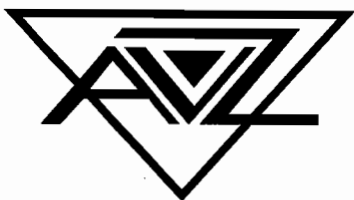


**OYSTER BAY SEWER DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
Year Ended December 31, 2008

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Oyster Bay Sewer District  
Oyster Bay, New York

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oyster Bay Sewer District, a component unit of the Town of Oyster Bay, New York as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Oyster Bay Sewer District as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America and Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oyster Bay Sewer District, New York's basic financial statements. The additional 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hauppauge, New York  
February 23, 2009

**OYSTER BAY SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2008

Our discussion and analysis of the Oyster Bay Sewer District (the "District"), a component unit of the Town of Oyster Bay, New York, financial performance provides an overview of the District's financial activities for the year ended December 31, 2008. Please read it in conjunction with the District's financial statements and notes to financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of two sets of financial statements.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities - Government-Wide provide information about the activities of the District as a whole and present a longer-term view of the District's finances. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Government Fund Financial Statements

The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Government Funds tell how services were financed in the short term as well as what remains for future spending. Government fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's general fund and capital projects fund. The District's basic services are reported in funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

**OYSTER BAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2008**

**CONDENSED FINANCIAL INFORMATION**

Our analysis below focuses on the net assets and changes in net assets as set forth in the following condensed financial statement:

**Condensed Statement of Net Assets  
as of December 31, 2008**

	2008	2007
<b>Assets</b>		
Current and other assets	\$ 3,784,317	\$ 3,040,674
Capital assets	14,771,584	15,248,763
Total Assets	18,555,901	18,289,437
<b>Liabilities</b>		
Current and other liabilities	802,973	793,540
Noncurrent liabilities	6,687,454	6,763,894
Total Liabilities	7,490,427	7,557,434
<b>Net assets</b>		
Invested in capital assets	10,016,062	8,891,102
Restricted for capital projects	1,179,677	1,478,986
Unrestricted	(130,265)	361,915
Total Net Assets	\$ 11,065,474	\$ 10,732,003

**Statements of Net Assets  
for the years ending December 31,**

	2008	2007
<b>Program Revenues</b>		
Capital grants and contributions	\$ 580,883	\$ -0-
<b>General Revenues</b>		
Real property taxes	3,662,982	4,517,521
Sanitary sewer charges	478,363	595,283
Use of money and property	48,799	63,047
Miscellaneous local sources	17,444	366,116
Total General Revenues	4,207,588	5,541,967
Total Revenues	4,788,471	5,541,967
 Expenses - Sanitary sewer services	 4,455,000	 4,351,514
 <b>Changes in Net Assets</b>	 333,471	 1,190,453
 <b>Net Assets - beginning of the year</b>	 10,732,003	 9,541,550
 <b>Net Assets - end of the year</b>	 \$ 11,065,474	 \$ 10,732,003

**OYSTER BAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2008**

**FINANCIAL HIGHLIGHTS**

The District's net assets as of December 31, 2008 were \$11.06 million, an increase of approximately \$333,000 from the prior year. Of the District's total net assets, approximately \$10.02 million were invested in capital assets, approximately \$1.18 million were restricted for debt service/capital projects and approximately \$130,000 deficit are unrestricted net assets.

The deficit balance of unrestricted net assets does not necessarily indicate fiscal distress. The deficit balance of unrestricted net assets arose primarily because of certain factors. Long-term liabilities which include other post-employment benefits payable, and compensated absences will be funded through future budgetary appropriations when they become payable in future periods.

**BUDGETARY HIGHLIGHTS**

The District reported 2008 budget and actual in the general fund as follows:

	Original Budget	Final Budget	Actual Amounts	Variance
Revenues	\$ 4,184,453	\$ 4,184,453	\$ 4,192,421	\$ 7,968
Transfers – Capital Projects			2,075,036	2,275,036
Total revenues and other sources	<u>\$ 4,184,453</u>	<u>\$ 4,184,453</u>	<u>\$ 6,267,457</u>	<u>\$ 2,283,004</u>
Expenditures	(4,277,337)	(4,277,337)	(4,027,931)	249,406
Transfers – Capital Projects	(200,000)	(200,000)		
Total expenditures and other uses	<u>(4,477,337)</u>	<u>(4,477,337)</u>	<u>(4,027,931)</u>	<u>249,406</u>
Net change	<u>\$ (292,884)</u>	<u>\$ (292,884)</u>	<u>\$ 2,239,526</u>	<u>\$ 2,532,410</u>

The general fund reported revenues and other sources in excess of expenditures and other uses this year of approximately \$2.24 million increasing the general fund balance to approximately \$3.53 million. Most of this increase was due to the transfer of unspent proceeds of debt and New York State Grant receivable from a capital project that is now completed. Approximately \$2.07 million of these funds has been reserved in the general fund for debt service. There were no changes from the original to the final budget for revenues and expenditures other than various transfers between appropriations.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The District has been financing all capital expenditures from proceeds of general obligation bonds and annual budgetary appropriations. During 2008 the District did not purchase any capital assets or make any improvements to the Sewer system

At year-end the District had outstanding \$5,935,199 of general obligation bonds.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District derives substantially all revenues from real property taxes and charges to properties outside the District based on property assessed valuation. In addition to the capital improvements described above the District is committed to the long-term maintenance and upgrades of the sanitary sewer system.

**OYSTER BAY SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended December 31, 2008

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Treasurer at Oyster Bay Sewer District, 15 Bay Avenue, Oyster Bay, NY 11771.

## **BASIC FINANCIAL STATEMENTS**



**OYSTER BAY SEWER DISTRICT**  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF NET ASSETS  
December 31, 2008

**Assets**

Current assets:

Cash and investments	\$ 1,462,147
Due from Town of Oyster Bay	1,187,630
Due from New York State	1,054,158
Prepays	80,382
Total Current Assets	<u>3,784,317</u>

Noncurrent assets:

Property, plant and equipment, net	<u>14,771,584</u>
------------------------------------	-------------------

Total Assets 18,555,901

**Liabilities**

Current liabilities:

Accounts payable and accrued expenses	163,033
Accrued interest payable	84,682
Developer deposits	10,956
Compensated absences - due within one year	28,146
Other postemployment benefits payable - due within one year	80,073
General obligation bonds payable - due within one year	436,083
Total Current Liabilities	<u>802,973</u>

Noncurrent liabilities:

Compensated absences	534,775
Other postemployment benefits payable	653,563
General obligation bonds payable	5,499,116
Total Noncurrent Liabilities	<u>6,687,454</u>

Total Liabilities 7,490,427

**Net Assets**

Investment in capital assets, net of related debt	10,016,062
Restricted for debt service/capital projects	1,179,677
Unrestricted	<u>(130,265)</u>

Total Net Assets \$ 11,065,474

**OYSTER BAY SEWER DISTRICT**  
GOVERNMENT-WIDE FINANCIAL STATEMENTS  
STATEMENT OF ACTIVITIES  
Year ended December 31, 2008

**Governmental Activities**

<b>Expenses - Sanitary sewer services</b>	\$ 4,455,000
<b>Program Revenues</b>	
Capital - Grants and contributions	<u>580,883</u>
	<u>3,874,117</u>
<b>General revenues</b>	
Real property taxes	3,662,982
Sanitary sewer charges	478,363
Use of money and property	48,799
Miscellaneous local sources	<u>17,444</u>
Total General Revenues	<u>4,207,588</u>
<b>Change in Net Assets</b>	333,471
<b>Net assets - beginning of the year</b>	<u>10,732,003</u>
<b>Net assets - end of the Year</b>	<u><u>\$ 11,065,474</u></u>

**OYSTER BAY SEWER DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
 December 31, 2008

<b>ASSETS</b>	General	Capital Projects	Total
Cash and investments	\$ 1,446,043	\$ 16,104	\$ 1,462,147
Due from other fund	5,148		5,148
Due from Town of Oyster Bay	1,187,630		1,187,630
Due from New York State	1,054,158		1,054,158
Total Assets	\$ 3,692,979	\$ 16,104	\$ 3,709,083
 <b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 163,033		\$ 163,033
Developer deposits		\$ 10,956	10,956
Due to other fund		5,148	5,148
Total Liabilities	163,033	16,104	179,137
 <b>FUND EQUITY</b>			
Fund Balances:			
Reserve for:			
Debt Service	2,075,036		2,075,036
Unreserved:			
Designated - ensuing year's budget	734,892		734,892
Undesignated	720,018		720,018
Total Fund Equity	3,529,946		3,529,946
Total Liabilities and Fund Equity	\$ 3,692,979	\$ 16,104	\$ 3,709,083

**Reconciliation of the Governmental Funds Balance Sheet to the  
 Statement of Net Assets**

Total Governmental Fund Balances	\$ 3,529,946
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,771,584
 Prepaid items included in the Statement of Net Assets	 80,382
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Serial bonds payable	(5,935,199)
Accrued interest expense	(84,682)
Compensated absences	(562,921)
Other postemployment benefits	(733,636)
Net Assets of Governmental Activities	\$ 11,065,474

See notes to financial statements.

**OYSTER BAY SEWER DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
 Year ended December 31, 2008

	General	Capital Projects	Total
<b>Revenues</b>			
Real property taxes	\$ 3,662,982		\$ 3,662,982
Departmental income	478,363		478,363
Use of money and property	48,799		48,799
State aid		\$ 580,883	580,883
Miscellaneous local sources	2,277	15,167	17,444
Total Revenues	4,192,421	596,050	4,788,471
<b>Expenditures</b>			
Administration	458,611		458,611
Sewage treatment and disposal	2,244,806		2,244,806
Employee benefits	641,548		641,548
Debt service	682,966		682,966
Total Expenditures	4,027,931	-0-	4,027,931
<b>Other Sources and (Uses) of Funds</b>			
Interfund transfers	2,075,036	(2,075,036)	-0-
Total Other Sources and (Uses) of Funds	2,075,036	(2,075,036)	-0-
Net Change in Fund Balance	2,239,526	(1,478,986)	760,540
<b>Fund Balance at Beginning of Year</b>	1,290,420	1,478,986	2,769,406
Fund Balance at End of Year	\$ 3,529,946	\$ -0-	\$ 3,529,946

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities**

Net Changes in Fund Balances - Total Governmental Funds \$ 760,540

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

Governmental funds report capital outlays as expenditures while in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Depreciation expense	\$ (477,179)	(477,179)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		422,462
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		5,958
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Certain expenses reported in the Statement of Activities, such as compensated absences and other postemployment benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(378,310)
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Change in Net Assets of Governmental Activities		\$ 333,471
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See notes to financial statements.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**A. Summary of Significant Accounting Policies**

The Oyster Bay Sewer District (The "District") is governed by Town Law and other general laws of the State of New York. The Board of Commissioners is the legislative body responsible for overall operations. The Board of Commissioners consists of three members, all of whom are elected by the residents of the District for terms of three years. The primary function of the District is to provide sewer service to district residents.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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.

The District's more significant accounting policies are described below.

**1. Financial Reporting Entity**

The Town of Oyster Bay, New York is financially accountable as a result of fiscal dependency for the Oyster Bay Sewer District. Long-term debt of the District, which is backed by the full faith and credit of the Town, and other fiscal matters result in a fiscal interdependency with the Town. Accordingly, the Oyster Bay Sewer District has been determined to be a component unit of the Town of Oyster Bay, New York.

**2. Basis of Presentation**

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds).

**Government-wide Financial Statements**

The government-wide financial statements reports information on the District as a whole.

In the Government-wide Statement of Net Assets, the District's governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Government-wide Statement of Activities reports both the gross and net cost of the District's function (home and community service – sewer services). Gross expenses (including depreciation expense) is reduced by related program revenues to produce the net cost of the program. Program revenues include charges for services, contributions and may also include operating and capital grants that are directly associated with the program. The net cost is normally covered by general revenues (property, use and money, sale of property and compensation for loss, etc.). This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**A. Summary of Significant Accounting Policies (continued)**

**2. Basis of Presentation (continued)**

**Fund Financial Statements**

The fund financial statements are similar to the financial statements presented in the previous model. The new emphasis is on the major funds in the fund financial statements.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Accordingly, the District maintains the following major governmental fund types:

General Fund - is the principal operating fund of the District. This fund is used to account for all financial resources except those required to be accounted for in other funds.

Capital Projects Fund - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**3. Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

In the Government-wide Statement of Net Assets and the Statement of Activities governmental activities are presented using the economic resources measurement focus and are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the Funds Statement, the governmental activities use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when incurred except that:

- a. Expenditures for prepaid expenses are recognized at the time of purchase.
- b. Principal and interest on indebtedness are not recognized as an expenditure until due.
- c. Compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**A. Summary of Significant Accounting Policies** (continued)

**4. Budgetary Data**

**Budget Policies** - The budget policies are as follows:

The District prepares an annual budget for the general fund, which is approved by the Board of Commissioners. The budget is then submitted to the Town of Oyster Bay for inclusion in the Town Budget and a public hearing is held thereon. The budget is not subject to referendum. Any revisions to the annual budget are adopted by resolution of the Board of Commissioners. The annual budget lapses at year end.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

**Budget Basis of Accounting**

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances (if any) carried forward from the prior year.

**5. Property Taxes**

Property taxes are collected by the Town of Oyster Bay Receiver of Taxes on behalf of the District. The Town of Oyster Bay Receiver of Taxes collects all real property taxes for the Town, Nassau County, Town Special Districts and School Districts. Town and County taxes are levied on January 1, and are due in two installments payable by February 10 and August 10. The Town remits 100% of real property tax levy to the District. Responsibility for collection of unpaid taxes is assumed by Nassau County.

**6. Investments**

Investments are stated at cost, which approximates market.

**7. Prepaids**

Prepaids in the government-wide statements represent insurance that will benefit a future period.

**8. Property, Plant and Equipment**

In the government-wide financial statements, fixed assets with a purchase cost of \$500 or more and an estimated useful life of one year or more are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Infrastructure assets consisting of sewer mains are capitalized at cost or estimated historical cost.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**A. Summary of Significant Accounting Policies (continued)**

**8. Property, Plant and Equipment (continued)**

Depreciation of all exhaustible fixed assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Improvements	20 years
Sewage Treatment Plant	40 years
Sanitary Sewer Main	50 years
Machinery and Equipment	10 years
Office Furniture and Equipment	5 years
Vehicle	8 years

In the fund financial statements, fixed assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**9. Long-Term Debt**

All long-term debt is reported as liabilities in the government-wide statements. The long-term debt consists of general obligation bonds, other post employment benefits and compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The liabilities for general obligation bonds; compensated absences and other post employment benefits are liquidated through future budgetary appropriations in the general fund.

**10. Insurance**

The District purchases insurance against liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability not covered by insurance has been incurred and the amount of loss can be reasonably estimated.

**11. Compensated Absences**

Employees accrue vacation leave based primarily on the number of years employed up to a maximum rate of 25 days per year, but may accumulate no more than a maximum of 60 days. Upon separation from service other than termination for cause, employees are paid for all unused accumulated vacation. Employees accrue sick leave at the rate of 13 days per year and may accumulate such credits up to a total of 240 days. Upon separation from service, employees are paid a percentage of their unused sick leave, which ranges from 50% to 100%, based on the number of years employed.

The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. The current portion of this obligation is estimated based on historical trends. In the fund financial statements only the compensated absence liability payable from expendable available financial resources is incurred.



**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**A. Summary of Significant Accounting Policies (continued)**

**12. Post Employment Benefits**

In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially, all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care and survivor's benefits are in accordance with New York State Health Insurance Rules and Regulations (administered by the New York State Department of Civil Service), and are provided through the New York State Empire Plan (the "Empire Plan") whose premiums are based on the benefits paid throughout the State during the year.

**13. Equity Classifications**

In Government-wide Statements equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In the Fund Statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2008

**B. Cash and Investments**

The District's investment policies are governed by state statutes. In addition, the District has its own written investment policy. District monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts, money market accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

The Cooperative Liquid Assets Security System (C.L.A.S.S.) is a cooperative investment plan consisting of U.S. Treasury Obligations and repurchase agreements relating to U.S. Treasury Obligations.

Collateral is required for demand deposits and certificates of deposit not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities.

**Custodial Credit Risk – Deposits / Investments–** Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party.

Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

- Uncollateralized
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name

At December 31, 2008, the District's cash book balances were \$1,462,147. The District's bank deposit balances were \$1,513,492, of which \$429,981 was covered by the Federal Deposit Insurance Corporation, \$779,159 was deposited in a C.L.A.S.S. account and \$304,352 was collateralized with securities held by the pledging financial institution, or its trust, in the name of the District.

As of December 31, 2008 the Oyster Bay Sewer District did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2008

**C. Property, Plant and Equipment**

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Capital assets not being depreciated				
Land	\$ 26,000			\$ 26,000
Total capital assets not being depreciated	26,000			26,000
Depreciable capital assets				
Buildings	999,100			999,100
Improvements	111,399			111,399
Sewer treatment plant	16,074,139			16,074,139
Sewer mains	1,215,136			1,215,136
Equipment	75,635			75,635
Office furniture and equipment	86,849			86,849
Vehicles	197,782			197,782
Total depreciable capital assets	18,760,040			18,760,040
Less accumulated depreciation				
Buildings	367,653	24,978		392,631
Improvements	24,149	6,057		30,206
Sewer treatment plant	2,151,786	402,288		2,554,074
Sewer mains	714,517	18,889		733,406
Equipment	56,927	5,076		62,003
Office furniture and equipment	71,182	5,516		76,698
Vehicles	151,063	14,375		165,438
Total accumulated depreciation	\$ 3,537,277	\$ 477,179		4,014,456
Total net depreciable capital assets				14,745,584
Total capital assets				\$ 14,771,584

Depreciation expense of \$477,179 was charged to sanitary sewer services expense for the year 2008.

**D. Developer Deposits**

Developer deposits represent funds advanced from real estate developers for the installation of new sewer mains and connection to the District's sewer collection system. Any remaining funds after the installation is completed are refunded to the developer.

**E. Indebtedness**

The following is a summary of changes in long-term liabilities for the year ended December 31, 2008:

	Balance 1/1/08	Increases	Reductions	Balance 12/31/08	Non-current Liabilities Due Within One Year
General obligation bonds	\$6,357,661		\$ 422,462	\$5,935,199	\$ 436,083
Compensated absences	561,328	\$ 1,593		562,921	28,146
Other postemployment benefits payable	359,436	438,203	64,003	733,636	80,073

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2008

**E. Indebtedness (continued)**

General Obligation Serial Bonds - The District periodically borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the Town of Oyster Bay, bear interest rates ranging from 3.00 to 5.50 percent. Principal and interest payments to maturity of general obligation serial bonds as of December 31, 2008 are as follows:

	Principal	Interest
Year ending December 31, 2009	\$ 436,083	\$ 243,033
2010	444,756	226,053
2011	444,705	207,154
2012	454,430	187,526
2013	404,707	170,216
2014-2018	1,970,441	604,548
2019-2023	1,473,843	244,370
2024	306,234	13,015
	\$ 5,935,199	\$ 1,895,915

Prior Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2008, \$2,047,500 of these bonds outstanding are considered defeased.

Other Long-Term Debt

Other Long-Term Debt includes compensated absences payable and other post employment benefits payable.

**F. Retirement System**

Plan Description

The Oyster Bay Sewer District participates in the New York State and Local Employees' Retirement System (ERS), which is a cost-sharing multiple-employer retirement system, and the Public Employees' Group Life Insurance Plan. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2008

**F. Retirement System (continued)**

Plan Description (continued)

The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Governor Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, and who have less than ten years of membership and less than ten years of credited service with a retirement system under the provisions of article fourteen or fifteen of the NYSRSSL, who contribute 3% of their salary. Prior to October 1, 2000, all employees who joined the System after July 27, 1976 were required to contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, 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 required contributions for the current year and two preceding years were:

	<u>Required Contribution</u>	<u>Early Retirement Incentive</u>	<u>Reconciliation and Miscellaneous Adjustments</u>	<u>Total Payment</u>
2008	\$ 137,168	\$ 1,327	\$ 1,443	\$ 137,284
2007	146,372	1,402	(27)	144,943
2006	155,881	-0-	8,850	164,731

The District's contribution to the System was equal to 100 percent of the contributions required for each year.

**G. Postemployment Benefits (Obligations for Health Insurance)**

In the government-wide financial statements, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended December 31, 2008, the District recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provide information useful in assessing potential demands on the District's future cash flows. Recognition of the liability accumulated from prior years will be phases in over 30 years, commencing with the 2007 liability.

Plan Description

The District, per its contracts with employees, will pay the full premium costs for the medical insurance coverage (currently provided by Empire Core Plan Plus Enhancements of the New York State Government Employees Health Insurance Program) and \$2,000 per year for single employees and \$4,000 per family for dental insurance coverage for an employee of the District at retirement, provided the employee is at least 55 years of age and has been employed with the District for at least ten consecutive years of continuous employment prior to the date of retirement. These contracts can be renegotiated at various times in the future. The retiree is also eligible for medicare reimbursement in the amount of \$1,122 per year. Healthcare benefits for non-union employees are similar to those of union employees.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2008

**G. Postemployment Benefits (Obligations for Health Insurance) (continued)**

Plan Description (continued)

Upon death of an active employee with ten years of service, the District will pay 100% of the cost to continue coverage for the unremarried spouse and dependents of the employee for a period of three years and one year for dental coverage. The number of participants as of January 1, 2007, the effective date of the OPEB valuation, follows. There have been no significant changes in the number or the type of coverage since that date.

Active employees	22
Retired employees	5
Spouses of retired employees	<u>3</u>
Total	<u><u>30</u></u>

Funding Policy

The District currently pays for postemployment health care benefits on a pay-as-you-go basis.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2008, the District's annual other postemployment benefits cost (expenses) were \$438,203. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$28,704 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$374,200 for the year ended December 31, 2008.

Benefit Obligations and Normal Cost

	<u>Medical</u>	<u>Medicare B</u>	<u>Dental</u>	<u>Total</u>
Actuarial Accrued Liability (AAL)				
Retired employees	\$ 646,816	\$ 164,319	\$ 53,707	\$ 864,842
Active employees	<u>3,124,117</u>	<u>584,173</u>	<u>524,989</u>	<u>4,233,279</u>
Unfunded actuarial accrued liability (AAL)	<u>\$ 3,770,933</u>	<u>\$ 748,492</u>	<u>\$ 578,696</u>	<u>\$ 5,098,121</u>

The District's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**OYSTER BAY SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
 December 31, 2008

**G. Postemployment Benefits (Obligations for Health Insurance) (continued)**

Annual Other Postemployment Benefit Cost (continued)

The following table shows the components of the District's other postemployment benefits liability:

	<u>Level Percentage of Projected Pay Amortization</u> <u>Calculation of ARC under the Entry Age Method</u>			
	<u>Medical</u>	<u>Medicare B</u>	<u>Dental</u>	<u>Total</u>
Normal cost	\$ 100,072	\$ 24,705	\$ 17,540	\$ 142,317
Amortization of unfunded actuarial liability (UAAL) over 30 years	179,413	35,758	27,790	242,961
Interest	<u>12,778</u>	<u>2,568</u>	<u>2,140</u>	<u>17,486</u>
Annual required contribution (ARC)	292,263	63,031	47,470	402,764
Adjustment to ARC	101	21	18	140
Less: Contribution for fiscal year ended December 31, 2008	<u>21,695</u>	<u>6,961</u>	<u>48</u>	<u>28,704</u>
Increase in other postemployment benefits liability	270,669	56,091	47,440	374,200
Other postemployment benefits liability at December 31, 2007	<u>259,022</u>	<u>54,785</u>	<u>45,629</u>	<u>359,436</u>
Other postemployment benefits liability at December 31, 2008	<u>\$ 529,691</u>	<u>\$ 110,876</u>	<u>\$ 93,069</u>	<u>\$ 733,636</u>
Percent of annual OPEB cost contributed	16.20%	11.26%	8.75%	14.61%

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 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 liability in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2007 actuarial valuation, the liabilities were computed using the entry age normal method and level percentage of projected payroll of active plan members. The actuarial assumptions utilized a 4.5% discount rate and a 2.5% payroll growth rate. The valuation assumes a 9 - 11% healthcare cost trend increase for year ended 2008, reduced decrements to a rate of 5% after seven years. The remaining amortization period at December 31, 2008 was twenty eight years.

**REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS**



**OYSTER BAY SEWER DISTRICT**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
 Year ended December 31, 2008

	Budget Amounts		Actual Amounts Budget Basis	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Real property taxes	\$ 3,676,644	\$ 3,676,644	\$ 3,662,982	\$ (13,662)
Departmental income	482,809	482,809	478,363	(4,446)
Use of money and property	25,000	25,000	48,799	23,799
Miscellaneous local sources			2,277	2,277
<b>Total Revenues</b>	<b>4,184,453</b>	<b>4,184,453</b>	<b>4,192,421</b>	<b>7,968</b>
<b>Expenditures</b>				
Administration	542,207	542,207	458,611	83,596
Sewage, treatment and disposal	2,278,709	2,278,709	2,244,806	33,903
Employee benefits	773,455	773,455	641,548	131,907
Debt service	682,966	682,966	682,966	-0-
<b>Total Expenditures</b>	<b>4,277,337</b>	<b>4,277,337</b>	<b>4,027,931</b>	<b>249,406</b>
<b>Other Use of Funds</b>				
Interfund transfers (in)			2,075,036	2,275,036
Interfund transfers (out)	(200,000)	(200,000)	-0-	-0-
<b>Net Change in Fund Balance</b>	<b>\$ (292,884)</b>	<b>\$ (292,884)</b>	<b>2,239,526</b>	<b>\$ 2,532,410</b>
<b>Fund Balance at Beginning of Year</b>			<b>1,290,420</b>	
<b>Fund Balance at End of Year</b>			<b>\$ 3,529,946</b>	

**OYSTER BAY SEWER DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB)**  
December 31, 2008

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Liability as a Percentage of Covered Payroll</u>
1/1/2007	\$ -0-	\$ 5,098,121	\$ 5,098,121	0.00%	N/A	N/A

**SUPPLEMENTAL INFORMATION**

**OYSTER BAY SEWER DISTRICT**  
**GENERAL FUND**  
**DETAILED SCHEDULE OF EXPENDITURES AND INTERFUND TRANSFERS**  
**BUDGET AND ACTUAL**  
 Year ended December 31, 2008

	Budget Amounts		Actual	Variance
	Original	Final	Amounts Budget Basis	Positive (Negative)
<b>Administration</b>				
Office salaries	\$ 177,507	\$ 177,957	\$ 177,804	\$ 153
Commissioners fees	40,000	40,000	39,000	1,000
Office equipment	2,000	2,000	1,450	550
Engineering	60,000	66,000	65,854	146
Auditing and legal	90,400	84,900	68,424	16,476
Insurance	120,000	118,950	71,911	47,039
Office and computer expense	30,000	30,000	21,189	8,811
Office utilities	12,000	12,000	11,166	834
Public relations cost	7,000	7,000	-0-	7,000
Rentals and easements	100	200	170	30
Security	3,200	3,200	1,643	1,557
Total Administration	<u>542,207</u>	<u>542,207</u>	<u>458,611</u>	<u>83,596</u>
<b>Sewage Treatment and Disposal</b>				
Salaries	1,598,709	1,433,709	1,433,497	212
Electric energy	250,000	247,000	231,513	15,487
Chloride and chemicals	25,000	25,000	24,613	387
Fuel, water, heat and telephone	90,000	65,000	52,667	12,333
Plant supplies and maintenance	40,000	166,500	166,274	226
Plant parts and repairs	50,000	74,500	73,924	576
Automobile expenses	15,000	13,000	11,437	1,563
Dry and liquid sludge removal	200,000	245,000	242,125	2,875
Miscellaneous	10,000	9,000	8,756	244
Total Sewage Treatment and Disposal	<u>2,278,709</u>	<u>2,278,709</u>	<u>2,244,806</u>	<u>33,903</u>
<b>Employee Benefits</b>				
State retirement	217,946	217,946	137,077	80,869
Social security	138,941	138,941	125,424	13,517
Hospital and medical insurance	291,773	291,773	278,332	13,441
Workers compensation insurance	50,000	50,000	41,568	8,432
Disability insurance	1,000	1,000	(2,147)	3,147
Dental and optical insurance	70,000	70,000	61,294	8,706
Medicare reimbursements	3,795	3,795	-0-	3,795
Total Employee Benefits	<u>773,455</u>	<u>773,455</u>	<u>641,548</u>	<u>131,907</u>
<b>Debt service</b>				
Serial bonds - principal	422,462	422,462	422,462	-0-
Serial bonds - interest	260,504	260,504	260,504	-0-
Total Debt Service	<u>682,966</u>	<u>682,966</u>	<u>682,966</u>	<u>-0-</u>
<b>Interfund Transfers</b>				
Capital Projects Fund	200,000	200,000	-0-	200,000
Total Expenditures and Interfund Transfers	<u>\$ 4,477,337</u>	<u>\$ 4,477,337</u>	<u>\$ 4,027,931</u>	<u>\$ 449,406</u>