

TOWN OF HEMPSTEAD
SANITARY DISTRICT NUMBER SEVEN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014, 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress – other postemployment benefits on pages 4 through 13, 39 and 40 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, 2014 on page 41 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, 2013, 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, 2013 on page 41 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 2013 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 2013 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 42 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 June 26, 2015, 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

June 26, 2015

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. 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 2014 are as follows:

- The District's total net position, as reported in the district-wide financial statements, was a deficit of (\$1,359,416), at December 31, 2014, and reflects unfunded long-term liabilities such as compensated absences and net other postemployment benefits obligation.
- The District's general fund-fund balance, as reflected in the fund financial statements was \$4,576,031 at December 31, 2014. This balance represents an increase of \$1,033,726 from the prior year.
- The District will be receiving \$162,015 from FEMA for additional reimbursement of expenses and costs incurred in the aftermath of Hurricane Sandy.

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, 2014
(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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Continued)

District-Wide Financial Statements (cont'd)

Governmental Funds (cont'd)

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

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

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 and a schedule of funding progress for postemployment benefits other than pensions.

Other Supplementary Information

Individual schedules are presented as other supplementary information in a subsequent section of this report beginning on page 41.

Financial Analysis of the District as a Whole

Net Position

The District's net position decreased by \$145,021 between fiscal year 2014 and 2013. A summary of the District's Statement of Net Position is as follows:

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Continued)

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

Net Position (cont'd)

	2014	2013	Increase (Decrease)	Percentage Change
Current and Other Assets	\$ 4,688,520	\$ 3,923,069	\$ 765,451	19.51%
Capital Assets, Net	863,415	1,015,687	(152,272)	(14.99)%
<u>Total Assets</u>	<u>\$ 5,551,935</u>	<u>\$ 4,938,756</u>	<u>\$ 613,179</u>	<u>12.42%</u>
Current and Other Liabilities	\$ 112,489	\$ 380,764	\$ (268,275)	(70.46)%
Long-term Liabilities	1,527,500	1,495,217	32,283	2.16%
Due to Employees' Retirement System	37,147	71,543	(34,396)	(48.07)%
Net Other Postemployment				
Benefits Obligation	5,234,215	4,205,627	1,028,588	24.46%
<u>Total Liabilities</u>	<u>\$ 6,911,351</u>	<u>\$ 6,153,151</u>	<u>\$ 758,200</u>	<u>12.32%</u>
Net Position				
Net Investment in Capital Assets	\$ 863,415	\$ 1,015,687	\$ (152,272)	(14.99)%
Restricted	177,570	177,396	174	0.10%
Unrestricted (Deficit)	(2,400,401)	(2,407,478)	7,077	(0.30)%
<u>Total Net Position</u>	<u>\$ (1,359,416)</u>	<u>\$ (1,214,395)</u>	<u>\$ (145,021)</u>	<u>11.94%</u>

Current and other assets increased by \$765,451, as compared to the prior year. This increase is primarily due to the increase in the District's cash and amounts due from Federal and local governments.

Capital assets, net decreased by \$152,272, as compared to the prior year. This decrease is due to depreciation exceeding capital additions. The accompanying Notes to the Financial Statements, Note 5 "Capital Assets" provides additional information.

Current and other liabilities decreased by \$268,275, as compared to the prior year. This decrease is primarily in connection with a decrease in accounts payable and termination benefits payable.

Long-term liabilities increased by \$32,283, as compared to the prior year. This increase is the result of an increase in compensated absences.

Due to employees' retirement system decreased by \$34,396, which is the principal payment reduction of the 2010 retirement incentive.

Net other postemployment benefits (OPEB) obligation increased by \$1,028,588, as the current OPEB cost exceeded required contributions in accordance with GASB 45. The accompanying notes to financial statements, Note 8 "Other Postemployment Benefits" provides additional information.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)

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

Net Position (cont'd)

The net investment in capital assets in the amount of \$863,415, relates to capital assets at cost less depreciation. This number decreased from the prior year as follows:

Capital asset additions	\$ 85,371
Depreciation expense	(237,643)
	<u>\$ (152,272)</u>

The restricted net position in the amount of \$177,570 relates to the District's employee benefit accrued liability reserve. This number increased over the prior year by \$174 from interest earnings.

The unrestricted deficit in the amount of \$2,400,401 relates to the balance of the District's net position. This number reflects unfunded long-term liabilities, such as the net OPEB liability. Currently, there is no provision in the law to permit the District to fund OPEB by any other means than the "pay-as-you-go" method.

The District's total net position decreased by \$145,021 or 10.67% to a deficit of \$1,359,416 at December 31, 2014.

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, 2014 and 2013 is as follows:

	2014	2013	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Operating Grants	\$ 162,015	\$ 1,204,463	\$ (1,042,448)	(86.55)%
Real Property Taxes	8,808,233	8,651,091	157,142	1.82%
Other Payments in Lieu of Taxes	11,174	9,511	1,663	17.49%
Use of Money & Property	4,211	3,636	575	15.81%
Gain on Sale of Property & Comp. for Loss	128,287	66,928	61,359	91.68%
Miscellaneous	13,798	6,726	7,072	105.14%
<u>Total Revenues</u>	<u>\$ 9,127,718</u>	<u>\$ 9,942,355</u>	<u>\$ (814,637)</u>	<u>(8.19)%</u>
<u>Expenses</u>				
Home & Community Services	\$ 9,272,739	\$ 10,046,240	\$ (773,501)	(7.70)%
<u>Total Expenses</u>	<u>\$ 9,272,739</u>	<u>\$ 10,046,240</u>	<u>\$ (773,501)</u>	<u>(7.70)%</u>
<u>Decrease in Net Position</u>	<u>\$ (145,021)</u>	<u>\$ (103,885)</u>	<u>\$ (41,136)</u>	<u>28.37%</u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)

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

Changes in Net Position (cont'd)

The District primarily relies on real property taxes to support its operations. The net decrease in total revenues in 2014 as compared to 2013 was \$814,637 as shown above, primarily because the District had received in 2013 the FEMA reimbursement resulting from Hurricane Sandy for \$1,204,463, and in 2014 only recognized FEMA reimbursement money for \$162,015 from Hurricane Sandy.

The total in expenses in 2014 was \$773,501 or 7.70% lower than 2013. The 2013 expenses were higher than normal, as it included payouts of an early retirement incentive offered to the District's eligible employees, as well as the payout of compensated absences to those retirees. The 2013 expenses also included higher than normal payouts to employees for buy backs of their accumulated compensatory time. The majority of this extra compensatory time was accumulated during the clean-up and debris removal following damage caused by Superstorm Sandy.

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.

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

As of December 31, 2014, the general fund reported a fund balance of \$4,576,031, an increase of \$1,033,726 or 29.18% from the prior year. A summary of the change in fund balance is as follows:

	<u>2014</u>	<u>2013</u>	<u>Changes</u>	<u>Percentage Change</u>
<u>General Fund</u>				
Nonspendable: Prepaids	\$ 226,845	\$ 314,062	\$ (87,217)	(27.77)%
Restricted:				
Employee Benefit Accrued Liability Reserve	177,570	177,396	174	0.09%
Assigned:				
Appropriated	46	100	(54)	(54.00)%
Unappropriated	119,515	50,099	69,416	138.56%
Unassigned: Fund balance	<u>4,052,055</u>	<u>3,000,648</u>	<u>1,051,407</u>	<u>35.04%</u>
<u>Fund Balance</u>	<u>\$ 4,576,031</u>	<u>\$ 3,542,305</u>	<u>\$ 1,033,726</u>	<u>29.18%</u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Continued)

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

Total revenues amounted to \$9,127,718 while expenditures totaled \$8,093,992. Expenditures decreased by \$1,757,928 or 17.84% from fiscal 2013 totals, primarily due to lower employee benefits and payroll expenditures. Revenues decreased \$814,637 or 8.19% from fiscal 2013 totals, primarily from the decrease in the recognition of FEMA reimbursements from fiscal 2013 to fiscal 2014.

Nonspendable fund balance decreased \$87,217. The balance relates to the prepayment of insurance premiums and NYSERS costs, which results from the timing of the annual billing from NYSERS. Fund balance restricted for the employee benefit accrued liability reserve increased minimally due to interest earnings.

The District appropriated \$46 for the next year's budget to reduce taxes.

Assigned Unappropriated fund balance increased by \$69,416. This represents encumbrances for the purchase of equipment. The balance of \$50,099 represents the amount designated by the Board of Commissioners for other postemployment benefits.

General Fund Budgetary Highlights

A. 2014 Budget

The District's general fund budget for 2014 approved by the Board of Commissioners was \$8,817,257.

The approved budget was funded through a combination of estimated non-property tax revenues of \$8,924 appropriated fund balance of \$100 and \$8,808,233 of real property taxes.

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

The general fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and assignments, such as an amount to fund the subsequent year's budget. The change in this balance for 2014 demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unassigned Fund Balance	\$ 3,000,648
Revenues Over Budget	310,561
Expenditures and Encumbrances Under Budget	653,849
Net Change in Nonspendable and Restricted Fund Balances	87,043
Appropriated to Fund the December 31, 2015 Budget	<u>(46)</u>
<u>Closing, Unassigned Fund Balance</u>	<u>\$ 4,052,055</u>

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Continued)

General Fund Budgetary Highlights (cont'd)

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

Opening, Unassigned Fund Balance

The \$3,000,648 shown in the table is the portion of the District's December 31, 2013 fund balance that was retained as unassigned. This was 34.03% of the District's 2014 approved operating budget of \$8,817,257.

Revenues Over Budget

The 2014 budget for revenues was \$8,817,157. Actual revenues received for the year were \$9,127,718. The excess of actual revenues over estimated or budgeted revenues was \$310,561. The excess of revenues over budget is primarily the result of additional FEMA reimbursements and insurance recoveries for the cost of debris removal and clean-up following Hurricane Sandy, and insurance recoveries relating to storage tank remediation.

Expenditures and Encumbrances Under Budget

Actual expenditures for the year were \$8,093,992 and outstanding encumbrances were \$69,416. Combined, the expenditures plus encumbrances totaled \$8,163,408 which was \$653,849 under budget and contributes to the change to the unassigned portion of the general fund fund balance from December 31, 2013 to December 31, 2014. Actual expenditures for equipment purchases, truck parts and repairs, and employee benefits were lower than budgeted.

Net Change in Nonspendable and Restricted Fund Balances

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

Appropriated to Fund the 2015 Budget

The District is using \$46 of the available December 31, 2014 fund balance to partially fund the 2015 approved operating budget. As such, the unassigned portion of the December 31, 2014 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 2015 fiscal year with an unassigned fund balance of \$4,052,055. This is an increase of \$1,051,407 over the unassigned balance of the prior year. This unassigned portion equals 45.79% of the District's 2015 approved operating budget of \$8,849,895.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Continued)

Capital Assets

At December 31, 2014, 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:

	2014	2013	Increase (Decrease)
Land	\$ 98,039	\$ 98,039	\$ -0-
Buildings and building renovations	85,778	89,808	(4,030)
Refuse trucks & vehicles	590,646	729,912	(139,266)
Machinery & equipment	48,447	48,248	199
Furniture & fixtures	2,712	3,069	(357)
Improvements other than buildings	37,793	46,611	(8,818)
<u>Capital assets, net</u>	<u>\$ 863,415</u>	<u>\$ 1,015,687</u>	<u>\$ (152,272)</u>

Economic Factors and Next Year's Budget

The District's 2015 budget as adopted by the Board of Commissioners and approved by the Town of Hempstead is \$8,849,895. This represents a \$32,638 (0.37%) increase over the 2014 budget. Funding for the budget will be provided by a combination of a \$46 appropriation of the December 31, 2014 fund balance, estimated non-property tax revenues of \$4,800, and the balance in real property tax levy of \$8,845,049, an increase of \$36,816 (0.42%).

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 2015 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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

(Continued)

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, 2014

ASSETS

Cash:		
Unrestricted	\$	4,071,376
Restricted		177,570
Due from State and Federal Governments		162,015
Due from Other Governments		50,714
Prepays		226,845
Capital Assets:		
Not being Depreciated - Land		98,039
Being Depreciated, Net of Accumulated Depreciation		<u>765,376</u>
<u>TOTAL ASSETS</u>	<u>\$</u>	<u>5,551,935</u>

LIABILITIES

Accounts Payable	\$	96,859
Accrued Liabilities		15,630
Long-Term Liabilities		
Due Within One Year		
Compensated Absences Payable		15,419
Due After One Year		
Compensated Absences Payable		1,512,081
Due to Employees' Retirement System		37,147
Net Other Postemployment Benefits Obligation		<u>5,234,215</u>
<u>TOTAL LIABILITIES</u>	<u>\$</u>	<u>6,911,351</u>

NET POSITION (DEFICIT)

Net Investment in Capital Assets	\$	863,415
Restricted Employee Benefit Accrued Liability Reserve		177,570
Unrestricted (Deficit)		<u>(2,400,401)</u>
<u>TOTAL NET (DEFICIT) POSITION</u>	<u>\$</u>	<u>(1,359,416)</u>

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Operating Expenses</u>	
Home & Community Services	\$ 9,272,739
<u>Operating Grants</u>	
FEMA Grants	<u>162,015</u>
<u>Net Operating Expenses</u>	<u>\$ (9,110,724)</u>
<u>Non-Operating Revenues</u>	
Real Property Taxes	\$ 8,808,233
Other Payments in Lieu of Taxes	11,174
Use of Money & Property	4,211
Gain on Sale of Property & Compensation for Loss	128,287
Miscellaneous	<u>13,798</u>
<u>Total Non-Operating Revenues</u>	<u>\$ 8,965,703</u>
<u>Decrease in Net Position</u>	<u>\$ (145,021)</u>
<u>Net (Deficit) Position - Beginning of Year</u>	<u>(1,214,395)</u>
<u>Net (Deficit) Position - End of Year</u>	<u>\$ (1,359,416)</u>

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

BALANCE SHEET - GOVERNMENTAL FUND

AS OF DECEMBER 31, 2014

	<u>General Fund</u>
<u>Assets:</u>	
Cash:	
Unrestricted	\$ 4,071,376
Restricted	177,570
Due from State and Federal Governments	162,015
Due from Other Governments	50,714
Prepays	<u>226,845</u>
<u>Total Assets</u>	<u>\$ 4,688,520</u>
<u>Liabilities:</u>	
Accounts Payable	\$ 96,859
Accrued Liabilities	<u>15,630</u>
<u>Total Liabilities</u>	<u>\$ 112,489</u>
<u>Fund Balances:</u>	
Non-Spendable: Prepays	\$ 226,845
Restricted: Employee Benefit Accrued Liability Reserve	177,570
Assigned:	
Appropriated	46
Unappropriated	119,515
Unassigned	<u>4,052,055</u>
<u>Total Fund Balances</u>	<u>\$ 4,576,031</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 4,688,520</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, 2014

Total Governmental Fund Balance \$ 4,576,031

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	\$ 4,298,631	
Accumulated Depreciation	<u>(3,435,216)</u>	863,415

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	\$ (1,527,500)	
Due to Employees' Retirement System	(37,147)	
Net Other Postemployment Benefits Obligation	<u>(5,234,215)</u>	<u>(6,798,862)</u>

Net (Deficit) Position of Governmental Activities \$ (1,359,416)

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, 2014

	<u>General Fund</u>
<u>Revenues</u>	
Real Property Taxes	\$ 8,808,233
Other Payments in Lieu of Taxes	11,174
Use of Money & Property	4,211
Sale of Property & Compensation for Loss	128,287
Miscellaneous	13,798
Federal Sources	<u>162,015</u>
 <u>Total Revenues</u>	 <u>\$ 9,127,718</u>
 <u>Expenditures</u>	
Home & Community Services	\$ 5,189,518
Employee Benefits	<u>2,904,474</u>
 <u>Total Expenditures</u>	 <u>\$ 8,093,992</u>
 <u>Excess of Revenues Over Expenditures</u>	 <u>\$ 1,033,726</u>
 <u>Fund Balance - Beginning of Year</u>	 <u>3,542,305</u>
 <u>Fund Balance - End of Year</u>	 <u>\$ 4,576,031</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, 2014

Net Change in Fund Balance \$ 1,033,726

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	\$ 85,371	
Depreciation Expense	<u>(237,643)</u>	(152,272)

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.

Increase in Compensated Absences	\$ (32,283)	
Increase in Other Postemployment Benefits	<u>(1,028,588)</u>	(1,060,871)

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.		<u>34,396</u>
--	--	---------------

<u>Change in Net Position of Governmental Activities</u>		<u>\$ (145,021)</u>
--	--	---------------------

See Accompanying Notes to Basic Financial Statements

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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, 2014
(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 fund. 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, 2014

(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, 2014
(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, 2014
(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 new 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, 2014
(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, 2014
(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, 2014

(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, 2014
(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 does not have any of this type of item at December 31, 2014.

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 does not have any of this type of item at December 31, 2014.

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.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

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

10. District-Wide Statements (cont'd)

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:

Employee Benefit Accrued Liability Reserve - The Employee Benefit Accrued Liability Reserve (GMLS6-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, 2014 of \$177,570.

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014
(Continued)

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

11. Fund Statements (cont'd)

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 \$46. Additionally, assigned fund balance includes encumbrances not classified as restricted at the end of the fiscal year of \$69,416 and \$50,099 for other postemployment benefits (OPEB).

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.

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

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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014
(Continued)

NOTE 2 - 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, 2014
(Continued)

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Policies

Budgets are adopted annually on a basis consistent with GAAP. The District's procedures for establishing its budget are as 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 2014:

Adopted Budget	\$8,817,257
Supplemental Appropriations	<u>-0-</u>
Final Budget	<u>\$8,817,257</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, 2014
(Continued)

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The District's investment policies are governed by State statutes and District policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC Insurance.

Obligations that may be pledged as collateral are obligations of the United 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, 2014, 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, 2014
(Continued)

NOTE 5 - CAPITAL ASSETS

Capital Asset balances and activity for the year ended December 31, 2014 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 98,039	\$ -0-	\$ -0-	\$ 98,039
<u>Total capital assets not being depreciated</u>	<u>\$ 98,039</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 98,039</u>
Capital assets being depreciated:				
Buildings and building renovations	\$ 937,201	\$ -0-	\$ -0-	\$ 937,201
Refuse trucks & vehicles	2,805,910	69,416	-0-	2,875,326
Machinery & equipment	258,838	15,955	-0-	274,793
Furniture & fixtures	25,094	-0-	-0-	25,094
Improvements other than buildings	88,178	-0-	-0-	88,178
<u>Total capital assets being depreciated</u>	<u>\$ 4,115,221</u>	<u>\$ 85,371</u>	<u>\$ -0-</u>	<u>\$ 4,200,592</u>
Less: accumulated depreciation for:				
Buildings and building renovations	\$ 847,393	\$ 4,030	\$ -0-	\$ 851,423
Refuse trucks & vehicles	2,075,998	208,682	-0-	2,284,680
Machinery & equipment	210,590	15,756	-0-	226,346
Furniture & fixtures	22,025	357	-0-	22,382
Improvements other than buildings	41,567	8,818	-0-	50,385
<u>Total accumulated depreciation</u>	<u>\$ 3,197,573</u>	<u>\$ 237,643</u>	<u>\$ -0-</u>	<u>\$ 3,435,216</u>
<u>Total capital assets being depreciated, net</u>	<u>\$ 917,648</u>	<u>\$ (152,272)</u>	<u>\$ -0-</u>	<u>\$ 765,376</u>
<u>Capital assets, net</u>	<u>\$ 1,015,687</u>	<u>\$ (152,272)</u>	<u>\$ -0-</u>	<u>\$ 863,415</u>

Depreciation expense in the amount of \$237,643 was charged to home and community services.

NOTE 6 - LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Due in More Than One Year</u>
Other long-term liabilities:						
Compensated Absences	<u>\$1,495,217</u>	<u>\$ 32,283</u>	<u>\$ -0-</u>	<u>\$1,527,500</u>	<u>\$ 15,419</u>	<u>\$ 1,512,081</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, 2014

(Continued)

NOTE 7 - PENSION PLAN

A. New York State and Local Employees' Retirement System

Plan Description

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

Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found on the comptroller's website or obtained by writing to NYSERS, Governor Alfred E. Smith State Office Building, Albany, New York 12244.

Funding Policy

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

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

2014	\$ 707,262
2013	892,424
2012	707,927

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014
(Continued)

NOTE 7 - PENSION PLAN (cont'd)

B. Retirement Incentive

Chapter 105 of the Laws of 2010 of the State of New York authorized local governments to make available a retirement incentive program, which the Board of Commissioners approved. The cost of the program is being billed by the NYS ERS over five years through 2015 requiring annual payments of \$40,119 including interest at 8%. The annual payment is included in state retirement system expenditures in the general fund. The outstanding balance at December 31, 2014 is \$37,147.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District, as a single-employer defined benefit OPEB plan, in accordance with its contracts with employees, will pay the full premium costs for medical insurance coverage for the eligible employee and spouse for the lifetime of the employee. The District will also reimburse retirees, spouses and surviving spouses for the full premium costs for Medicare Part B payments. These contracts will be renegotiated at various times in the future. All financial activities of the Plan are included in the financial statements of the District. The Plan does not issue a separate financial report. As of December 31, 2014, based on an update on the most recent actuarial valuation (December 31, 2012), there were 85 active and retired employees (including surviving spouses) participating in the District's OPEB plan.

B. Funding Policy

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

C. Annual OPEB Cost and Net OPEB Obligation

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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

(Continued)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (cont'd)

Annual required contribution (ARC)	\$1,239,332
Interest on net OPEB obligation	126,169
Adjustment to ARC	(150,414)
Annual OPEB cost	<u>\$1,215,087</u>
Contribution made	(186,499)
Increase in OPEB obligation	<u>\$1,028,588</u>
Net OPEB obligation - Beginning of year	<u>4,205,627</u>
Net OPEB obligation - End of year	<u><u>\$5,234,215</u></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, 2014 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>
12/31/2012	\$ 1,241,900	18.5%	\$3,227,701
12/31/2013	1,187,786	17.7%	4,205,627
12/31/2014	1,215,087	15.3%	5,234,215

D. Funded Status and Funding Progress

As of December 31, 2014, the plan was 0% funded. The actuarial accrued liability for benefits was \$16,274,290 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,274,290. The covered payroll (annual payroll of active employees covered by the plan) was \$4,234,456 and the ratio of the UAAL to the covered payroll was 384.33%.

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

E. Actuarial Methods and Assumptions

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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014
(Continued)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (cont'd)

E. Actuarial Methods and Assumptions (cont'd)

In the December 31, 2014 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, 2014, was 24 years.

NOTE 9 - RISK MANAGEMENT

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

NOTE 10- ASSIGNED APPROPRIATED FUND BALANCE

The amount of \$46 has been appropriated to reduce taxes for the year ending December 31, 2015.

NOTE 11- ASSIGNED UNAPPROPRIATED FUND BALANCE

A. Encumbrances are classified as assigned fund balance. At December 31, 2014, the District encumbered \$69,416 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 2014 financial statements. As of December 31, 2014, the balance of this assigned fund balance was \$50,099.

NOTE 12- COMMITMENTS AND CONTINGENCIES

There are no impending liabilities, direct claims or contingent liabilities resulting from litigation which might materially affect the District's financial position, since substantially all contingencies arising from litigation are covered by insurance.

NOTE 13- SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 26, 2015, the date the financial statements were available to be issued.

On April 13, 2015 the District completed the sale of the rear property for \$850,000.

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Budget Variance</u>
<u>REVENUES</u>				
Real Property Taxes	\$ 8,808,233	\$ 8,808,233	\$ 8,808,233	\$ -0-
Other Payments in Lieu of Taxes	-0-	-0-	11,174	11,174
Use of Money and Property	8,924	8,924	4,211	(4,713)
Sale of Property and Compensation for Loss	-0-	-0-	128,287	128,287
Miscellaneous	-0-	-0-	13,798	13,798
Federal Sources	-0-	-0-	162,015	162,015
 <u>Total Revenues</u>	 <u>\$ 8,817,157</u>	 <u>\$ 8,817,157</u>	 <u>\$ 9,127,718</u>	 <u>\$ 310,561</u>

APPROPRIATED FUND BALANCE

Prior Years' Surplus \$ 100 \$ 100

Total Appropriated Fund Balance \$ 100 \$ 100

Total Revenues and
Appropriated Fund Balance \$ 8,817,257 \$ 8,817,257

			<u>Year-End Encumbrances</u>	<u>Final Budget Variance</u>
<u>EXPENDITURES</u>				
Home and Community Services	\$ 6,079,624	\$ 5,427,218	\$ 5,189,518	\$ 69,416 \$ 168,284
Employee Benefits	2,737,633	3,390,039	2,904,474	-0- 485,565
 <u>Total Expenditures</u>	 <u>\$ 8,817,257</u>	 <u>\$ 8,817,257</u>	 <u>\$ 8,093,992</u>	 <u>69,416 \$ 653,849</u>
Excess of Revenues Over Expenditures			\$ 1,033,726	
Fund Balance - Beginning of Year			<u>3,542,305</u>	
Fund Balance - End of Year			<u>\$ 4,576,031</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, 2014

<u>Valuation Date</u>	<u>Value of Assets</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>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%

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

TOWN OF HEMPSTEAD SANITARY DISTRICT NUMBER SEVEN
COMPARATIVE SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31, 2014				December 31, 2013			
	Original Budget	Final Budget	Actual	Unexpended Balance	Original Budget	Final Budget	Actual	Unexpended Balance
<u>Sanitary Administration</u>								
Personal Services:								
Commissioners' Salaries	\$ 30,000	\$ 30,000	\$ 30,000	\$ -0-	\$ 37,500	\$ 37,500	\$ 33,756	\$ 3,744
Equipment & Other Capital Outlay:								
Office Furniture, Fixtures, etc.	1,500	1,735	1,735	-0-	1,500	1,500	222	1,278
Contractual Expenses:								
Attorney Fees	75,000	91,498	91,498	-0-	75,000	75,000	56,245	18,755
Audit and Accounting	35,000	35,000	35,000	-0-	35,000	35,000	31,800	3,200
Professional & Other Services	73,000	54,200	54,200	-0-	73,000	73,000	91,265	(18,265)
Election Expenses	3,500	4,202	4,202	-0-	5,000	5,000	3,155	1,845
Office Expense & Postage	8,000	15,327	15,327	-0-	8,000	8,000	11,437	(3,437)
Telephone	5,000	5,000	4,619	381	5,000	5,000	4,716	284
Ecology & Recycling								
Building & Electrical Services	10,000	14,543	14,543	-0-	50,000	50,000	4,859	45,141
	<u>\$ 241,000</u>	<u>\$ 251,505</u>	<u>\$ 251,124</u>	<u>\$ 381</u>	<u>\$ 290,000</u>	<u>\$ 290,000</u>	<u>\$ 237,455</u>	<u>\$ 52,545</u>
<u>Refuse & Garbage</u>								
Personal Services:								
Operating Payroll	\$ 4,268,362	\$ 4,038,711	\$ 4,035,606	\$ 3,105	\$ 4,412,388	\$ 4,412,388	\$ 5,481,101	\$ (1,068,713)
Equipment & Other Capital Outlay	201,000	201,000	90,326	110,674	150,000	150,000	68,166	81,834
Contractual Expenses:								
Gasoline, Oil, Grease & Anti-Freeze	185,000	187,147	187,147	-0-	185,000	185,000	211,253	(26,253)
Radio Service	6,000	6,596	6,596	-0-	12,000	12,000	8,714	3,286
Truck Parts & Repairs	247,000	247,000	138,801	108,199	247,000	247,000	125,183	121,817
Tires, Tubes & Tire Repairs	51,000	55,961	55,961	-0-	46,000	46,000	74,537	(28,537)
Insurance	746,912	202,848	202,848	-0-	642,914	642,914	181,555	461,359
Substance Testing	10,000	10,000	7,534	2,466	10,000	10,000	5,142	4,858
Fuel & Utilities:								
Electric	21,000	21,000	20,136	864	27,000	27,000	16,534	10,466
Gas		1,899	1,899	-0-			1,966	(1,966)
Water		4,321	4,321	-0-			6,618	(6,618)
Computer Service	16,500	21,678	21,678	-0-	21,000	21,000	20,209	791
Uniform Maintenance & Replacements	39,850	39,850	29,479	10,371	38,000	38,000	36,275	1,725
Shoes							150	(150)
Repairs & Maintenance of Buildings and Grounds	30,000	121,702	121,702	-0-	35,000	35,000	33,314	1,686
MCTM Tax	16,000	16,000	14,360	1,640	16,000	16,000	23,118	(7,118)
	<u>\$ 5,838,624</u>	<u>\$ 5,175,713</u>	<u>\$ 4,938,394</u>	<u>\$ 237,319</u>	<u>\$ 5,842,302</u>	<u>\$ 5,842,302</u>	<u>\$ 6,293,835</u>	<u>\$ (451,533)</u>
<u>Employee Benefits</u>								
New York State Retirement	\$ 718,267	\$ 718,267	\$ 709,008	\$ 9,259	\$ 718,267	\$ 718,267	\$ 972,186	\$ (253,919)
Social Security	341,332	341,332	312,210	29,122	340,493	340,493	335,483	5,010
Workers' Compensation		652,406	652,406	-0-			681,123	(681,123)
New York State Disability	2,184	2,184	1,276	908	2,184	2,184	2,401	(217)
Hospital & Medical Insurance	1,610,000	1,610,000	1,182,109	427,891	1,400,000	1,400,000	1,273,410	126,590
Dental & Optical Insurance	65,850	65,850	47,465	18,385	66,000	66,000	56,027	9,973
	<u>\$ 2,737,633</u>	<u>\$ 3,390,039</u>	<u>\$ 2,904,474</u>	<u>\$ 485,565</u>	<u>\$ 2,526,944</u>	<u>\$ 2,526,944</u>	<u>\$ 3,320,630</u>	<u>\$ (793,686)</u>
	<u>\$ 8,817,257</u>	<u>\$ 8,817,257</u>	<u>\$ 8,093,992</u>	<u>\$ 723,265</u>	<u>\$ 8,659,246</u>	<u>\$ 8,659,246</u>	<u>\$ 9,851,920</u>	<u>\$ (1,192,674)</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, 2014

	<u>Assessed</u>		<u>Net Adjusted</u>	
	<u>Valuation</u>	<u>Tax Rate</u>	<u>Budget</u>	<u>Tax Levy</u>
2008	\$ 18,604,020	39.450%	\$ 7,339,476	\$ 7,339,344
2009	19,253,950	40.940%	7,882,742	7,882,483
2010	19,728,668	41.161%	8,120,659	8,120,604
2011	18,163,016	45.985%	8,352,476	8,352,296
2012	17,297,276	49.249%	9,159,003	8,518,769
2013	14,107,326	61.323%	8,651,222	8,651,092
2014	13,803,064	63.780%	8,808,333	8,808,233

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</u> <u>Net Adjusted</u> <u>Budget</u>
2008	\$ 132
2009	259
2010	55
2011	180
2012	640,234
2013	130
2014	100

Note 2

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

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

**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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 26, 2015.

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 June 26, 2015.

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

June 26, 2015

