved a 2% real estate transfer tax, which became effective on April 1, 1999. The transfer tax receipts are recorded in the Community Preservation Fund. Transfer tax receipts are used for the purchase and/or preservation of historic lands and buildings, parks and recreations properties, open space and forestlands, wetlands, beaches and shoreline, and farmland. The tax applies to sales of vacant land in excess of \$100,000 and sales of improved land in excess of \$250,000. Conveyance of real property for open space, parks, or historic preservation to any not-for-profit, or tax exempt organization, operating for conservation, environmental or historic preservation purposes is exempt from this tax. During the year ended December 31, 2015, the Community Preservation Fund recorded receipts of \$30,359,922 from the real estate transfer tax.

**E. Interfund Transactions**

The operations of the Community Preservation Fund may include transactions with other funds within the Town. These transactions may be temporary in nature, such as with interfund borrowings with other Town funds.

**F. Cash and Cash Equivalents**

Cash and cash equivalents consist of funds deposited in demand accounts, time deposit accounts, and certificates of deposit.

**G. Cash with Fiscal Agent**

Cash with fiscal agent consists of cash paid to a fiscal agent at closing for the acquisition of properties. Release of these funds is to take place upon transfer of title, which was subject to the sellers removing existing residences and all other structures.

**2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The Town's investment practices are governed by state statutes and Town policy. Community Preservation Fund monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follows:



**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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

At December 31, 2015, all deposits were covered by FDIC insurance or fully collateralized by securities pledged on the Town's behalf.

**3. DUE FROM OTHER GOVERNMENTS**

At December 31, 2015, the Community Preservation Fund was due \$3,142,758 from Suffolk County, related to unremitted real estate transfer taxes.

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

At December 31, 2015, the Community Preservation Fund had net obligations of \$9,994 due to other funds representing expenditures made by those funds on behalf of the Community Preservation Fund.

**5. RESERVE FOR INDEBTEDNESS**

The Community Preservation Fund may borrow money in order to acquire real estate. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of these capital assets. See the supplementary information accompanying these financial statements. One debt issue will mature after 2030, which is the last year the Town is authorized to collect the 2% real estate transfer tax based on the Town law. The amount of total debt payments for the period of 2031 – 2033 is \$682,226, including principal, interest and administrative fees. The Town Board authorized the establishment of a reserve for indebtedness in accordance with General Municipal Law §2 Part 6-h (Reserve Fund for the Repayment of Bonded Indebtedness) for the amount needed to pay the Community Preservation Fund debt after 2030.

**6. RESERVE FOR DEBT SERVICE**

The Town received proceeds from a state grant, after the issuance of bonds, to partially fund the cost of the acquisition of real estate. The Town Board authorized the establishment of a reserve for debt service, which was funded by the grant proceeds, to finance the debt service payments of the bond issue over its remaining life, which is April 2020. The activities of the reserve for debt service are as follows:

Balance at beginning of year	\$ 277,218
Accumulated interest earnings	166
Use of reserve for debt payments for Shadmoor property	<u>(46,229)</u>
Balance at end of year	<u>\$ 231,155</u>

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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**7. REAL ESTATE PURCHASES**

The Community Preservation Fund acquires interests or rights in real property for the preservation of community character within the Town based on the community preservation project plan, which is filed with the commissioner of environmental conservation, the commissioner of agriculture and markets and the commissioner of the office of parks, recreation and historic preservation. The real estate purchases are \$27,477,000 for the year ended December 31, 2015.

**8. ACQUISITION MANAGEMENT**

Acquisition management represents the cost associated with research and plan development for potential real estate purchases. The acquisition management costs are \$187,263 for the year ended December 31, 2015.

**9. MANAGEMENT AND STEWARDSHIP FEES**

In accordance with the Section 64-e of the Town Law, the Community Preservation Fund provides a management and stewardship program for all parcels acquired under the community preservation project plan. The management and stewardship fees are \$495,179 for the year ended December 31, 2015.

**10. OUTSIDE PROFESSIONAL FEES**

Outside professional fees represents the professional service fees (e.g. appraisals, survey, etc.) paid by the Community Preservation Fund during the search and evaluation process for real estate that was not acquired by the Community Preservation Fund, as well as audit and other professional fees. The outside professional fees are \$9,300 for the year ended December 31, 2015.

**11. CONTINGENCIES**

The Community Preservation Fund financial information to be included in the Town's December 31, 2015 audited financial statements may be different from these financial statements due to timing.

**12. INDEBTEDNESS**

As noted in Note 5, the Community Preservation Fund may borrow money in order to acquire land and other interests in real property. See the supplementary information accompanying these financial statements which summarize the amounts outstanding as of December 31, 2015, and the future debt service requirements on these borrowings.

**13. ADVANCE REFUNDING**

On May 6, 2015, the Town refunded Serial Bonds in the amount of \$18,560,000 (of which \$14,967,741 relates to the Community Preservation Fund) with interest rates ranging from 2.00% to 5.00%, to advance refund \$19,205,000 of outstanding 2006 various purpose serial bonds with interest rates ranging from 4.25% to 4.375%. The net proceeds of \$20,388,279 (including a premium of \$2,048,770 less \$220,491 in underwriting fees, insurance and other costs) were used to purchase the United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the bonds. The economic gain on the transaction to the

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
(Continued)

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Community Preservation Fund (the difference between the present values of the debt service payments and the old and new debt) is approximately \$1,850,000.

**14. SUBSEQUENT EVENTS**

Management has evaluated events subsequent to December 31, 2015, and through April 11, 2016, the date on which the financial statements were approved for issuance, noting no matters requiring disclosure.

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**SCHEDULE OF REAL ESTATE PURCHASES**  
For the Year Ended December 31, 2015

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	Balance December 31, 2014	Additions	Balance December 31, 2015
Real Estate Purchases	<u>\$ 255,156,778</u>	<u>\$ 27,477,000</u>	<u>\$ 282,633,778</u>

**TOWN OF EAST HAMPTON**  
**COMMUNITY PRESERVATION FUND**  
**SCHEDULE OF RELATED OUTSTANDING DEBT**  
December 31, 2015

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at December 31, 2015
New York State Environmental Facilities Corporation Series 2004b	January 2004	2016	1.02% - 4.24%	\$ 290,000
Public Improvement Serial Bonds, 2006	May 2006	2026	4.25%	1,201,613
Refunding Serial Bond, 2012	April 2012	2020	2.00%	1,555,000
Refunding Serial Bond, 2014	July 2014	2020	4.06%-4.40%	1,230,000
Refunding Serial Bond, 2014	July 2014	2033	4.25%-5.15%	3,305,000
Refunding Serial Bond, 2015	May 2015	2026	2.13%-5.00%	<u>14,770,160</u>
				<u>\$ 22,351,773</u>

The following is a summary of debt service requirements:

Fiscal Year Ending December 31,	Principal	Interest	Administrative Fees	Total
2016	\$ 1,940,645	\$ 706,146	\$ 14,835	\$ 2,661,626
2017	1,918,387	620,473	12,246	2,551,106
2018	1,998,871	553,968	10,336	2,563,175
2019	2,082,419	487,283	8,386	2,578,088
2020	2,175,968	416,893	6,374	2,599,235
2021 - 2025	8,808,548	996,808	25,522	9,830,878
2026 - 2030	2,746,935	97,026	13,672	2,857,633
2031 - 2033	680,000	490	1,736	682,226
Total	<u>\$ 22,351,773</u>	<u>\$ 3,879,087</u>	<u>\$ 93,107</u>	<u>\$ 26,323,967</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Supervisor and Town Board  
Town of East Hampton  
East Hampton, New York

We have audited, 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 East Hampton Community Preservation Fund (Community Preservation Fund), as of and for the year ended December 31, 2015, and the related notes to the financial statements and have issued our report thereon dated April 11, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Community Preservation Fund's internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Community Preservation Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Community Preservation Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Community Preservation Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the Town Board and management of the Community Preservation Fund's in a separate letter dated April 11, 2016.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cullen & Danowski, LLP*  
April 11, 2016

