

**TOWN OF HEMPSTEAD
SANITARY DISTRICT NUMBER SEVEN**

**ANNUAL FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

December 31, 2013

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Town of Hempstead Sanitary District Number Seven
Oceanside, New York

We have audited the accompanying financial statements of the governmental activities and major fund of the Town of Hempstead Sanitary District Number Seven (District) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Town of Hempstead Sanitary District Number Seven as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 4 through 10, 31 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hempstead Sanitary District Number Seven's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative schedule of expenditures – general fund for the year ended December 31, 2013 on page 33 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Town of Hempstead Sanitary District Number Seven's basic financial statements for the year ended December 31, 2012, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities and major fund. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hempstead Sanitary District Number Seven's basic financial statements as a whole. The comparative schedule of expenditures – general fund for the year ended December 31, 2012 on page 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards

generally accepted in the United States of America. In our opinion, the 2012 information is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

The schedule of statistical data on page 34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Cullen & Danowski, LLP

May 27, 2014

**TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Town of Hempstead Sanitary District Number Seven's (District) discussion and analysis of financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

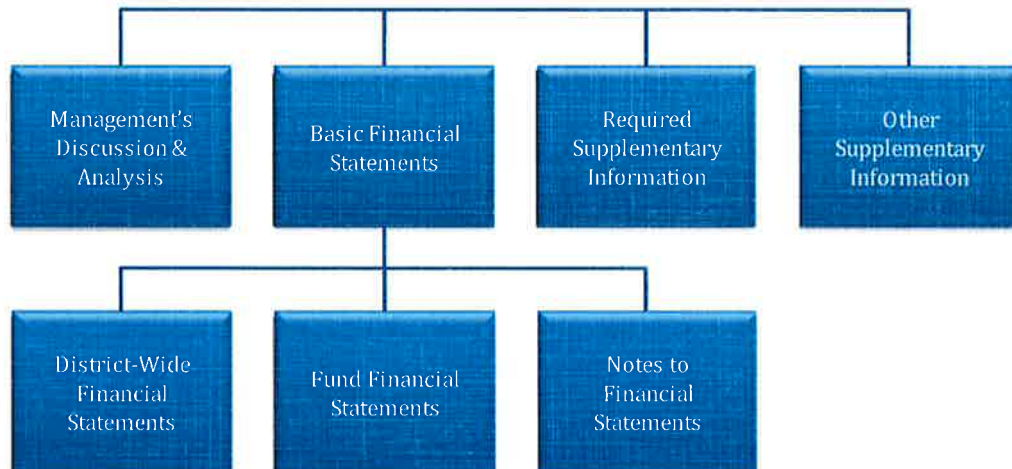
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2013 are as follows:

- The District's total net position, as reported in the district-wide financial statements, was a deficit of \$(1,214,395), at December 31, 2013, and reflects such unfunded long-term liabilities as compensated absences and net other postemployment benefits obligation.
- The District's general fund-fund balance, as reflected in the fund financial statements was \$3,542,305 at December 31, 2013. This balance represents an increase of \$90,435 from the prior year.
- The District received \$1,204,463 from FEMA for reimbursements of expenses and costs incurred in the aftermath of Hurricane Sandy.

2. OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of district-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



A. District-Wide Financial Statements

The district-wide financial statements present the governmental activities of the District and are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two district-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

The Statement of Net Position

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities

The Statement of Activities presents information showing the change in net position during the fiscal year. All changes in net position are recorded at the time the underlying financial event occurs. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds.

Governmental Funds

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

Because the focus of governmental funds is narrower than that of district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains one governmental fund, the general fund. Information for the general fund is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's net position decreased by \$103,885 between fiscal year 2013 and 2012. A summary of the District's Statement of Net Position is as follows. The 2012 net position has been restated to include the long-term due to employees retirement system balance of the retirement incentive program:

	2013	Restated 2012	Increase (Decrease)	Percentage Change
Current and other assets	\$ 3,923,069	\$ 3,471,113	\$ 451,956	13.02 %
Capital assets, net	1,015,687	1,231,975	(216,288)	(17.56)%
Total Assets	<u>4,938,756</u>	<u>4,703,088</u>	<u>235,668</u>	5.01 %
Current and other liabilities	380,764	19,243	361,521	1,878.71 %
Long-term liabilities	1,495,217	2,463,263	(968,046)	(39.30)%
Due to employees' retirement system	71,543	103,391	(31,848)	(30.80)%
Net other postemployment benefits obligation	4,205,627	3,227,701	977,926	30.30 %
Total Liabilities	<u>6,153,151</u>	<u>5,813,598</u>	<u>339,553</u>	5.84 %
Net Position				
Net investment in capital assets	1,015,687	1,231,975	(216,288)	(17.56)%
Restricted	177,396	177,208	188	0.11 %
Unrestricted (Deficit)	<u>(2,407,478)</u>	<u>(2,519,693)</u>	<u>112,215</u>	(4.45)%
Total Net Position	<u>\$ (1,214,395)</u>	<u>\$ (1,110,510)</u>	<u>\$ (103,885)</u>	9.35 %

Current and other assets increased by \$451,956, as compared to the prior year. This increase is primarily due to the increase in the District's cash and prepaid balances.

Capital assets, net decreased by \$216,288, as compared to the prior year. This decrease is due to depreciation exceeding capital additions. The accompanying Notes to Financial Statements, Note 5 "Capital Assets" provides additional information.

Current and other liabilities increased by \$361,521, as compared to the prior year. This increase is primarily in connection with an increase in accounts payable and termination benefits payable.

Long-term liabilities decreased by \$968,046, as compared to the prior year. This decrease is the result of a decrease in compensated absences due to buy backs and payouts to employees and retiring employees.

Due to employees' retirement system decreased by \$31,848, which is the principal payment reduction of the 2010 retirement incentive.

Net other postemployment benefits (OPEB) obligation increased by \$977,926, as the current OPEB cost exceeded required contributions in accordance with GASB 45. The accompanying notes to financial statements, Note 8 "Other Postemployment Benefits" provides additional information.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The net investment in capital assets in the amount of \$1,015,687, relates to capital assets at cost less depreciation. This number decreased from the prior year as follows:

Capital assets additions	\$ 69,416
Depreciation expense	<u>(285,704)</u>
	<u>\$ (216,288)</u>

The restricted net position in the amount of \$177,396 relates to the District's employee benefit accrued liability reserve. This number increased over the prior year by \$188 from interest earnings.

The unrestricted deficit in the amount of \$2,407,478 relates to the balance of the District's net position. This number reflects unfunded long-term liabilities, such as the net OPEB liability. Currently, there is no provision in the law to permit the District to fund OPEB by any other means than the "pay-as-you-go" method.

The District's total net position decreased by \$103,885 or 9.35% to a deficit of \$1,214,395 at December 31, 2013.

B. Changes in Net Position

The results of this year's operations as a whole are reported in the Statement of Activities in the accompanying financial statements. A summary of this statement for the years ended December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>Restated 2012</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues				
Operating grants	\$ 1,204,463	\$ -	1,204,463	0.00 %
Real property taxes	8,651,091	8,518,768	132,323	1.55 %
Other payments in lieu of taxes	9,511	7,234	2,277	31.48 %
Use of money & property	3,636	4,812	(1,176)	(24.44)%
Gain on sale of property & comp. for loss	66,928	156,071	(89,143)	(57.12)%
Miscellaneous	<u>6,726</u>	<u>37,778</u>	<u>(31,052)</u>	<u>(82.20)%</u>
Total Revenues	<u>9,942,355</u>	<u>8,724,663</u>	<u>1,217,692</u>	13.96 %
Expenses				
Home & community	<u>10,046,240</u>	<u>10,216,727</u>	<u>(170,487)</u>	(1.67)%
Total Expenses	<u>10,046,240</u>	<u>10,216,727</u>	<u>(170,487)</u>	(1.67)%
Decrease in Net Position	<u>\$ (103,885)</u>	<u>\$ (1,492,064)</u>	<u>\$ 1,388,179</u>	(93.04)%

The District primarily relies on real property taxes to support its operations. The net increase in total revenues in 2013 as compared to 2012 was \$1,217,692 as shown above, primarily because the District received the FEMA reimbursement resulting from Hurricane Sandy for \$1,204,463.

The total in expenses in 2013 was \$170,487 or 1.67% lower than 2012. The 2012 expenses included a one-time buyout of the General Sanitation Supervisor's deferred compensation agreement in the amount of \$421,353.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICTS FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The District only uses one governmental fund - the general fund, which is discussed below.

As of December 31, 2013, the general fund reported a fund balance of \$3,542,305, an increase of \$90,435 or 2.62% from the prior year. A summary of the change in fund balance is as follows.

	<u>2013</u>	<u>2012</u>	<u>Changes</u>	<u>Percentage Change</u>
General Fund				
Nonspendable: Prepays	\$ 314,062	\$ 226,128	\$ 87,934	38.89 %
Restricted:				
Employee benefit accrued liability	177,396	177,208	188	0.11 %
Assigned:				
Appropriated	100	130	(30)	(23.08)%
Unappropriated: OPEB	50,099	50,099	-	0.00 %
Unassigned: Fund balance	<u>3,000,648</u>	<u>2,998,305</u>	<u>2,343</u>	0.08 %
 Fund Balance	 <u>\$ 3,542,305</u>	 <u>\$ 3,451,870</u>	 <u>\$ 90,435</u>	 2.62 %

Total revenues amounted to \$9,942,355 while expenditures totaled \$9,851,920. Expenditures increased by \$616,809 or 6.68% over fiscal 2012 totals, primarily for employee benefits and payroll expenditures. Revenues increased \$1,217,692 or 13.96% over fiscal 2012 totals, primarily from the receipt of FEMA reimbursements.

Nonspendable fund balance increased \$87,934. The balance relates to the prepayment of insurance premiums and NYSERS costs, which results from the timing of the annual billing from NYSERS. Fund balance restricted for the employee benefit accrued liability reserve increased minimally due to interest earnings.

The District appropriated \$100 for the next year's budget to reduce taxes.

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2013 Budget

The District's general fund budget for 2013 approved by the Board of Commissioners was \$8,659,246.

The approved budget was funded through a combination of estimated non-property tax revenues of \$8,024, appropriated fund balance of \$130 and \$8,651,092 of real property taxes.

B. Change in General Fund's Unassigned Fund Balance (Budget to Actual)

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and assignments, such as

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

an amount to fund the subsequent year's budget. It is this balance that is commonly referred to as "the Fund Balance". The change in this balance for 2013 demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unassigned Fund Balance	\$ 2,998,305
Revenues Over Budget	1,283,239
Expenditures and Encumbrances Over Budget	(1,192,674)
Net Change in Nonspendable and Restricted Fund Balances	(88,122)
Appropriated to Fund the December 31, 2014 Budget	<u>(100)</u>
Closing, Unassigned Fund Balance	<u>\$ 3,000,648</u>

Opening, Unassigned Fund Balance

The \$2,998,305 shown in the table is the portion of the District's December 31, 2012 fund balance that was retained as unassigned. This was 34.63% of the District's 2013 approved operating budget of \$8,659,246.

Special Item and Revenues Over Budget

The 2013 budget for revenues was \$8,659,116. Actual revenues received for the year were \$9,942,355. The excess of actual revenues over estimated or budgeted revenues was \$1,283,239. The excess of revenues over budget is primarily the result of the receipt of FEMA reimbursements for the cost of debris removal and clean-up following Hurricane Sandy.

Expenditures and Encumbrances Over Budget

Actual expenditures for the year were \$9,851,920, which was \$1,192,674 over budget and contributes to the change to the unassigned portion of the general fund fund balance from December 31, 2012 to December 31, 2013. This is directly the result of additional expenses incurred for the clean-up and repairs after Hurricane Sandy, as well as payouts of accumulated sick and vacation leave, early retirement incentives, and increases in ERS and workers compensation costs.

Net Change in Nonspendable and Restricted Fund Balances

Net change was related to the increase in nonspendable fund balance due to prepaid expenditures, net of interest earnings accrued to the employee benefit accrued liability reserve.

Appropriated to Fund the 2014 Budget

The District is using \$100 of the available December 31, 2013 fund balance to partially fund the 2014 approved operating budget. As such, the unassigned portion of the December 31, 2013 fund balance must be reduced by this amount.

Closing, Unassigned Fund Balance

Based upon the summary of changes shown in the above table, the District will begin the 2014 fiscal year with an unassigned fund balance of \$3,000,648. This is an increase of \$2,413 over the unassigned

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

balance of the prior year. This unassigned portion equals 34.03% of the District's 2014 approved operating budget of \$8,817,257.

6. CAPITAL ASSETS

At December 31, 2013, the District had invested in a broad range of capital assets, including land; buildings; vehicles and equipment and improvements. A summary of capital assets, net of depreciation at year end is as follows.

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
Land	\$ 98,039	\$ 98,039	\$ -
Buildings and building renovations	89,808	93,838	(4,030)
Refuse trucks & vehicles	729,912	919,003	(189,091)
Machinery & equipment	48,248	61,053	(12,805)
Furniture & Fixtures	3,069	3,426	(357)
Improvements other than buildings	46,611	56,616	(10,005)
Capital assets, net	<u>\$ 1,015,687</u>	<u>\$ 1,231,975</u>	<u>\$ (216,288)</u>

7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's 2014 budget as adopted by the Board of Commissioners and approved by the Town of Hempstead is \$8,817,257. This represents a \$158,011 (1.82%) increase over the 2013 budget. The budget for general insurance and health insurance increased by \$103,998 and \$210,000, respectively, which is offset by a decrease of \$144,026 in salaries. Funding for the budget will be provided by a combination of a \$100 appropriation of the December 31, 2013 fund balance, estimated non-property tax revenues of \$8,924, and the balance in real property tax levy of \$8,808,233, an increase of \$157,141 (1.82%).

Future budgets will continue to be affected by rising costs of operations, most notably in health insurance costs and pension contributions to the State retirement system.

Chapter 97 of the 2011 Laws of New York limits the increase in the property tax levy of local governments to the lesser of 2% or the rate of inflation. There are additional statutory adjustments in the law. Local governments may override the tax levy limit by first passing a local law that allows for the tax levy limit to be exceeded. The override vote requires a 60% vote of the total voting power of the governing board. The District's 2013 tax levy is within the tax levy limit.

8. ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's taxpayers and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact:

Town of Hempstead Sanitary District Number Seven
Administrative Office
90 Mott Street
Oceanside, New York 11572

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
STATEMENT OF NET POSITION
December 31, 2013

ASSETS

Cash		
Unrestricted	\$	3,431,611
Restricted		177,396
Prepays		314,062
Capital assets:		
Not being depreciated - land		98,039
Being depreciated, net of accumulated depreciation		<u>917,648</u>
Total Assets		<u>4,938,756</u>

LIABILITIES

Accounts payable		181,386
Accrued liabilities		11,878
Termination benefits payable		187,500
Long-term liabilities		
Due within one year		
Compensated absences payable		400,000
Due after one year		
Compensated absences payable		1,095,217
Due to employees' retirement system		71,543
Net other postemployment benefits obligation		<u>4,205,627</u>
Total Liabilities		<u>6,153,151</u>

NET POSITION (DEFICIT)

Net investment in capital assets		1,015,687
Restricted: Employee benefit accrued liability reserve		177,396
Unrestricted (deficit)		<u>(2,407,478)</u>
Total Net (Deficit) Position		<u>\$ (1,214,395)</u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

Operating Expenses	
Home & community services	\$ 10,046,240
Operating Grants	
FEMA grants	<u>1,204,463</u>
Net Operating Expenses	<u>(8,841,777)</u>
Non-operating Revenues	
Real property taxes	8,651,091
Other payments in lieu of taxes	9,511
Use of money & property	3,636
Gain on sale of property & compensation for loss	66,928
Miscellaneous	<u>6,726</u>
Total Non-operating Revenues	<u>8,737,892</u>
Decrease in Net Position	(103,885)
Net (Deficit) Position - Beginning of Year, Restated	<u>(1,110,510)</u>
Net (Deficit) Position - End of Year	<u><u>\$ (1,214,395)</u></u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
BALANCE SHEET - GOVERNMENTAL FUND
December 31, 2013

	<u>General Fund</u>
ASSETS	
Cash	
Unrestricted	\$ 3,431,611
Restricted	177,396
Prepays	<u>314,062</u>
Total Assets	<u>\$ 3,923,069</u>
LIABILITIES	
Accounts payable	\$ 181,386
Accrued liabilities	11,878
Termination benefits payable	<u>187,500</u>
Total Liabilities	<u>380,764</u>
FUND BALANCES	
Nonspendable: Prepays	314,062
Restricted: Employee benefit accrued liability reserve	177,396
Assigned:	
Appropriated	100
Unappropriated	50,099
Unassigned	<u>3,000,648</u>
Total Fund Balances	<u>3,542,305</u>
Total Liabilities and Fund Balances	<u>\$ 3,923,069</u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2013

Total fund balances of governmental funds \$ 3,542,305

The costs of constructing and acquiring capital assets (land, buildings, vehicles, equipment, and renovations) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the Balance Sheet. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives.

Balances at December 31, 2013 were:

Original cost of capital assets	\$ 4,213,260	
Accumulated depreciation	(3,197,573)	
Capital assets, net	1,015,687	1,015,687

Long-term and related liabilities are reported in the Statement of Net Position but not in the governmental funds because they are not due and payable in the current period.

Balances at December 31, 2013 were:

Compensated absences payable	(1,495,217)	
Due to employees' retirement system	(71,543)	
Net other postemployment benefits obligation	(4,205,627)	(5,772,387)

Net (deficit) position of governmental activities \$ (1,214,395)

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
For the Year Ended December 31, 2013

	<u>General Fund</u>
Revenues	
Real property taxes	\$ 8,651,091
Other payments in lieu of taxes	9,511
Use of money & property	3,636
Sale of property & compensation for loss	66,928
Miscellaneous	6,726
Federal sources	<u>1,204,463</u>
 Total Revenues	 <u>9,942,355</u>
Expenditures	
Home & community services	6,531,290
Employee benefits	<u>3,320,630</u>
 Total Expenditures	 <u>9,851,920</u>
 Excess of Revenues Over Expenditures	 90,435
 Fund Balance - Beginning of Year	 <u>3,451,870</u>
 Fund Balance - End of Year	 <u><u>\$ 3,542,305</u></u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

Net change in fund balances \$ 90,435

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

Long-Term Revenue and Expense Differences

Certain expenditures in the governmental funds requiring the use of current financial resources (amounts paid) may exceed the amounts incurred during the year, resulting in a reduction of the long-term liability and an increase in net position.

Decrease in compensated absences payable \$ 968,046

In the Statement of Activities, certain operating expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Increase in net other postemployment benefits obligation (977,926) (9,880)

Capital Related Differences

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlays in the period.

Capital outlay 69,416
Depreciation expense (285,704) (216,288)

Long-Term Debt Transaction Differences

Repayment of long-term debt is an expenditure in the governmental fund, but it reduces long-term liabilities in the Statement of Net Position and it does not affect the Statement of Activities.

Repayment of long-term employees' retirement system liability 31,848

Change in net position of governmental activities \$ (103,885)

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hempstead Sanitary District Number Seven (District) 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 District are as follows:

A. Reporting Entity

The reporting entity of the District is based upon criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The scope of activities included within the accompanying financial statements are those transactions which comprise District operations and are governed by, or significantly influenced by, the Board of Commissioners. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. All governmental activities and functions performed for the District are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The District provides for the collection, removal and disposal of all waste, special waste and recyclables within its territorial jurisdiction within the Town of Hempstead, New York.

B. Basis of Presentation

District-Wide Statements

The Statement of Net Position and the Statement of Activities present information about the governmental activities of the District. Governmental activities generally are financed through taxes, operating revenues, and other exchange and non-exchange transactions.

The Statement of Net Position presents the financial position of the District at fiscal year end. The Statement of Activities presents a comparison between operating revenues and expenses for each function of the District's governmental activities. Operating expenses are those that are specifically associated with and are clearly identifiable to a particular function. Revenues that are not classified as operating revenues, including all taxes, are presented as non-operating revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund are presented. The emphasis of fund financial statements is on major governmental funds, as defined by GASB, each displayed in a separate column. The District's financial statements reflect the following major fund categories:

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental Funds:

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Capital Projects Fund: This fund is used to account for the financial resources used for the acquisition, construction, or major repair of capital facilities or equipment. The District's capital projects fund did not have any fund balance or activity as of and during the year ended December 31, 2013.

C. Basis of Accounting and Measurement Focus

The district-wide financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include real property taxes and grants. On an accrual basis, revenue from real property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied and the related expenditures are incurred.

The governmental fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and other postemployment benefits, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Real Property Taxes

Real property taxes for the District are levied together with the taxes for the Town of Hempstead. The taxes are due in two installments of 50% on January 1st and July 1st without penalty to February 10th and August 10th, respectively. Late payments are subject to penalties. The taxes are collected by the Town and subsequently forwarded to the District. Uncollected taxes are subsequently enforced by Nassau County.

E. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy concerning which to apply first varies with the intended use, and with associated legal requirements, many of which are described elsewhere in these Notes to Financial Statements.

F. 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

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NOTES TO FINANCIAL STATEMENTS
(Continued)

reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including compensated absences, other postemployment benefits, potential contingent liabilities and useful lives of long-lived assets.

G. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

H. Prepaids

Prepaids represent payments made by the District for which benefits extend beyond year-end. These payments reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Assets and governmental funds Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

I. Restricted Assets

Certain cash balances are restricted by various legal and contractual obligations, such as reserves.

J. Capital Assets

Capital assets are reflected in the district-wide financial statements. Capital assets are reported at actual cost for acquisitions or estimated historical costs. Donated assets are reported at estimated fair market value at the date of donation.

Capitalization thresholds, (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings & building renovations	\$ 1,000	Straight-line	40 years
Refuse trucks & vehicles	1,000	Straight-line	6 years
Furniture, machinery & equipment	1,000	Straight-line	5-10 years
Improvements other than buildings	1,000	Straight-line	10 years

K. Vested Employee Benefits - Compensated Absences

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods. Sick leave eligibility and accumulation is specified in negotiated labor contracts. Upon retirement, resignation or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

Civil Service Employees

The District provides vacation pay and sick time benefits for its Civil Service Employees Association (CSEA) members under a collective bargaining unit agreement covering the period January 1, 2005 through December 31, 2013.

All civil service employees may accumulate unused vacation days up to a total of four hundred (400) days. They may also accumulate unused personal days, floating days, sick leave and compensatory time up to a total of four hundred (400) days.

Upon termination, retirement, or resignation while in the employ of the District, a CSEA employee shall be compensated in the cash equivalent amount to the full per diem amount of one hundred percent (100%) of accumulated unused vacation, sick leave, floating days, compensatory time and personal days. The employee may request that any compensation due him be paid in a lump sum, weekly or monthly installments for the balance of the calendar year.

Upon the death of a CSEA employee while in the service of the District, payment of the accumulated days shall be made in a lump sum to the personal representative of the deceased.

The District will honor a request made before August 15th of an employee while in the employ of the District to buy back no less than twenty-five (25) days of accumulated sick days, vacation, personal days, floating days and compensatory time in a cash amount equal to one hundred percent (100%) of the employee's per diem earnings; however, after the buy back the employee must have remaining no less than twenty-five (25) accumulated sick days. Payment shall be made by the District in the following calendar year but no later than January 31st in a lump sum or in installments during the calendar year which are mutually agreeable to the parties.

Any member of this CSEA bargaining unit may elect to "pass-along" to another member of this bargaining unit, a maximum of ten (10) working days per calendar year at the lesser or equal rate of pay, to a member that is on a "no-pay status" due to extended illness.

Sanitation Drivers, Helpers and Laborers

The District also entered into a seven-year agreement with the International Brotherhood of Teamsters, Local 854 (Teamsters Union) as the sole and exclusive bargaining agent for its drivers, helpers and laborers, excluding Civil Service Employees Association members effective for the period January 1, 2004 through December 31, 2010. As of December 31, 2013, a new agreement had not been reached between the District and the Teamsters Union. The expired agreement established a "vacation period" within the District in which all Teamsters Union employees would take their period vacation. Said period would commence the 1st day of January each year and end the 31st day of December. All vacations must be taken within the above time period with the approval of the General Sanitation Supervisor. Accumulation of vacation days was not allowed.

Under this Agreement, a Teamsters Union employee may accumulate up to two hundred fifty (250) days which includes sick days and compensatory time earned in the calendar year subsequent to the vacation period.

The District would honor the request made before August 15th of an employee while in the employ of the District to buy back no less than twenty-five (25) days of accumulated sick days and compensatory time in a cash amount equal to one hundred percent (100%) of the employee's per

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NOTES TO FINANCIAL STATEMENTS
(Continued)

diem earnings, however after the buy back the employee must have remaining no less than twenty-five (25) accumulated sick days. Payment would be made by the District in the calendar year in which the payment is requested but no later than December 31st.

An employee upon termination, retirement or resignation while in the employ of the District would be compensated in the cash equivalent amount to the full per diem amount of one hundred (100%) of accumulated, unused sick leave and compensatory time not to exceed two hundred fifty (250) days. Upon the death of an employee while in the service of the District, payment of the aforesaid accumulated days would be made in a lump sum to the personal representative for the estate of the deceased.

Additional Compensatory Time Due to Hurricane Sandy

In late October 2012, the District sustained damages to its property and equipment due to the flooding and power outage caused by Hurricane Sandy. In the weeks after the storm, the District relied on its employees to restore the District's property and operations, and the Board of Commissioners authorized additional compensatory time for employees who went to work after the storm.

Consistent with GASB Statement 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources.

L. Termination Benefits

Termination benefits consist of a one-time early retirement incentive, which the Board authorized in 2013. Employees opting for the incentive must be retired no later than December 31, 2013. The incentive payments were paid in full in early January 2014.

M. Other Postemployment Benefits

Eligible District employees participate in the New York State Employees' Retirement System. In addition to providing pension benefits through the New York State Employees' Retirement System, the District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The District accounts for these postemployment benefits in accordance with GASB Statement No. 45, *Accounting for Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (OPEB)*. The District recognizes the cost of providing health insurance by recording insurance premiums as expenditures in the general fund, in the year paid. In the district-wide statements, postemployment costs are measured and disclosed using the accrual basis of accounting.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

N. Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, compensated absences, termination benefits and other postemployment benefits that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent they have matured. Bonds and other long-term obligations (such as installment purchase debt) that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Position.

O. Equity Classifications

District-Wide Statements

In the district-wide statements there are three classes of net position:

Net Investment in capital assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets, if any.

Restricted net position – reports net position when constraints placed on the assets or deferred outflows of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the District.

Fund Statements

The fund statements report fund balance classifications according to the relative strength of spending constraints placed on the purpose for which resources can be used, as follows:

Nonspendable – Consists of amounts that are inherently nonspendable in the current period either because of their form or because they must be maintained intact. Nonspendable fund balance consists of prepaid items.

Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Restricted fund balances, generally referred to as reserves in accordance with New York State law, are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. These reserve funds are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the District include the following:

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NOTES TO FINANCIAL STATEMENTS
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Employee Benefit Accrued Liability Reserve – The Employee Benefit Accrued Liability Reserve (GML §6-p) is used to reserve funds for the payment of accrued employee benefit due an employee upon termination of the employee’s service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the general fund.

Assigned – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the District’s Board. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year’s budget. Additionally, assigned fund balance includes encumbrances not classified as restricted at the end of the fiscal year.

Unassigned – represents the residual classification for the District’s general fund and could report a surplus or deficit. In funds other than the general fund, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Fund Balance Classification

Any portion of fund balance may be applied or transferred for a specific purpose by law, voter approval if required by law or by formal action of the Board if voter approval is not required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board.

The Board of Commissioners shall delegate the authority to assign fund balance, for encumbrance purposes, to the person(s) to whom it has delegated the authority to sign purchase orders.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (that is restricted, assigned or unassigned) the Board will assess the current financial condition of the district and then determine the order of application of expenditures to which fund balance classification will be charged.

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN DISTRICT-WIDE STATEMENTS AND GOVERNMENTAL FUND STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic resource measurement focus of the district-wide statements, compared with the current financial resource measurement focus of the governmental funds.

A. Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the District’s governmental funds differ from “net position” of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental funds Balance Sheet.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

Capital Related Differences

Capital related differences include the difference between proceeds from the sale of capital assets reported on fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund statements and depreciation expense on those items as recorded in the Statement of Activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because the issuance of long-term debt provides current financial resources to governmental funds, but is recorded as a liability in the Statement of Net Assets. In addition, both interest and principal are recorded as expenditures in the fund statements when due and payable, whereas interest expense is recorded in the Statement of Activities as it accrues, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Policies

Budgets are adopted annually on a basis consistent with GAAP. The District's procedures for establishing its budget are as follows:

- The District's administration prepares a proposed budget for the general fund and submits it to the Board of Commissioners for approval.
- The proposed budget for the general fund is then submitted to the Hempstead Town Board for approval.
- Appropriations are adopted at the function/object level.
- Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.
- Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Supplemental appropriations may occur

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NOTES TO FINANCIAL STATEMENTS
(Continued)

subject to legal restrictions, if the Board approves them, because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year.

B. Budget Summary

The following is a summary of the District's general fund budget for 2013:

Adopted budget	\$ 8,659,246
Supplemental appropriations	-
Final budget	\$ 8,659,246

C. Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as part of assigned, unappropriated fund balance, unless classified as restricted or committed, and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

D. Over Expenditure of Appropriations

Certain general fund line item appropriations were over expended. See Page 33 for more details. The general fund budget in total was over expended by \$1,192,674.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The District's investment policies are governed by state statutes and District policy. Resources 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 State 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 District'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 District's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year-end.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

The District did not have any investments at year-end or during the year. Consequently, the District was not exposed to any material interest rate risk or foreign currency risk.

5. CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2013 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 98,039	\$ -	\$ -	\$ 98,039
Total capital assets not being depreciated	98,039	-	-	98,039
Capital assets being depreciated:				
Buildings and building renovations	937,201			937,201
Refuse trucks & vehicles	2,801,115	69,416	(64,621)	2,805,910
Machinery & equipment	258,838			258,838
Furniture & fixtures	25,094			25,094
Improvements other than buildings	88,178			88,178
Total capital assets being depreciated	4,110,426	69,416	(64,621)	4,115,221
Less: accumulated depreciation for:				
Buildings and building renovations	843,363	4,030		847,393
Refuse trucks & vehicles	1,882,112	258,507	(64,621)	2,075,998
Machinery & equipment	197,785	12,805		210,590
Furniture & fixtures	21,668	357		22,025
Improvements other than buildings	31,562	10,005		41,567
Total accumulated depreciation	2,976,490	285,704	(64,621)	3,197,573
Total capital assets being depreciated, net	1,133,936	(216,288)	-	917,648
Capital assets, net	\$ 1,231,975	\$ (216,288)	\$ -	\$ 1,015,687

Depreciation expense in the amount of \$285,704 was charged to home and community services.

6. LONG-TERM LIABILITIES

Long-term liability balances and activity for the year are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Other long-term liabilities:					
Compensated absences	\$ 2,463,263	\$ -	\$ (968,046)	\$ 1,495,217	\$ 400,000

The general fund is used to liquidate other long-term liabilities.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

7. PENSION PLAN

A. New York State and Local Employees' Retirement System

Plan Description

The District participates in the New York State and Local Employees' Retirement System (NYSERS). This is a cost-sharing multiple employer, public employee retirement system. The System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

The System is noncontributory for the employee except for those who either joined the System after July 27, 1976 with less than ten years of credited service, who contribute 3% of their salary; or joined the System on or after January 1, 2010 and before April 1, 2012 who contribute 3% of their salary throughout active membership. For employees hired on or after April 1, 2012, employee contribution rates are dependent upon salaries and range from 3% to 6% of salary throughout active membership.

The New York State Comptroller shall annually certify the rates expressed as proportions of the members' payroll, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The District is required to contribute at an actuarially determined rate. The District contributions made to the System was equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

2013	\$	972,186
2012		707,222
2011		674,445

B. Retirement Incentive

Chapter 105 of the Laws of 2010 of the State of New York authorized local governments to make available a retirement incentive program, which the Board of Commissioners approved. The cost of the program is being billed by the ERS over five years through 2015 requiring annual payments of \$40,119 including interest at 8%. The annual payment is included in state retirement system expenditures in the general fund. The outstanding balance at December 31, 2013 is \$71,543.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District, as a single-employer defined benefit OPEB plan, in accordance with its contracts with employees, will pay the full premium costs for medical insurance coverage for the eligible employee and spouse for the lifetime of the employee. The District will also reimburse retirees, spouses and surviving spouses for the full premium costs for Medicare Part B payments. These contracts will be renegotiated at various times in the future. All financial activities of the Plan are included in the financial statements of the District. The Plan does not issue a separate financial report. As of December 31, 2013, based on an update on the most recent actuarial valuation (December 31, 2012), there were 137 active and retired employees (including surviving spouses) participating in the District's OPEB plan.

B. Funding Policy

The District assumes the full cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the general fund of the fund financial statements as payments are made. Currently, there is no provision in the law to permit the District to fund OPEB by any means other than the "pay as you go" method.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined under the Alternative Measurement Method in accordance with parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and the District's net OPEB obligation to the District's healthcare plan:

Annual required contribution (ARC)	\$ 1,196,844
Interest on net OPEB obligation	96,831
Adjustment to ARC	<u>(105,889)</u>
Annual OPEB cost	1,187,786
Contribution made	<u>(209,860)</u>
Increase in OPEB obligation	977,926
Net OPEB obligation - Beginning of year	<u>3,227,701</u>
Net OPEB obligation - End of year	<u>\$ 4,205,627</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for December 31, 2013 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$ 1,033,223	24.3%	\$ 2,216,006
12/31/2012	1,241,900	18.5%	3,227,701
12/31/2013	1,187,786	17.7%	4,205,627

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NOTES TO FINANCIAL STATEMENTS
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D. Funded Status and Funding Progress

As of December 31, 2013, the plan was 0% funded. The actuarial accrued liability for benefits was \$16,274,290 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,274,290. The covered payroll (annual payroll of active employees covered by the plan) was \$4,982,126, and the ratio of the UAAL to the covered payroll was 326.65%.

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Actuarial Methods and Assumptions

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

In the December 31, 2013 update on the actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 3.0% funding interest rate and the medical/drug trend rate of 5%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2013, was 25 years.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

10. ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$100 has been appropriated to reduce taxes for the year ending December 31, 2014.

11. ASSIGNED UNAPPROPRIATED FUND BALANCE

In 2009, the Board of Commissioners designated \$50,000 of the general fund's fund balance for other postemployment benefits (OPEB). Under GASB 54, this internal designation is classified as assigned fund balance in the 2013 financial statements. As of December 31, 2013, the balance of this assigned fund balance was \$50,099.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
NOTES TO FINANCIAL STATEMENTS
(Continued)

12. PRIOR PERIOD ADJUSTMENT

The opening balance of the net position was restated to reflect the long-term ERS retirement incentive liability on the statement of net position. Refer to Note 7B for explanation of the retirement incentive:

	Net (Deficit) Position
Reported at December 31, 2012	\$ (1,007,119)
Prior Period Adjustment NYS ERS Retirement Incentive	(103,391)
Restated at December 31, 2012	\$ (1,110,510)

13. COMMITMENTS AND CONTINGENCIES

The Collective Bargaining Unit Agreement between the District and the International Brotherhood of Teamsters, Local 854, expired on December 31, 2010. A new agreement has subsequently been reached in April 2014. The new agreement will expire on December 31, 2018 and does not provide for any retroactive increases or adjustments for 2011 - 2013.

14. RELATED PARTY TRANSACTIONS

The District has entered into a consulting agreement with its former General Sanitation Supervisor's company, Assistance Corporation, to provide operations management advice to the District and to assist the District with issues that arise. The former General Sanitation Supervisor is related to the successor General Sanitation Supervisor (note: the successor General Sanitation Supervisor retired in October 2013). The January 8, 2010 consulting agreement covered the period February 1, 2010 to January 31, 2012, at a monthly fee of \$3,200. On June 27, 2011, the District's Board of Commissioners approved an additional payment of \$600 per month to the former General Sanitation Supervisor, effective July 1, 2011, for checking routes and following up on complaints. On January 5, 2012, the Board of Commissioners approved the extension of the consulting agreement for two years at a monthly fee of \$4,000. On December 5, 2013, the Board extended the consulting agreement for five more years. The District also paid Assistance Corporation an additional \$6,000 per month in January and February 2013, for services related to restoring the District from the impact of Hurricane Sandy. For the year ended December 31, 2013, the total amount paid to Assistance Corporation was \$60,000.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 27, 2014, the date the financial statements were available to be issued.

On February 28, 2014, the District entered into contract for the sale of the rear property for \$850,000, pending review and approval by the Town of Hempstead.

In April 2014, the District entered into a seven-year agreement with the International Brotherhood of Teamsters, Local 854 (Teamsters Union) as the sole and exclusive bargaining agent for its drivers, helpers and laborers, excluding Civil Service Employees Association members effective for the period January 1, 2011 through December 31, 2018.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Final Budget Variance with Actual
Revenues				
Real property taxes	\$ 8,651,092	\$ 8,651,092	\$ 8,651,091	\$ (1)
Other payments in lieu of taxes			9,511	9,511
Use of money & property	8,024	8,024	3,636	(4,388)
Sale of property & compensation for loss			66,928	66,928
Miscellaneous			6,726	6,726
Federal sources			1,204,463	1,204,463
	<u>8,659,116</u>	<u>8,659,116</u>	<u>9,942,355</u>	<u>\$ 1,283,239</u>
Appropriated Fund Balance				
Prior years' surplus	130	130		
	<u>130</u>	<u>130</u>		
Total Revenues and Appropriated Fund Balance	<u>\$ 8,659,246</u>	<u>\$ 8,659,246</u>		
Expenditures				
Home & community services	\$ 6,132,302	\$ 6,132,302	6,531,290	\$ (398,988)
Employee benefits	2,526,944	2,526,944	3,320,630	(793,686)
	<u>\$ 8,659,246</u>	<u>\$ 8,659,246</u>	<u>9,851,920</u>	<u>\$ (1,192,674)</u>
Excess of Revenues Over Expenditures			90,435	
Fund Balance - Beginning of Year			<u>3,451,870</u>	
Fund Balance - End of Year			<u>\$ 3,542,305</u>	

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 December 31, 2013

Valuation Date	Actuarial		Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	Value of Assets	Accrued Liability (AAL) Entry Age				
December 31, 2009	\$ -	\$ 15,212,400	\$ 15,212,400	0%	\$ 3,818,987	398%
December 31, 2012	-	16,755,720	16,755,720	0%	4,494,532	373%

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
COMPARATIVE SCHEDULE OF EXPENDITURES - GENERAL FUND
For the Years Ended December 31, 2013 and 2012

	December 31, 2013				December 31, 2012			
	Original Budget	Final Budget	Actual	Unexpended Balance	Original Budget	Final Budget	Actual	Unexpended Balance
Sanitary Administration								
Personal services								
Commissioners' salaries	\$ 37,500	\$ 37,500	\$ 33,756	\$ 3,744	\$ 37,500	\$ 37,500	\$ 37,500	\$ -
Equipment & other capital outlay								
Office furniture, fixtures, etc.	1,500	1,500	222	1,278	1,500	1,500	3,746	(2,246)
Contractual expenses								
Attorney fees	75,000	75,000	56,245	18,755	75,000	75,000	48,793	26,207
Audit and accounting	35,000	35,000	31,800	3,200	40,000	40,000	27,000	13,000
Professional & other services	73,000	73,000	91,265	(18,265)	70,600	70,600	82,509	(11,909)
Election expenses	5,000	5,000	3,155	1,845	8,000	8,000	1,109	6,891
Office expense & postage	8,000	8,000	11,437	(3,437)	8,000	8,000	13,783	(5,783)
Telephone	5,000	5,000	4,716	284	5,000	5,000	4,217	783
Ecology & recycling								
Building & electrical services	50,000	50,000	4,859	45,141	50,000	50,000	5,082	44,918
	<u>290,000</u>	<u>290,000</u>	<u>237,455</u>	<u>52,545</u>	<u>295,600</u>	<u>295,600</u>	<u>223,739</u>	<u>71,861</u>
Refuse & Garbage								
Personal services								
Operating payroll	4,412,388	4,412,388	5,481,101	(1,068,713)	4,747,811	4,747,811	4,878,385	(130,574)
Equipment & other capital outlay	150,000	150,000	68,166	81,834	579,000	579,000	618,152	(39,152)
Contractual expenses								
Gasoline, oil, grease & anti-freeze	185,000	185,000	211,253	(26,253)	259,000	259,000	211,049	47,951
Radio service	12,000	12,000	8,714	3,286	12,500	12,500	5,967	6,533
Truck parts & repairs	247,000	247,000	125,183	121,817	304,576	304,576	129,455	175,121
Tires, tubes & tire repairs	46,000	46,000	74,537	(28,537)	45,000	45,000	45,099	(99)
Insurance	642,914	642,914	181,555	461,359	626,781	626,781	150,608	476,173
Substance testing	10,000	10,000	5,142	4,858	10,000	10,000	6,863	3,137
Fuel & utilities								
Electric	27,000	27,000	16,534	10,466	27,000	27,000	13,725	13,275
Gas			1,966	(1,966)			1,248	(1,248)
Water			6,618	(6,618)			5,859	(5,859)
Computer service	21,000	21,000	20,209	791	21,000	21,000	19,865	1,135
Uniform maintenance & replacement	38,000	38,000	36,275	1,725	38,000	38,000	36,542	1,458
Shoes			150	(150)				-
Repairs & maint. of buildings & grounds	35,000	35,000	33,314	1,686	46,750	46,750	40,761	5,989
MCTM tax	16,000	16,000	23,118	(7,118)	16,270	16,270	16,923	(653)
	<u>5,842,302</u>	<u>5,842,302</u>	<u>6,293,835</u>	<u>(451,533)</u>	<u>6,733,688</u>	<u>6,733,688</u>	<u>6,180,501</u>	<u>553,187</u>
Employee Benefits								
New York State retirement	718,267	718,267	972,186	(253,919)	765,423	765,423	707,322	58,101
Social security	340,493	340,493	335,483	5,010	366,076	366,076	332,043	34,033
Workers' compensation			681,123	(681,123)			479,689	(479,689)
New York State disability	2,184	2,184	2,401	(217)	2,184	2,184	1,983	201
Hospital & medical insurance	1,400,000	1,400,000	1,273,410	126,590	1,347,014	1,347,014	1,259,378	87,636
Dental & optical insurance	66,000	66,000	56,027	9,973	56,406	56,406	50,456	5,950
	<u>2,526,944</u>	<u>2,526,944</u>	<u>3,320,630</u>	<u>(793,686)</u>	<u>2,537,103</u>	<u>2,537,103</u>	<u>2,830,871</u>	<u>(293,768)</u>
	<u>\$ 8,659,246</u>	<u>\$ 8,659,246</u>	<u>\$ 9,851,920</u>	<u>\$ (1,192,674)</u>	<u>\$ 9,566,391</u>	<u>\$ 9,566,391</u>	<u>\$ 9,235,111</u>	<u>\$ 331,280</u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
SCHEDULE OF STATISTICAL DATA
 December 31, 2013

	Assessed Valuation	Tax Rate	Net Adjusted Budget	Tax Levy
2007	\$ 17,227,179	39.665%	\$ 6,833,157	\$ 6,833,095
2008	18,604,020	39.450%	7,339,476	7,339,344
2009	19,253,950	40.940%	7,882,742	7,882,483
2010	19,728,668	41.161%	8,120,659	8,120,604
2011	18,163,016	45.985%	8,352,476	8,352,296
2012	17,297,276	49.249%	9,159,003	8,518,769
2013	14,107,326	61.323%	8,651,222	8,651,092

Note 1:

The tax levies for the following years were lower than the net adjusted budget because the District utilized available fund balance in the following amounts:

Budget Year	Levy Lower than Net Adj. Budget
2007	\$ 62
2008	132
2009	259
2010	55
2011	180
2012	640,234
2013	130

Note 2:

Nassau County Reassessment Assessed Valuation. Tax rate represents blended rate of four classes of property.

