

TOWN OF HEMPSTEAD
SANITARY DISTRICT NUMBER SEVEN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

Report on the Financial Statements

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, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2015, 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.

Changes in Accounting Principles

As discussed in Note 2 to the financial statements "Changes in Accounting Principles", the District has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, as of December 31, 2015. Our opinion is not modified with respect to this matter.

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, the District's proportionate share of the net position liability, and District's contributions on pages 4 through 13, and 48 through 51, respectively, 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, 2015, on page 52 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, 2014, 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, 2014, on page 52 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 2014 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 2014 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 53 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the Town of Hempstead Sanitary District Number Seven's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Hempstead Sanitary District Number Seven's internal control over financial reporting and compliance.

Cullen & Danowski, LLP

September 26, 2016

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015. 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.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- The District's total net position, as reported in the district-wide financial statements, was a deficit of (\$1,296,753), at December 31, 2015, and reflects unfunded long-term liabilities such as compensated absences, net other postemployment benefits obligation and net pension liability.
- The District's total net position at December 31, 2014 was restated and decreased by \$217,372 as a result of implementing GASB Statements No. 68 and No. 71 during the year ended December 31, 2015.
- The District's general fund-fund balance, as reflected in the fund financial statements was \$6,237,852 at December 31, 2015. This balance represents an increase of \$1,661,821 from the prior year.
- The District sold a portion of it's land for \$860,900.

Overview of the 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.

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.

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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

District-Wide Financial Statements (cont'd)

The Statement of Net Position

The Statement of Net Position presents information on all the District's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them 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 Net Position combines and consolidates government funds' balance sheet with capital assets and long-term obligations.

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.

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 in which the District incurs the liability, except for certain expenditures such as claims and judgments, compensated absences, pension costs, and other postemployment benefits, which are recognized as expenditures to the extent the related liabilities mature each 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 short 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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

District-Wide Financial Statements (cont'd)

Governmental Funds (cont'd)

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.

Notes to the Financial Statements

The notes provide information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements begin on page 20.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary comparative information for the general fund, a schedule of funding progress for postemployment benefits other than pensions, a schedule of the District's proportionate share of the net pension liability and a schedule of District contributions.

Other Supplementary Information

Individual schedules are presented as other supplementary information in a subsequent section of this report beginning on page 52.

Financial Analysis of the District as a Whole

Net Position

As described in Note 2, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* for the year ended December 31, 2015. The adoption of these statements resulted in a restatement of the District's opening net position as of January 1, 2015 in the amount of \$217,372 as indicated in Note 3. Prior year balances in the Management's Discussion and Analysis have been updated to reflect the restatement.

The District's net position increased by \$280,035 between fiscal year 2015 and 2014 as restated. A summary of the District's Statement of Net Position follows:

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

Financial Analysis of the District as a Whole (cont'd)

Net Position (cont'd)

| | 2015 | 2014 | Increase (Decrease) | Percentage Change |
|-------------------------------------|-----------------------|-----------------------|------------------------|----------------------|
| Current and Other Assets | \$ 6,375,670 | \$ 4,688,520 | \$ 1,687,150 | 35.98% |
| Capital Assets, Net | 794,660 | 863,415 | (68,755) | (7.96)% |
| <u>Total Assets</u> | <u>\$ 7,170,330</u> | <u>\$ 5,551,935</u> | <u>\$ 1,618,395</u> | <u>29.15%</u> |
| Deferred Outflows of Resources - | | | | |
| NYSERS Subsequent Payments | \$ 564,863 | \$ 454,741 | \$ 110,122 | 24.22% |
| Deferred Outflows of Resources - | | | | |
| NYSERS Pension Related | 103,356 | -0- | 103,356 | 100.00% |
| <u>Total Deferred Outflows</u> | <u>\$ 668,219</u> | <u>\$ 454,741</u> | <u>\$ 213,478</u> | <u>46.94%</u> |
| Current and Other Liabilities | \$ 137,818 | \$ 112,489 | \$ 25,329 | 22.52% |
| Long-term Liabilities | 1,510,991 | 1,527,500 | (16,509) | (1.08)% |
| Due to Employees' Retirement System | -0- | 37,147 | (37,147) | (100.00)% |
| Net Other Postemployment | | | | |
| Benefits Obligation | 6,844,485 | 5,234,215 | 1,610,270 | 30.76% |
| Net Pension Liability | 502,464 | 672,113 | (169,649) | (25.24)% |
| <u>Total Liabilities</u> | <u>\$ 8,995,758</u> | <u>\$ 7,583,464</u> | <u>\$ 1,412,294</u> | <u>(18.62)%</u> |
| Deferred Inflows of Resources - | | | | |
| NYSERS Pension Related | \$ 139,544 | \$ -0- | \$ 139,544 | (100.00)% |
| <u>Total Deferred Inflows</u> | <u>\$ 139,544</u> | <u>\$ -0-</u> | <u>\$ 139,544</u> | <u>(100.00)%</u> |
| Net Position | | | | |
| Net Investment in Capital Assets | \$ 794,660 | \$ 863,415 | \$ (68,755) | (7.96)% |
| Restricted | 1,314,465 | 177,570 | 1,136,895 | 640.25% |
| Unrestricted (Deficit) | (3,405,878) | (2,617,773) | (788,105) | (30.11)% |
| <u>Total Net Position</u> | <u>\$ (1,296,753)</u> | <u>\$ (1,576,788)</u> | <u>\$ 280,035</u> | <u>(17.76)%</u> |

Current and other assets increased by \$1,687,150, as compared to the prior year. This increase is primarily due to the increase in the District's cash.

Capital assets, net decreased by \$68,755, as compared to the prior year. This decrease is due to depreciation exceeding capital additions. The accompanying Notes to the Financial Statements, Note 7 "Capital Assets" provides additional information.

Current and other liabilities increased by \$25,329, as compared to the prior year. This increase is primarily in connection with an increase in accounts payable.

Long-term liabilities decreased by \$16,509, as compared to the prior year. This decrease is the result of a decrease in compensated absences.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

Financial Analysis of the District as a Whole (cont'd)

Net Position (cont'd)

Due to employees' retirement system decreased by \$37,147, which is the principal payment reduction of the 2010 retirement incentive.

Net other postemployment benefits (OPEB) obligation increased by \$1,610,270, as the current OPEB cost exceeded required contributions in accordance with GASB 45. The accompanying notes to financial statements, Note 10 "Other Postemployment Benefits" provides additional information.

The net investment in capital assets in the amount of \$794,660, relates to capital assets at cost less depreciation. This number decreased from the prior year as follows:

| | |
|-------------------------|--------------------|
| Capital asset additions | \$ 228,997 |
| Capital asset deletions | (48,833) |
| Depreciation expense | (248,919) |
| | <u>\$ (68,755)</u> |

The restricted net position in the amount of \$1,314,465 relates to the District's employee benefit accrued liability reserve. This number increased over the prior year by \$1,136,895 from interest earnings and board authorized increase to the reserve.

The unrestricted deficit in the amount of \$3,405,878 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 increased by \$280,035 or 17.76% to a deficit of \$1,296,753 at December 31, 2015.

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, 2015 and 2014 is as follows:

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015
(Continued)

Financial Analysis of the District as a Whole (cont'd)

Changes in Net Position (cont'd)

| | 2015 | 2014 | Increase (Decrease) | Percentage Change |
|--|-----------------------|-----------------------|------------------------|----------------------|
| <u>Revenues</u> | | | | |
| Operating Grants | \$ 135,181 | \$ 162,015 | \$ (26,834) | (16.56)% |
| Real Property Taxes | 8,844,946 | 8,808,233 | 36,713 | 0.42% |
| Other Payments in Lieu of Taxes | 14,230 | 11,174 | 3,056 | 27.35% |
| Use of Money & Property | 5,550 | 4,211 | 1,339 | 31.80% |
| Gain on Sale of Property & Comp. for Loss | 830,579 | 128,287 | 702,292 | 547.44% |
| Miscellaneous | -0- | 13,798 | (13,798) | (100.00)% |
| <u>Total Revenues</u> | <u>\$ 9,830,486</u> | <u>\$ 9,127,718</u> | <u>\$ 702,768</u> | <u>7.70%</u> |
| <u>Expenses</u> | | | | |
| Home & Community Services | \$ 9,550,451 | \$ 9,272,739 | \$ 277,712 | 2.99% |
| <u>Total Expenses</u> | <u>\$ 9,550,451</u> | <u>\$ 9,272,739</u> | <u>\$ 277,712</u> | <u>2.99%</u> |
| <u>(Decrease) Increase in Net Position</u> | <u>\$ 280,035</u> | <u>\$ (145,021)</u> | <u>\$ 425,056</u> | <u>5.88%</u> |
| Beginning Net (Deficit) Position | (1,576,788) | (1,214,395) | (362,393) | 29.84% |
| Prior Period Adjustment | -0- | (217,372) | (217,372) | (100.00)% |
| <u>Ending Net (Deficit) Position</u> | <u>\$ (1,296,753)</u> | <u>\$ (1,576,788)</u> | <u>\$ (154,709)</u> | <u>9.81%</u> |

The District primarily relies on real property taxes to support its operations. The net increase in total revenues in 2015 as compared to 2014 was \$702,768 as shown above, primarily because the District sold a portion of its land for \$860,900.

The total in expenses in 2015 was \$277,712 or 2.99% higher than 2014. The increase in expenses was due to increases in employee benefits and professional and other services.

Financial Analysis of the District's 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 year.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

Financial Analysis of the District's Funds (cont'd)

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

As of December 31, 2015, the general fund reported a fund balance of \$6,237,852, an increase of \$1,661,821 or 36.32% from the prior year. A summary of the change in fund balance is as follows:

| | <u>2015</u> | <u>2014</u> | <u>Changes</u> | <u>Percentage Change</u> |
|--|---------------------|---------------------|---------------------|------------------------------|
| <u>General Fund</u> | | | | |
| Nonspendable: Prepays | \$ 359,557 | \$ 226,845 | \$ 132,712 | 58.50% |
| Restricted: | | | | |
| Employee Benefit Accrued Liability Reserve | 1,314,465 | 177,570 | 1,136,895 | 640.25% |
| Assigned: | | | | |
| Appropriated | 114 | 46 | 68 | 147.83% |
| Unappropriated | 3,301,412 | 119,515 | 3,181,897 | 2662.34% |
| Unassigned: Fund balance | <u>1,262,304</u> | <u>4,052,055</u> | <u>(2,789,751)</u> | <u>(68.85)%</u> |
| <u>Fund Balance</u> | <u>\$ 6,237,852</u> | <u>\$ 4,576,031</u> | <u>\$ 1,661,821</u> | <u>36.32%</u> |

Total revenues amounted to \$9,941,419 while expenditures totaled \$8,279,598. Expenditures increased by \$185,606 or 2.3% from fiscal 2014 totals, primarily due to higher employee benefits expenditures. Revenues increased \$813,701 or 8.91% from fiscal 2014 totals, primarily from the sale of real property.

Nonspendable fund balance increased \$132,712. 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 \$1,136,895 due to interest earnings and board authorized increase to the reserve.

The District appropriated \$114 for the next year's budget to reduce taxes.

Assigned Unappropriated fund balance increased by \$3,181,897. This represents encumbrances for the purchase of equipment totaling \$251,313, \$50,099 designated by the Board of Commissioners for other postemployment benefits and \$3,000,000 designated by the Board of Commissioners for the building and land repair reserve fund.

General Fund Budgetary Highlights

A. 2015 Budget

The District's general fund budget for 2015 approved by the Board of Commissioners was \$8,849,894. The 2015 budget was increased by \$69,416 for prior year encumbrances. The total 2015 budget is \$8,919,310.

The approved budget was funded through a combination of estimated non-property tax revenues of \$4,800 appropriated fund balance of \$69,462 and \$8,845,048 of real property taxes.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

General Fund Budgetary Highlights (cont'd)

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 an amount to fund the subsequent year's budget. The change in this balance for 2015 demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

| | |
|---|---------------------|
| Opening, Unassigned Fund Balance | \$ 4,052,055 |
| Revenues Over Budget | 1,091,571 |
| Expenditures and Encumbrances Under Budget | 388,399 |
| Net Change in Nonspendable and Restricted Fund Balances | (1,269,607) |
| Change in Assigned Fund Balance | (3,000,000) |
| Appropriated to Fund the December 31, 2015 Budget | <u>(114)</u> |
| <u>Closing, Unassigned Fund Balance</u> | <u>\$ 1,262,304</u> |

Opening, Unassigned Fund Balance

The \$4,052,055 shown in the table is the portion of the District's December 31, 2014 fund balance that was retained as unassigned. This was 45.43% of the District's 2015 approved operating budget of \$8,919,310.

Revenues Over Budget

The 2015 budget for revenues was \$8,849,848. Actual revenues received for the year were \$9,941,419. The excess of actual revenues over estimated or budgeted revenues was \$1,091,571. The excess of revenues over budget is primarily the result of the sale of a portion of the District's land and additional FEMA reimbursements for the cost of debris removal and clean-up following Hurricane Sandy.

Expenditures and Encumbrances Under Budget

Actual expenditures for the year were \$8,279,598 and outstanding encumbrances were \$251,313. Combined, the expenditures plus encumbrances totaled \$8,530,911 which was \$388,399 under budget and contributes to the change to the unassigned portion of the general fund fund balance from December 31, 2014 to December 31, 2015. Actual expenditures for operating payroll, equipment purchases, gasoline, oil, grease and anti-freeze, truck parts and repairs, repairs and maintenance of buildings and grounds and employee benefits were lower than budgeted.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

General Fund Budgetary Highlights (cont'd)

A. Change in General Fund's Unassigned Fund Balance (Budget to Actual) (cont'd)

Net Change in Nonspendable and Restricted Fund Balances

Net change was related to the increase in nonspendable fund balance due to an increase in prepaid expenditures and an increase in the employee benefit accrued liability reserve for interest earnings and board authorized increase in the reserve.

Appropriated to Fund the 2015 Budget

The District is using \$114 of the available December 31, 2015 fund balance to partially fund the 2016 approved operating budget. As such, the unassigned portion of the December 31, 2015 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 2016 fiscal year with an unassigned fund balance of \$1,262,304. This is a decrease of \$2,789,751 over the unassigned balance of the prior year. This unassigned portion equals 14.61% of the District's 2016 approved operating budget of \$8,640,595.

Capital Assets

At December 31, 2015, 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:

| | 2015 | 2014 | Increase (Decrease) |
|------------------------------------|-------------------|-------------------|------------------------|
| Land | \$ 49,206 | \$ 98,039 | \$ (48,833) |
| Buildings and building renovations | 81,748 | 85,778 | (4,030) |
| Refuse trucks & vehicles | 589,918 | 590,646 | (728) |
| Machinery & equipment | 35,039 | 48,447 | (13,408) |
| Furniture & fixtures | 2,355 | 2,712 | (357) |
| Improvements other than buildings | 36,394 | 37,793 | (1,399) |
| <u>Capital assets, net</u> | <u>\$ 794,660</u> | <u>\$ 863,415</u> | <u>\$ (68,755)</u> |

Economic Factors and Next Year's Budget

The District's 2016 budget as adopted by the Board of Commissioners and approved by the Town of Hempstead is \$8,640,595. This represents a \$209,299 (2.42%) decrease over the 2015 budget. Funding for the budget will be provided by a combination of a \$114 appropriation of the December 31, 2015 fund balance, estimated non-property tax revenues of \$9,936, and the balance in real property tax levy of \$8,630,545, a decrease of \$214,504 (2.49%).

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2015

(Continued)

Economic Factors and Next Year's Budget (cont'd)

Future budgets will continue to be affected by rising costs of operations, most notably in health insurance costs.

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 2016 tax levy is within the tax levy limit.

Chapter 59 of the Laws of 2014 effectively "freezes" property taxes for two years on the primary residences of homeowners with annual incomes at or below \$500,000 in school districts and local governments that stay within the tax cap. Qualifying homeowners will receive a credit, which will be distributed in the form of a check from New York State, up to the calculated amount of the tax cap. The program also requires the school districts and local governments in the second year to develop or participate in the development of a state approved government efficiency plan that will achieve savings for taxpayers. The law is effective for the District starting with the 2015 budget year and homeowners will receive refund checks in the fall of 2015. This program will provide an added incentive for the District to be tax cap compliant.

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
Administration Office
90 Mott Street
Oceanside, New York 11572

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2015

ASSETS

| | | |
|---|----|------------------|
| Cash: | | |
| Unrestricted | \$ | 4,701,648 |
| Restricted | | 1,314,465 |
| Prepays | | 359,557 |
| Capital Assets: | | |
| Not being Depreciated - Land | | 49,206 |
| Being Depreciated, Net of Accumulated Depreciation | | <u>745,454</u> |
| <u>TOTAL ASSETS</u> | \$ | <u>7,170,330</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|---|----|----------------|
| Deferred Outflows of Resources - NYSERS Pension Related | \$ | 103,356 |
| Deferred Outflows of Resources - NYSERS Subsequent Payments | | <u>564,863</u> |
| <u>TOTAL DEFERRED OUTFLOWS OF RESOURCES</u> | \$ | <u>668,219</u> |

LIABILITIES

| | | |
|---|----|------------------|
| Accounts Payable | \$ | 121,465 |
| Accrued Liabilities | | 16,353 |
| Long-Term Liabilities | | |
| Due Within One Year | | |
| Compensated Absences Payable | | 20,130 |
| Due After One Year | | |
| Compensated Absences Payable | | 1,490,861 |
| Net Other Postemployment Benefits Obligation | | 6,844,485 |
| Net Pension Liability | | <u>502,464</u> |
| <u>TOTAL LIABILITIES</u> | \$ | <u>8,995,758</u> |

DEFERRED INFLOWS OF RESOURCES

| | | |
|--|----|----------------|
| Deferred Inflows of Resources - NYSERS Pension Related | \$ | <u>139,544</u> |
| <u>TOTAL DEFERRED INFLOWS OF RESOURCES</u> | \$ | <u>139,544</u> |

NET POSITION (DEFICIT)

| | | |
|--|----|--------------------|
| Net Investment in Capital Assets | \$ | 794,660 |
| Restricted Employee Benefit Accrued Liability Reserve | | 1,314,465 |
| Unrestricted (Deficit) | | <u>(3,405,878)</u> |
| <u>TOTAL NET (DEFICIT) POSITION</u> | \$ | <u>(1,296,753)</u> |

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

| | |
|---|-----------------------|
| <u>Operating Expenses</u> | |
| Home & Community Services | \$ 9,550,451 |
| <u>Operating Grants</u> | |
| FEMA Grants | <u>135,181</u> |
| <u>Net Operating Expenses</u> | <u>\$ (9,415,270)</u> |
| <u>Non-Operating Revenues</u> | |
| Real Property Taxes | \$ 8,844,946 |
| Other Payments in Lieu of Taxes | 14,230 |
| Use of Money & Property | 5,550 |
| Gain on Sale of Property & Compensation for Loss | <u>830,579</u> |
| <u>Total Non-Operating Revenues</u> | <u>\$ 9,695,305</u> |
| <u>Increase in Net Position</u> | \$ 280,035 |
| <u>Net (Deficit) Position - Beginning of Year, Restated</u> | <u>(1,576,788)</u> |
| <u>Net (Deficit) Position - End of Year</u> | <u>\$ (1,296,753)</u> |

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

BALANCE SHEET - GOVERNMENTAL FUND

AS OF DECEMBER 31, 2015

| | <u>General Fund</u> |
|---|---------------------|
| <u>Assets:</u> | |
| Cash: | |
| Unrestricted | \$ 4,701,648 |
| Restricted | 1,314,465 |
| Prepays | <u>359,557</u> |
| | |
| <u>Total Assets</u> | <u>\$ 6,375,670</u> |
| | |
| <u>Liabilities:</u> | |
| Accounts Payable | \$ 121,465 |
| Accrued Liabilities | <u>16,353</u> |
| | |
| <u>Total Liabilities</u> | <u>\$ 137,818</u> |
| | |
| <u>Fund Balances:</u> | |
| Non-Spendable: Prepays | \$ 359,557 |
| Restricted: Employee Benefit Accrued Liability Reserve | 1,314,465 |
| Assigned: | |
| Appropriated | 114 |
| Unappropriated | 3,301,412 |
| Unassigned | <u>1,262,304</u> |
| | |
| <u>Total Fund Balances</u> | <u>\$ 6,237,852</u> |
| | |
| <u>Total Liabilities and Fund Balances</u> | <u>\$ 6,375,670</u> |

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2015

Total Governmental Fund Balance \$ 6,237,852

Amounts reported for Governmental Activities in the
Statement of Net Position are different because:

Capital Assets used in governmental activities
are not financial resources and, therefore, are not
reported as assets in governmental funds.

| | | |
|---------------------------------|--------------------|---------|
| Original Cost of Capital Assets | \$ 4,288,362 | |
| Accumulated Depreciation | <u>(3,493,702)</u> | 794,660 |

Deferred Outflows of Resources Pension Related 668,219

Long-Term Liabilities are not due and payable in
the current period and, therefore, are not reported
as liabilities in the governmental funds. Long-term
Liabilities at year end consist of:

| | | |
|---|------------------|-------------|
| Compensated Absences Payable | \$ (1,510,991) | |
| Net Other Postemployment Benefits Obligation | (6,844,485) | |
| Proportionate Share of Net Pension Liability - NYSERS | <u>(502,464)</u> | (8,857,940) |

Deferred Inflows of Resources Pension Related (139,544)

Net (Deficit) Position of Governmental Activities \$ (1,296,753)

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>General Fund</u> |
|---|-------------------------|
| <u>Revenues</u> | |
| Real Property Taxes | \$ 8,844,946 |
| Other Payments in Lieu of Taxes | 14,230 |
| Use of Money & Property | 5,550 |
| Sale of Property & Compensation for Loss | 80,612 |
| Federal Sources | <u>135,181</u> |
| <u>Total Revenues</u> | <u>\$ 9,080,519</u> |
| <u>Expenditures</u> | |
| Home & Community Services | \$ 5,182,099 |
| Employee Benefits | <u>3,097,499</u> |
| <u>Total Expenditures</u> | <u>\$ 8,279,598</u> |
| <u>Other Financing Sources (Uses)</u> | |
| Sale of Capital Assets | \$ <u>860,900</u> |
| <u>Total Other Financing Sources (Uses)</u> | <u>\$ 860,900</u> |
| <u>Excess of Revenues Over Expenditures</u> | <u>\$ 1,661,821</u> |
| <u>Fund Balance - Beginning of Year</u> | <u>4,576,031</u> |
| <u>Fund Balance - End of Year</u> | <u>\$ 6,237,852</u> |

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balance \$ 1,661,821

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

| | | |
|----------------------|------------------|----------|
| Capital Outlay | \$ 180,164 | |
| Depreciation Expense | <u>(248,919)</u> | (68,755) |

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

| | | |
|---|--------------------|-------------|
| Decrease in Compensated Absences | \$ 16,509 | |
| Increase in Other Postemployment Benefits | <u>(1,610,270)</u> | (1,593,761) |

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. | | 37,147 |
|--|--|--------|

Increases or Decreases in the proportionate share of Net Pension Liability, Deferred Outflows of Resources Pension Related, and Deferred Inflows of Resources Pension Related reported in the Statement of Activities does not provide for or require the use of Current Financial Resources and therefore are not reported as revenues or expenditures in the governmental funds.

| | | |
|--|------------------|----------------|
| Decrease in Net Pension Liability | \$ 169,649 | |
| Increase in Deferred Outflows of Resources - Pension Related | 213,478 | |
| Increase in Deferred Inflows of Resources - Pension Related | <u>(139,544)</u> | <u>243,583</u> |

| | | |
|--|--|-------------------|
| <u>Change in Net Position of Governmental Activities</u> | | <u>\$ 280,035</u> |
|--|--|-------------------|

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hempstead Sanitary District Number Seven (District), Oceanside, Town of Hempstead, New York, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted 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 District is governed by general Town law, the laws of the Town of Hempstead, New York and other general laws of the State of New York. The elected Board of Commissioners is the legislative body responsible for overall operations of the District, with the Chairman serving as chief executive officer. An appointed Treasurer serves as chief fiscal officer.

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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

B. Basis of Presentation (cont'd)

District-Wide Statements (cont'd)

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. The emphasis of fund financial statements is on major governmental funds, as defined by GASB, each displayed in a separate column.

The District reports the following major governmental fund:

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.

C. Basis of Accounting and Measurement Focus

The district-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized, as revenue as soon as all eligibility requirements imposed by the Provider have been met. All assets, liabilities and deferred inflows or outflows associated with the operation of the District are included in the Statement of Net Position.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

C. Basis of Accounting and Measurement Focus (cont'd)

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 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 the reported amount of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported revenues and expenses during the reporting period. 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. Other Accounting Policies

1. Cash and Cash Equivalents - The District's cash and cash equivalents consist of cash on hand and demand deposits.

The Sanitary District Number Seven reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Cash deposits are reported at carrying amount which reasonably estimates fair value.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Other Accounting Policies (cont'd)

2. Accounts Receivable - Accounts receivable are shown gross. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

3. Prepays - Prepays 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 prepaids in both the district-wide and fund financial statements. These items are reported as assets on the Statement of Net Position 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.

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

5. Capital Assets - Capital assets, which include land, buildings, improvements, vehicles, furniture and equipment and improvements other than buildings are reported in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of \$1,000 or more and estimated useful life in excess of one year.

Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

| | |
|---------------------------------------|------------|
| Buildings & building renovations | 40 years |
| Refuse Trucks & Vehicles | 6 years |
| Furniture, machinery and equipment | 5-10 years |
| Improvements Other than Buildings | 10 years |

6. 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Other Accounting Policies (cont'd)

6. Vested Employee Benefits - Compensated Absences (cont'd)

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, 2014 through December 31, 2020.

All civil service employees may accumulate unused vacation days up to a total of one hundred (100) days. They may also accumulate unused personal days, floating days, sick leave and compensatory time up to a total of two hundred (200) days.

Upon termination, separation 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 regardless of the amount of credited service time. The employee may request that any compensation due them 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.

If an employee has accumulated more than three hundred (300) days as provided above under the previous contract, the employee must sell and the District must buy back the excess days at the then current rate of per diem earnings so that by December 31, 2017 the employee's accumulated days will not exceed the maximums. The reduction in total accumulated days will be stepped down over the first four years of the agreement as follows:

As of December 31, 2014 - no more than 375 days.
As of December 31, 2015 - no more than 350 days.
As of December 31, 2016 - no more than 325 days.
Thereafter, no more than three hundred (300) days
at the end of each succeeding year.

The District, at its discretion will honor any requests made for the buy-back of accumulated days, over the maximum, made before August 31st. Payment will be made within thirty (30) days. Request for buy-back after August 31st will be paid by January 31st of the following year. In either case, payment will be paid in a lump sum unless the parties agree that payment should be made in installments.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Other Accounting Policies (cont'd)

6. Vested Employee Benefits - Compensated Absences (cont'd)

Civil Service Employees (cont'd)

Any member of this CSEA bargaining unit may elect to "pass-along" to another member of the bargaining unit, a maximum of ten (10) accumulated 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

During March of 2014, the District entered into a seven-year agreement with the International Brotherhood of Teamsters, Local 553 (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.

The agreement establishes a "vacation period" within the District in which all Teamsters union employees would take their period vacation. Said period will commence the 1st day of January of 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 Supervisor. Accumulation of vacation days is not allowed and any vacation days not used within the calendar year shall be deemed forfeited.

Under this Agreement, a teamsters union employee may accumulate sick days and compensatory time earned in the calendar year, and carry same forward for use in the next calendar year subject to the following limits:

- 1) No employee may accumulate more than two hundred (200) days commencing January 1, 2015. If an employee has more than two hundred (200) days as of December 31, 2014, the District shall compensate the employee for each day over two hundred (200) days, at the employee's rate of pay as of December 31, 2014. Payment shall be made on or before the first pay period in February, 2015.
- 2) No employee may accumulate more than one hundred fifty (150) days commencing January 1, 2016. If an employee has more than one hundred fifty (150) days as of December 31, 2015, the District shall compensate the employee for each day over one hundred fifty (150) days, at the employee's rate of pay as of December 31, 2015. Payment shall be made on or before the first pay period in the subsequent February.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Other Accounting Policies (cont'd)

6. Vested Employee Benefits - Compensated Absences (cont'd)

Sanitation Drivers, Helpers and Laborers (cont'd)

- 3) No employee may accumulate more than one hundred (100) days commencing January 1, 2017. If an employee has more than one hundred (100) days as of December 31, 2016, the District shall compensate the employee for each day over one hundred (100) days, at the employee's rate of pay as of December 31, 2016. Payment shall be made on or before the first pay period in the subsequent February.
- 4) There shall be no accumulation beyond one hundred (100) days following December 31, 2017 and no reimbursement for same by the District.
- 5) In the event any employee shall have as of December 31, 2016 more than one hundred (100) days (but less than one hundred fifty (150) the employee shall have the option of being reimbursed for the days over one hundred (100) days, with one hundred (100) days being the employees maximum number of accumulated days thereafter, or, the employee may elect to keep the days accrued as of December 31, 2016, in which case the amount of days accumulated shall be that individual employee's personal maximum. Thereafter, there shall be no greater accumulation by the employee, and no reimbursement for same by the District. If on any subsequent December 31st the employee's total is less than the original personal maximum, but more than one hundred (100) days, then the new lower figure shall be the employee's personal maximum.
- 6) Employees hired on or after March 1, 2014 shall not accumulate more than one hundred (100) days, and no reimbursement will be made by the District for any days beyond this limit.

The District will honor the request made before August 15th of each year of an employee while in the employ of the District to buyback 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 then per diem earnings. Payment shall be made by the District in the calendar year in which the payment is requested, but no later than December 31st.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Other Accounting Policies (cont'd)

6. Vested Employee Benefits - Compensated Absences (cont'd)

Sanitation Drivers, Helpers and Laborers (cont'd)

Each person employed by the District shall be entitled to personal days in each calendar year of this agreement. Unused personal days at each calendar year's end shall be added to an employee's accumulated sick leave.

An employee upon termination, retirement or resignation while in the employ of the District, shall be compensated in the cash equivalent amount to the full per diem amount of one hundred (100%) percent of accumulated, unused sick leave and compensatory time not to exceed two hundred and fifty (250) days, or such lesser days as set forth in the provisions herein regarding the maximum accumulation days. Upon the death of an employee while in the service of the District, payment of the foresaid accumulated days shall be made in a lump sum to the personal representative for the estate of the deceased.

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.

7. 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Other Accounting Policies (cont'd)

8. Other Postemployment Benefits

Eligible District employees participate in the New York State and local Employees' Retirement System. In addition to providing pension benefits through the New York State and local 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. The District recognizes the cost of providing health insurance by recording insurance premiums as an expenditure in the general fund as the liabilities for premiums mature (come due for payment). In the district-wide statements, the cost of postemployment health insurance coverage is recognized on the accrual basis of accounting in accordance with GASB Statement No. 45.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has two items that qualify for reporting in this category. The first item relates to the pension reported in the District-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement period between the District's contributions and its proportionate share between the District's contributions and its proportionate share of total contributions to the pension system not included in pension expense. The second item is the District's contribution to the New York State Employees Retirement system subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position and/or Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

10. 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.

11. 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 cannot be spent because they are either not in spendable form, or legally or contractually required to remain 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:

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

11. Fund Statements (cont'd)

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 benefits based on unused and unpaid sick leave, personal leave, holiday leave or vacation time 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 and has a balance at December 31, 2015 of \$1,314,465.

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 of \$114. Additionally, assigned fund balance includes encumbrances not classified as restricted at the end of the fiscal year of \$251,313, \$50,099 for other postemployment benefits (OPEB) and \$3,000,000 for the building and land repair reserve fund.

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, or assigned.

12. 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 accounts 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68 and GASB Statement No. 71. Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The Statements also require enhanced note disclosures and schedules of required supplementary information.

NOTE 3 - RESTATEMENT OF BEGINNING NET POSITION

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* during the year ended December 31, 2015. As a result, the opening balance in Net Position at January 1, 2015 on the Statement of Activities was adjusted to reflect the recognition of the District's proportionate share of the net pension liability and deferred outflows of resources related to the District's participation in the New York State Employees' Retirement System.

| | <u>Governmental Activities</u> |
|--|--------------------------------|
| Net (Deficit) Position at December 31, 2014 previously stated | \$(1,359,416) |
| GASB Statement No. 68 implementation: | |
| Add: Recognition of beginning New York State Employees' Retirement System Liability | (672,113) |
| GASB Statement No. 71 implementation: | |
| Add: Recognition of beginning deferred outflow of resources for contributions subsequent to the measurement date | <u>454,741</u> |
| Net (Deficit) Position January 1, 2015, as restated | <u><u>\$(1,576,788)</u></u> |

NOTE 4 - 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 4 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN DISTRICT-WIDE STATEMENTS AND GOVERNMENTAL FUND STATEMENTS (cont'd)

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.

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.

1) 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.

2) 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.

3) 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 Position. 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 5 - 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 follow:

1. The District's administration prepares a proposed budget for the general fund and submits it to the Board of Commissioners for approval.
2. The proposed budget for the general fund is then submitted by the Board of commissioners to the Hempstead Town Board, no later than September 20th, for approval.
3. Appropriations are adopted at the function/object level.
4. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.
5. 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 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 2015:

| | |
|-----------------------------|--------------------|
| Adopted Budget | \$8,849,894 |
| Prior Year Encumbrances | 69,416 |
| Supplemental Appropriations | <u>-0-</u> |
| Final Budget | <u>\$8,919,310</u> |

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, 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 6 - 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 States of America 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:

- 1) Uncollateralized
- 2) Collateralized by securities held by the pledging financial institution, or
- 3) Collateralized by securities held by the pledging financial institution's trust department or agent but not in the District's name.

The District's deposits at December 31, 2015, were entirely covered by Federal depository insurance or by collateral held by the District's custodial bank in the District's name. The District's deposits are not subject to custodial credit risk.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 7 - CAPITAL ASSETS

Capital Asset balances and activity for the year ended December 31, 2015 were as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--|----------------------|--------------------|---------------------|---------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 98,039 | \$ -0- | \$ (48,833) | \$ 49,206 |
| <u>Total capital assets not being depreciated</u> | <u>\$ 98,039</u> | <u>\$ -0-</u> | <u>\$ (48,833)</u> | <u>\$ 49,206</u> |
| Capital assets being depreciated: | | | | |
| Buildings and building renovations | \$ 937,201 | \$ -0- | \$ -0- | \$ 937,201 |
| Refuse trucks & vehicles | 2,875,326 | 220,029 | (190,433) | 2,904,922 |
| Machinery & equipment | 274,793 | 800 | -0- | 275,593 |
| Furniture & fixtures | 25,094 | -0- | -0- | 25,094 |
| Improvements other than buildings | 88,178 | 8,168 | -0- | 96,346 |
| <u>Total capital assets being depreciated</u> | <u>\$ 4,200,592</u> | <u>\$ 228,997</u> | <u>\$ (190,433)</u> | <u>\$ 4,239,156</u> |
| Less: accumulated depreciation for: | | | | |
| Buildings and building renovations | \$ 851,423 | \$ 4,030 | \$ -0- | \$ 855,453 |
| Refuse trucks & vehicles | 2,284,680 | 220,757 | (190,433) | 2,315,004 |
| Machinery & equipment | 226,346 | 14,208 | -0- | 240,554 |
| Furniture & fixtures | 22,382 | 357 | -0- | 22,739 |
| Improvements other than buildings | 50,385 | 9,567 | -0- | 59,952 |
| <u>Total accumulated depreciation</u> | <u>\$ 3,435,216</u> | <u>\$ 248,919</u> | <u>\$ (190,433)</u> | <u>\$ 3,493,702</u> |
| <u>Total capital assets being depreciated, net</u> | <u>\$ 765,376</u> | <u>\$ (19,922)</u> | <u>\$ -0-</u> | <u>\$ 745,454</u> |
| <u>Capital assets, net</u> | <u>\$ 863,415</u> | <u>\$ (19,922)</u> | <u>\$ (48,833)</u> | <u>\$ 794,660</u> |

Depreciation expense in the amount of \$248,919 was charged to home and community services.

NOTE 8 - 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 | Due in More Than One Year |
|------------------------------|----------------------|---------------|------------------|--------------------|-----------------------------------|---------------------------------|
| Other long-term liabilities: | | | | | | |
| Compensated Absences | <u>\$1,527,500</u> | <u>\$ -0-</u> | <u>\$ 16,509</u> | <u>\$1,510,991</u> | <u>\$ 20,130</u> | <u>\$ 1,490,861</u> |

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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 9 - PENSION PLAN

General Information About the Pension Plan

Plan Description & Benefits Provided

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November, 2014, he was elected for a new term commencing January 1, 2015. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Benefits Provided

The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Benefits Provided (cont'd)

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20 percent of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent of the average of the previous two years.

Tiers 3, 4 and 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4 and 5 members, each year of final average salary is limited to no more than 10 percent of the average of the previous two years.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Benefits Provided (cont'd)

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5, and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Benefits Provided (cont'd)

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

Contributions

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3 percent of their salary for their entire length of service. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

| | <u>ERS</u> |
|-------------------|------------|
| December 31, 2015 | \$673,660 |
| December 31, 2014 | \$707,262 |
| December 31, 2013 | \$892,424 |

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the District reported a liability of \$502,464 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2015, the District's proportion was 0.0148735 percent, which was an increase of -0- from its proportion measured as of March 31, 2014. For this first year implementation there is no change in allocation percentage from March 31, 2014 to March 31, 2015.

For the year ended December 31, 2015, the District recognized pension expense of \$422,460. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience Changes of Assumptions | \$ 16,084 | \$ -0- |
| Net difference between projected and actual earnings on pension plan investments | 87,272 | -0- |
| Changes in proportion and differences between the District's contributions and proportionate share of contributions | -0- | 139,544 |
| Employer contributions subsequent to the measurement date | <u>564,863</u> | <u>-0-</u> |
| Total | <u>\$ 668,219</u> | <u>\$ 139,544</u> |

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont'd)

\$564,863 reported as deferred outflows of resources related to pensions resulting from District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

| | |
|------|------------|
| 2016 | \$ (9,047) |
| 2017 | \$ (9,047) |
| 2018 | \$ (9,047) |
| 2019 | \$ (9,047) |
| 2020 | \$ -0- |

Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions:

Significant actuarial assumptions used in April 1, 2014 valuation were as follows:

| | |
|------------------|---|
| Inflation rate | 2.7% |
| Salary scale | |
| ERS | 4.9% |
| Decrement tables | April 1, 2005-March 31, 2010 System's Experience |
| Interest rate | 7.5% |

Annuitant mortality rates are based on April 1, 2005-March 31, 2010 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for measuring pension obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Actuarial Assumptions (cont'd)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocations as of March 31, 2015 are summarized below:

| <u>Asset Type</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate</u> |
|----------------------------|--------------------------|---|
| Domestic Equity | 38% | 7.30% |
| International Equity | 13% | 8.55% |
| Private Equity | 10% | 11.00% |
| Real Estate | 8% | 8.25% |
| Absolute Return Strategies | 3% | 6.75% |
| Opportunistic Portfolio | 3% | 8.60% |
| Real Assets | 3% | 8.65% |
| Bonds & Mortgages | 18% | 4.00% |
| Cash | 2% | 2.25% |
| Inflation Indexed Bonds | 2% | 4.00% |
| | <u>100%</u> | |

Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease <u>(6.5%)</u> | Current Assumption <u>(7.5%)</u> | 1% Increase <u>(8.5%)</u> |
|---|---------------------------------|--|---------------------------------|
| District's proportionate share of the net pension liability (Asset) | 3,349,137 | 502,464 | (1,900,835) |

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 9 - PENSION PLAN (cont'd)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2015, were as follows:

| | (Dollars in Thousands) |
|---|--------------------------|
| | <u>Employees'</u> |
| | <u>Retirement System</u> |
| Employers' total pension liability | \$164,591,504 |
| Plan net position | 161,213,259 |
| Employers' net pension liability | <u>\$ 3,378,245</u> |
| Ratio of plan net position to the employers' total pension liability | 97.9% |

NOTE 10- 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, 2015, the most recent actuarial valuation, there were 86 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 10- OTHER POSTEMPLOYMENT BENEFITS (OPEB) (cont'd)

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) | \$1,941,255 |
| Interest on net OPEB obligation | 157,027 |
| Adjustment to ARC | (231,340) |
| Annual OPEB cost | <u>\$1,866,942</u> |
| Contribution made | (256,672) |
| Increase in OPEB obligation | <u>\$1,610,270</u> |
| Net OPEB obligation - Beginning of year | <u>5,234,215</u> |
| Net OPEB obligation - End of year | <u>\$6,844,485</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, 2015 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> |
|--------------------------|-------------------------|--|----------------------------|
| 12/31/2013 | 1,187,786 | 17.7% | 4,205,627 |
| 12/31/2014 | 1,215,087 | 15.3% | 5,234,215 |
| 12/31/2015 | 1,866,942 | 13.7% | 6,844,485 |

D. Funded Status and Funding Progress

As of December 31, 2015, the plan was 0% funded. The actuarial accrued liability for benefits was \$23,416,480 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,416,480. The covered payroll (annual payroll of active employees covered by the plan) was \$3,968,695 and the ratio of the UAAL to the covered payroll was 590.03%.

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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 10- OTHER POSTEMPLOYMENT BENEFITS (OPEB) (cont'd)

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, 2015 update of 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 level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2015, was 25 years.

NOTE 11- 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.

NOTE 12- ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$114 has been appropriated to reduce taxes for the year ending December 31, 2016.

NOTE 13- ASSIGNED UNAPPROPRIATED FUND BALANCE

A. Encumbrances are classified as assigned fund balance. At December 31, 2015, the District encumbered \$251,313 for the purchase of sanitation equipment.

B. 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 2015 financial statements. As of December 31, 2015, the balance of this assigned fund balance was \$50,099.

C. In December 2015, the Board of Commissioners designated \$3,000,000 of the general fund's fund balance for the Building and Land Repair reserve fund. Under GASB 54, this internal designation is classified as assigned fund balance in the 2015 financial statements. As of December 31, 2015 the balance of this assigned fund balance was \$3,000,000.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

(Continued)

NOTE 14- COMMITMENTS AND CONTINGENCIES

The District is involved in lawsuits and claims arising from the administration of its operations and affairs. Currently pending is a lawsuit brought by district taxpayers against the District and certain of its former and current Commissioners, and others, seeking to recover allegedly illegal payments made by the District based on allegations of waste, collusion, and other illegality. It is not possible to determine the District's exposure, if any, at this time and, therefore, no liability has been provided for in these financial statements. The District's management believes that the outcome of this matter is not likely to have a material effect on these financial statements.

NOTE 15- SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2016, the date the financial statements were available to be issued.

NOTE 16- NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The Governmental Accounting Standards (GASB) has issued pronouncements not yet required to be implemented by the District. The Statements that may impact the District are as follows:

GASB Statement No. 72 - In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement is effective for the year ending December 31, 2016.

GASB Statement No. 73 - In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68 for pension plans and pensions that are within their respective scopes. This statement is effective for the year ending December 31, 2016.

GASB Statement No. 74 - In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for the year ending December 31, 2017.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015
(Continued)

NOTE 16- NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS (cont'd)

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB No. 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for the year ending December 31, 2018.

GASB Statement No. 76 - In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for the year ending December 31, 2016.

GASB Statement No. 77 - In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This statement is effective for the year ending December 31, 2016.

GASB Statement No. 78 - In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple - Employer Defined Benefit Pension Plans*. GASB 78 addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This statement is effective for the year ending December 31, 2016.

GASB Statement No. 79 - In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB No. 79 addresses accounting and financial reporting for certain investment pools and pool participants. Specifically it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement is effective for the year ending December 31, 2016.

The District's management has not yet determined the effect these statements will have on its financial statements.

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, 2015

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Final Budget Variance</u> | |
|--|----------------------------|-------------------------|-------------------------|----------------------------------|----------------------------------|
| <u>REVENUES</u> | | | | | |
| Real Property Taxes | \$ 8,845,048 | \$ 8,845,048 | \$ 8,844,946 | \$ | (102) |
| Other Payments in Lieu of Taxes | -0- | -0- | 14,230 | | 14,230 |
| Use of Money and Property | 4,800 | 4,800 | 5,550 | | 750 |
| Sale of Property and Compensation for Loss | -0- | -0- | 941,512 | | 941,512 |
| Federal Sources | -0- | -0- | 135,181 | | 135,181 |
| <u>Total Revenues</u> | <u>\$ 8,849,848</u> | <u>\$ 8,849,848</u> | <u>\$ 9,941,419</u> | <u>\$</u> | <u>1,091,571</u> |
| <u>APPROPRIATED FUND BALANCE</u> | | | | | |
| Prior Years' Surplus | \$ 46 | \$ 46 | | | |
| Prior Year Encumbrances | 69,416 | 69,416 | | | |
| <u>Total Appropriated Fund Balance</u> | <u>\$ 69,462</u> | <u>\$ 69,462</u> | | | |
| Total Revenues and <u>Appropriated Fund Balance</u> | <u>\$ 8,919,310</u> | <u>\$ 8,919,310</u> | | | |
| | | | | | |
| | | | | <u>Year-End Encumbrances</u> | <u>Final Budget Variance</u> |
| <u>EXPENDITURES</u> | | | | | |
| Home and Community Services | \$ 6,477,595 | \$ 5,799,052 | \$ 5,182,099 | \$ 251,313 | \$ 365,640 |
| Employee Benefits | 2,441,715 | 3,120,258 | 3,097,499 | -0- | 22,759 |
| <u>Total Expenditures</u> | <u>\$ 8,919,310</u> | <u>\$ 8,919,310</u> | <u>\$ 8,279,598</u> | <u>251,313</u> | <u>\$ 388,399</u> |
| Excess of Revenues Over Expenditures | | | \$ 1,661,821 | | |
| Fund Balance - Beginning of Year | | | <u>4,576,031</u> | | |
| Fund Balance - End of Year | | | <u>\$ 6,237,852</u> | | |

See Paragraph on Required Supplementary Information Included in Auditor's Report

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS (OPEB)

FOR THE YEAR ENDED DECEMBER 31, 2015

| <u>Valuation Date</u> | <u>Actuarial</u> | | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|---------------------------|----------------------------|--|------------------------------------|-------------------------|----------------------------|--|
| | <u>Value of Assets</u> | <u>Accrued Liability (AAL) Entry AGE</u> | | | | |
| 12/31/2009 | \$ -0- | \$ 15,212,400 | \$ 15,212,400 | 0% | \$ 3,818,987 | 398% |
| 12/31/2012 | \$ -0- | \$ 16,755,720 | \$ 16,755,720 | 0% | \$ 4,494,532 | 373% |
| 12/31/2015 | \$ -0- | \$ 23,416,480 | \$ 23,416,480 | 0% | \$ 3,968,695 | 590% |

See Paragraph on Required Supplementary Information Included in Auditor's Report

TOWN OF HEMPSTEAD

SANITARY DISTRICT NUMBER SEVEN

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

NYSERS PENSION PLAN

LAST 10 FISCAL YEARS *

| | <u>2015</u> | <u>2014</u> | <u>2013 **</u> | <u>2012 **</u> | <u>2011 **</u> | <u>2010 **</u> | <u>2009 **</u> | <u>2008 **</u> | <u>2007 **</u> | <u>2006 **</u> |
|---|-------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| District's proportion of the net pension liability | 0.0148735 | 0.0148735 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability | 502,464 | 672,113 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | 3,709,363 | 4,079,601 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 13.55% | 16.47% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 97.9% | 97.2% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* The amounts presented for each fiscal year were determined as of March 31.
N/A = Not Available

Note to Required Supplementary Information

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

TOWN OF HEMPSTEAD
 SANITARY DISTRICT NUMBER SEVEN
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 NYSERS PENSION PLAN
 LAST 10 FISCAL YEARS *

| | 2015 | 2014 | 2013 ** | 2012 ** | 2011 ** | 2010 ** | 2009 ** | 2008 ** | 2007 ** | 2006 ** |
|--|------------|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Contractually required contribution | \$ 673,660 | \$ 707,262 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions in relation to the contractually required contribution | 673,660 | 707,262 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contribution deficiency (excess) | \$ -0- | \$ -0- | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | 3,527,398 | 3,695,761 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered employee payroll | 19.10% | 19.14% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* The amounts presented for each fiscal year were determined as of December 31
 N/A = Not Available

Note to Required Supplementary Information

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
COMPARATIVE SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

| | December 31, 2015 | | | | December 31, 2014 | | | |
|---|---------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|-----------------------|
| | Original Budget | Final Budget | Actual | Unexpended Balance | Original Budget | Final Budget | Actual | Unexpended Balance |
| Sanitary Administration | | | | | | | | |
| Personal Services: | | | | | | | | |
| Commissioners' Salaries | \$ 30,000 | \$ 26,064 | \$ 26,064 | \$ -0- | \$ 30,000 | \$ 30,000 | \$ 30,000 | \$ -0- |
| Equipment & Other Capital Outlay: | | | | | | | | |
| Office Furniture, Fixtures, etc. | 1,500 | 1,500 | 1,029 | 471 | 1,500 | 1,735 | 1,735 | -0- |
| Contractual Expenses: | | | | | | | | |
| Attorney Fees | 35,000 | 71,092 | 71,092 | -0- | 75,000 | 91,498 | 91,498 | -0- |
| Audit and Accounting | 35,000 | 41,050 | 41,050 | -0- | 35,000 | 35,000 | 35,000 | -0- |
| Professional & Other Services | 73,000 | 126,036 | 125,838 | 198 | 73,000 | 54,200 | 54,200 | -0- |
| Election Expenses | 7,000 | 4,400 | 4,311 | 89 | 3,500 | 4,202 | 4,202 | -0- |
| Office Expense & Postage | 11,000 | 16,750 | 16,750 | -0- | 8,000 | 15,327 | 15,327 | -0- |
| Telephone | 5,000 | 5,000 | 4,541 | 459 | 5,000 | 5,000 | 4,619 | 381 |
| Ecology & Recycling | | | | | | | | |
| Building & Electrical Services | 10,000 | 10,000 | 9,657 | 343 | 10,000 | 14,543 | 14,543 | -0- |
| | <u>\$ 207,500</u> | <u>\$ 301,892</u> | <u>\$ 300,332</u> | <u>\$ 1,560</u> | <u>\$ 241,000</u> | <u>\$ 251,505</u> | <u>\$ 251,124</u> | <u>\$ 381</u> |
| Refuse & Garbage | | | | | | | | |
| Personal Services: | | | | | | | | |
| Operating Payroll | \$ 4,020,076 | \$ 3,984,346 | \$ 3,942,331 | \$ 42,015 | \$ 4,268,362 | \$ 4,038,711 | \$ 4,035,606 | \$ 3,105 |
| Equipment & Other Capital Outlay | 571,416 | 571,416 | 223,620 | 347,796 | 201,000 | 201,000 | 90,326 | 110,674 |
| Contractual Expenses: | | | | | | | | |
| Gasoline, Oil, Grease & Anti-Freeze | 196,000 | 127,798 | 110,615 | 17,183 | 185,000 | 187,147 | 187,147 | -0- |
| Radio Service | 6,000 | 9,057 | 9,057 | -0- | 6,000 | 6,596 | 6,596 | -0- |
| Truck Parts & Repairs | 185,000 | 185,000 | 129,938 | 55,062 | 247,000 | 247,000 | 138,801 | 108,199 |
| Tires, Tubes & Tire Repairs | 55,000 | 60,622 | 60,622 | -0- | 51,000 | 55,961 | 55,961 | -0- |
| Insurance | 897,000 | 218,451 | 214,713 | 3,738 | 746,912 | 202,848 | 202,848 | -0- |
| Substance Testing | 10,000 | 10,000 | 7,664 | 2,336 | 10,000 | 10,000 | 7,534 | 2,466 |
| Fuel & Utilities: | | | | | | | | |
| Electric | 25,000 | 18,457 | 13,816 | 4,641 | 21,000 | 21,000 | 20,136 | 864 |
| Gas | | 1,312 | 1,312 | -0- | | 1,899 | 1,899 | -0- |
| Water | | 5,231 | 5,231 | -0- | | 4,321 | 4,321 | -0- |
| Computer Service | 21,000 | 21,867 | 21,867 | -0- | 16,500 | 21,678 | 21,678 | -0- |
| Uniform Maintenance & Replacements | 39,850 | 39,850 | 34,274 | 5,576 | 39,850 | 39,850 | 29,479 | 10,371 |
| Repairs & Maintenance of Buildings and Grounds | 230,000 | 230,000 | 93,327 | 136,673 | 30,000 | 121,702 | 121,702 | -0- |
| MCTM Tax | 13,753 | 13,753 | 13,380 | 373 | 16,000 | 16,000 | 14,360 | 1,640 |
| | <u>\$ 6,270,095</u> | <u>\$ 5,497,160</u> | <u>\$ 4,881,767</u> | <u>\$ 615,393</u> | <u>\$ 5,838,624</u> | <u>\$ 5,175,713</u> | <u>\$ 4,938,394</u> | <u>\$ 237,319</u> |
| Employee Benefits | | | | | | | | |
| New York State Retirement | \$ 709,000 | \$ 707,700 | \$ 703,190 | \$ 4,510 | \$ 718,267 | \$ 718,267 | \$ 709,008 | \$ 9,259 |
| Social Security | 309,448 | 288,448 | 287,747 | 701 | 341,332 | 341,332 | 312,210 | 29,122 |
| Workers' Compensation | -0- | 678,549 | 678,549 | -0- | | 652,406 | 652,406 | -0- |
| New York State Disability | 2,184 | 2,184 | 188 | 1,996 | 2,184 | 2,184 | 1,276 | 908 |
| Hospital & Medical Insurance | 1,355,233 | 1,377,527 | 1,377,527 | -0- | 1,610,000 | 1,610,000 | 1,182,109 | 427,891 |
| Dental & Optical Insurance | 65,850 | 65,850 | 50,298 | 15,552 | 65,850 | 65,850 | 47,465 | 18,385 |
| | <u>\$ 2,441,715</u> | <u>\$ 3,120,258</u> | <u>\$ 3,097,499</u> | <u>\$ 22,759</u> | <u>\$ 2,737,633</u> | <u>\$ 3,390,039</u> | <u>\$ 2,904,474</u> | <u>\$ 485,565</u> |
| | <u>\$ 8,919,310</u> | <u>\$ 8,919,310</u> | <u>\$ 8,279,598</u> | <u>\$ 639,712</u> | <u>\$ 8,817,257</u> | <u>\$ 8,817,257</u> | <u>\$ 8,093,992</u> | <u>\$ 723,265</u> |

See Paragraph on Other Supplementary Information Included in Auditor's Report

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

SCHEDULE OF STATISTICAL DATA

AS OF DECEMBER 31, 2015

| | <u>Assessed Valuation</u> | <u>Tax Rate</u> | <u>Net Adjusted Budget</u> | <u>Tax Levy</u> |
|------|-------------------------------|-----------------|--------------------------------|-----------------|
| 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 |
| 2014 | 13,803,064 | 63.780% | 8,808,333 | 8,808,233 |
| 2015 | 13,439,966 | 65.811% | 8,845,048 | 8,844,946 |

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:

| <u>Budget Year</u> | <u>Levy Lower Than Net Adjusted Budget</u> |
|--------------------|--|
| 2010 | 55 |
| 2011 | 180 |
| 2012 | 640,234 |
| 2013 | 130 |
| 2014 | 100 |
| 2015 | 114 |

Note 2

Nassau County Re-Assessment Assessed Valuation. Tax Rate represents blended rate of four classes of property.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund, of the Town of Hempstead Sanitary District Number Seven (District), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain other matters that we have reported to the Board of Commissioners and management of the Town of Hempstead Sanitary District Number Seven in a separate letter dated September 26, 2016.

Purpose of this Report

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

Cullen & Danowski, LLP

September 26, 2016

