

SOUTH FARMINGDALE WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
South Farmingdale Water District
Farmingdale, New York

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Farmingdale Water District, a component unit of the Town of Oyster Bay, New York as of and for the year ended December 31, 2010, 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 basic 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 South Farmingdale Water District, New York as of December 31, 2010, and the respective changes in the 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, as listed in the table of contents, 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 inquires 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.

PERSONAL SERVICE. TRUSTED ADVICE.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Farmingdale Water 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. The detailed schedule of expenditures and interfund transfers is the responsibility of management and was derived from and relates 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 statement as a whole.

Albert J. Tiggiano, Jared & Co. P.C.

Hauppauge, New York

June 6, 2011

SOUTH FARMINGDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2010

Our discussion and analysis of the South Farmingdale 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, 2010. 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. 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 reconciliations at the bottom of the fund financial statements.

SOUTH FARMINGDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year ended December 31, 2010

CONDENSED FINANCIAL INFORMATION

Our analysis below focuses on the net assets and changes in net assets as set forth in the following condensed financial statements (in thousands):

Condensed Statement of Net Assets
 as of December 31,

	2010	2009
Assets		
Current and other assets	\$ 16,788	\$ 4,017
Capital assets	16,617	8,966
Total Assets	33,405	12,983
Liabilities		
Current liabilities	5,521	1,422
Noncurrent liabilities	6,829	6,829
Total Liabilities	12,350	8,251
Net assets		
Invested in capital assets	10,567	3,057
Unrestricted	10,488	1,675
Total Net Assets	\$ 21,055	\$ 4,732

Changes in Net Assets
 for the years ended December 31,

	2010	2009
Program Revenues		
Charges for services	\$ 2,972	\$ 2,149
General Revenues		
Real property taxes	1,871	1,783
Litigation settlement for MTBE contamination	957	
Settlement for ground water contamination - US Navy	14,550	
Other general revenues	631	504
Total Revenues	18,009	2,287
Total Revenues	20,981	4,436
Expenses - Water supply services	4,658	4,695
Changes in Net Assets	16,323	(259)
Net Assets - beginning of the year	4,732	4,991
Net Assets - end of the year	\$ 21,055	\$ 4,732

SOUTH FARMINGDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2010

FINANCIAL HIGHLIGHTS

The District's net assets at December 31, 2010 were approximately \$21,055 million, an increase of approximately \$16,323 million from the prior year. Of the District's total net assets, \$10,567 million were invested in capital assets, while approximately \$10,488 million were unrestricted.

Net assets increased in the current year due to an overall excess of revenues over expenses and largely from the receipt of \$14,550,000 settlement from the US Navy for ground water contamination and a legal settlement in the amount of approximately \$957,000 related to MTBE contamination.

Program revenues were \$2.97 million in the current year, which were approximately \$823,000 more than the prior year. The increased revenues were consistent with the increased gallons of water pumped and the weather conditions and water rate increase. Total expenditures were less than expected by approximately \$265,000.

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 continue to decrease in subsequent years due to the recognition of this liability for OPEB.

BUDGETARY HIGHLIGHTS

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

	Original Budget	Final Budget	Actual Amounts	Encum- brances	Variance
Revenues	\$ 4,603,481	\$ 14,860,114	\$ 20,757,037		\$ 5,896,923
Expenditures	4,578,481	4,578,481	4,278,695	\$ 35,200	(264,586)
Other Financing Sources	-0-	-0-	1,567,489		1,567,489
Other Financing (Uses)	(25,000)	(10,608,768)	(10,608,768)		-0-
	<u>\$ -0-</u>	<u>\$ (327,135)</u>	<u>\$ 7,437,063</u>	<u>\$ (35,200)</u>	<u>\$ 7,728,998</u>

The general fund reported revenues in excess of expenditures and other financing uses and other sources this year of approximately \$7,437,000 increasing the general fund balance to approximately \$8,718,000. Actual revenues exceeded original estimated revenues by approximately \$16,154,000; due largely from the receipt of \$14,550,000 settlement from the US Navy for ground water contamination and a legal settlement in the amount of approximately \$957,000 related to MTBE contamination. The total budget increased by approximately \$10,584,000 to begin construction of a water treatment facility and other needed construction projects.

SOUTH FARMINGDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year ended December 31, 2010

CAPITAL ASSETS AND LONG-TERM DEBT

The District has been financing all capital expenditures from proceeds of serial bonds, bond anticipation notes, and annual budgetary appropriations. During 2010, the District purchased capital assets and made improvements to the water system, including construction in progress, totaling \$8,098,163.

Wells, water tanks and structures	\$	7,748,884
Water mains		261,200
Machinery and equipment		34,994
Equipment		14,748
Office, furniture and equipment		7,150
Intangibles - software		31,187
		31,187
Total Costs	\$	8,098,163

At year-end the District had \$5,611,997 of serial bonds outstanding. The District also has outstanding \$3,500,000 of bond anticipation notes to provide temporary financing for capital projects. These notes will be either converted into serial bonds or redeemed from appropriations from the general fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District derives a substantial portion of its operating 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 estimates. The District also believes that such adverse weather conditions can easily recur consecutively over two years or more. Gallons pumped and water revenues for the past five years are as follows:

	Gallons pumped In millions		Water Revenue Recognized in the General Fund In thousands
2010	1,941	\$	2,820
2009	1,577		1,873
2008	1,692		2,185
2007	1,767		2,215
2006	1,645		1,969

**SOUTH FARMINGDALE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended December 31, 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

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 three-year capital budget to plan for these expenditures estimated as follows:

2011	\$ 5,500,000
2012	5,500,000
2013	5,500,000

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 Business Manager at South Farmingdale Water District, 40 Langdon Road, P.O. Box 3319, Farmingdale, NY 11735.

BASIC FINANCIAL STATEMENTS

SOUTH FARMINGDALE WATER DISTRICT
STATEMENT OF NET ASSETS
GOVERNMENT-WIDE
December 31, 2010

Assets

Current assets:

Cash and investments	\$ 15,321,585
Accounts receivable	744,811
Due from Town of Oyster Bay	679,466
Prepaid expenses	31,326
Inventory of materials and supplies	10,510

Total Current Assets 16,787,698

Noncurrent assets:

Non-depreciable capital assets	8,773,430
Depreciable capital assets, net of depreciation	7,843,925

Total Noncurrent Assets 16,617,355

Total Assets 33,405,053

Liabilities

Current liabilities:

Accounts payable and accrued expenses	1,686,719
Developer deposits	1,977
Bond anticipation notes payable	3,500,000
Compensated absences payable	26,659
General obligation bonds payable	305,774

Total Current Liabilities 5,521,129

Noncurrent liabilities:

Compensated absences payable	506,517
Other postemployment benefits payable	1,016,265
General obligation bonds payable	5,306,223

Total Noncurrent Liabilities 6,829,005

Total Liabilities 12,350,134

Net Assets

Invested in capital assets, net of related debt	10,566,631
Unrestricted	10,488,288

Total Net Assets \$ 21,054,919

SOUTH FARMINGDALE WATER DISTRICT
STATEMENT OF ACTIVITIES
GOVERNMENT-WIDE
Year ended December 31, 2010

Governmental Activities

Expenses - Water Supply Services	\$ 4,658,695
Program revenues - charges for services	<u>2,972,266</u>
	Net Program Expense (1,686,429)
General Revenues	
Real property taxes	1,870,526
Use of money and property	312,004
Sale of property and compensation for loss	25,193
Litigation settlement for MTBE contamination	956,634
Settlement for ground water contamination - US Navy	14,550,000
Other local sources	<u>294,355</u>
	Total General Revenues <u>18,008,712</u>
Change in Net Assets	16,322,283
Net assets - Beginning of the Year	<u>4,732,636</u>
Net assets - End of the Year	<u><u>\$ 21,054,919</u></u>

SOUTH FARMINGDALE WATER DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
 December 31, 2010

	General	Capital Projects	Total
Assets			
Cash and investments	\$ 15,321,585	\$ -0-	\$ 15,321,585
Accounts receivable	551,843		551,843
Due from other fund		7,077,661	7,077,661
Due from Town of Oyster Bay	101,210	578,256	679,466
Inventory of materials and supplies	10,510		10,510
Total Assets	\$ 15,985,148	\$ 7,655,917	\$ 23,641,065
Liabilities			
Accounts payable and accrued liabilities	\$ 187,134	\$ 1,416,942	\$ 1,604,076
Developer deposits	1,980		1,980
Due to other fund	7,077,661		7,077,661
Bond anticipation notes payable		3,500,000	3,500,000
Total Liabilities	7,266,775	4,916,942	12,183,717
Fund Equity (Deficit)			
Fund Balances:			
Reserved for:			
Inventory of materials and supplies	10,510		10,510
Encumbrances	35,200	3,341,943	3,377,143
Repairs	398,156		398,156
Capital	2,094,540		2,094,540
Capital-MTBE	974,356		974,356
Unreserved:			
Designated for operation and maintenance of the VOC Facilities	4,318,216		4,318,216
Undesignated	887,395	(602,968)	284,427
Total Fund Equity	8,718,373	2,738,975	11,457,348
Total Liabilities and Fund Equity	\$ 15,985,148	\$ 7,655,917	\$ 23,641,065

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets

Total Governmental Fund Balances		\$	11,457,348
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.			16,617,355
Prepaid assets are not current financial resources and therefore are not reported in the funds.			31,326
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Compensated absences			(533,176)
Other postemployment benefits payable			(1,016,265)
General obligation bonds payable			(5,611,997)
Accrued interest expense			(82,643)
Revenue that was not accrued on the fund statements because it does not meet the availability criteria under the modified accrual basis of accounting is included in the Statement of Net Assets.			192,971
Net Assets of Governmental Activities		\$	21,054,919

SOUTH FARMINGDALE WATER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
 Year ended December 31, 2010

	General	Capital Projects	Total
Revenues			
Real property taxes	\$ 1,870,526		\$ 1,870,526
Departmental income	3,009,102		3,009,102
Use of money and property	312,002		312,002
Sale of property and compensation for loss	15,532,252		15,532,252
Miscellaneous local sources	33,155	\$ 261,200	294,355
Total Revenues	20,757,037	261,200	21,018,237
Expenditures			
Home and Community Service - Water Supply Services			
Administration	985,898		985,898
Source of supply, power and pumping	825,768		825,768
Purification	571,827		571,827
Transmission and distribution	704,233		704,233
Employee benefits	655,047		655,047
Debt service	535,922		535,922
Capital outlay	-0-	8,036,609	8,036,609
Total Expenditures	4,278,695	8,036,609	12,315,304
Excess (Deficiency) of Revenues over Expenditures	16,478,342	(7,775,409)	8,702,933
Other Financing Sources (Uses)			
Interfund Transfers In (Out)	1,567,489	(1,567,489)	-0-
Interfund Transfers In (Out)	(10,608,768)	10,608,768	-0-
Total Other Financing Sources (Uses)	(9,041,279)	9,041,279	-0-
Net Change in Fund Balance	7,437,063	1,265,870	8,702,933
Fund Balance - Beginning of Year	1,281,310	1,473,105	2,754,415
Fund Balance-End of Year	\$ 8,718,373	\$ 2,738,975	\$ 11,457,348

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 amounts reported for governmental activities in the Statement of Activities are different because:	\$ 8,702,933
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 purchases capitalized	8,098,163
Depreciation expense	(447,179)
Loss on Disposition of fixed assets	(424)
The issuance of a serial bond provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The following amounts are the effect of these differences in the treatment of long-term debt and related items:	
Repayment of bond principal	297,400
Accrued interest	3,472
Some revenues will not be collected for several months after the District's year end. These are not considered "available" revenues in the governmental funds until received.	(36,832)
Some expenses reported in the Statement of Activities, such as compensated absences, other postemployment benefits and prepaids do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(295,250)
Change in Net Assets of Governmental Activities	\$ 16,322,283

NOTES TO FINANCIAL STATEMENTS

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

A. Summary of Significant Accounting Policies

The South Farmingdale 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 South Farmingdale 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 a fiscal interdependency with the Town. Accordingly, the South Farmingdale 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 each of the District's function (home and community service – water supply services), which are otherwise supported by general revenues (property, use and money, sale of property and compensation for loss, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants to produce the net cost of each program. Program revenues include (a) charges for services and (b) operating and capital grants and contributions that are directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net cost is normally covered by general revenues.

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.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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

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. Government 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 Statements - 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.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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 an expenditure until due.
- c. Compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure 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 collection of unpaid taxes is assumed by Nassau County.

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

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.

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 general and capital projects 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.

6. Investments

Investments are stated at cost, which approximates market.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

A. Summary of Significant Accounting Policies (continued)

7. Receivables

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.

8. Prepaids

Prepaids in the fund and government-wide financials represent insurance premiums and retirement benefits that will benefit a future period.

9. 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.

10. Inventory

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.

11. Property, Plant and Equipment

In the government-wide financial statements, capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost if actual is unavailable. Donated fixed assets are recorded at their estimated fair value at the date of donation. Subsequent to December 31, 1980, infrastructure assets consisting of water mains have been reported at historical cost. Intangible assets are classified as capital assets if identifiable. Intangible assets are characterized as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period.

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
Wells, water tanks and structures	40 years
Water main	50 years
Machinery and equipment	10–20 years
Office furniture and equipment	5 years
Vehicles	8 years
Intangible - software	5 years

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

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

A. Summary of Significant Accounting Policies (continued)

12. Deferred Revenue/Unearned Revenue

Deferred revenue/unearned revenue are those where asset recognition criteria have been met, but which revenue recognition criteria have not been met. Such amounts include collections in advance, unearned income and amounts deemed to be "measurable" but not "available" to finance current expenses pursuant to generally accepted accounting principles. Accordingly, such amounts, if any, have been recorded as deferred revenue in the funds statements and unearned revenue in the government-wide statements.

13. 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, compensated absences and other post employment benefits payable.

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 all long-term debt are liquidated through future budgetary appropriations in the general fund.

14. 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 long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. Compensated absence liability and expense are reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

15. Postemployment 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.

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 long-term debt in the government-wide statements.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

A. Summary of Significant Accounting Policies (continued)

16. Insurance

The District purchases insurance against losses from most risks 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 has been incurred and the amount of the loss can be reasonably estimated.

17. 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."

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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. Portions of fund equity are segregated for future use and therefore not available for future appropriation or expenditure. Amounts reserved for encumbrances and capital reserve represent portions of fund equity which are required to be segregated in accordance with state law or GAAP. Designations of fund balances in governmental funds indicate the utilization of these resources in the subsequent year's budget or tentative plans for future use.

18. Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

A. Summary of Significant Accounting Policies (continued)

19. New Pronouncements

The District has adopted all of the current statements of the GASB that are applicable. GASB Statement No. 51 "Accounting and Financial Reporting for Intangible Assets" was implemented during the year ended 2010. As permitted by GASB Statement No. 51, the financial statements have not been restated for prior year costs associated with intangible assets.

GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments" is also effective for financial report for the year ended December 31, 2010. Management has determined that this new accounting principle has no effect on these financial statements.

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 Business Manager 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, 2010, the District's bank deposit balances were \$14,962,597. Of this balance, \$680,635 was covered by the Federal Deposit Insurance Corporation and \$14,281,962 was covered by collateral held by the District's agent, a third-party financial institution, in the District's name.

In addition, the District had investments, consisting of U.S. Treasury obligations and repurchase agreements relating to Treasury obligations totaling \$461,534.

As of December 31, 2010 the South Farmingdale Water District did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

C. Property, Plant and Equipment

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance 1/1/10	Additions	Deletions	Balance 12/31/10
Capital assets not being depreciated:				
Land	\$ 320,309			\$ 320,309
Construction in progress	863,179	\$ 8,036,609	\$ 446,667	8,453,121
Total capital assets not being depreciated	<u>1,183,488</u>	<u>8,036,609</u>	<u>446,667</u>	<u>8,773,430</u>
Depreciable capital assets				
Building	776,075			776,075
Improvements	1,131,857	127,142		1,258,999
Wells, water tanks and structures	3,835,240			3,835,240
Machinery and equipment	2,838,278	34,994	1,155	2,872,117
Equipment	135,716	14,748		150,464
Office, furniture and equipment	157,256	7,150		164,406
Vehicles	466,860			466,860
Water mains	7,713,122	293,000		8,006,122
Intangible asset - software		31,187		31,187
Total depreciable capital assets	<u>17,054,404</u>	<u>508,221</u>	<u>1,155</u>	<u>17,561,470</u>
Accumulated Depreciation				
Building	481,247	11,642		492,889
Improvements	737,703	25,676		763,379
Wells, water tanks and structures	1,206,523	103,115		1,309,638
Machinery and equipment	1,480,335	144,787	731	1,624,391
Equipment	79,782	8,822		88,604
Office, furniture and equipment	128,287	12,854		141,141
Vehicles	294,213	45,866		340,079
Water mains	4,863,007	90,779		4,953,786
Intangible asset - software		3,638		3,638
Total accumulated depreciation	<u>\$ 9,271,097</u>	<u>\$ 447,179</u>	<u>\$ 731</u>	<u>9,717,545</u>
Total net depreciable capital assets				<u>7,843,925</u>
Total capital assets				<u>\$ 16,617,355</u>

Depreciation expense of \$447,179 was charged to water supply services expense for the year ended December 31, 2010.

South Farmingdale Water District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets has occurred. The District's policy is to record an impairment loss in the period when the District determines that the carrying amount of the asset will not be recoverable. At December 31, 2010, the District has not recorded any such impairment losses.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

D. Indebtedness

Short-Term Debt

Bond Anticipation Notes (BANS) – Bond anticipation notes (BANS) are used as a temporary means of financing capital expenditures in the Capital Projects Fund. State law requires that BANS issued for capital purposes be converted to long-term obligations within five years after the original issue date. The notes 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. Liabilities for BANS are generally accounted for in the Capital Projects Fund. BANS are expected to be paid from the proceeds of future bond issues after renewal of these notes. These BANS, of which \$2 million matures in August 2011 and \$1.5 million matures in November 2011, bear interest at rates ranging from 1 to 1.5%.

A summary of changes in BANS for the year ended December 31, 2010 is as follows:

	Balance 1/1/2009	Increases	Reductions	Balance 12/31/2010
Bond Anticipation Notes	\$ -	\$ 3,500,000	\$ -	\$ 3,500,000

Long-Term Debt

General Obligation Bonds

The District periodically borrows money through general obligation serial bonds 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 2.5 to 5.0 percent.

Principal and interest payments to maturity of general obligation serial bonds as of December 31, 2010 are as follows:

	Principal	Interest	Total Principal and Interest
Years Ending December 31, 2011	\$ 305,774	\$ 227,865	\$ 533,639
2012	318,207	215,695	533,902
2013	333,338	202,880	536,218
2014	346,513	189,443	535,956
2015	365,142	175,346	540,488
2016-2020	1,555,563	648,320	2,203,883
2021-2025	1,524,640	343,716	1,868,356
2026-2027	862,820	48,149	910,969
	\$ 5,611,997	\$ 2,051,414	\$ 7,663,411

Interest expense of \$235,050 on bonded debt and bond anticipation notes has been included in the direct expenses of the expenses - water supply services on the government-wide statement of activities.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

D. Indebtedness (continued)

Other Non-Current Liabilities

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

Other Postemployment Liability - Represents the accumulated cost of postemployment benefits liability required to be accrued under GASB Statement No. 45.

The following is a summary of changes in non-current liabilities for the year ended December 31, 2010:

	Balance 1/01/2010	Increases	Reductions	Balance 12/31/2010	Noncurrent Liabilities Due Within One Year
Serial bonds	\$ 5,909,397		\$ (297,400)	\$ 5,611,997	\$ 305,774
Other postemployment benefits	724,565	419,765	(128,065)	1,016,265	
Compensated absences	518,138	15,038		533,176	26,659
	<u>\$ 7,152,100</u>	<u>\$ 434,803</u>	<u>\$ (425,465)</u>	<u>\$ 7,161,438</u>	<u>\$ 332,433</u>

E. Retirement System

Plan Description

The South Farmingdale Water District participates in the New York State and Local Employees' Retirement System (ERS), which is a cost-sharing multiple-employer defined benefit pension 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.

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 the New York State and Local Employees' Retirement System 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. Employees who joined the system after January 9, 2010 are required to contribute 3% of their salary for their entire career. 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.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

E. 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:

	Annual Required Contribution	Amortization, Reconciliation, & Miscellaneous Adjustments	Total Payment
2010	\$ 125,960	\$ (1,206)	\$ 124,754
2009	75,212	3,753	78,965
2008	78,043	(17,136)	60,907

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

F. 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 provides information useful in assessing potential demands on the District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability.

Plan Description

The District, per its contracts with employees, will pay 100% for non-union employees and 90% for union employees in premium costs for the medical insurance coverage (currently provided by Empire Plan Plus Enhancements of the New York State Government Employees Health Insurance Program) and 100% of dental premium costs for an employee of the District at retirement, provided the employee has reached ages of 50 or 55, respectively, and has been employed by the District for at least 20 years prior to the date of retirement. Commissioners may become eligible for these benefits if they reach age 50 with 9 years of service while working for the District. These contracts will be renegotiated at various times in the future. Upon death of an active employee with ten years of service, the District will pay seventy-five 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 retiree is also eligible for Medicare reimbursement in the amount of \$1,157 per year.

The number of participants as of January 1, 2009, the effective date of the most recent OPEB valuation, follows. There have been no significant changes in the number or the type of coverage since that date.

Active employees	20
Retired employees	<u>13</u>
Total	<u><u>33</u></u>

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

F. 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, 2010, the District's annual other postemployment benefits cost (expenses) were \$419,765. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$128,065 for retirees and their beneficiaries, the result was an increase in the other postemployment benefits liability of \$291,700 for the year ended December 31, 2010.

Benefit Obligations and Normal Cost

	Medical	Medicare B	Dental	Total
Actuarial Accrued Liability (AAL)				
Retired employees	\$ 1,391,713	\$ 312,120	\$ 151,024	\$ 1,854,857
Active employees	2,009,512	402,659	260,462	2,672,633
Unfunded actuarial accrued liability (AAL)	<u>\$ 3,401,225</u>	<u>\$ 714,779</u>	<u>\$ 411,486</u>	<u>\$ 4,527,490</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

	Medical	Medicare B	Dental	Total
Normal Cost	\$ 157,488	\$ 32,039	\$ 19,298	\$ 208,825
Amortization of unfunded actuarial liability (UAAL) over 30 years	150,242	31,952	18,322	200,516
Interest	10,078	2,211	1,209	13,498
Annual required contribution (ARC)	317,808	66,202	38,829	422,839
Interest on Net OPEB Obligation	22,054	4,809	1,837	28,700
Adjustment to ARC	(24,355)	(5,374)	(2,045)	(31,774)
OPEB Cost	315,507	65,637	38,621	419,765
Contribution for fiscal year ended December 31, 2010	<u>(97,157)</u>	<u>(15,038)</u>	<u>(15,870)</u>	<u>(128,065)</u>
Increase in other post-employment liability	218,350	50,599	22,751	291,700
Other post-employment benefits liability at December 31, 2009	<u>564,174</u>	<u>120,298</u>	<u>40,093</u>	<u>724,565</u>
Other postemployment benefits liability at December 31, 2010	<u>\$ 782,524</u>	<u>\$ 170,897</u>	<u>\$ 62,844</u>	<u>\$ 1,016,265</u>
Percent of annual OPEB cost contributed	30.79%	22.91%	41.09%	30.51%

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
 December 31, 2010

F. 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 years ended December 31, 2010 and two preceding years are as follows:

	Annual OPEB Cost	Percent of annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 419,765	30.51%	\$ 1,016,265
2009	399,416	31.70%	724,565
2008	365,596	35.61%	451,631

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009 (date of the most recent actuarial valuation) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
1/1/2009	\$ -0-	\$ 4,527,490	\$ 4,527,490	0.0%	\$ 1,114,076	406.39%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present 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 volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the liabilities were computed using the entry age actuarial cost method and level percentage of projected payroll of active plan members on a closed basis. The actuarial assumptions utilized a 4.00% discount rate and a 2.50% payroll growth rate. The valuation assumes an 8.00 -10.00% healthcare cost trend increase for year ended 2009, reduced decrements to a rate of 5% after six years. The remaining amortization period at December 31, 2010 was twenty six years.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

G. Repair Reserve, Capital Reserves and other Designated Fund Balance

Repair Reserve

The Board of Commissioners established a reserve for major repairs to water mains and/or equipment. A summary of activity in the Reserve for Repair Fund for 2010 is as follows:

Balance - beginning	\$ 397,266
Interest earned on reserve cash	<u>890</u>
Balance - ending	<u>\$ 398,156</u>

Capital Reserve

The Board of Commissioners established a capital reserve to finance the cost of improvements to the water distribution system. In addition, during the 2010 year the Board of Commissioners has established two capital reserves as follows:

Capital Reserve MTBE

The Water 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"). In 2010 the District reached a settlement agreement with the major petroleum companies. Through December 31, 2010 the District received \$971,381 for this settlement. The funds have been deposited in a capital reserve to fund to pay any future cost and treatment of MTBE contamination.

A summary of activity in the capital reserve accounts is as follows:

	<u>Capital Reserve</u>	<u>Capital Reserve MTBE</u>
Balances 1/1	\$ 1,567,489	\$ -0-
Increase to reserves	850,000	971,381
Interest earned	4,186	2,975
Appropriation of Reserves	<u>(327,135)</u>	<u>-0-</u>
Balances 12/31	<u>\$ 2,094,540</u>	<u>\$ 974,356</u>

Designation for VOC Facility

The District received a settlement in the amount of \$14,550,000 from the United States Navy relating to their responsibility for soil and groundwater contamination while the Navy operated the Naval Weapons Industrial Reserve Plant in Bethpage, New York. These funds will be used to pay for current and future costs incur for the required treatment facilities. During 2010 the District transferred \$10,256,633 to the capital projects fund for the construction of a VOC water treatment facility. The District has designated the remaining \$4,318,216 including interest to pay for future operations and maintenance of this water treatment facility.

SOUTH FARMINGDALE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

H. 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 funds remaining after the installation is completed are refunded to the developer.

I. Capital Improvements Commitments

The District is committed to the long-term maintenance of the water system and plans capital improvements to the water system. Construction in progress, commitments for equipment purchases and other capital acquisition commitments amounts to approximately \$3.3 million have been recorded as encumbrances in the Capital Projects Fund.

J. New Pronouncements

The GASB has issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." The purpose of this statement is to enhance the usefulness of fund balance information. The requirements of this statement become effective for the District for the year ended December 31, 2011.

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

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

Notes to Required Supplementary Information

The budgets are adopted on a basis of accounting consistent with GAAP. In the event that actual revenues received exceed budgeted amounts, additional budgetary appropriations are made. The capital projects are budgeted on a project basis.

SOUTH FARMINGDALE WATER DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
 Year ended December 31, 2010

	Budget Amounts		Actual Amounts Budget Basis	Encum- brances	Variance Positive (Negative)
	Original	Final			
Revenues					
Real property taxes	\$ 1,872,553	\$ 1,872,553	\$ 1,870,526		\$ (2,027)
Departmental income	2,447,643	2,447,643	3,009,102		561,459
Use of money and property	273,285	273,285	312,002		38,717
Sale of property and compensation for loss	8,000	10,264,633	15,532,252		5,267,619
Other miscellaneous receipts	2,000	2,000	33,155		31,155
Total Revenues	<u>4,603,481</u>	<u>14,860,114</u>	<u>20,757,037</u>		<u>5,896,923</u>
Expenditures					
Home and Community Service - Water Supply Services					
Administration	1,095,886	1,081,886	985,898	\$ 8,551	87,437
Source of supply, power and pumping	813,852	834,852	825,768		9,084
Purification	549,700	601,700	571,827		29,873
Transmission and distribution	775,819	781,819	704,233	26,649	50,937
Employee benefits	807,301	742,302	655,047		87,255
Debt service	535,923	535,922	535,922		-0-
Total Expenditures	<u>4,578,481</u>	<u>4,578,481</u>	<u>4,278,695</u>	<u>35,200</u>	<u>264,586</u>
Excess of Revenues over Expenditures	<u>25,000</u>	<u>10,281,633</u>	<u>16,478,342</u>	<u>(35,200)</u>	<u>6,161,509</u>
Other Financing Sources (Uses)					
Interfund transfers in - Capital projects	-0-	-0-	1,567,489		1,567,489
Interfund transfers out - Capital projects	(25,000)	(10,608,768)	(10,608,768)		-0-
Total Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(10,608,768)</u>	<u>(9,041,279)</u>	<u>-0-</u>	<u>1,567,489</u>
Net Change in Fund Balance	<u>\$ -0-</u>	<u>\$ (327,135)</u>	<u>7,437,063</u>	<u>\$ (35,200)</u>	<u>\$ 7,728,998</u>
Fund Balance at Beginning of Year			<u>1,281,310</u>		
Fund Balance at End of Year			<u>\$ 8,718,373</u>		

SOUTH FARMINGDALE WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
Year ended December 31, 2010

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
1/1/2009	\$ -0-	\$ 4,527,490	\$ 4,527,490	0.0%	\$ 1,114,076	406%
1/1/2007	\$ -0-	\$ 4,068,978	\$ 4,068,978	0.0%	N/A	N/A

OTHER SUPPLEMENTARY INFORMATION

SOUTH FARMINGDALE WATER DISTRICT
GENERAL FUND
DETAILED SCHEDULE OF REVENUES
BUDGET AND ACTUAL
 Year ended December 31, 2010

	Budget Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Real property taxes	\$ 1,872,553	\$ 1,872,553	\$ 1,870,526	\$ (2,027)
Departmental income				
Metered water sales	2,297,148	2,297,148	2,820,427	523,279
Unmetered water sales	106,000	106,000	103,800	(2,200)
Water service charges	8,000	8,000	20,450	12,450
Interest and penalties - water rents	36,495	36,495	64,425	27,930
Total Departmental Income	2,447,643	2,447,643	3,009,102	561,459
Use of money and property				
Interest earnings	16,000	16,000	45,393	29,393
Rental of real property	257,285	257,285	266,609	9,324
Total Use of Money and Property	273,285	273,285	312,002	38,717
Sale of property and compensation for loss				
Sale of water supplies	5,000	5,000	7,391	2,391
Sale of equipment	1,000	1,000	-0-	(1,000)
Insurance recoveries	1,000	1,000	18,227	17,227
Litigation settlement for MTBE contamination	-0-	-0-	956,634	956,634
Settlement for ground water contamination - US Navy	-0-	10,256,633	14,550,000	4,293,367
Other Compensation for loss	1,000	1,000	-0-	(1,000)
Total Sale of Property and Compensation for Loss	8,000	10,264,633	15,532,252	5,267,619
Miscellaneous local sources				
Refund of prior year expenditures	-0-	-0-	1,350	1,350
Other miscellaneous receipts	2,000	2,000	31,805	29,805
Total Miscellaneous Local Sources	2,000	2,000	33,155	31,155
Total Revenues	4,603,481	14,860,114	20,757,037	5,896,923
Other Financing Sources				
Capital projects fund transfer in	-0-	-0-	1,567,489	1,567,489
Total Revenues and other Sources	\$ 4,603,481	\$ 14,860,114	\$ 22,324,526	\$ 7,464,412

SOUTH FARMINGDALE WATER DISTRICT
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL
 Year ended December 31, 2010

	Budget Adjustments		Actual Amounts Budget Basis	Encum- brances	Variance Positive (Negative)
	Original	Final			
EXPENDITURES					
Administration					
Personal services:					
Commissioners fees	\$ 42,000	\$ 40,500	\$ 35,816		\$ 4,684
Office salaries	395,707	376,707	368,928		7,779
Equipment and capital outlay:					
Office equipment	10,500	12,000	11,778		222
Other expenditures:					
Engineering services	80,000	55,000	47,743		7,257
Legal services	75,000	79,000	78,992		8
Computer consulting services	70,000	110,000	101,523		8,477
Auditing and accounting services	40,000	59,000	57,987		1,013
Public relations services	15,000	5,000	4,651		349
Inventory services	15,000	-0-	-0-		-0-
Insurance	117,000	102,000	93,701		8,299
Telephone	34,000	34,000	33,955		45
Office maintenance	8,200	17,200	8,195	\$ 8,551	454
Office supplies and expenses	62,000	56,000	53,613		2,387
Education and election	76,500	76,500	75,637		863
Advertising	2,500	2,500	611		1,889
MTA payroll tax	42,479	46,479	3,716		42,763
Other miscellaneous expenditures	10,000	10,000	9,052		948
Total Administration	1,095,886	1,081,886	985,898	8,551	87,437
Source of Supply, Power and Pumping					
Supervision and labor	194,852	202,852	202,211		641
Equipment and capital outlay:					
Pumping equipment	39,000	4,000	2,714		1,286
Other expenditures:					
Maintenance - pump units	62,000	50,000	48,244		1,756
Maintenance - water tower	2,000	-	-0-		-0-
Maintenance - buildings and grounds	106,000	88,000	86,206		1,794
Heat, light and power - electric	350,000	440,000	437,163		2,837
Heat, light and power - gas	60,000	50,000	49,230		770
Total Source of Supply, Power and Pumping	813,852	834,852	825,768		9,084
Purification					
Chemicals	389,700	441,700	440,428		1,272
Testing and analysis	160,000	160,000	131,399		28,601
Total Purification	549,700	601,700	571,827		29,873
Transmission and Distribution					
Supervision and labor	616,819	534,819	507,120		27,699
Equipment and capital outlay:					
Purchase of equipment	13,000	49,000	21,412	26,649	939
Meters and supplies	27,000	12,000	5,526		6,474
Other expenditures:					
Maintenance - mains and hydrants	60,000	122,000	119,294		2,706
Maintenance - autos and trucks	22,000	22,000	14,186		7,814
Maintenance - other equipment	6,000	11,000	8,326		2,674
Small tools and shop supplies	6,000	6,000	4,529		1,471
Gas and oil	25,000	25,000	23,840		1,160
Total Transmission and Distribution	775,819	781,819	704,233	26,649	50,937

SOUTH FARMINGDALE WATER DISTRICT
GENERAL FUND
DETAILED SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL
 Year ended December 31, 2010

	Budget Adjustments		Actual Amounts Budget Basis	Encum- brances	Variance Positive (Negative)
	Original	Final			
EXPENDITURES (continued)					
Employee Benefits					
State retirement	149,926	129,926	124,897		5,029
Social security	95,578	95,268	82,957		12,311
Workers compensation insurance	62,000	62,000	61,566		434
Life insurance	24,000	4,000	-0-		4,000
Unemployment insurance	500	810	810		-0-
Disability insurance	2,000	2,001	568		1,433
Hospital and medical insurance	463,297	443,297	384,249		59,048
Other employee benefits	10,000	5,000	-0-		5,000
Total Employee Benefits	807,301	742,302	655,047		87,255
Debt Service					
Serial bonds - principal	297,400	297,400	297,400		-0-
Serial bonds - interest	238,523	238,522	238,522		-0-
Total Debt Service	535,923	535,922	535,922		-0-
Total Expenditures	4,578,481	4,578,481	4,278,695	35,200	264,586
Other Financing Uses					
Capital projects fund transfer out	25,000	10,608,768	10,608,768		-0-
Total Expenditures and Other Uses	\$ 4,603,481	\$ 15,187,249	\$ 14,887,463	\$ 35,200	\$ 264,586

SOUTH FARMINGDALE WATER DISTRICT
CAPITAL PROJECTS FUND
SCHEDULE OF PROJECT EXPENDITURES
Year ended December 31, 2010

Capital Projects	Expenditures		Encum- brances	Total
	Prior Years	Current Year		
Bonded Capital Projects				
Replacement of Well 1-2	\$ 199,319	\$ 275,172	\$ 28,346	\$ 502,837
Projects paid from appropriations				
New Generators Plant 1	38,150	47,862	738,462	824,474
VOC Treatment Plant 1	578,400	7,205,006	2,473,227	10,256,633
Radio Communications Upgrade	11,010	73,982	80,008	165,000
Plant 5 GAC Maintenance Changeout	4,500	66,837		71,337
Surge Suppression Additions	-0-	26,524		26,524
Emergency Generator Plant 6	-0-	24,220	21,900	46,120
Camera Monitoring System	-0-	55,806		55,806
Stop and Shop Water Main	31,800	261,200		293,000
Total expenditures	<u>\$ 863,179</u>	<u>\$ 8,036,609</u>	<u>\$ 3,341,943</u>	<u>\$ 12,241,731</u>