

OYSTER BAY WATER DISTRICT

FINANCIAL STATEMENTS

Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Oyster Bay Water District
45 Audrey Avenue
Oyster Bay, New York 11771

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oyster Bay Water District, a component unit of the Town of Oyster Bay, New York, (the "District") as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Oyster Bay Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 each major fund of the Oyster Bay Water District, as of December 31, 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress for postemployment benefits other than pensions on pages 3 through 7 and 28 through 29 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oyster Bay Water District's financial statements as a whole. The other supplementary information on pages 30 through 32 is presented for purposes of additional analysis and is not a required part of the financial statements. This other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Rynkar, Vail & Barrett, LLP
RYNKAR, VAIL & BARRETT, LLP

Mineola, New York
June 12, 2012

**OYSTER BAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2011**

Our discussion and analysis of the Oyster Bay Water District, a component unit of the Town of Oyster Bay, New York (the District) financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. 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.

Governmental Fund Financial Statements

The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds tell how services were financed in the short term as well as what remains for future spending. The Governmental 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 governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental 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 WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2011**

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,**

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 2,140,138	\$ 2,033,733
Capital assets	10,569,246	10,804,329
Total Assets	<u>12,709,384</u>	<u>12,838,062</u>
Liabilities		
Current liabilities	1,991,602	2,108,148
Noncurrent liabilities	3,632,590	3,819,656
Total Liabilities	<u>5,624,192</u>	<u>5,927,804</u>
Net assets		
Invested in capital assets	6,263,351	6,023,114
Unrestricted	821,841	887,144
Total Net Assets	<u>\$ 7,085,192</u>	<u>\$ 6,910,258</u>

	<u>2011</u>	<u>2010</u>
Changes in Net Assets for the years ended December 31,		
Program Revenues		
Charges for services	\$ 948,621	\$ 1,081,806
General Revenues		
Real property taxes	892,506	889,743
Use of money and property	423,258	439,769
Sale of property and compensation for loss	25,814	666,851
Other local sources	143,927	18,538
Total Revenues	<u>2,434,126</u>	<u>3,096,707</u>
Expenses - Water supply services	2,259,192	2,441,619
Changes in Net Assets	174,934	655,088
Net Assets - beginning of the year	<u>6,910,258</u>	<u>6,255,170</u>
Net Assets - end of the year	<u>\$ 7,085,192</u>	<u>\$ 6,910,258</u>

OYSTER BAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2011

FINANCIAL HIGHLIGHTS

The District's net assets as of December 31, 2011 were \$7,085,192, an increase of \$174,934, from the prior year. Of the Districts total net assets \$6,263,351 were invested in capital assets net of related debt, while \$821,841 were unrestricted.

Program revenues were \$948,621 in the current year, which were \$133,185 less than the prior year. The decrease in water revenues were consistent with decreased gallons pumped and the weather conditions.

General revenues were \$1,485,505 in the current year. General revenues were significantly higher in the prior year due to a settlement for the Methyl Tertiary Butyl Ether (MTBE) products liability class action lawsuit in 2010 of \$663,735. This was partially offset by premiums in the amount of \$130,814 recognized from a debt refunding transaction in the current year.

Total operating expenses were \$2,259,192 in the current year, which was \$182,427 less than the prior. This was due in part from decreased cost of providing water services and also decrease in cost of salaries.

These financial statements include a liability for other postemployment benefits (OPEB) as required by GASB Statement No. 45. Under GASB Statement No. 45 the OPEB cost must now be recognized during the period of the employees' years of service and for benefits already earned by current and former employees, amortized over a period of 30 years. It is not currently required that this liability for OPEB actually be funded, accordingly, unrestricted net assets will be impacted in subsequent years due to the recognition of this liability for OPEB.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District reported budget and actual in the General Fund as follows:

	Original Budget	Final Budget	Actual Amounts	Variance
Revenues	\$ 2,157,737	\$ 2,157,737	\$ 2,286,768	\$ 129,031
Expenditures	(2,153,766)	(2,257,498)	(2,068,507)	188,991
Other Sources and Uses				
Transfers for Capital Projects	(250,000)	(250,000)	(59,971)	190,029
Proceeds for debt refunding		1,550,782	1,550,782	
Payments for debt refunding		(1,447,050)	(1,447,050)	
Net Change in Fund Balance	\$ (246,029)	\$ (246,029)	\$ 262,022	\$ 508,051

The General Fund reported revenues and other sources in excess of expenditures and other uses this year of \$262,022 increasing the fund balance to \$1,656,734. Actual revenues exceeded estimated revenues by \$129,031. Budgeted expenditures were less than actual expenditures by \$188,991. Actual transfer for capital projects were less than budgeted by \$190,029 of which this amount is classified as assigned to capital projects in fund balance. The budget was also revised for the debt refunding transaction by the Town of Oyster Bay on behalf of the District.

OYSTER BAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2011

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 2011, the District purchased capital assets and made improvements to the water system totaling as follows:

Improvements	\$	11,800
Wells, water tanks and structures		152,771
Equipment		6,035
Vehicles		19,162
Reclass of construction in progress for completed projects		(9,800)
Total Costs	\$	<u>179,968</u>

In addition to the capital improvements described above, the District is committed to the long-term maintenance of the water system and plans significant capital expenditures on a regular basis. The District maintains a running capital budget which amounts to approximately \$4.0 million of capital expenditures over the next several years.

At year-end, the District had \$3,040,059 of general obligation bonds and \$1,500,000 of bond anticipation notes outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District derives a significant portion of their revenues from metered water sales. For water utilities, water revenues are dependent on the amount of rainfall, particularly during the summer months. As such, these revenues are unpredictable and very volatile. Water revenues for the District can vary significantly from a rainy year to a dry year. Water revenues are budgeted on the conservative side, which is in anticipation of a rainy year. However, actual water revenues can still fall far short of our estimates. The District also believes that such adverse weather conditions can easily recur over two or more consecutive years. Gallons pumped and metered revenues for the past five years are as follows:

	Gallons pumped In 000's	Revenue
2011	380,872	\$ 858,284
2010	428,821	985,651
2009	343,752	701,686
2008	429,105	834,780
2007	449,882	892,761

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. For fiscal years, beginning in 2012 and lasting through at least June 15, 2016, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. The Board of Commissioners by unanimous vote approves the annual budget as well as the property taxes levy to be assessed each year.

**OYSTER BAY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2011**

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 Secretary to the Board at Oyster Bay Water District, 45 Audrey Avenue, Oyster Bay, NY 11771.

BASIC FINANCIAL STATEMENTS

OYSTER BAY WATER DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS
December 31, 2011

Assets

Current assets:

Cash and investments	\$ 1,452,435
Accounts receivable	246,070
Due from Town of Oyster Bay	361,453
Prepaid expenses	18,106
Inventory of materials and supplies	62,074

Total Current Assets 2,140,138

Noncurrent assets:

Non-depreciable capital assets	44,916
Depreciable capital assets, net of depreciation	10,524,330

Total Noncurrent Assets 10,569,246

Total Assets 12,709,384

Liabilities

Current liabilities:

Accounts payable and accrued expenses	140,656
Developer deposits	47,443
Bond anticipation note payable	1,500,000
Current portion of long term liabilities	303,503

Total Current Liabilities 1,991,602

Noncurrent liabilities:

General obligation bonds payable	2,762,809
Compensated absences	160,623
Due to Employees Retirement System	61,814
Other postemployment benefits payable	647,344

Total Noncurrent Liabilities 3,632,590

Total Liabilities 5,624,192

Net Assets

Investment in capital assets, net of related debt	6,263,351
Unrestricted	821,841

Total Net Assets \$ 7,085,192

OYSTER BAY WATER DISTRICT
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

Governmental Activities

Expenses - Water supply services	\$ 2,259,192
Program revenues - charges for services	<u>948,621</u>
Net Program Expense	<u>(1,310,571)</u>
General revenues	
Real property taxes and other items	892,506
Use of money and property	423,258
Sale of property and compensation for loss	25,814
Other local sources	<u>143,927</u>
Total General Revenues	<u>1,485,505</u>
Change in Net Assets	174,934
Net Assets - Beginning of the Year	<u>6,910,258</u>
Net Assets - End of the Year	<u><u>\$ 7,085,192</u></u>

See notes to financial statements.

**OYSTER BAY WATER DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2011**

Assets	General	Capital Projects	Total
Cash and investments	\$ 1,452,439		\$ 1,452,439
Accounts receivable	157,960		157,960
Due from other fund	32,798		32,798
Due from Town of Oyster Bay	47,517	\$ 313,936	361,453
Inventory of materials and supplies	62,074		62,074
Total Assets	1,752,788	\$ 313,936	\$ 2,066,724
 Liabilities			
Accounts payable and accrued liabilities	\$ 48,611	\$ 46,975	\$ 95,586
Developer deposits	47,443		47,443
Due to other fund		32,798	32,798
Bond anticipation note payable		1,500,000	1,500,000
Total Liabilities	96,054	1,579,773	1,675,827
 Fund Equity (Deficit)			
Fund Balances:			
Non-spendable	62,074		62,074
Restricted	693,418		693,418
Assigned	486,579		486,579
Unassigned	414,663	(1,265,837)	(851,174)
Total Fund Equity (Deficit)	1,656,734	(1,265,837)	390,897
Total Liabilities and Fund Equity (Deficit)	\$ 1,752,788	\$ 313,936	\$ 2,066,724

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

Total Governmental Fund Balances	\$ 390,897
Amounts reported for governmental activities in the statement of net assets are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	88,110
Some expenditures requiring the use of current financial resources are recorded as expenditures in the fund statements but as prepaid expenses in the Statement of Net Assets since they benefit a future period.	18,106
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,569,246
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds payable	(3,040,059)
Accrued interest payable	(45,074)
Other postemployment benefits payable	(647,344)
Compensated absences	(169,077)
Due to employees' retirement system	(79,613)
Net Assets of Governmental Activities	\$ 7,085,192

See notes to financial statements.

OYSTER BAY WATER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
 Year Ended December 31, 2011

	General	Capital Projects	Total
Revenues			
Real property taxes	\$ 859,693		\$ 859,693
Other real property tax items	32,813		32,813
Departmental income	945,190		945,190
Use of money and property	423,258		423,258
Sale of property and compensation for loss	25,814		25,814
Other local sources	-0-	\$ 13,113	13,113
Total Revenues	2,286,768	13,113	2,299,881
Expenditures			
Home and Community Service - Water Supply Services			
Administration	404,253		404,253
Source of supply, power and pumping	148,634		148,634
Purification	30,523		30,523
Transmission and distribution	555,296		555,296
Employee benefits	368,333		368,333
Debt service	561,468		561,468
Capital outlay		155,692	155,692
Total Expenditures	2,068,507	155,692	2,224,199
Other Sources (Uses) of Funds			
Transfers in (out)	(59,971)	59,971	-0-
Bond anticipation notes redeemed from appropriations		50,000	50,000
Refunding bond proceeds	1,419,968		1,419,968
Premiums on bonds	130,814		130,814
Payments to refunded bond escrow agent	(1,447,050)		(1,447,050)
Total Other Sources and (Uses) of Funds	43,761	109,971	153,732
Net Change in Fund Balance	262,022	(32,608)	229,414
Fund Balance (Deficit) Beginning of Year	1,394,712	(1,233,229)	161,483
Fund Balance (Deficit) End of Year	\$ 1,656,734	\$ (1,265,837)	\$ 390,897
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities			
Net Changes in Fund Balances - Total Governmental Funds			\$ 229,414
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:			
Capital assets			179,968
Depreciation expense			(415,051)
The issuance of long-term debt provide current financial resources, while the repayment of bond principal consumes the current financial resources in the governmental funds:			
Bonds issued			(1,419,968)
Payment of bond principal			1,717,844
Certain revenues and expenses reported in the statement of activities are not reported as revenues or expenditures in governmental funds:			
Accounts recievable			3,433
Accrued Interest			(6,486)
Employees' retirement system			40,078
Compensated absences			(18,521)
Other postemployment benefits			(135,777)
Change in Net Assets of Governmental Activities			\$ 174,934

See notes to financial statements.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

A. Summary of Significant Accounting Policies

The Oyster Bay Water 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 water 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

The Town of Oyster Bay, New York is financially accountable as a result of fiscal dependency for the Oyster Bay Water District. Long-term debt of the District, which is backed by the full faith and credit of the Town, and other fiscal matters results in fiscal interdependency with the Town. Accordingly, the Oyster Bay Water 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 report 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 – water supply services). Gross expenses (including depreciation and interest expenses) are 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 WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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 District considers all funds to be major funds.

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. The various funds are presented by type in the fund financial statements. Accordingly, the District maintains the following fund types:

Governmental Funds - Governmental funds are those through which most governmental functions are financed. The acquisition, use, and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position. Governmental funds are further classified as major funds.

The District reports the following major governmental funds:

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. Interfund transactions have been eliminated from the government-wide financial statements.

In the funds statement, 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.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

A. Summary of Significant Accounting Policies (continued)

3. Measurement Focus/Basis of Accounting (continued)

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 expenditures until due.
- c. Compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as expenditures when paid.

4. Property Taxes and Delinquent Water Bills

Property taxes and delinquent water bills 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 the amount of real property tax levied and the delinquent water bills to the District. Responsibility for the collection of unpaid taxes rests with Nassau County.

5. Accounts Receivable

Accounts receivables include amounts due from customers. Receivables are recorded and revenues recognized as earned. Revenue from unbilled water usage at year end is recognized in the government-wide financial statements.

6. Inventory of Materials and Supplies

The District records inventory using the consumption method. Inventory is valued at cost utilizing the latest invoice price, which approximates the first-in, first-out method.

7. Prepaid Expenses

Prepays in the government-wide statements represent retirement benefits that will benefit a future period.

8. Interfund Receivables, Payables and Transfers

Interfund receivable and payable balances for the District represent primarily the payment of financing sources and uses that will be reimbursed subsequent to year end. Interfund transfer balances represent the funding of capital expenditures through General Fund appropriations.

9. Capital Assets

In the government-wide financial statements, fixed assets 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. Fixed assets purchased or acquired with an original cost of \$1,000 or more are capitalized and included as capital assets in the government-wide financial statements.

Prior to December 31, 2002, infrastructure assets consisting of water mains were capitalized at estimated historical cost.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

A. Summary of Significant Accounting Policies (continued)

9. Capital Assets (continued)

Depreciation of all exhaustible fixed assets and amortization of all finite intangible assets is recorded as an expense in the Statement of Activities, with accumulated depreciation and amortization reflected in the Statement of Net Assets. Depreciation or amortization 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
- Wells, water tanks and structures	40 years
- Water main	50 years
- Machinery and equipment	10 - 20 years
- Office furniture and equipment	5 years
- Vehicle	8 years
- Computer software	5 years

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

10. Developer Deposits

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

11. Long-Term Debt

All long-term debt is reported as liabilities in the government-wide statements. Long-term debt consists of general obligation bonds, accrued compensated absences, due to employee retirement system and the other postemployment benefit liabilities.

Only the portion of long-term liabilities expected to be financed from expendable available financial resources is reported as liabilities in governmental fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

12. Compensated Absences

District employees earn vacation and sick leave in varying amounts. In the event of separation from service (except termination for cause), employees are paid for accumulated unused vacation and sick leave subject to certain limitations.

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

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

A. Summary of Significant Accounting Policies (continued)

13. Postemployment Benefits

In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors who meet certain criteria. The District recognizes the cost of providing benefits by recording its share of insurance premiums as expenditure in the governmental funds in the year paid. The liability for these other postemployment benefits payable is recorded as a long-term liability in the government-wide statements.

14. 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.

15. Net Assets and Fund Equity Classifications

Government-Wide Financial Statements

In government-wide financial 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.”

Fund Financial Statements

In the fund financial statements governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are non-spendable, restricted, committed, assigned, or unassigned.

Non-spendable fund balance includes amounts that cannot be spent because they are either not in spendable form, not available within a year, or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory of materials and supplies recorded in the General Fund.

Restricted fund balance includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

A. Summary of Significant Accounting Policies (continued)

15. Net Assets and Fund Equity Classifications (continued)

Fund Financial Statements (continued)

Committed fund balance includes amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority. The Board of Commissioners is not empowered to establish local law; accordingly the District will not have committed fund balances.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Commissioners has the authority to assign amounts to be used for specific purposes. Assigned fund balances including all remaining amounts (except negative balances) that are not reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned fund balance includes all other General Fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the District. It is also used to report negative fund balances in other governmental funds.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the Board of Commissioners 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. It is the intention of the Board of Commissioners that the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget or board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to assigned fund balance to the extent that there is an assignment, and then to the unassigned fund balance.

16. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

17. New Accounting Principle

The District has adopted all of the current statements of the GASB that are applicable. Effective with the financial report for the year ended December 31, 2011, the District has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

B. Stewardship, Compliance and Accountability

Budgetary Data

The District's 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. The annual budget lapses at year-end and any revisions are adopted by resolution of the Board of Commissioners.

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 general and Capital Projects Funds.

Budget(s) 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.

New Law

In June 2011, New York State enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. For fiscal years, beginning in 2012 and lasting through at least June 15, 2016, no local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law. The Board of Commissioners by unanimous vote approves the annual budget as well as the property taxes levy to be assessed each year.

Fund Balance

In order to comply with Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the fund balance section of the balance sheets of the governmental funds has been modified. The change has been made in order for the District's new fund balance components to focus on "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent". In order to show compliance with GASB-54, the components of the new fund balance include the following items, as needed: 1) non-spendable, 2) restricted 3) committed, 4) assigned, or 5) unassigned.

Unassigned Fund Balance Deficit

The Capital Projects Fund unassigned fund balance deficits results from differences in timing between project expenditures and the recognition of corresponding permanent financing sources. Since project expenditures are initially financed by the issuance of bond anticipation notes, and the proceeds of these short-term borrowings are recorded as fund liabilities, rather than as other financing sources in accordance with GAAP, fund balance deficit occurred. This deficit will be eliminated when long-term bonds payable are issued to redeem the bond anticipation notes payable or the bond anticipation notes are redeemed from appropriations.

**OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

B. Stewardship, Compliance and Accountability (continued)

Unassigned Fund Balance Deficit (continued)

The following table provides the detail regarding fund balance categories and classifications for the governmental funds which show components of non-spendable fund balances, as well as the purposes for restricted and assigned fund balance. The unassigned fund balance is also shown.

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Nonspendable:			
Inventory of materials and supplies	\$ 62,074		\$ 62,074
Total Nonspendable	<u>62,074</u>	<u>-0-</u>	<u>62,074</u>
Restricted for:			
Capital projects - water system improvements	693,418		693,418
Total Restricted	<u>693,418</u>	<u>-0-</u>	<u>693,418</u>
Assigned to:			
Capital projects reserves	190,371		190,371
Subsequent year's budget	296,208		296,208
Total Assigned	<u>486,579</u>	<u>-0-</u>	<u>486,579</u>
Unassigned	<u>414,663</u>	<u>(1,265,837)</u>	<u>(851,174)</u>
Total Fund Balances	<u>\$ 1,656,734</u>	<u>\$ (1,265,837)</u>	<u>\$ 390,897</u>

Capital projects reserve

The District was a plaintiff member in a class action lawsuit against most major petroleum companies for contamination related to the gasoline additive Methyl Tertiary Butyl Ether ("MTBE"). During 2010 the District received a settlement with which the Board of Commissioners established a capital reserve fund. This reserve fund will be used to finance the cost of construction, replacement or acquisition of water mains, tanks, land, buildings, related equipment and machinery, any of which may be necessitated as a result of the detection of contaminants in the water supply, wells or any other facilities of the District. A summary of activity in this capital reserve is as follows:

Balance - beginning	\$ 663,860
Additional settlement received in 2011	25,814
Interest	<u>3,744</u>
Balance - ending	<u>\$ 693,418</u>

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

C. 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.

Collateral is required for demand deposits and time deposits not covered by federal deposit 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 not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Deposits and investments are categorized according to custodial credit risk as either (a) insured or collateralized with securities held by the District or by its agent in the District's name, (b) collateralized with securities held by the pledging financial institution's trust department or agent in the District's name, or (c) uncollateralized. At December 31, 2011, the District's cash and cash equivalents totaled \$1,452,439. The District's bank deposit balances were \$1,491,077 of which \$339,696 was covered by the Federal Deposit Insurance Corporation and \$1,151,381 was covered by collateral with a fair value of \$1,213,036 at December 31, 2011, and is held by the District's agent, a third-party financial institution, in the District's name.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

D. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Capital assets not being depreciated				
Land	\$ 44,916			\$ 44,916
Construction in progress	9,800		\$ 9,800	-
Total capital assets not being depreciated	54,716	-	9,800	44,916
Depreciable capital assets				
Building	1,253,188			1,253,188
Improvements	1,021,317	11,800		1,033,117
Wells, water tanks and structures	6,163,446	152,771		6,316,217
Machinery and equipment	438,039			438,039
Water mains	6,802,554			6,802,554
Equipment	347,201	6,035		353,236
Office, furniture and equipment	77,008			77,008
Computer software	23,749			23,749
Vehicles	282,024	19,162		301,186
Total depreciable capital assets	16,408,526	189,768	-0-	16,598,294
Accumulated Depreciation				
Building	362,638	33,428		396,066
Improvements	344,403	53,331		397,734
Wells, water tanks and structures	1,183,765	143,658		1,327,423
Machinery and equipment	375,632	10,786		386,418
Water mains	2,802,004	136,051		2,938,055
Equipment	251,212	25,150		276,362
Office, furniture and equipment	73,932	760		74,692
Computer software	23,749			23,749
Vehicles	241,578	11,887		253,465
Total accumulated depreciation	\$ 5,658,913	\$ 415,051	\$ -0-	6,073,964
Total net depreciable capital assets				10,524,330
Total capital assets				\$ 10,569,246

Depreciation and amortization expense of \$415,051 was charged to water supply services expense for the year 2011.

E. Indebtedness

Long-Term Debt

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 at rates ranging from 3.5 to 8.2 percent.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

E. Indebtedness (continued)

Short-Term Debt

A bond anticipation note (BAN) is used as a temporary means of financing capital expenditures in the Capital Projects Fund. State law requires that a BAN issued for capital purposes be converted to a long-term obligation within five years after the original issue date. The note or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. The liability for the BAN is accounted for in the Capital Projects Fund. The note bears interest at 1% and is due in March 2012

The note activity is summarized as follows:

	Balance 1/1/11	Issued	Redeemed / Paid	Balance 12/31/11
Bond anticipation note payable	\$ 1,550,000	\$ -0-	\$ (50,000)	\$ 1,500,000

Other Long-Term Debt

Compensated Absences - Represents the value of the earned and unused portion of the liability for compensated absences.

Other Postemployment Benefits - Represents the actuarial value of other postemployment benefits liability.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2011:

	Balance 1/1/11	Issued	Redeemed / Paid	Balance 12/31/11	Non-current Liabilities Due Within One Year
General obligation bonds	\$ 3,337,935	\$ 1,419,968	\$ (1,717,844)	\$ 3,040,059	\$ 277,250
Compensated absences	150,556	\$ 18,521		169,077	8,454
Due to employees' retirement system	122,400		(42,787)	79,613	17,799
Other postemployment benefits	511,567	135,777		647,344	-0-

Principal and interest payments to maturity of the general obligation serial bonds as of December 31, 2011 are as follows:

	Principal	Interest	Total
Years Ending December 31, 2012	\$ 277,250	\$ 53,064	\$ 330,314
2013	262,271	43,787	306,058
2014	261,806	37,476	299,282
2015	280,515	33,428	313,943
2016	288,631	29,034	317,665
2017-2021	1,203,477	90,729	1,294,206
2022-2026	414,979	34,060	449,039
2027-2028	51,130	1,055	52,185
	<u>\$ 3,040,059</u>	<u>\$ 322,633</u>	<u>\$ 3,362,692</u>

Interest expense of \$113,692 has been included in water supply service expense in the statement of activities. All long-term liabilities are paid from the General Fund.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

E. Indebtedness (continued)

Advance Refunding of Bonds

On June 3, 2011, the Town of Oyster Bay, on behalf of the District, issued \$1,419,968 in Public Improvement Refunding Bonds with interest rates ranging from 2% to 5% and annual maturities through March 15, 2026.

The net proceeds of \$1,540,559 (the par amount of the bonds plus a premium of \$130,814 less Underwriter's fees, insurance and other issuance costs of \$10,223) were used to advance refund \$1,447,050 of outstanding 2004A Series Bonds with interest rates ranging from 3.5% - 5%.

The net proceeds were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the non-current governmental liabilities column of the statement of net assets. At December 31, 2011, \$1,447,050 of outstanding bonds are considered defeased.

The advance refunding was done in order to reduce debt payments in the short-term. The refunding decreased the District's total debt service payments by \$88,825.

F. Retirement System

Plan Description

The Oyster Bay Water District participates in the New York State and Local Employees' Retirement System (ERS), which is a cost-sharing multiple-employer retirement system. 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.

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, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The System is noncontributory except for employees who joined on or after July 27, 1976, and who have less than ten years of membership or credited service with a retirement system under the provisions of article nineteen of the NYSRSSL. These employees are 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.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

F. Retirement System (continued)

The District is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	<u>Payment</u>
2011	\$ 96,411
2010	83,259
2009	57,810

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

Pursuant to Chapter 105 of the Laws of 2010, the State Legislature authorized local governments to make available retirement incentive program with estimated total costs of \$103,383. The cost of the program is being billed and paid over five years beginning in 2011 and will include interest at 7.5%.

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. The District recognizes the costs 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 is being amortized over 30 years, commencing in 2007.

Plan Description

The District, per its contracts with employees, will pay the full premium costs for the medical insurance coverage (currently provided by Empire Plan Plus Enhancements of the New York State Government Employees Health Insurance Program) for an employee of the District at retirement, provided the employee has reached age 55 and has been employed by the District for at least 5 years prior to the date of retirement. Commissioners may become eligible for these benefits if they reach age 60 with 10 years of service while working for the District. These contracts will be renegotiated at various times in the future. The retiree is also eligible for Medicare reimbursement in the amount of \$1,157 per year. Healthcare benefits for non-union employees are similar to those of union employees. Upon death of an active employee with ten years of service, the District will pay eighty percent, or an amount determined by the Commissioners based on the circumstances of the District, of the cost to continue coverage for the non-remarried spouse and dependents of the employee.

The number of participants as of January 1, 2011, 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	11
Retired employees	6
Spouses of retired employees	<u>1</u>
Total	<u>18</u>

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2011

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

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, 2011, the District's annual other postemployment benefits cost (expenses) was \$184,870. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$40,383 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$135,777 for the year ended December 31, 2011.

As of January 1, 2011, the date of the most recent actuarial valuation, the benefit obligation and normal cost is as follows:

	<u>Medical</u>	<u>Medicare B</u>	<u>Total</u>
Actuarial Accrued Liability (AAL)			
Retired employees	\$ 997,918	\$ 168,798	\$ 1,166,716
Active employees	1,309,742	208,383	1,518,125
Unfunded actuarial accrued liability (AAL)	<u>\$ 2,307,660</u>	<u>\$ 377,181</u>	<u>\$ 2,684,841</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.

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

Level Percentage of Projected Pay Amortization
Calculation of ARC under the Entry Age Method

	<u>Medical</u>	<u>Medicare B</u>	<u>Total</u>
Normal Cost	\$ 54,718	\$ 8,019	\$ 62,737
Amortization of unfunded actuarial liability (UAAL) over 30 years	102,462	17,057	119,519
Interest	5,032	803	5,835
Annual required contribution (ARC)	162,212	25,879	188,091
Interest on net OPEB Obligation	17,448	3,015	20,463
Adjustment to ARC	(20,195)	(3,489)	(23,684)
Annual OPEB Cost	159,465	25,405	184,870
Contribution for fiscal year ended December 31, 2011	42,152	6,941	49,093
Increase in other postemployment benefits liability	117,313	18,464	135,777
Other postemployment benefits liability at December 31, 2010	432,496	79,071	511,567
Other postemployment benefits liability at December 31, 2011	<u>\$ 549,809</u>	<u>\$ 97,535</u>	<u>\$ 647,344</u>
Percent of annual OPEB cost contributed	26.43%	27.32%	26.56%

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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

The District's annual OPEB cost, the percent of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and preceding two years is as follows:

	Annual OPEB Cost	Percent of annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 184,870	26.56%	\$ 647,344
2010	182,938	22.07%	511,567
2009	173,705	22.37%	369,012

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
\$ -0-	\$ 2,684,841	\$ 2,684,841	0%	\$ 539,664	497.5%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

Actuarial Methods and Assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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, 2011 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 4.0% discount rate and a 2.5% payroll growth rate. The valuation assumes a 5.8-10% healthcare cost trend increase for the year ended 2011, reduced decrements to a rate of 5% after four years. The remaining amortization period at December 31, 2011 was twenty-five years.

OYSTER BAY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

H. Commitments and Contingencies

Capital Improvements

The District is committed to the long-term maintenance of the water system and plans capital improvements on a regular basis. The District is currently committed on contract or is planning additional improvements amounting to approximately \$4.0 million within the next one to two years.

I. Subsequent Events

In March 2012, the Town renewed \$1,450,000 of bond anticipation note at an interest rate of 2.50% which mature on March 08, 2013.

J. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, "The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34". This statement amends the requirements of GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. The requirements of this statement become effective for the District for the year ended December 31, 2013.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The requirements of this statement become effective for the District for the year ended December 31, 2012.

The District is currently evaluating the impact of the above pronouncements.

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

**OYSTER BAY WATER DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AN CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended December 31, 2011**

	Budget Amounts		Actual	Variance
	Original	Final	Amounts Budget Basis	Positive (Negative)
Revenues				
Real property taxes	\$ 859,737	\$ 859,737	\$ 859,693	\$ (44)
Other real property tax items	32,000	32,000	32,813	813
Departmental income	836,000	836,000	945,190	109,190
Use of money and property	430,000	430,000	423,258	(6,742)
Sale of property and compensation for loss	-0-	-0-	25,814	25,814
Total Revenues	<u>2,157,737</u>	<u>2,157,737</u>	<u>2,286,768</u>	<u>129,031</u>
Expenditures				
Home and Community Service - Water Supply Services				
Administration	456,500	461,778	404,253	57,525
Source of supply, power and pumping	150,000	151,300	148,634	2,666
Purification	40,000	40,000	30,523	9,477
Transmission and distribution	666,000	643,311	555,296	88,015
Employee benefits	362,000	378,111	368,333	9,778
Debt service	479,266	582,998	561,468	21,530
Total Expenditures	<u>2,153,766</u>	<u>2,257,498</u>	<u>2,068,507</u>	<u>188,991</u>
Other Sources (Uses) of Funds				
Refunding bond proceeds	-0-	1,419,968	1,419,968	-0-
Premiums on Obligations	-0-	130,814	130,814	-0-
Payments to refunded bond escrow agent	-0-	(1,447,050)	(1,447,050)	-0-
Interfund transfers - Capital Projects	(250,000)	(250,000)	(59,971)	190,029
Total Other Sources Uses of Funds	<u>(250,000)</u>	<u>(146,268)</u>	<u>43,761</u>	<u>190,029</u>
Change in Fund Balance	<u>\$ (246,029)</u>	<u>\$ (246,029)</u>	262,022	<u>\$ 508,051</u>
Fund Balance at Beginning of Year			1,394,712	
Fund Balance at End of Year			<u>\$ 1,656,734</u>	

OYSTER BAY WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

<u>Year Ending</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>
2011	\$ -0-	\$ 2,684,841	\$ 2,684,841	0%	\$ 539,664	497.5%
2010	\$ -0-	\$ 2,235,117	\$ 2,235,117	0%	\$ 313,369	713.3%
2009	\$ -0-	\$ 2,111,343	\$ 2,111,343	0%	\$ 305,726	690.6%
2008	\$ -0-	\$ 1,908,077	\$ 1,908,077	0%	N/A	N/A
2007	\$ -0-	\$ 1,908,077	\$ 1,908,077	0%	N/A	N/A

OTHER SUPPLEMENTAL INFORMATION

OYSTER BAY WATER DISTRICT
GENERAL FUND
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL
Year Ended December 31, 2011

	Budget Amounts		Actual	Variance
	Original	Final	Amounts Budget Basis	Positive (Negative)
Real Property Taxes				
Ad valorem	\$ 740,000	\$ 740,000	739,956	\$ (44)
Special assessments	119,737	119,737	119,737	-0-
Total Real Property Taxes	<u>859,737</u>	<u>859,737</u>	<u>859,693</u>	<u>(44)</u>
Other Real Property Tax Items				
Payments in lieu of taxes	32,000	32,000	32,813	813
Total Other Real Property Tax Items	<u>32,000</u>	<u>32,000</u>	<u>32,813</u>	<u>813</u>
Departmental Income				
Metered water sales	750,000	750,000	858,284	108,284
Installation charges	10,000	10,000	8,509	(1,491)
Hydrant rentals and sprinkler charges	65,000	65,000	64,310	(690)
Interest and penalties - water rents	6,000	6,000	9,275	3,275
Other water charges	5,000	5,000	4,812	(188)
Total Departmental Income	<u>836,000</u>	<u>836,000</u>	<u>945,190</u>	<u>109,190</u>
Use of Money and Property				
Interest earnings	5,000	5,000	38,695	33,695
Tower rental	425,000	425,000	384,563	(40,437)
Total Use of Money and Property	<u>430,000</u>	<u>430,000</u>	<u>423,258</u>	<u>(6,742)</u>
Sale of Property and Compensation for Loss				
Litigation settlement for MTBE contamination	-0-	-0-	25,814	25,814
Total Sale of Property and Compensation for Loss	<u>-0-</u>	<u>-0-</u>	<u>25,814</u>	<u>25,814</u>
Total Revenues	<u>2,157,737</u>	<u>2,157,737</u>	<u>2,286,768</u>	<u>129,031</u>
Other Financing Sources:				
Refunding bond proceeds	-0-	1,419,968	1,419,968	-0-
Premium and accrued interest on obligations	-0-	130,814	130,814	-0-
Total Other Financing Sources:	<u>-0-</u>	<u>1,550,782</u>	<u>1,550,782</u>	<u>-0-</u>
Total Revenues and Other Sources	<u>\$ 2,157,737</u>	<u>\$ 3,708,519</u>	<u>\$ 3,837,550</u>	<u>\$ 129,031</u>

OYSTER BAY WATER DISTRICT
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended December 31, 2011

	Original	Final	Actual Amounts Budget Basis	Variance Positive (Negative)
Administration:				
Office salaries	\$ 210,000	\$ 203,000	\$ 201,710	\$ 1,290
Commissioners' fees	36,000	28,000	27,600	400
Office equipment	-0-	1,000	409	591
Computerization and software	14,000	14,000	6,439	7,561
Office utilities	12,500	10,500	7,792	2,708
Auditing	31,000	42,150	31,000	11,150
Insurance	53,000	65,191	64,373	818
Notices and advertising	5,000	3,000	2,714	286
Office maintenance & service contracts	29,000	36,280	34,297	1,983
Postage	8,000	7,000	6,806	194
Conferences, meetings and conventions	18,000	19,000	18,846	154
New York Metropolitan Commuter Tax	-0-	2,657	2,267	390
Contingencies	40,000	30,000	-0-	30,000
Total Administration	<u>456,500</u>	<u>461,778</u>	<u>404,253</u>	<u>57,525</u>
Source of Supply, Power and Pumping:				
Electrical power	150,000	151,300	148,634	2,666
Total Source of Supply, Power and Pumping	<u>150,000</u>	<u>151,300</u>	<u>148,634</u>	<u>2,666</u>
Purification:				
Chemical treatment and analysis	40,000	40,000	30,523	9,477
Total Purification	<u>40,000</u>	<u>40,000</u>	<u>30,523</u>	<u>9,477</u>
Transmission and Distribution:				
Personal services - plant salaries	410,000	406,318	404,563	1,755
Equipment - vehicles	20,000	20,000	19,162	838
Equipment - plant	10,000	10,000	6,547	3,453
Repairs and maintenance - plant	63,000	75,175	67,765	7,410
Plant supplies	4,000	4,000	2,385	1,615
Small tools and equipment	-0-	4,000	3,398	602
Plant communications	10,000	10,000	7,428	2,572
Meters and supplies	50,000	35,000	15,741	19,259
Engineering	80,000	59,818	12,642	47,176
Auto expense	15,000	15,000	14,761	239
Miscellaneous	4,000	4,000	904	3,096
Total Transmission and Distribution	<u>666,000</u>	<u>643,311</u>	<u>555,296</u>	<u>88,015</u>
Employee Benefits:				
State retirement	75,000	96,411	96,411	-0-
Social security	52,000	52,000	50,641	1,359
Hospital and medical insurance	200,000	194,700	186,924	7,776
Hospital and medical insurance - buy back	35,000	34,700	34,087	613
Disability insurance	-0-	300	270	30
Total Employee Benefits	<u>362,000</u>	<u>378,111</u>	<u>368,333</u>	<u>9,778</u>
Debt Service:				
Serial bonds:				
Principal	270,794	270,794	270,794	-0-
Interest	135,222	135,222	113,692	21,530
Bond Anticipation Notes:				
Principal	50,000	50,000	50,000	-0-
Interest	23,250	23,250	23,250	-0-
Bond issuance costs	-0-	10,223	10,223	-0-
Advance refunding escrow	-0-	93,509	93,509	-0-
Total Debt Principal and Interest	<u>479,266</u>	<u>582,998</u>	<u>561,468</u>	<u>21,530</u>
Total Expenditures	<u>2,153,766</u>	<u>2,257,498</u>	<u>2,068,507</u>	<u>188,991</u>
Other Uses:				
Transfer to Capital Projects General	250,000	250,000	59,971	190,029
Payments to refunded bond escrow agent	-0-	1,447,050	1,447,050	-0-
Total Other Uses	<u>250,000</u>	<u>1,697,050</u>	<u>1,507,021</u>	<u>190,029</u>
Total Expenditures and Other Uses	<u>\$ 2,403,766</u>	<u>\$ 3,954,548</u>	<u>\$ 3,575,528</u>	<u>\$ 379,020</u>

OYSTER BAY WATER DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF PROJECT EXPENDITURES
Year Ended December 31, 2011

Capital Project	Expenditures		Total
	Prior Years	Current Year	
GAC Treatment System - Plant 2	\$ 1,621,592	\$ 921	\$ 1,622,513
West Shore Porch	-0-	11,800	11,800
Well 6-1	9,800	142,971	152,771
Total Expenditures	<u>\$ 1,631,392</u>	<u>\$ 155,692</u>	<u>\$ 1,787,084</u>