

**TOWN OF SOUTHOLD  
DEFERRED COMPENSATION PLAN**

**FINANCIAL STATEMENTS**

December 31, 2011 and 2010

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**TOWN OF SOUTHOLD  
DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011 and 2010**

The statements of net assets available for benefits and the statement of changes in net assets available for benefits provide information about the financial status of the Deferred Compensation Plan for Employees of the Town of Southold (the Plan). These financial statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting revenue is recorded when earned and expenses are recorded when incurred.

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide background and summary information for the Plan. This discussion and analysis should be read in conjunction with the financial statements, including notes, which begin on page 4.

**Financial Highlights**

Net assets available for benefits amounted to \$10,013,779 at December 31, 2011 compared to \$10,227,544 at December 31, 2010. The decrease of \$213,765 (2%) during the year ended December 31, 2011 is primarily the result of depreciation in the fair value of invested assets after accounting for normal annual contributions and benefits paid to participants.

Contributions from participants excluding rollovers were \$683,564 in 2011 and \$630,689 in 2010. The 2011 contributions increased 8% from the 2010 contributions.

During 2011, the Plan began to allow loans to participants which totaled \$130,024 as of December 31, 2011.

**Summarized Financial Statement Information**

	<u>2011</u>	<u>2010</u>
Net assets available for benefits	<u>\$ 10,013,779</u>	<u>\$ 10,227,544</u>
(Decrease) increase in net assets available for benefits	<u>\$ (213,765)</u>	<u>\$ 1,804,242</u>

**TOWN OF SOUTHDOLD  
DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011 and 2010**

	Plan Additions		Percentage Change
	2011	2010	
Employee Contributions	\$ 683,564	\$ 630,689	8%
Rollovers and transfers, net	<u>59,665</u>	<u>640,852</u>	(90%)
	<u>743,229</u>	<u>1,271,541</u>	(42%)
(Depreciation) appreciation in fair value of investments	(362,872)	1,027,490	(135%)
Interest income on notes receivable from participants	<u>3,155</u>	<u>-0-</u>	
	<u>(359,717)</u>	<u>1,027,490</u>	(135%)
Total additions to net assets	<u>\$ 383,512</u>	<u>\$ 2,299,031</u>	(83%)

	Plan Deductions		Percentage Change
	2011	2010	
Distributions to participants and beneficiaries	<u>\$ 597,277</u>	<u>\$ 494,789</u>	21%
	<u>2011</u>	<u>2010</u>	
(Depreciation) appreciation in fair value of investments	\$ (362,872)	\$ 1,027,490	
Average plan assets	10,120,066	9,021,181	
Rate of return on average plan assets	(3.6%)	11.4%	

**TOWN OF SOUTHOLD  
DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011 and 2010**

**Decisions and Conditions Expected to Have Significant Impact on the Plan's Future Financial Position**

The annual maximum employee contributions during the year ended December 31, 2011 was \$16,500 (\$22,000 if the employee is age 50 or older).

Due to the demographics of the Town of Southhold's ("the Town") employee base, the amount categorized as "employee contributions" should continue to increase in the foreseeable future as long as participants believe the market will continue to rise and the cost of consumer goods does not significantly decrease the participants' disposable income. Participants understand that the earlier they retire, the longer they will live in retirement and that they will need to supplement their New York State pension. As long as they can afford it (and the closer they get to retirement) they will continue to defer a portion of their current salary into the Plan.

The Plan third party administrator does offer investment advice or guidance to attract non-participants who have not enrolled because of their lack of expertise in investing, fear of investing in the wrong option, not familiar with asset allocation, etc. The Town is committed to exploring options to reach out to non-participants and to educating participants on the importance of reaching their retirement goals.

It is hoped that the fee structure as well as the Town's policy that allows retirees or terminated employees to stay in the Plan will encourage former employees to remain in the Plan rather than rollout their account balance to another financial institution.

**Request for Information**

This financial report is designed to provide a general overview of the Plan's finances for all those included in the Plan. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to:

Accounting and Finance Department  
Deferred Compensation Plan for Employees of the Town of Southold  
Town Hall Annex  
P.O. Box 1179  
54375 Main Road  
Southold, NY 11971



INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Town of Southold  
Southold, New York

We were engaged to audit the accompanying statements of net assets available for benefits of Town of Southold Deferred Compensation Plan (the "Plan") as of December 31, 2011 and 2010 and the related statement of changes in net assets available for benefits for the year ended December 31, 2011. These financial statements are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the Plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Notes 3, 4 and 5, which was certified by The Hartford Life Insurance Company, the Trustee of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the Plan Administrator that the Trustee holds the Plan's investment assets and executes investment transactions. The Plan Administrator has obtained a certification from the Trustee as of December 31, 2011 and 2010 and for the year ended December 31, 2011, that the information provided to the Plan administrator by the Trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements taken as a whole. The form and content of the information included in the financial statements other than that derived from the information certified by the Trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

*Albrecht, Viggiano, Zureck & Company, P.C.*

Hauppauge, New York  
June 13, 2012

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**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**  
December 31, 2011 and 2010

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Investments at fair value	\$ 9,883,755	\$ 10,227,544
Notes receivable from participants	<u>130,024</u>	<u>-0-</u>
Net Assets Available for Benefits	<u>\$ 10,013,779</u>	<u>\$ 10,227,544</u>

See accompanying notes to the financial statements.

**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
Year ended December 31, 2011

**ADDITIONS:**

Additions to net assets attributable to:

Investment income:

Net depreciation in fair value of investments	\$ (362,872)
Interest income on notes receivable from participants	<u>3,155</u>
	<u>(359,717)</u>

Contributions:

Participant	683,564
Rollovers	<u>59,665</u>
	<u>743,229</u>

Total Additions 383,512

**DEDUCTIONS:**

Deductions from net assets attributable to:

Benefits paid to participants and beneficiaries	<u>597,277</u>
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Total Deductions 597,277

Net Decrease (213,765)

**Net Assets Available for Benefits:**

Beginning of Year 10,227,544

End of Year \$ 10,013,779

**TOWN OF SOUTHDOLD  
DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**Note 1 – Description of Plan**

The following description of the Town of Southold Deferred Compensation Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan available to substantially all of the employees of the Town of Southold (the "Town") upon date of hire. The Plan was created in accordance with Internal Revenue Code Section 457, and is subject to the provisions of the rules and regulation of the New York State Deferred Compensation Board (the "Board"), as amended.

The Plan has entered into contract with The Hartford Life Insurance Company ("the Administrator") to administer the Plan. The Administrator offers several investment options through various financial organizations, and maintains individual accounts for Plan participants.

All amounts deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries and alternate payees pursuant to the Trust agreement.

Contributions

Each year, participants may contribute up to fifteen percent of their annual compensation, as defined by the Plan, not to exceed the maximum amount permitted under the Internal Revenue Code. Participants who have attained age 50 before the end of the plan year are eligible to make additional catch-up contributions. An additional catch-up is allowed for previous missed contributions for participants within three years of retirement. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations of the Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined by the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon.

Notes Receivable from Participants

Effective April 1, 2011, participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The notes are secured by the balance in the participant's account and bear interest at rates which are commensurate with local prevailing rates as determined quarterly by the Plan Administrator. Principal and interest is paid ratably through payroll deductions.

**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**Note 1 – Description of Plan (continued)**

Investment Options

Upon enrollment in the Plan, a participant may direct contributions to a variety of investment options in mutual funds offered by the Hartford. Participants may change their investment options throughout the Plan year.

Payment of Benefits

On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or monthly, quarterly, semi-annually or annual installments over a certain period, as defined by the Plan. Additionally, participants may request withdrawals for unforeseeable emergencies subject to certain federal rules and regulations.

**Note 2 – Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting and present the net assets available for benefits and changes in net assets for benefits.

Investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The statements of net assets available for benefits presents the fair value of the investment contract which approximates contract value; therefore, there is no adjustment of the fully benefit-responsive investment contract from fair value to contract value. The statements of changes in net assets available for benefits are prepared on a contract value basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

**TOWN OF SOUTHDOLD  
DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**Note 2 – Summary of Significant Accounting Policies (continued)**

Payment of Benefits

Benefits are recorded when paid.

Administrative Expenses

Each participant account is credited with earnings on the underlying investments and charged for administrative expenses to arrive at the net yield on an investment. Administrative expenses incurred by the Plan include loan fees charged directly to the participants' accounts and investment management fees that are netted against investment returns. The Town provides certain administrative and accounting services to the Plan at no cost. Most administrative expenses are paid directly by the Town and include audit fees and legal fees.

Subsequent Events

Plan management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

**Note 3 – Investments**

The following present investments that represent five percent or more of the Plan's net assets at December 31:

	<u>2011</u>	<u>2010</u>
Hartford Guaranteed Interest Account	\$ 2,867,560	\$ 2,175,775
Hartford Capital Appreciation	1,140,788	1,402,913
Janus Twenty Fund	545,116	828,672
Fidelity Contra Fund	1,023,169	1,007,863
American Funds Growth Fund	519,515	633,749
Janus Balanced Fund	<u>601,376</u>	<u>774,461</u>
	6,697,524	6,823,433
Investments representing less than 5% of of the Plan's net assets	<u>3,186,231</u>	<u>3,404,111</u>
	<u>\$ 9,883,755</u>	<u>\$ 10,227,544</u>

During 2011, the Plan's investments (including interest, dividends and gains and losses on investments bought and sold, and held during the year) depreciated in value by approximately \$363,000, which consists of mutual funds. During 2010, the plans investments (including interest, dividends and gains and losses on investments bought and sold, and held during the year) appreciated in value by \$1,027,000, which also consists of mutual funds.

**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**Note 4 – Fair Value Measurements**

FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the ASC are described as follows:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

*Mutual funds:* Valued at the net asset value (NAV) of shares held by the Plan at year end.

*Investment contract:* Valued at fair-value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

**TOWN OF SOUTHDOLD  
DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**Note 4 – Fair Value Measurements** (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2011 and 2010:

<u>Investments at Fair Value as of December 31, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Mutual funds:</b>			
Index funds	\$ 418,377	\$ -0-	\$ 418,377
Balanced funds	1,768,257	-0-	1,768,257
Growth funds	2,545,260	-0-	2,545,260
Value funds	698,638	-0-	698,638
Fixed income funds	208,119	-0-	208,119
International funds	686,703	-0-	686,703
Allocation funds	690,841	-0-	690,841
Total mutual funds	<u>7,016,195</u>	<u>-0-</u>	<u>7,016,195</u>
Investment contract	<u>-0-</u>	<u>2,867,560</u>	<u>2,867,560</u>
<b>Total investments at fair value</b>	<u><b>\$ 7,016,195</b></u>	<u><b>\$ 2,867,560</b></u>	<u><b>\$ 9,883,755</b></u>

<u>Investments at Fair Value as of December 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Mutual funds:</b>			
Index funds	\$ 295,310	\$ -0-	\$ 295,310
Balanced funds	1,826,349	-0-	1,826,349
Growth funds	3,186,474	-0-	3,186,474
Value funds	607,650	-0-	607,650
Fixed income funds	226,017	-0-	226,017
International funds	907,751	-0-	907,751
Allocation funds	1,002,218	-0-	1,002,218
Total mutual funds	<u>8,051,769</u>	<u>-0-</u>	<u>8,051,769</u>
Investment contract	<u>-0-</u>	<u>2,175,775</u>	<u>2,175,775</u>
<b>Total investments at fair value</b>	<u><b>\$ 8,051,769</b></u>	<u><b>\$ 2,175,775</b></u>	<u><b>\$ 10,227,544</b></u>

There were no level 3 investments, therefore there were no gains and losses created from level 3 investments.

**TOWN OF SOUTHDOLD  
DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011 and 2010**

**Note 5 – Investment Contract With Insurance Company**

The Plan has a fully benefit responsive investment contract with the Hartford. The Hartford maintains the contributions in a guaranteed interest general account. The account is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contract is included in the financial statements at contract value as reported to the Plan. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The investment contract issuer is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan. As described in Note 2, because the investment contract is fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the investment contract.

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the investment contract at December 31, 2011 and 2010 was approximately \$2,867,000 and \$2,175,000, respectively. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than 4%. Such interest rates are reviewed on a semi-annual basis for resetting.

Certain events limit the ability of the Plan to transact at contract value with the issuer. Such events include the following: (a) amendments to the Plan documents (including complete or partial Plan termination or merger with another plan), (b) changes to the Plan's prohibition on competing investment options or deletion of equity wash provisions, (c) bankruptcy of the Plan sponsor or other Plan sponsor events (for example, divestitures or spin-offs of a subsidiary) that cause a significant withdrawal from the Plan, or (d) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under the ERISA. The Plan Administrator does not believe that any events that would limit the Plan's ability to transact at contract value with Plan participants are probable of occurring.

The fully benefit responsive investment contract with Hartford invests in a variety of investment contracts including guaranteed investment contracts. Guaranteed investment contracts generally do not permit the issuer to terminate the agreement prior to the scheduled maturity date. Average yields based on annual earnings and interest rates credited to participants was approximately 4% for the years ending December 31, 2011 and 2010.

**Note 6 – Plan Termination**

Although it has not expressed any intent to do so, the Board has the right under the Plan to amend, suspend or terminate the Plan and any deferrals there under, the trust agreement and any investment fund, in whole or in part and for any reason and without consent of any employee, participant, beneficiary, or other person. In the event of Plan termination, all amounts deferred would be payable in accordance with Plan provisions.

**TOWN OF SOUTHOLD**  
**DEFERRED COMPENSATION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010 and 2009

**Note 7 – Related Party Transactions**

Certain Plan investments are shares of mutual funds managed by an affiliate of the Hartford, which provides services to the Plan and, therefore, these transactions qualify as exempt party-in-interest transactions.

**Note 8 – Tax Status**

The Plan is structured and follows a model deferred compensation plan, pre-approved by the Internal Revenue Service (IRS). The Internal Revenue Service has determined and informed the New York State Deferred Compensation Board by a letter dated February 14, 2011, that the Model Plan implemented by Hartford is designed in accordance with applicable sections of the Internal Revenue Code.

Accounting principles generally accepted in the United State of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability or asset if the Plan has taken an uncertain position that more than likely would not be sustained upon examination by the applicable taxing authority. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan is generally open for examination for three years.

**Note 9 – Certification**

The Plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, the Hartford has certified to the completeness and accuracy of all investments reflected in the accompanying statement of assets available for benefits as of December 31, 2011 and 2010 and the related investment activity reflected in the statement of changes in assets available for benefits for the year ended December 31, 2011.

**Note 10 – Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.