

**TOWN OF EAST HAMPTON
COMMUNITY PRESERVATION FUND**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2011

**TOWN OF EAST HAMPTON
COMMUNITY PRESERVATION FUND
December 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

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

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, 2011, as listed in the table of contents. These financial statements are the responsibility of the Town of East Hampton's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Because the financial statements of the Town of East Hampton Community Preservation Fund have not been audited for the years prior to 2008, we were unable to form an opinion regarding fund balance recorded in the accompanying balance sheet at December 31, 2011 in the amount of \$32,003,565.

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, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had prior year financial statements been audited, the financial statements referred to previously present fairly, in all material respects, the financial position of the Town of East Hampton Community Preservation Fund of, as of December 31, 2011, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2012, on our consideration of the 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* and should be considered in assessing the results of our audit.

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.

Cullen & Danowski, LLP

April 13, 2012

TOWN OF EAST HAMPTON
COMMUNITY PRESERVATION FUND
BALANCE SHEET
December 31, 2011

ASSETS

Cash and Cash Equivalents	\$ 30,801,440
Due from Other Governments	1,265,889
Prepaid Expense	<u>5,157</u>
Total Assets	<u><u>\$ 32,072,486</u></u>

LIABILITIES AND FUND EQUITY

LIABILITIES:

Account Payable	<u>\$ 46,712</u>
Due to Other Funds:	
General Fund	21,746
Town Outside Village Fund	<u>463</u>
Due to Other Funds	<u>22,209</u>
Total Liabilities	<u>68,921</u>

FUND BALANCE:

Restricted for:	
Bond Indebtedness	711,058
Debt Service	414,530
Community Preservation	<u>30,877,977</u>

Total Fund Balance	<u>32,003,565</u>
Total Liabilities and Fund Balance	<u><u>\$ 32,072,486</u></u>

TOWN OF EAST HAMPTON
COMMUNITY PRESERVATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2011

REVENUES

Real Estate Transfer Taxes:	
2% Real Estate Transfer Tax	\$ 13,978,582
2% Real Estate Transfer Tax (Co-op Sales)	199,729
Real Estate Transfer Taxes	<u>14,178,311</u>
Use of Money & Property	101,737
Contribution Revenue	<u>60,000</u>
Total Revenues	<u><u>14,340,048</u></u>

EXPENDITURES

General Governmental Support:	
Real Estate Purchases	11,714,189
Acquisition Management	134,831
Management and Stewardship Fees	105,690
Outside Professional Fees	<u>50,307</u>
General Governmental Support	<u>12,005,017</u>
Debt Service	
Principal	2,895,806
Interest and Administrative Fees	<u>1,191,535</u>
Debt Service	<u>4,087,341</u>
Total Expenditures	<u><u>16,092,358</u></u>

OTHER FINANCE SOURCES AND USES

Interfund transfers in	<u>8,270</u>
Net Change in Fund Balance	(1,744,040)
Fund Balance, Beginning of Year	<u>33,747,605</u>
Fund Balance, End of Year	<u><u>\$ 32,003,565</u></u>

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

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)

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, 2011, the Community Preservation Fund recorded receipts of \$14,178,311 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 from other Town funds. In prior years and in noncompliance of Town law, the Town had loaned resources from the Community Preservation Fund to other Town funds for the purpose of providing cash flow. In 2011, the Town issued long-term financing to pay the money back to the Community Preservation Fund, including interest.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in demand accounts, time deposit accounts, and certificates of deposit with maturities of less than 3 months.

2. CHANGES IN ACCOUNTING PRINCIPLES

In February 2009, GASB released GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which was implemented by the Town during the year ended December 31, 2011. GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The new fund balance components will indicate the level of constraints placed upon how resources can be spent and identify the sources of these constraints. In addition, GASB 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

3. 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.

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

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:

- 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, 2011, all deposits were covered by FDIC insurance or fully collateralized by securities pledged on the Town's behalf.

4. DUE FROM OTHER GOVERNMENTS

At December 31, 2011, the Community Preservation Fund was due \$1,265,889 from Suffolk County, related to unremitted real estate transfer taxes.

5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At December 31, 2011, the Community Preservation Fund had obligations of \$22,209 to other funds representing expenditures made by those funds on behalf of the Community Preservation Fund.

Interfund transfers in represents monies received from other funds within the Town to pay interest related to the advances. Transfers in totaled \$8,270 for the year ended December 31, 2011.

6. RESERVE FOR INDEBTEDNESS

The Community Preservation Fund borrows 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 \$711,058, 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.

7. RESERVE FOR DEBT SERVICE

The Town received proceeds from a state grant after the issuance of bonds to pay 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:

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

Balance at beginning of year	\$ 459,720
Accumulated interest earnings	868
Use of reserve for debt payments for Shadmoor property	<u>(46,058)</u>
Balance at end of year	<u>\$ 414,530</u>

8. 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 \$11,714,189 for the year ended December 31, 2011.

9. ACQUISITION MANAGEMENT

Acquisition management represents the costs associated with research and plan development for potential real estate purchases. The acquisition management costs are \$134,831 for the year ended December 31, 2011.

10. 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 \$105,690 for the year ended December 31, 2011.

11. 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 \$50,307 for the year ended December 31, 2011.

12. CONTINGENCIES

The Community Preservation Fund financial information to be included in the Town's December 31, 2011 audited financial statements may be different from these financial statements due to timing.

13. SUBSEQUENT EVENTS

Management has evaluated events subsequent to December 31, 2011, and through April 13, 2012, 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, 2011

	Balance December 31, 2010	Additions	Balance December 31, 2011
Real Estate Purchases	<u>\$ 186,951,086</u>	<u>\$ 11,714,189</u>	<u>\$ 198,665,275</u>

TOWN OF EAST HAMPTON
COMMUNITY PRESERVATION FUND
SCHEDULE OF RELATED OUTSTANDING DEBT
December 31, 2011

Description	Issue Date	Final Maturity	Interest Rate	Outstanding at December 31, 2011
New York State Environmental Facilities Corpotation Series 2002A	March 2002	2012	1.21% - 4.13%	\$ 1,285,000
New York State Environmental Facilities Corpotation Series 2003A	January 2003	2020	1.03% - 4.55%	2,685,000
New York State Environmental Facilities Corpotation Series 2004B	March 2004	2020	1.02% - 4.24%	2,610,000
New York State Environmental Facilities Corpotation Series 2004D	July 2004	2033	1.20% - 5.15%	3,845,000
Public Improvement Serial Bonds, 2006	May 2006	2026	4.25% - 4.38%	<u>21,012,098</u>
				<u>\$ 31,437,098</u>

The following is a summary of debt service requirements:

Fiscal Year Ending December 31,	Principal	Interest	Administrative Fees	Total
2012	\$ 2,971,129	\$ 1,085,959	\$ 25,049	\$ 4,082,137
2013	1,741,452	1,019,072	20,137	2,780,661
2014	1,795,806	961,874	18,411	2,776,091
2015	1,859,194	901,412	16,649	2,777,255
2016	1,936,613	837,581	14,837	2,789,031
2017 - 2021	10,126,936	3,113,099	46,385	13,286,420
2022 - 2026	9,510,968	1,247,892	23,299	10,782,159
2027 - 2031	1,035,000	137,968	11,087	1,184,055
2032 - 2033	460,000	13,163	587	473,750
Total	<u>\$ 31,437,098</u>	<u>\$ 9,318,020</u>	<u>\$ 176,441</u>	<u>\$ 40,931,559</u>

**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***

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

We have audited the financial statements of the Town of East Hampton Community Preservation Fund (Community Preservation Fund), as of and for the year ended December 31, 2011, and have issued our report thereon dated April 13, 2012. Because the financial statements of the Town of East Hampton Community Preservation Fund have not been audited for the years prior to 2008, we were unable to form an opinion regarding fund balance recorded in the accompanying balance sheet at December 31, 2011 in the amount of \$32,003,565. Except as discussed in the preceding sentence, 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.

Internal Control Over Financial Reporting

Management of the Community Preservation Fund, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Community Preservation Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Community Preservation Fund's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

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 13, 2012.

This report is intended solely for the use and information of management, members of the Town Board and the New York State Office of the State Comptroller and is not intended to be, and should not be, used by anyone other than these specified parties.

Cullen & Danowski, LLP

April 13, 2012

