

**TOWN OF SOUTHOLD  
DEFERRED COMPENSATION PLAN**

**FINANCIAL STATEMENTS**

December 31, 2009

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**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
Management's Discussion and Analysis

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

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 5.

**Financial Highlights**

Fiduciary net assets available for benefits amounted to \$8,423,302 at December 31, 2009 compared to \$6,187,927 at December 31, 2008. The increase of \$2,235,375 (36.1%) during the year ended December 31, 2009, which is primarily the result of significant appreciation in the fair value of invested assets.

Contributions from participants excluding rollovers were \$665,968 in 2009 and \$462,414 in 2008. The 2009 contributions increased 44% over the 2008 contributions.

**Summarized Financial Statement Information**

	<u>2009</u>	<u>2008</u>
Fiduciary net assets available for Plan benefits	<u>\$ 8,423,302</u>	<u>\$ 6,187,927</u>
Increase in fiduciary net assets available for Plan benefits	<u>\$ 2,235,375</u>	<u>\$ 1,138,125</u>

**TOWN OF SOUTHOLD**  
**DEFERRED COMPENSATION PLAN**  
 Management's Discussion and Analysis (continued)

	Plan Additions		Percentage Change
	2009	2008	
Employee Contributions	\$ 665,968	\$ 462,414	44%
Rollovers and transfers, net	<u>115,782</u>	<u>2,503,589</u>	-95%
	781,750	2,966,003	-74%
Appreciation (depreciation) in fair value of investments	<u>1,681,857</u>	<u>(1,736,091)</u>	-197%
Total additions to Fiduciary net assets	<u>\$ 2,463,607</u>	<u>\$ 1,229,912</u>	99%

	Plan Deductions		Percentage Change
	2009	2008	
Distributions to participants and beneficiaries	\$ 228,232	\$ 91,788	149%
Appreciation (depreciation) in fair value of investments	<u>\$ 1,681,857</u>	<u>(\$ 1,736,091)</u>	
Average plan assets	7,305,315	5,618,865	
Rate of return on average plan assets	23.0%	(30.9%)	

**TOWN OF SOUTHOLD  
DEFERRED COMPENSATION PLAN**

Management's Discussion and Analysis (continued)

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

The annual maximum contributions during the year ended December 31, 2009 was \$16,500 (\$22,000 if the employee is age 50 or older).

Due to the demographics of the Town's 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 participant's 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 explore options to reach out to non-participants or to educate 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 statement of fiduciary net assets available for benefits of Town of Southold Deferred Compensation Plan (the "Plan") as of December 31, 2009 and the related statement of changes in fiduciary net assets available for benefits for the year ended December 31, 2009. 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, 2009 and for the year ended December 31, 2009, 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  
February 9, 2011

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**TOWN OF SOUTHOLD**  
**DEFERRED COMPENSATION PLAN**  
STATEMENT OF FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS  
December 31, 2009

**ASSETS**

Investments:

Investments at fair value

\$ 8,423,302

Fiduciary Net Assets Available for Benefits

\$ 8,423,302

**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS  
Year ended December 31, 2009

**ADDITIONS:**

Additions to fiduciary net assets attributable to:

Investment activity:

Net appreciation in fair value of investments \$ 1,681,857

Contributions:

Participant 665,968

Rollovers 115,782

781,750

Total Additions 2,463,607

**DEDUCTIONS:**

Deductions from fiduciary net assets attributable to:

Benefits paid to participants  
and beneficiaries

228,232

Total Deductions 228,232

Net Increase 2,235,375

**Fiduciary Net Assets Available for Benefits:**

Beginning of Year

6,187,927

End of Year \$ 8,423,302



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

**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 upon date of hire. The Plan was created in accordance with Internal Revenue Code Section 457, is available to all Town employees and permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination of employment, retirement, death or unforeseeable financial emergency.

The Plan has entered into contract with a single organization ("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 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. 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.

Participant Loans

Participants' loans are not permitted by the Plan.

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

**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 Life Insurance Company. 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 fiduciary net assets available for plan benefits and changes in fiduciary 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 statement of fiduciary net assets available for benefits presents the fair value of the investment contracts from fair value to contract value. The fair value of the benefit responsive investment contracts approximated contract value as of December 31, 2009.

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.

**TOWN OF SOUTHDOLD**  
**DEFERRED COMPENSATION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

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

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.

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. The Town pays all other administrative expenses.

Subsequent Events

Plan management has evaluated subsequent events through February 9, 2011, which is the date the financial statements were available to be issued.

**Note 3 – Investments**

Investments that represent five percent or more of the Plan's net assets as of December 31, 2009 are separately identified as follows:

Hartford Guaranteed Interest Account (see note 5)	\$ 1,741,781
Hartford Capital Appreciation	1,191,320
Janus Twenty Fund	779,927
Fidelity Contra Fund	718,520
American Funds Growth Fund	701,205
Janus Balanced Fund	<u>511,712</u>
	5,644,465

Investments representing less than 5% of of the Plan's net assets	<u>2,778,837</u>
	<u>\$ 8,423,302</u>

During 2009, the Plan's investments (including interest, dividends and gains and losses on investments bought and sold, and held during the year) appreciated in value as follows:

Mutual Funds	<u>\$ 1,681,857</u>
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**TOWN OF SOUTHOLD**  
**DEFERRED COMPENSATION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

**Note 4 – Fair Value Measurements**

FASB Statement No. 157, *Fair Value Measurements*, establishes a 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

*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 (see Note 5).

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

**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 assets at fair value as of December 31, 2009:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds	\$ 6,681,521	\$ 6,681,521	\$ -0-	\$ -0-
Investment contract with insurance company	<u>1,741,781</u>	<u>-0-</u>	<u>1,741,781</u>	<u>-0-</u>
	<u>\$ 8,423,302</u>	<u>\$ 6,681,521</u>	<u>\$ 1,741,781</u>	<u>\$ -0-</u>

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

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

The Plan has a fully benefit responsive investment contract with the Hartford Life Insurance Company ("Hartford"). 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, 2009 was \$1,741,781. 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.

**TOWN OF SOUTHDOLD**  
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**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2009

**Note 5 – Investment Contract** (continued)

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% as of December 31, 2009.

**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.

**Note 7 – Related Party Transactions**

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

**Note 8 – Tax Status**

The Internal Revenue Service has determined and informed the New York State Deferred Compensation Board by a letter dated January 14, 2004, that the Model Plan implemented by Hartford is designed in accordance with applicable sections of the Internal Revenue Code. Although the Plan has been amended since receiving the determination letter, the Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

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

**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, Hartford Life Insurance Company has certified to the completeness and accuracy of all investments reflected in the accompanying statement of assets available for benefits as of December 31, 2009, the related investment activity reflected in the statement of changes in assets available for benefits for the year ended December 31, 2009.

**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.