

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2011 AND 2010**  
**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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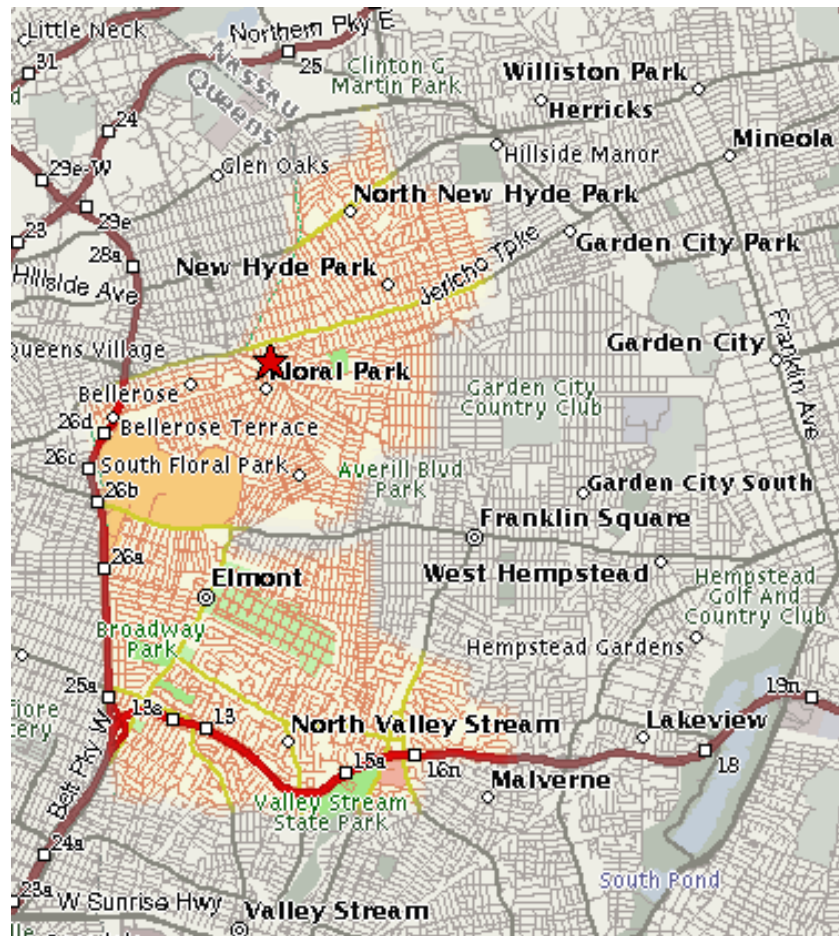
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FINANCIAL STATEMENTS  
FOR FISCAL YEARS ENDED MAY 31, 2011 AND 2010**

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**WATER AUTHORITY OF WESTERN NASSAU COUNTY**

**MAP OF SERVICE TERRITORY**



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Water Authority of Western Nassau County  
Floral Park, New York

We have audited the accompanying financial statements of the Water Authority of Western Nassau County (the Water Authority) as of May 31, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Authority as of May 31, 2011 and 2010, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2011 on our consideration of the Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control of financial reporting and our consideration of the Water Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Garden City, New York  
August 19, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Water Authority of Western Nassau County (the "Water Authority") was established to provide potable water to portions of western Nassau County which encompasses the Incorporated Villages of Bellerose, Floral Park, New Hyde Park, South Floral Park, Stewart Manor and portions of Garden City and Valley Stream. The service area also includes the unincorporated areas of Bellerose Terrace, Elmont, Floral Park, Floral Park Centre, New Hyde Park and portions of Franklin Square and North Valley Stream.

### OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and provides supplementary information. The MD&A represents management's examination and analysis of the Water Authority's financial condition and performance. Summary financial statements data, key financial and operational indicators used in the Water Authority's strategic plan, operating plan, bond covenants and other management tools were used for this analysis. The information contained in this analysis should be used by the reader in conjunction with the information contained in the audited financial statements and the notes to those financial statements.

The financial statements report information about the Water Authority. The Water Authority applied full accrual accounting methods as used by similar business activities in the private sector. The statements offer short and long-term financial information. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; statements of cash flows and notes to the financial statements.

The statement of net assets includes all of the Water Authority's assets and liabilities, with the difference between the two reported as "net assets". The statement of net assets provides information about the nature and amount of investment in resources (assets) and obligations to the Water Authority's creditors (liabilities) at year-end. It also provides the basis for computing rate of return, evaluating the capital structure of the Water Authority and assessing the liquidity and financial flexibility of the Water Authority. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides information about whether the Water Authority has successfully recovered its costs through its user fees and other charges, its profitability and credit worthiness.

The statement of cash flows presents the changes in cash and cash equivalents resulting from operating, investing, capital financing and non-capital financing activities. The statements present cash receipts and cash disbursements information, without consideration of the earning events, when an obligation arises or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Water Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

This section presents management's analysis of the Water Authority's financial conditions and activities for the fiscal years ended May 31, 2011 and 2010. Please read this information in conjunction with the financial statements which follow this section.

## FINANCIAL HIGHLIGHTS

Management believes the Water Authority's financial condition is strong and improving. The Water Authority is well within its debt covenants and the more stringent financial policies and guidelines set by its Board. The following are financial highlights:

- Total assets as of May 31, 2011 were \$88.6 million and exceeded liabilities in the amount of \$13.6 million (i.e. net assets). Of the total net assets, \$0.3 million was unrestricted. Total assets increased by \$1.0 million (1.1%) between May 31, 2010 and 2011. Net assets increased by \$2.3 million (20.1%) over the same period last year.
- Debt service coverage was 1.41, exceeding the minimum 1.20 required by the Bond covenants.
- Operating revenues were approximately \$13.2 million, showing an increase of \$2.2 million (20.3%), as compared to \$11.0 million in the previous year.
- Operating expenses increased approximately \$0.2 million from \$8.7 million to \$8.9 million for the fiscal years ended May 31, 2010 and 2011. The 1.7% increase in operating expenses was due to slightly higher operational and maintenance expenses, primarily from increases in utility expenses. Operations expenses increased by \$0.1 million (0.9%) from \$5.9 million to \$6.0 million for the fiscal years ended May 31, 2010 and 2011, respectively. Maintenance expenses remained consistent at \$1.9 million for the fiscal years ended May 31, 2010 and 2011.
- Operating income for the fiscal year ended May 31, 2011 was \$4.3 million as compared to \$2.2 million in 2010. The increase in operating income of \$2.1 million (93.2%) primarily reflects the impact of a jump in revenue from residential water sales of \$1.7 million (21.7%) and commercial and fire protection revenues of \$0.5 million (17.1%) related to increased consumption of water, and 7.24% increase in rates. Consequently, the ratio of operating income to total revenues increased to 32.6% from 20.3% for the fiscal year ended May 31, 2011 as compared to 2010.
- The Water Authority's long-term debt decreased by \$1.5 million or 2.1% during the fiscal year ended May 31, 2011, from \$68.8 million at May 31, 2010 to \$67.3 million at May 31, 2011, as a result of the repayment of \$0.4 million of Series 2010 bonds and \$1.1 million of Series 2005 Bonds.

## FINANCIAL ANALYSIS OF THE WATER AUTHORITY

One of the most important objectives of the financial analysis is to determine if the Water Authority as a whole is better or worse off as a result of the year's activities. The statement of net assets and the statement of revenues, expenses and changes in net assets provide useful information in this regard. The statements report the net assets of the Water Authority and changes in these net assets. The amount of net assets, the difference between total assets and liabilities, is a significant measure of the financial health or financial position. Over time, increases or decreases in the Water Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-

financial factors such as changes in economic conditions, population growth, and zoning and new or changed government legislation should be considered in evaluating the financial conditions of the Water Authority.

The following comparative condensed financial statements and other selected information serve as the financial data and indicators for management's monitoring and planning.

## NET ASSETS

A summary of the Water Authority's balance sheets is presented in the following table:

### CONDENSED STATEMENTS OF NET ASSETS (BALANCE SHEETS)

	May 31,			2010 to 2011		2009 to 2010	
	2011	2010	2009	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Current Assets	\$ 5,059,778	\$ 5,303,242	\$ 5,380,906	\$ (243,464)	(4.6)	\$ (77,664)	(1.4)
Noncurrent Assets							
Other Noncurrent Assets	38,776,353	42,090,262	5,233,102	(3,313,909)	(7.9)	36,857,160	704.3
Capital Assets	44,800,607	40,236,512	35,818,270	4,564,095	11.3	4,418,242	12.3
Total Assets	88,636,738	87,630,016	46,432,278	1,006,722	1.2	41,197,738	88.7
Current Liabilities	4,862,059	4,712,170	4,755,420	149,889	3.2	(43,250)	(0.9)
Noncurrent Liabilities	2,896,971	2,838,352	2,408,094	58,619	2.1	430,258	17.9
Long-term Debt –Bonds, Net	67,308,617	68,785,927	29,280,612	(1,477,310)	(2.1)	39,505,315	134.9
Total Liabilities	75,067,647	76,336,449	36,444,126	(1,268,802)	(1.7)	39,892,323	109.5
Net Assets							
Invested in Capital,							
Net of Related Debt	12,856,185	10,206,074	8,526,238	2,650,111	26.0	1,679,836	19.7
Restricted	460,000	445,000	445,000	15,000	3.4	-	-
Unrestricted	252,906	642,493	1,016,914	(389,587)	(60.6)	(374,421)	(36.8)
Total Net Assets	\$ 13,569,091	\$ 11,293,567	\$ 9,988,152	\$ 2,275,524	20.1	\$ 1,305,415	13.1

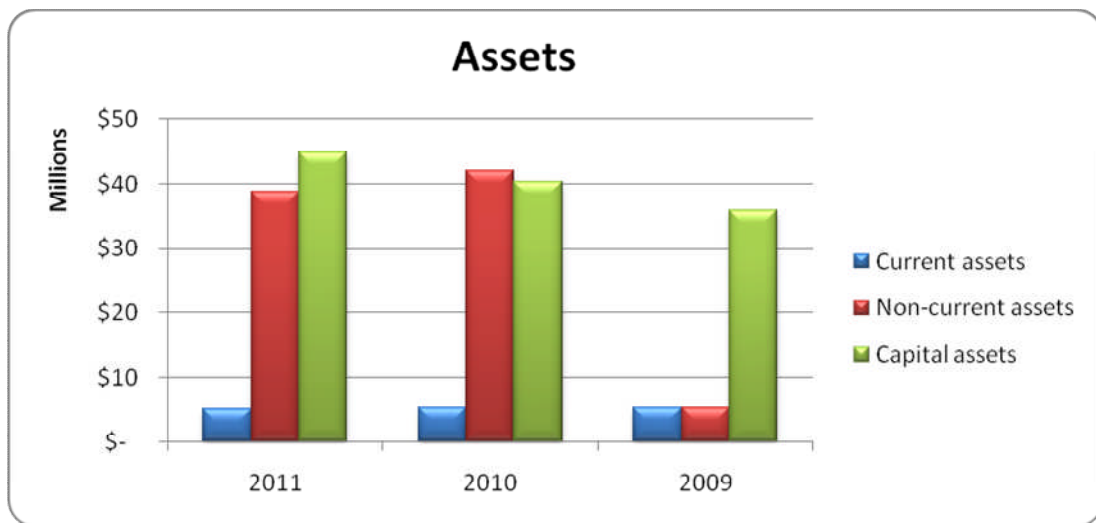
The table above and Chart 1 (on the next page) show that the amount of current and other assets increased by \$1,006,722 (1.2%) and current and other liabilities decreased by \$1,268,802 (1.7%) from May 31, 2010 to May 31, 2011. The increase in current and other assets was \$41,197,738 (88.7%) and the increase in current and other liabilities was \$39,892,323 (109.5%) from May 2009 to May 2010. In 2011 the principal component of increase in assets was the additions to capital assets. The reason for a decrease in liabilities was the repayments of long-term bonds. In 2010, the large increases in both assets and liabilities were the results of the issuance of \$40,900,000 of Series 2010 Bonds.

The amount of bonds net of amortized bond premiums and advance funding loss decreased by \$1,477,310 (2.1%) during fiscal year 2011 as compared to an increase of \$39,505,315 (134.9%) in 2010. The decrease in fiscal year 2011 reflects the payment of that year's debt requirements offset by the amortization of premium and loss.

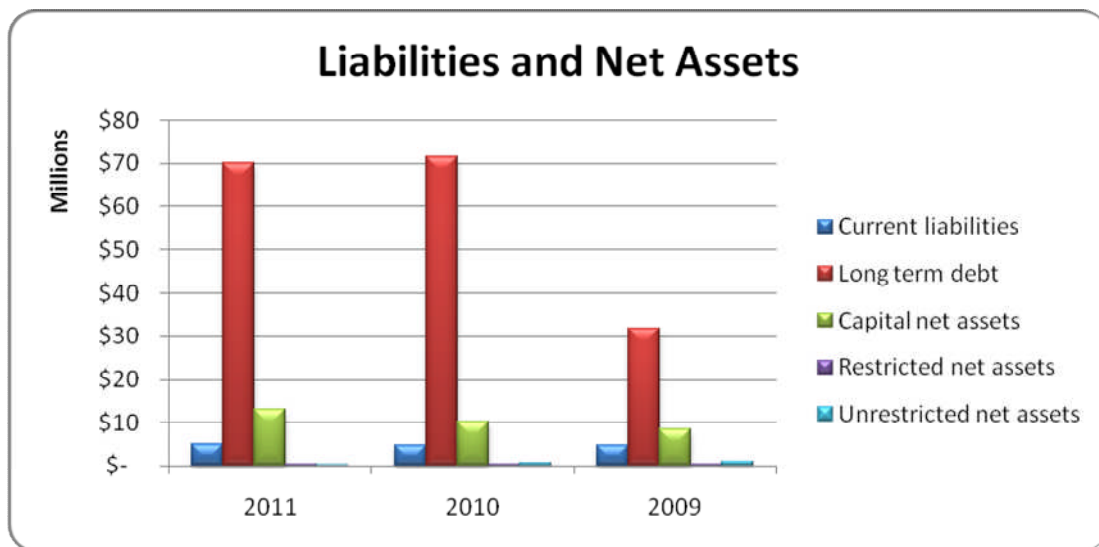
The large increase in fiscal year 2010 was due to the issuance of \$40,900,000 of Series 2010 bonds, partially offset by the repayment of \$1,070,000 of Series 2005 Bonds

The net assets of the Water Authority increased \$2,275,524 (20.1%) to \$13,569,091 on May 31, 2011, from \$11,293,567 in 2010 (see Chart 2). The amount of the increase in net assets was \$1,305,415 (13.1%) to \$11,293,567 on May 31, 2010 from \$9,988,152 on May 31, 2009. The reason for the increase in net assets as of May 31, 2011 was the increased revenues of \$2,228,497 from approximately 500 million gallons additional water sales to residential and commercial customers. The increase in net assets was invested capital assets. Restrictions on net assets do not significantly affect the availability of fund resources for future use.

**CHART 1**



**CHART 2**



## OPERATING RESULTS

The Water Authority's condensed statements of revenues, expenses and changes in net assets are presented in the following table:

### CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	May 31,			2010 to 2011		2009 to 2010	
	2011	2010	2009	Increase (Decrease)	% Change	Increase (Decrease)	% Change
<b>Operating revenues</b>							
Water sales:							
Residential	\$ 9,382,910	\$ 7,710,810	\$ 7,736,779	\$ 1,672,100	21.7	\$ (25,969)	(0.3)
Commercial, municipal and other	3,818,169	3,261,772	3,145,170	556,397	17.1	116,602	3.7
Total operating revenues	13,201,079	10,972,582	10,881,949	2,228,497	20.3	90,633	0.8
<b>Operating expenses</b>							
Operations	5,972,061	5,920,498	6,076,842	51,563	0.9	(156,344)	(2.6)
Maintenance	1,871,302	1,869,872	1,915,638	1,430	0.1	(45,766)	(2.4)
Depreciation	1,051,110	953,313	847,340	97,797	10.3	105,973	12.5
Total operating expenses	8,894,473	8,743,683	8,839,820	150,790	1.7	(96,137)	(1.1)
Operating income	4,306,606	2,228,899	2,042,129	2,077,707	93.2	186,770	9.1
<b>Non-operating revenue (expense)</b>							
Interest income	536,218	247,009	154,080	289,209	117.1	92,929	60.3
Miscellaneous income	349,509	346,336	241,664	3,173	0.9	104,672	43.3
Interest on long-term debt	(2,853,926)	(1,656,025)	(1,471,971)	(1,247,758)	(75.3)	(184,054)	(12.5)
Other amortization, net	(74,349)	(75,182)	(73,250)	50,690	67.4	(1,932)	(2.6)
Net non-operating expenses	(2,042,548)	(1,137,862)	(1,149,477)	(904,686)	(79.5)	11,615	1.0
Change in net assets before extraordinary items	2,264,058	1,091,037	892,652	1,173,021	107.5	198,385	22.2
Litigation settlement	11,466	214,378	116,135	(202,912)	(94.7)	98,243	84.6
Change in total net assets	2,275,524	1,305,415	1,008,787	970,109	74.3	296,628	29.4
Board approved subsidies	-	-	(55,000)	-	-	55,000	100.0
Net change in net assets	2,275,524	1,305,415	953,787	970,109	74.3	351,628	36.9
Net assets, beginning	11,293,567	9,988,152	9,034,365	1,305,415	13.1	953,787	10.6
Net assets, ending	\$ 13,569,091	\$ 11,293,567	\$ 9,988,152	\$ 2,275,524	20.1	\$ 1,305,415	13.1

As of May 31, 2011, the Water Authority provided water to 26,452 residential customers, 1,399 commercial customers, 179 private fire customers and 2,432 municipal fire hydrants. The corresponding figures for May 31, 2010 were 26,453 residential customers, 1,399 commercial customers, 182 private fire customers and 2,432 municipal fire hydrants.

The Water Authority's revenues increased by \$2,228,497 (20.3%), in fiscal year 2011, and by \$90,633 (0.8%) in fiscal year 2010. The increase in revenue in fiscal year 2011 was primarily the result of a \$1,672,100 (21.7%) rise in residential water sales and \$556,397 in commercial and fire protection sales (see Chart 3). The operating expenses before depreciation increased by \$52,993 (0.7%) and decreased

\$202,110 (2.3%) in fiscal years 2011 and 2010, respectively (see Chart 4). The operating expense increased primarily due to the rise in power costs related to the additional system consumption. In fiscal year 2010 the operating expenses had decreased primarily due to lower utility costs. As a result of changes in revenues and expenses, the Water Authority's net assets increased by \$2,275,524 during fiscal year 2011 as compared to a \$1,305,415 increase in fiscal year 2010, an increase of \$970,109 (74.3%).

CHART 3

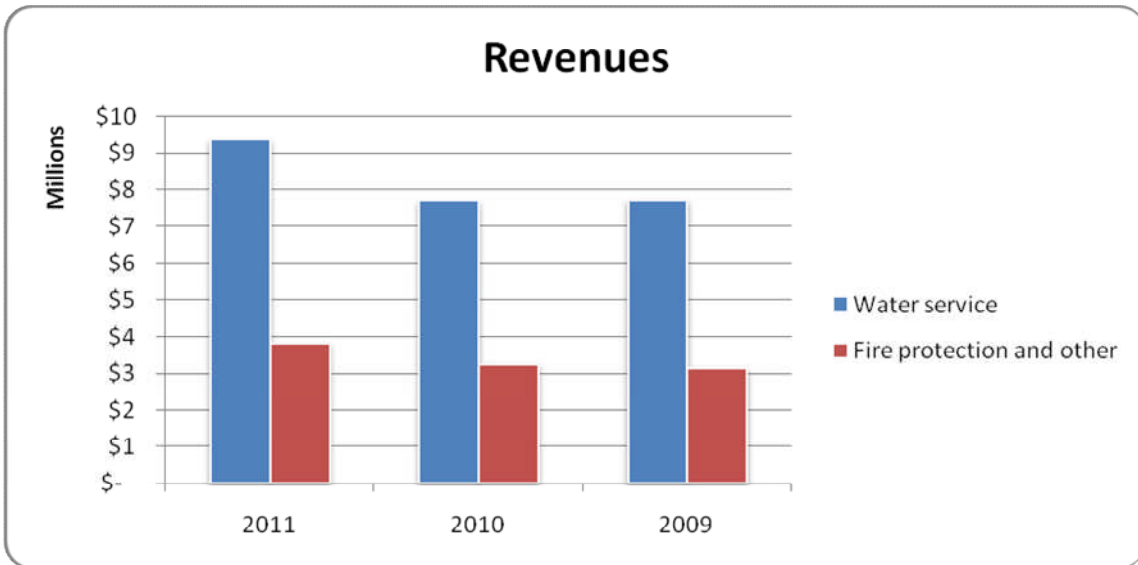
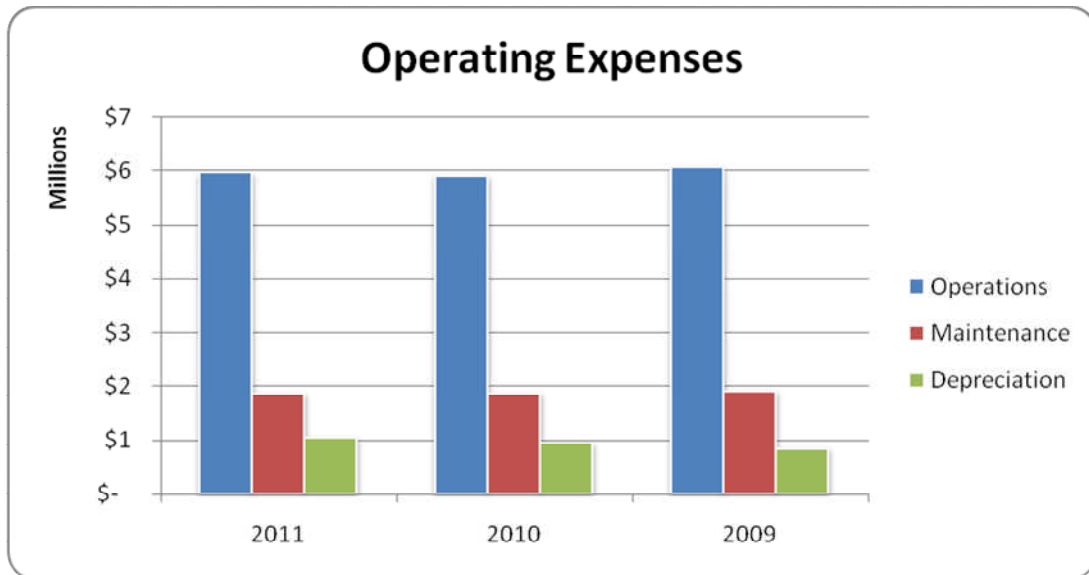


CHART 4



## NON-OPERATING REVENUES AND EXPENSES

Non-operating revenue includes interest earnings on investment assets and miscellaneous income. Interest income increased from \$247,009 for the fiscal year ended May 31, 2010 to \$536,218 for the fiscal year ended May 31, 2011. The reason for the increase of \$289,209 (117.1%) was due to interest earned on the investments of the unexpended proceeds of the Series 2010 Bond issuance.

Miscellaneous income increased by \$3,173 (0.9%) from \$346,336 for the fiscal year ended May 31, 2010 to \$349,509 for the fiscal year ended May 31, 2011. This increase was due to additional rental income realized from the lease of space atop water towers to cellular phone companies.

Interest expenses increased \$1,247,758 (75.3%) from \$1,656,025 for the year ended May 31, 2010 to \$2,903,783 for the year ended May 31, 2011. The increase resulted from the additional bonds issued during 2010 and their related interest expenses.

## SPECIAL AND EXTRAORDINARY ITEMS

The Water Authority was a member of the plaintiff class in a class action lawsuit related to Methyl Tertiary Butyl Ether (MTBE) products liability against 70% of the total gasoline refining market. This lawsuit was settled on March 12, 2008 and the Water Authority's portion of the settlement was \$2,478,812, net of legal fees. The Water Authority recognized \$11,466 for the year ended May 31, 2011 and \$214,378 for the year ended May 31, 2010 as an extraordinary item in the Statements of Revenue, Expenses and Changes in Net Assets.

## CAPITAL ASSETS

The Water Authority owns and maintains a broad range of infrastructure items including water plants, water lines, well stations, administrative facilities, vehicles and equipment necessary for the treatment and distribution of potable water to its customers. The Water Authority has approximately \$44.8 million in net assets, an increase of approximately \$4.6 million from the prior year.

Capital assets consisted of the following for the years ended May 31:

	2011	2010	2009
Land	\$ 167,708	\$ 167,708	\$ 167,708
Construction in progress	5,336,146	3,819,408	2,946,559
Wells and standpipes	2,654,054	2,628,253	2,628,253
Pumping and purification	11,075,237	10,749,013	10,385,984
Distribution system	34,006,838	30,714,576	26,600,038
Building, vehicles and equipment	2,252,971	2,262,970	2,241,831
Total capital assets	55,492,954	50,341,928	44,970,373
Accumulated depreciation	(10,693,347)	(10,105,416)	(9,152,103)
Net capital assets	\$ 44,800,607	\$ 40,236,512	\$ 35,818,270

For more detailed information on capital assets activity, please refer to the financial statements Note 4 – Property, Plant and Equipment.

## MAJOR INCREASES IN CAPITAL ASSETS

### IRON REMOVAL PROJECT CONTRACT AWARDS

The Board of Directors awarded the contracts for the construction of Iron Removal Facilities at Station Nos. 28 (Elmont) and 30 (Franklin Square) on April 25, 2011. Details of the contracts are as follows:

Electrical Construction	\$ 2,583,000
General Construction	2,391,423
HVAC UTB	190,066
Plumbing and Mechanical	2,481,100
Well Construction.	<u>388,700</u>
Total	<u>\$ 8,034,289</u>

The new Iron Removal Facilities will remove the naturally occurring iron and manganese that exists in the groundwater which is currently supplied to Elmont and portions of Franklin Square, North Valley Stream and Valley Stream. The process to remove the iron from the groundwater will be Direct Pressure Filtration. The groundwater will be pumped to multiple pressure vessels which contain a combination of sand and anthracite media to remove the iron. The iron removal treatment system has been designed to provide effluent iron levels of less than 0.1 mg/l, which is one third (1/3) of the 0.3 mg/l secondary standard for iron. The Iron Removal Facilities at Station Nos. 28 and 30 have been designed to treat 3.73 and 1.73 million gallons per day, respectively. Construction work is anticipated to commence in June 2011.

In the Capital Expenditures Plan for the year ending May 31, 2012, \$4,600,000 is allocated for the installation of new iron removal plant for Wells 28A, 28B and 30.

### NEW HEADQUARTERS PROJECT

The Water Authority is presently constructing a new headquarters building located at 1580 Union Turnpike, New Hyde Park, New York. This project is being constructed on an owned, active well station and will eliminate over \$330,000 per year in lease cost, property taxes and maintenance at our current location in Floral Park.

The Phase I of the construction which included design of the entire project, underground facility work, installation of an emergency generator and a new garage facility has been completed. The capital plan for the year ending May 31, 2012 includes a provision of \$7,036,400 to be expended for the construction costs of the new headquarters building and garage at Station Number 40.

The major additions to the capital assets in the fiscal years ended May 31, 2010 and 2011 are presented in the following table:

Description	2011	Percent Increase	2010	Percent Increase	2009	Percent Increase
Electric pumping equipment	\$ 54,560	1.4 %	4,120	0.1 %	21,296	0.5 %
Equipment – water treatment	266,189	11.4	336,712	14.5	14,751	0.7
Mains	1,632,282	14	1,895,264	16.3	715,725	7.9
Services	821,815	8.9	949,382	10.3	690,612	9.1
Meters	340,480	7.9	(22,349)	-0.5	266,018	6.5
Meter equipment	696,871	24.8	1,057,829	0.7	621,652	55.3
Hydrants	243,462	9.8	234,412	9.4	196,661	9.6
Total additions	\$ <u>4,055,659</u>		\$ <u>4,455,370</u>		\$ <u>2,526,715</u>	

*Percentage reflects the change from the asset base amount for each category from the previous fiscal year.*

The major cost outlays with respect to capital assets relate to improvements in the Water Authority's water distribution system. The Water Authority spent \$1,632,282 for the completed construction and placement of water mains during the fiscal year ended May 31, 2011 compared to \$1,895,264 for the same period ended May 31, 2010. The Water Authority spent \$696,871 related to the installation of radio transmitters on customer's meters during the fiscal year ended May 31, 2011 compared to \$1,057,829 for the same period ended May 31, 2010.

In the capital expenditures plan for the year ending May 31, 2012, \$1,397,450 is allocated for transmission and distribution and \$1,258,150 for other capital improvements.

## **LONG-TERM DEBT**

### **REVENUE SERIES 2005 BONDS**

On May 28, 1996 the Water Authority issued \$34,460,000 Water System Revenue Bonds, Series 1996 to finance the cost of acquisition and certain construction expenditures of the water system, including initial working capital of the Water Authority and the costs of the utility assets and additional improvements to the water system.

The \$33,875,000 Water System Revenue Bonds, Series 2005 (the "Series 2005 Bonds") were applied to:

1. advance refund Water Authority's outstanding Water System Revenue Bonds, Series 1996,
2. finance the cost of acquisition and construction of improvements to the Water System,
3. fund a deposit to the Reserve Account, Series 2005,
4. pay certain costs of issuance relating to the Series 2005 Bonds.

The bond proceeds, in part, provided sufficient money to effect the advance refunding of the existing Series 1996 Bonds. Simultaneously with the issuance of the Series 2005 Bonds, a portion of the

proceeds, together with other available moneys, was used to purchase non-callable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States of America (the "Federal Securities"), in an amount sufficient, together with the interest to accrue thereon, to pay the principal of, redemption premium and interest on the Refunded Bonds, as the same become due and payable.

The Federal Securities were deposited with an escrow agent (the "Escrow Agent") under a certain escrow agreement (the "Escrow Agreement") with the Water Authority to be applied solely to the payment of the principal, redemption premium and interest on the Refunded Bonds, as the bonds became due and payable. Pursuant to the Escrow Agreement, the Escrow Agent redeemed the Refunded Bonds on May 1, 2006 at a redemption price of 102% plus accrued interest.

The outstanding principal, maturities and interest rates of the Series 2005, are as follows:

**WATER REVENUE BONDS, SERIES 2005**  
**May 31, 2011**

Serial Bonds 3.00% - 5.00%, due through 2026	\$23,530,000
Term Bonds 5.00%, due 2030	2,015,000
Term Bonds 5.00%, due 2035	<u>3,150,000</u>
 Total Series 2005	 <u><u>\$28,695,000</u></u>

**REVENUE SERIES 2010 BONDS**

The Water Revenue Bonds, Series 2010 were dated April 1, 2010 and issued on April 15, 2010, with accrued interest. The Series 2010 Revenue Bonds include the Water System Revenue Bonds, Series 2010A, with aggregate principal balance of \$6,925,000, and, Series 2010B, federally taxable, Build America Bonds, with aggregate principal balance of \$33,965,000.

The Series 2010A Bonds were issued to finance costs of acquisition, improvements and additions to the water system, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010A Bonds. The Series 2010B Bonds were issued to finance the cost of acquisition, improvements and additions to the water system, including the construction of the Water Authority's headquarters, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010B Bonds

The sources and uses of the Water System Revenue Bonds, Series 2010, are shown in the table below:

	Series 2010A <u>Amount</u>	Series 2010B <u>Amount</u>	<u>Total</u>
<b>Source of Funds</b>			
Principal amount of bonds	\$ 6,925,000	\$ 33,965,000	\$40,890,000
Net premium	<u>106,875</u>	<u>-</u>	<u>106,875</u>
<b>Total Sources</b>	<u>\$ 7,031,875</u>	<u>\$ 33,965,000</u>	<u>\$40,996,875</u>
<b>Use of Funds</b>			
Project fund	\$ 6,234,361	\$ 30,227,639	\$36,462,000
Debt service reserve fund	692,500	3,340,180	4,032,680
Costs of issuance	105,014	394,068	499,082
Additional proceeds	<u>-</u>	<u>3,113</u>	<u>3,113</u>
<b>Total Uses</b>	<u>\$ 7,031,875</u>	<u>\$ 33,965,000</u>	<u>\$40,996,875</u>

The outstanding balances, maturities and interest rates of the Series 2010 Bonds are as follows:

**2010 REVENUE BONDS  
May 31, 2011**

Water Revenue Bonds Series 2010		
Serial Bonds A	2.00% - 4.00%, due through 2020	\$ 6,505,000
Term Bonds B	6.00% - 6.70%, due through 2040 *	<u>33,965,000</u>
Total Series 2010		<u>\$ 40,470,000</u>

\* Note: Effective rate of 4.1% to 4.35% after 35% interest rebate in accordance with American Recovery Reinvestment Act of 2009.

During the fiscal years ended May 31, 2010 and May 31, 2011, the amounts of principal and interest paid were \$2,513,371 and \$4,317,964 respectively.

**Cash Available for Coverage:**

One indicator of the Water Authority's financial strength and future borrowing capability is its debt coverage ratio, which was 1.41 times for fiscal year ended May 31, 2011 as shown below.

Operating Income	\$ 4,306,606
Add:	
Depreciation	1,051,110
Interest and Other Income	<u>885,727</u>
Total Cash Available for Coverage	6,243,443
<b>Debt Service Requirements:</b>	
Interest Payments	2,903,783
Principal Payments	<u>1,525,000</u>
Total Debt Service Requirements	<u>\$ 4,428,783</u>

Coverage Ratio	1.41
Coverage Requirement as per Water System Revenue Bonds, Series 2010 and 2005	1.20

In February 2010, the Water Authority was given a rating of “A3” on its Series 2010 Water System Revenue Bonds by Moody’s Investor Service. In April, 2010, the Water Authority received rating of “AA-” from Fitch Ratings.

The Water Authority’s cash flows from operations increased by \$2,311,032, from \$2,733,030 in 2010 to \$5,044,062 in 2011. The increase in operating income from additional sales revenue was the reason for the increase in cash flows from operations. The amount of \$9,684,670 was expended for the acquisition of capital assets and payment of related debt service charges.

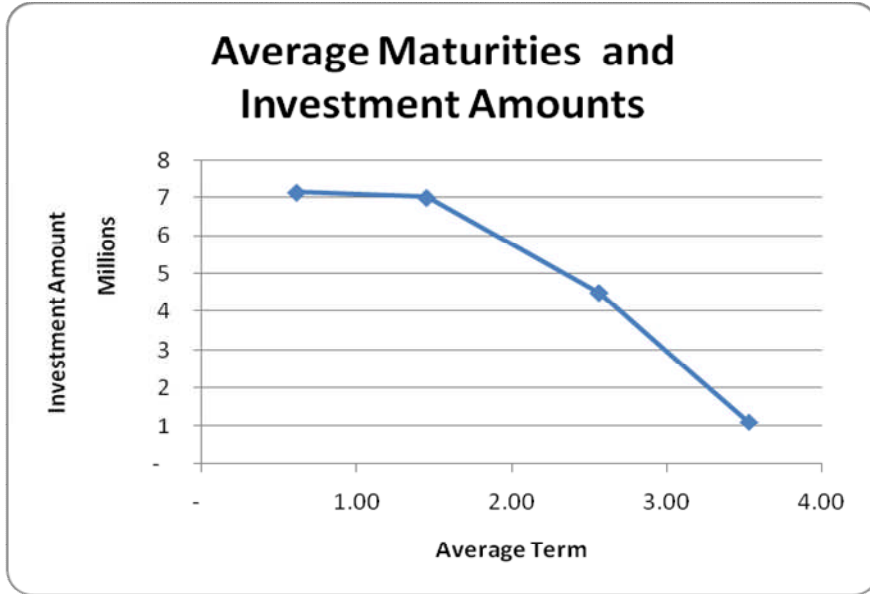
For more detailed information on long-term debt activity, please refer to the financial statements Note 5 – Revenue Bonds Payable.

#### RESTRICTED INVESTMENTS

In 2010, the Water Authority had invested \$36,231,311 in fixed income governmental securities. In 2011, the amount of investment was reduced by \$16,311,821, to provide ready access to cash and cash equivalents for the acquisition of capital assets. The Water Authority maintains the amounts required for the Reserve Funds and those held for construction purposes in cash and cash equivalents and investment accounts.

As of May 31, 2011, \$19,919,490 (57%) of the total proceeds of the Series 2010 Bonds Revenue Bonds, including \$19,731,412 of fair value and \$188,078 of accrued interest, was invested in US Treasury Notes with Bank of New York Mellon as the custodian. The amounts and the weighted average terms of the investments were as follows:

Maturity date		Fair Value	Percent of Total	Weighted Average Term
From	To			
6/01/2011	5/31/2012	\$ 7,135,893	36%	0.61
6/01/2012	5/31/2013	7,000,703	35%	1.45
6/01/2013	5/30/2014	4,496,237	23%	2.56
5/16/2014	2/15/2015	1,098,579	6%	3.53
		<u>\$ 19,731,412</u>	<u>100%</u>	<u>1.52</u>



The Water Authority's investment strategy is designed to eliminate the default risk and to maximize interest income by matching the maturities of the investments with the cash requirements of construction activities. The strategy minimizes the risk of having to liquidate the investment to pay construction under unfavorable market interest conditions. All of the Water Authority's investments are in the US Treasury notes with maturities of less than five years and the overall weighted average maturity term of 1.5 years. The weighted average coupon rate of total investment was 4.23%, as of May 31, 2011.

#### **ACTUAL AS COMPARED TO PLANNED**

As required by its bylaws, the Water Authority annually adopts an operating plan. The plan remains in effect for the entire year and may be revised as necessary by the Board of Directors. Water service revenues are projected based on average historical usage. This year's operating revenues were approximately 3.6% higher than planned due to greater than expected revenue from water usage by metered customers slightly offset by less than expected other revenues. Actual operating expenses were approximately 3.8% lower resulting from less than planned operation expenses offset by greater than expected maintenance expenses.

The Operating Plan as compared to the actual revenues and expenses for the year ended May 31, 2011 is summarized in the table on the next page.

	12 Months Ended May 31, 2011		
	Actual	Operating Plan	Increase (Decrease)
<b>Operating Revenues:</b>			
Residential	\$ 9,382,910	\$ 8,756,400	\$ 626,510
Commercial	1,834,695	1,924,710	(90,015)
Municipal Hydrant Rentals	1,826,432	1,825,590	842
Commercial Fire Sprinklers	<u>93,737</u>	<u>89,440</u>	<u>4,297</u>
Total Water Sales	13,137,774	12,596,140	541,634
Late Payment Charge	39,938	-	39,938
Other water revenue	<u>23,367</u>	<u>150,000</u>	<u>(126,633)</u>
Total Operating Revenues	13,201,079	12,746,140	454,939
<b>Operating Expenses:</b>			
Operations	5,972,061	6,288,910	(316,849)
Maintenance	1,871,302	1,830,630	40,672
Depreciation	<u>1,051,110</u>	<u>1,126,900</u>	<u>(75,790)</u>
Total Operating Expenses	<u>8,894,473</u>	<u>9,246,440</u>	<u>(351,967)</u>
<b>Operating Margin</b>	4,306,606	3,499,700	806,906
<b>Other Income:</b>			
Interest and other Income	<u>885,727</u>	<u>1,636,600</u>	<u>(750,873)</u>
Total Other Income	<u>885,727</u>	<u>1,636,600</u>	<u>(750,873)</u>
Income Before Interest Charges	5,192,333	5,136,300	56,033
<b>Interest Charges:</b>			
Interest on long-term debt	2,903,783	3,036,300	(132,517)
Other amortization, net	<u>24,492</u>	<u>84,500</u>	<u>(60,008)</u>
Total Interest Charges	2,928,275	3,120,800	(192,525)
<b>Extraordinary Items</b>	<u>11,466</u>	<u>-</u>	<u>11,466</u>
<b>Surplus (Deficit)</b>	<u>\$ 2,275,524</u>	<u>\$ 2,015,500</u>	<u>\$ 260,024</u>

#### ECONOMIC FACTORS AND NEXT YEAR'S PLAN AND RATES

The Water Authority's Board of Directors and management considered many factors when setting the fiscal year 2011 plan, user fees and charges. The Water Authority's service area population is approximately 120,000. The Water Authority presently has over 28,000 accounts in western Nassau County, of which about 94% are residential. Commercial and fire protection constitute most of the remainder. The Water Authority's customer base has mirrored Nassau County's population. According to the 2010 Census, Nassau County's population was 1,339,532. That was a 0.4% increase from the 1,334,546 residents in 2000. The population breakdown by towns within Nassau County for 2010 and 2000 is as follows:

NASSAU COUNTY	2010 (a)	2000 (b)
Town of North Hempstead	221,315	220,491
Town of Hempstead	759,185	756,360
City of Long Beach	35,615	35,482
Town of Oyster Bay	296,680	295,576
City of Glen Cove	26,737	26,637
<b>TOTAL NASSAU COUNTY</b>	<b>1,339,532</b>	<b>1,334,546</b>

a. Source: 2010 United States Census

b. Source: 2000 United States Census

Several indicators including unemployment rates in Nassau County and changes in the consumer price index for the New York – Northern New Jersey – Long Island area were considered by the Water Authority’s management in developing the operating plan of the Water Authority for the fiscal year ended May 31, 2012.

The unemployment rate in Nassau County has continued to be lower than national and State of New York averages. The average unemployment rates in the County of Nassau increased from 4.7% to 7.1% from December 2008 to June 2011. The unemployment rate in Nassau and Suffolk remained below the rates in the City of New York, State of New York and the United States as a whole. The unemployment rates for the City of New York, State of New York and United States as a whole were 8.7%, 8.0%, and 9.2% respectively in June 2011 as compared to 9.5%, 8.6% and 9.5% in June 2010. The inflation rate, as measured by the percentage change in Consumer Price Index for All Urban Consumers (“CPI-U”) from June 2010 to June 2011, was consistent with the national average in the New York – Northern New Jersey – Long Island area. The annualized rate of increase in the Consumer Price Index for all items in New York –Northern New Jersey – Long Island was 3.2% as contrasted to 3.6% in the U.S. for June 2011.

In June 2011, the CPI-U declined at a 0.2% seasonally adjusted annual rate (SAAR). This compares with an increase of 3.6% over last 12 months. The index for energy, which increased 20.1% over last 12 months, decreased at a 4.4% SAAR in June 2011. The food index has increased at a 0.2% rate in June 2011, following a 3.7% rise over last 12 months. Excluding food and energy, the CPI-U advanced at a 0.3% SAAR in June 2011, as compared to an increase of 1.6% over last 12 months.

The Water Authority has adopted its operating and capital plans for the fiscal year ending May 31, 2012. The operating revenues are estimated to be \$13,162,000. The operating expenses for the fiscal year ending May 31, 2012 are planned at \$9,345,510. Non-operating revenues and expenses are planned to be \$1,277,000 and \$3,120,300 respectively. The increase in net assets is estimated to be \$1,973,190.

Capital expenditures are planned to be \$14,292,000. The projects in the planned capital expenditures include the continued construction of the Water Authority’s new headquarters building and the construction of two iron removal plants.

## **CONTACTING THE WATER AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide readers with a general overview of the Water Authority's finances and to show the Water Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Water Authority's Superintendent at 58 South Tyson Avenue, Floral Park, New York, 11001.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENT OF NET ASSETS**  
**MAY 31,**

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,411,292	\$ 2,798,391
Accounts receivable:		
Billed, net of \$25,000 allowance for doubtful accounts	414,560	466,695
Unbilled	1,797,000	1,640,000
Prepayments and other current assets	212,774	150,335
Materials and supplies, at weighted average cost	224,152	247,821
Total current assets	5,059,778	5,303,242
Noncurrent assets:		
Restricted cash and cash equivalents		
Rate stabilization fund	460,000	445,000
Bond construction fund	12,281,932	625,420
Bond reserve fund	3,474,194	2,454,876
Bond payment fund	237,995	3,113
Customer deposits	911,551	881,758
Restricted investments held by trustees		
Bond construction fund	16,668,826	32,165,352
Bond reserve fund	3,250,664	4,065,959
Bond payment fund	-	-
Capital assets		
Non-depreciable	5,503,854	3,987,116
Depreciable	39,296,753	36,249,396
Other assets		
Unamortized bond issue cost	950,421	960,588
Other assets	540,770	488,196
Total noncurrent assets	83,576,960	82,326,774
<b>Total assets</b>	<b>\$ 88,636,738</b>	<b>\$ 87,630,016</b>

The accompanying notes to the financial statements are an integral part of these statements.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENT OF NET ASSETS**  
**MAY 31,**  
**(continued)**

	<u>2011</u>	<u>2010</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,005,436	\$ 1,884,050
Deferred revenue	769,251	858,985
Accrued interest payable	393,897	332,935
Water revenue bond payable	1,505,000	1,525,000
Due to employee retirement system	148,475	71,200
Accrued vacation and sick leave	<u>40,000</u>	<u>40,000</u>
 Total current liabilities	 4,862,059	 4,712,170
Noncurrent liabilities:		
Water revenue bonds payable	65,778,934	67,302,339
Unamortized premium on revenue bonds	1,529,683	1,483,588
Customer deposits	972,116	942,205
Other post employment benefits	1,152,955	945,547
Accrued vacation and sick leave	<u>771,900</u>	<u>950,600</u>
 Total noncurrent liabilities	 <u>70,205,588</u>	 <u>71,624,279</u>
 <b>Total liabilities</b>	 <b>75,067,647</b>	 <b>76,336,449</b>
 <b>Net Assets</b>		
Invested in capital, net of related debt	12,856,185	10,206,074
Restricted for rate stabilization	460,000	445,000
Unrestricted	<u>252,906</u>	<u>642,493</u>
 Total net assets	 <u>13,569,091</u>	 <u>11,293,567</u>
 <b>Total Liabilities and Net Assets</b>	 <b>\$ <u>88,636,738</u></b>	 <b>\$ <u>87,630,016</u></b>

The accompanying notes to the financial statements are an integral part of these statements.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEARS ENDED MAY 31,**

<b>Operating revenues:</b>	<b>2011</b>	<b>2010</b>
Residential	\$ 9,382,910	\$ 7,710,810
Commercial	1,834,695	1,422,537
Fire protection	1,920,169	1,786,241
Other water revenues	63,305	52,994
	<hr/>	<hr/>
Total operating revenues	13,201,079	10,972,582
<b>Operating expenses:</b>		
Operations	5,972,061	5,920,498
Maintenance	1,871,302	1,869,872
Depreciation	1,051,110	953,313
	<hr/>	<hr/>
Total operating expenses	8,894,473	8,743,683
	<hr/>	<hr/>
<b>Operating income</b>	4,306,606	2,228,899
<b>Non-operating revenues (expenses):</b>		
Interest income	536,218	247,009
Miscellaneous income, net	349,509	346,336
Interest on long-term debt, net	(2,853,926)	(1,656,025)
Other amortization, net	(74,349)	(75,182)
	<hr/>	<hr/>
Net non-operating expenses	(2,042,548)	(1,137,862)
	<hr/>	<hr/>
<b>Change in net assets before extraordinary items</b>	2,264,058	1,091,037
Litigation settlement	11,466	214,378
	<hr/>	<hr/>
Net change in total net assets	2,275,524	1,305,415
Net assets - beginning	11,293,567	9,988,152
	<hr/>	<hr/>
<b>Total net assets - ending</b>	\$ 13,569,091	\$ 11,293,567

The accompanying notes to the financial statements are an integral part of these statements.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED MAY 31,**

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 13,096,214	\$ 10,750,611
Payments to suppliers for goods or services	(4,037,161)	(4,285,860)
Payments for employee services	(4,014,991)	(3,731,721)
Litigation settlement revenues	11,466	214,377
	<u>5,055,528</u>	<u>2,947,407</u>
<b>Cash flows from capital and related financing activities:</b>		
Repayment of water revenue bonds	(1,525,000)	(1,070,000)
Acquisition of capital assets	(5,354,706)	(5,371,557)
Issuance of revenue bonds	-	40,996,876
Bond issue costs	(12,000)	(499,082)
Interest paid on water revenue bonds	(2,792,964)	(1,443,371)
	<u>(9,684,670)</u>	<u>32,612,866</u>
Net cash provided (used) by investing activities		
	-	-
<b>Cash flows from non-capital financing activities:</b>		
<b>Cash flows from investing and other non-operating activities:</b>		
Decrease (ncrease) of fixed income securities	16,311,821	(33,335,095)
Rental property revenues	349,509	346,336
Interest and dividends received	536,218	211,353
	<u>17,197,548</u>	<u>(32,777,406)</u>
Net cash provided in financing activities		
	12,568,406	2,782,867
Net increase in cash and cash equivalents		
Cash and equivalents, beginning of year	7,208,558	4,425,691
	<u>\$ 19,776,964</u>	<u>\$ 7,208,558</u>
<b>Cash and equivalents, end of year</b>		

The accompanying notes to the financial statements are an integral part of these statements.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED MAY 31,**  
**(continued)**

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 4,306,606	\$ 2,228,899
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,051,110	953,313
Litigation settlement revenue	11,466	214,377
Changes in operating assets and liabilities:		
Accounts receivable	52,135	(74,571)
Accrued unbilled revenue	(157,000)	(189,000)
Prepaid expenses and other assets	(62,439)	(11,813)
Inventory of materials and supplies	23,669	19,601
Other assets	(77,065)	87,247
Accounts payable and accrued expenses	(139,114)	(784,085)
Deferred revenues	(89,734)	41,598
Due to employee retirement system	77,275	28,588
Customer deposits	29,911	(15,684)
Other post employment benefits	207,408	198,437
Compensated absences	(178,700)	250,500
<b>Net cash provided by operating activities</b>	<b>\$ <u>5,055,528</u></b>	<b>\$ <u>2,947,407</u></b>

Non-cash transactions: None.

The accompanying notes to the financial statements are an integral part of these statements.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED MAY 31, 2011**

**NOTE 1 – ORGANIZATION**

The Water Authority of Western Nassau County (“the Water Authority”) was established on July 25, 1990, pursuant to the “Water Authority of Western Nassau County Act,” of the State of New York, as amended on July 31, 1992 and codified under Title 8-C of Article 5 of the Public Authorities Law. As a governmental agency constituting a public benefit corporation, the Water Authority was created for the purpose of acquiring, constructing, maintaining and operating a water supply and distribution system within the territorial boundaries of the Water Authority of Western Nassau County District (“the District”).

On May 28, 1996, the Water Authority, by exercise of the power of eminent domain, acquired the water supply and distribution system situated in the District previously owned by Jamaica Water Supply Company. The District serves a population of approximately 120,000 within the Town of Hempstead and the Town of North Hempstead. The Town of Hempstead component includes the incorporated villages of Bellerose, Floral Park, New Hyde Park, South Floral Park, Stewart Manor and portions of Garden City and Valley Stream. The area within the Town of Hempstead also includes the unincorporated areas of Bellerose Terrace, Elmont and portions of Franklin Square and North Valley Stream. The area within the Town of North Hempstead includes the unincorporated areas of Floral Park, Floral Park Centre and New Hyde Park.

The Water Authority is governed by a Board of Directors consisting of nine members who are accountable to their constituents for their actions. The town board of the Town of Hempstead appoints two members and the town board of the Town of North Hempstead appoints one member to the Board. The village boards of the Villages of Bellerose, Floral Park, Garden City, New Hyde Park, South Floral Park and Stewart Manor each appoint a single member to the Board. Each member serves for a period of two years. The number of votes of each Board member is proportional to the number of water customers in the town or village that appoints them.

Under the Government Accounting Standards Board (“GASB”) Statement No. 14, The Financial Reporting Entity, and Statement No. 39, Determining Whether Certain Organizations Are Component Units, the Water Authority is classified as a primary government agency with no component units. The classification is based on the following criteria: (1) it has a separately appointed governing body; (2) pursuant to its charter, the Water Authority is a legally separate and distinct entity from the State of New York, the County of Nassau and the Towns and Villages that appoint its Board of Directors and (3) neither the State of New York nor any of its municipal entities are financially accountable or liable for the indebtedness of the Water Authority. The Water Authority determines its operating plan, sets rates and issues bonded debt without approval by another government entity.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

The financial statements of the Water Authority have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Water Authority applies all applicable pronouncements of GASB as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of Financial Accounting Standards Board (“FASB”), Opinions of the Accounting Principles Board and the Accounting Research Bulletins of the Committee on Accounting Procedure of the American Institute of Certified Public Accountants. In accordance with GASB Statement No. 20, the Water Authority has elected not to apply FASB pronouncements issued after November 30, 1989 and exclusively applies GASB Statements and Interpretations.

The activities of the Water Authority are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. The flow of economic resources refers to the reporting of all the net assets available to the Water Authority for the purposes of providing related water services. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) and associated activities are reported and equity is reported as net assets.

Basis of accounting refers to when revenues, expenses, transfers and the related assets and liabilities are recognized and reported in the financial statements. Specifically, it relates to the timing of the measurements made regardless of the nature of the measurement.

The Water Authority uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred. Proprietary-type accounting also distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing water services and producing potable water for the service area in connection with the Water Authority’s principal ongoing operations. The principal operating revenues of the Water Authority are charges to customers to provide potable water service. Other ancillary fees and services related to providing water are also recognized as operating revenues. Operating expenses include the cost of service, administration and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The Water Authority has adopted the provisions of GASB Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. GASB Statement No. 34 established reporting standards for all state and local governments which include Statements of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows and inclusion of Management’s Discussion and Analysis.

GASB Statement No. 34 requires the classification of net assets into three components as described on the next page.

1. *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds or other borrowings, adjusted for any unexpended proceeds that are attributable to the acquisition, construction, or improvement of those assets.
2. *Restricted* – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

#### *Cash and Cash Equivalents*

For the purpose of the statements of cash flows, the Water Authority considers all highly liquid investments with maturity of three months or less, when purchased, to be cash equivalents. The Statement of Cash Flows presented uses the direct method of reporting cash flows.

Under the Bonds Covenants, the Water Authority maintains its cash and cash equivalents in the Water Revenue Fund, General Fund and Operating Fund. The Water Authority pays into the Water Revenue Fund all of the revenues and all other moneys required to be paid into the fund other than the revenues and other amounts expressly required or permitted to be credited to, or deposited in, any other fund account. Cash in the General Fund may be used for any lawful purpose of the Water Authority. All reasonable and necessary operations and maintenance expenses are paid from the Operating Fund.

#### *Restricted Cash, Cash Equivalents and Investments held by Trustee*

Restricted cash, cash equivalents and investments are held in the following funds:

*Rate Stabilization Fund* – This is a fund maintained by the Water Authority. Money deposited into the Rate Stabilization Fund is used in the following order:

1. To the extent provided in the current operating plan, money should be credited to or transferred to any other fund or account created under resolution.
2. Transferred to the bond fund trustee for deposit in the Bond Fund to ensure that there are no deficiencies in payments to the Bond Fund.
3. Transferred to the bond fund trustee for deposit in the Secondary Bond Fund to ensure that there are no deficiencies in payments to the Secondary Bond Fund.
4. Transferred to Unrestricted – Operating.

The amount of Rate Stabilization Fund cash and cash equivalents was \$460,000 as of May 31, 2011.

*Bond Construction Fund* – In accordance with the bond resolution, money deposited in the Bond Construction Fund from the proceeds of the Water System Revenue Bonds, Series 2005 and Series 2010 are restricted to the cost of improvements or the replacement of the water system. The Bond Construction Fund is to be maintained in trust and held by the fund trustee. The total amount in the Bond

Construction Funds at May 31, 2011 was \$28,950,758 of which \$12,281,932 was in cash and cash equivalents and the balance of \$16,668,826 was invested in fixed income US Treasury Notes.

*Bond Reserve Funds* – Under the Series 2005 and 2010 Resolutions, the Water Authority is required to deposit into the Reserve Accounts, Series 2005, Series 2010A and Series 2010B the lesser of (i) 10% of the proceeds of the Series 2005, Series 2010A and Series 2010B Bonds, (ii) the maximum principal and interest payments due on the Series 2010A Bonds and Series 2010B Bonds in any Fiscal Year, (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2005, Series 2010A and Series 2010B Bonds for the current and all future Fiscal Years, and (iv) the maximum permitted by federal tax law to be funded from bond proceeds.

The Bond Reserve Funds are to be maintained in trust and held by the fund trustee. Amounts in the Reserve Accounts are available to pay debt service when insufficient funds for that purpose are available in the Bond Fund. The deposits in the Reserve Funds that the Water Authority is required to maintain are \$2,500,000, \$692,500 and \$3,340,180 from the proceeds of the Series 2005, Series 2010A and Series 2010B Bonds.

As of May 31, 2011, the total amount of Bond Reserve Funds was \$6,724,858 of which \$3,474,194 was in cash and cash equivalents and \$3,250,664 was invested in fixed income US Treasury Notes.

*Bond Payment Fund* – The Water Authority's bond resolution authorizing the Water System Revenue Bonds, Series 2005, and Series 2010 bond issues has established the Bond Payment Fund. The Bond Fund is to be maintained in trust and held by the fund trustee. The Bond Fund is comprised of two separate fund accounts including the Bond Principal and Interest Fund. All money deposited in the Bond Fund is used solely for the purpose of paying the principal and interest on the bonds. As of May 31, 2011, the amount in the Bond Fund cash and cash equivalents was \$237,995.

*Investment Securities* — Investments are reported at fair value in the financial statements. Fair value is the amount in which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an investment, the fair value is the total number of trading units of the instrument times the market price per unit. All investment income, including changes in fair value of investments is recognized as non-operating revenue in the operating statement.

#### *Accrued Unbilled Revenues*

Accrued unbilled revenues represent revenue earned in the current year but not yet billed to customers until future days, usually within three months, based on the estimated billings occurring in the three months of the succeeding year. Historical trend are used to estimate accrued unbilled revenues.

#### *Accounts Receivable*

Accounts receivable is net of an allowance for doubtful accounts of \$25,000 at May 31, 2011 and 2010. The allowance is estimated based on trends in historical collection rates and write-offs.

### *Prepaid Expenses*

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Statement of Net Assets.

### *Materials and Supplies*

Materials and supplies inventory is valued at weighted average cost, which approximates market.

### *Capital Assets*

Capital assets are defined by the Water Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are carried at cost to the Water Authority. Improvements, renewals purchased or contributed property, replacements of retired units of property and significant repairs inclusive of materials, labor and certain overhead that extend the life of the asset are capitalized while minor repairs and maintenance costs are expensed as incurred.

Depreciation is provided on the straight-line basis using the following estimated useful lives for each asset type:

<u>Capital Asset</u>	<u>Useful Life Years</u>
Distribution system	35 - 105
Wells and standpipes	40 - 60
Pumping and purification	20 - 50
Other property and equipment	5 - 10

When assets are retired or otherwise disposed of, the related assets and accumulated depreciation is written off and any related gains or losses are recorded.

### *Capitalization of Interest during Construction*

The Water Authority capitalizes the interest cost during the construction of capital assets according to Financial Accounting Standards Board's Accounting Standards Codification Paragraphs 835-20-30-10 through 30-12.

The amount of interest cost capitalized for qualifying assets is that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided if expenditures for the assets had not been made. The amount capitalized in an accounting period is determined by applying the capitalization rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period is based on the rates applicable to borrowings outstanding during the period. If the Water Authority's financing plans associate a specific new borrowing with a qualifying asset, the Water Authority uses the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing.

Interest earned is not to be offset against interest cost in determining either capitalization rates or limitations on the amount of interest cost to be capitalized except in situations involving acquisition of

qualifying assets financed with the proceeds of tax-exempt borrowings if those funds are externally restricted to finance acquisition of specified qualifying assets or to service the related debt.

The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted as specified in the preceding paragraph shall be the interest cost of the borrowing less any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings from the date of the borrowing until the assets are ready for their intended use. The interest cost and interest earned on any portion of the proceeds of the tax-exempt borrowings that are not designated for the acquisition of specified qualifying assets and servicing the related debt are excluded.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued in December 2010, has fully incorporated the interest capitalization rules of ASC 835. The requirements of GASB Statement 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

#### *Long-term Obligations*

In the financial statements long-term debt is reported as a liability in the statement of net assets. Long-term debt is reported at face value less any loss on defeasance and plus or minus applicable premium or discount, respectively.

Bond premiums and bond discounts are deferred and amortized over the life of the bonds in relation to principal payment over the life of the issue. The costs related to the issuance of long-term debt and the loss on the early retirement of refunded debt are amortized in relation to principal repayment over the life of the issue.

The amortization expense of bond issuance costs were \$49,857 and \$50,690 and the amortization of bond discount was \$24,492 and \$24,492 for the fiscal years ended May 31, 2011 and 2010, respectively.

#### *Deferred Revenues*

The deferred revenues include advance payments by customers and charges for future repairs. The Board of Directors provides current rates that are intended to recover repair costs for painting tanks in the future and requires the Water Authority to remain accountable for the amounts charged until they are expended. The Water Authority recognizes the amounts charged as liabilities and credits them to revenue only when associated costs are incurred.

#### *Other Postemployment Benefits*

In addition to providing pension benefits, the Water Authority provides health insurance coverage for eligible retired employees. Substantially all the Water Authority's employees may become eligible for these benefits provided the employee has a minimum of ten years full time employment with the Water Authority, has obtained 55 years of age and has terminated employment with the Water Authority within

five years from the date on which entitled to a retirement allowance from the New York State and Local Employees Retirement System.

The Water Authority's Board of Directors adopted a resolution dated September 17, 2002, as amended November 9, 2009, that provides eligible enrollees with post retirement medical insurance coverage, limited to the health insurance programs offered by the Water Authority to its then full-time employees, as modified from time to time by the Board of Directors of the Water Authority.

The Water Authority recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid. The liability for these other postemployment benefits is recorded as a long-term liability in the Statement of Net Assets and is estimated based on the most recent actuarial valuation in accordance with the parameters of GASB Statement No. 45.

#### *Accrued Vacation and Sick Leave*

In the event of termination or upon retirement, employees are entitled to receive accumulated but unused vacation and sick leave at various rates subject to certain maximum limitations pursuant to policies adopted by the Board of Directors.

The liability for vested or accumulated vacation or sick leave (compensated absences) is recorded as current and noncurrent obligations on the Statements of Net Assets. The current portion of this liability is estimated based on historical trends. In the Statements of Revenues, Expenses and Changes in Net Assets only the compensated absence liability payable from available financial resources is incurred.

#### *Retirement Plan*

The Water Authority provides retirement benefits for substantially all of its regular, full-time employees through contributions to the New York State and Local Employees' Retirement System. The system provides various plans and options, and all full-time employees are required to join the plan.

#### *Revenue Recognition*

Revenues from water sales are recognized at the time of service delivery based on actual or estimated water meter readings. Billings for water service are generally rendered on a quarterly basis except for one consumer, which is billed monthly due to the requirements of a legal settlement. The Water Authority's Board of Directors has the power to independently set rates and charges, which are sufficient to meet its obligations, and is not subject to the regulation of any department or commission, including the New York State Public Service Commission.

#### *Operating and Non-operating Revenues and Expenses*

Operating revenues and expenses are related to operating transactions. The operating transactions are those other than capital and related financing activities, noncapital financing activities and investing activities. Operating revenues generally result from sales of water, grants for production and delivery of water, and reimbursement of operating expenses. Operating expenses include depreciation on all fixed assets. Non-operating revenue includes interest earnings on investment assets and miscellaneous income. Non-operating expenditures include interest expense on long-term debt.

*Taxes*

As a Public Benefit Corporation, the Water Authority is exempt from federal and state income taxes, as well as state and local property taxes.

*Use of Estimates*

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

*Operating and Capital Plans*

The Water Authority adopts annual operating and capital plans. Plans are adopted on a basis consistent with generally accepted accounting principles. The current operating plan details the Water Authority's plans to earn and expend funds for charges incurred for operations, maintenance, certain interest and other charges for the fiscal year. The capital plan details the Water Authority's plan to receive and expend capital contribution fees and revenues for improving and expanding capital facilities.

All unexpended or encumbered appropriations in the operating plan remaining at the end of the fiscal year lapse. No appropriations for capital projects in the capital plan lapse until the purpose for which the appropriation was made, has been accomplished or changed.

Management submits a proposed plan to the Water Authority's Board of Directors prior to the commencement of the next fiscal year. A plan is adopted by resolution prior to June 1. During the year, the Board of Directors has to authorize the transfer of planned amounts between line items.

*Reclassification*

Certain items for the year ended May 31, 2010 were reclassified to conform to current year presentation.

**NOTE 3 –CASH, CASH EQUIVALENTS AND INVESTMENTS**

*Cash and Cash Equivalents*

All cash deposits of the Water Authority are required to be insured by the Federal Deposit Insurance Corporation ("FDIC") or to be secured by obligations of, or guaranteed by, the United States of America or of the State of New York of a market value equal at all times to the amount on deposit and all banks and trust companies are authorized to give such security for such deposits. As of May 31, 2011, the carrying amount of the Water Authority's deposits, cash and cash equivalents were as follows:

<b>Unrestricted</b>	
Deposit in banks	\$ 238,979
Money Market Funds	2,171,613
Petty cash	700
	<hr/>
<b>Total unrestricted cash and cash equivalents</b>	<b>\$ 2,411,292</b>
	<hr/> <hr/>

<b>Restricted</b>	
Bank Deposit	\$ 1,371,551
Money Market Funds	<u>15,994,121</u>
<b>Total restricted cash and cash equivalents</b>	<b><u>\$ 17,365,672</u></b>

#### *Demand and Savings Deposits*

*Custodial Credit Risk* - In the case of demand deposits, there is a risk that in the event of a bank failure, the Water Authority's deposits may not be returned. Section 330.15 of the FDIC regulations (12 CFR 330.15) governs the insurance coverage of public unit accounts. All time and saving deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000. Separately, all demand deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$250,000.

The Water Authority's cash accounts are secured by the appropriate amount from the FDIC with all remaining amounts fully pledged collateral at May 31, 2011. All pledged collateral are classified in the highest category by being held in bank trust departments in the Water Authority's name.

*Concentration of Credit Risk* - Credit risk can arise as a result of failure to adequately diversify investments. As of May 31, 2011 and 2010 the Water Authority did not have any cash equivalents subject to credit risk, interest-rate risk or concentration of credit risk.

#### *Investments*

As of May 31, 2011, the fair market value of investments in U.S. Treasury Notes, not including accrued interest, was as follows:

Account	Amount
2010A Reserve	\$ 556,107
2010B Reserve	<u>2,665,928</u>
Total Reserve Funds	3,222,035
2010A Construction	2,834,789
2010B Construction	<u>13,674,588</u>
Total Construction Funds	<u>16,509,377</u>
Total Investments	<u><u>\$19,731,412</u></u>

*Interest Rate Risk* – When investing idle funds, there is the risk that changes in interest rates will adversely affect the fair value of that investment. The Water Authority currently has an investment policy that limits its exposure to fair value losses by establishing maturity timeframes that meet the cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

The Water Authority maintains the amounts required for the Reserve Funds and those held for construction purposes in cash and cash equivalents and investment accounts. As of May 31, 2011, the Water Authority's investment was all in US Treasury notes held by the Bank of New York Mellon as the trustee and custodian. The US Treasury Notes had maturities of less than five years, overall weighted average maturity of 1.5 years and the weighted average coupon rate of 4.23%.

*Credit Risk* – There is also the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Any moneys of the Water Authority not required for immediate use or disbursement may, at the discretion of the Water Authority, be invested in those obligations specified pursuant to the provisions of Section 98(a) of the State Finance Law and the Bond Resolution with respect to the Water Authority's Water System Revenue Bonds, Series 2010 and 2005 Bonds.

Pursuant to the Bond Resolution, the Water Authority may only invest moneys on deposit in various funds established under the resolution in certain investment securities. In addition, and in accordance with the requirements of the State of New York Public Authorities Law, the Water Authority has adopted comprehensive investment guidelines which govern the investment of all moneys of the Water Authority. These guidelines provide that moneys on deposit with the Water Authority may only be invested in:

1. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America ("USA").
2. Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the USA or any other corporation wholly owned by the USA.
3. Public housing bonds or preliminary, temporary or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions, under an annual contributions contract, or contracts with the USA or any federal agency.
4. Direct and general obligations of any State or political subdivision of State, as to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged and at the time of their purchase, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies.
5. Bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company which is a member of the FDIC.
6. Obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the USA or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies.
7. Certificates or other obligations of the USA or any state, political subdivision, agency or instrumentality of the USA or any state or political subdivision. It is required that such obligations shall be held in trust by a bank or trust company or a national banking association

meeting the requirements for a Bond Fund Trustee under the Bond Resolution. Certificates or other obligations of a state or political subdivision, the payments of all principal of, and interest on such certificates or such obligations, shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, L.P. ("Moody's") and either Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch"), or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's and either S&P or Fitch.

8. Written investment agreements, rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies, and if rated by Moody's, S&P or Fitch, such investment agreements or the long-term unsecured debt obligations of the insurer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.
9. Money market funds registered under the Investment Company Act of 1940, as amended, the investment portfolios of which are comprised solely of investments in obligations described in items 1, 2 and 3 above, and which money market funds are rated in one of the two highest rating categories by the respective agency rating such money market funds.

In addition, there is the risk of loss attributed to the magnitude of the Water Authority's investment in a single issuer. Given the relative safety of those investment instruments that the Water Authority can purchase, the policies of the Water Authority do not place a limit on the amount that may be invested in any one issuer. As of May 31, 2011, the Water Authority's investment was all in the credit risk free US Treasury notes.

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. The Water Authority's investments are held by the Bank of New York Mellon as the trustee and custodian.

#### NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

As of May 31, 2011 and 2010, the cost and the accumulated depreciation of the property, plant and equipment were as follows:

	<u>2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>2011</u>
Capital assets not subject to depreciation:				
Land and land rights	\$ 167,708	\$ -	\$ -	\$ 167,708
Construction in progress	<u>3,819,408</u>	<u>5,615,206</u>	<u>(4,098,468)</u>	<u>5,336,146</u>
Total capital assets not being depreciated	3,987,116	5,615,206	(4,098,468)	5,503,854
Capital assets in service being depreciated:				
Wells and standpipes	2,628,253	25,801	-	2,654,054
Pumping and purification	10,749,013	326,224	-	11,075,237
Distribution system	30,714,576	3,733,575	(441,313)	34,006,838
Building, vehicles and equipment	<u>2,262,970</u>	<u>12,868</u>	<u>(21,867)</u>	<u>2,253,971</u>
Total capital assets being depreciated	46,354,812	4,098,468	(463,180)	49,990,100
Less accumulated depreciation for:				
Wells and standpipes	(856,251)	(63,407)	-	(919,658)
Pumping and purification	(3,505,106)	(301,698)	-	(3,806,804)
Distribution system	(3,590,989)	(659,906)	441,313	(3,809,582)
Building, vehicles and equipment	<u>(2,153,070)</u>	<u>(26,100)</u>	<u>21,867</u>	<u>(2,157,303)</u>
Total accumulated depreciation	<u>(10,105,416)</u>	<u>(1,051,111)</u>	<u>463,180</u>	<u>(10,693,347)</u>
Total net capital assets being depreciated	<u>36,249,396</u>	<u>3,047,357</u>	<u>-</u>	<u>39,296,753</u>
Total net capital assets	<u>\$ 40,236,512</u>	<u>\$ 8,662,563</u>	<u>(4,098,468)</u>	<u>\$ 44,800,607</u>

As of May 31, 2011, the amount of capitalized interest included in contraction in progress is \$237,157.

#### NOTE 5 – REVENUE BONDS PAYABLE

On August 4, 2005 the Water Authority issued \$33,065,000 Water System Revenue Bonds, Series 2005 in part to provide sufficient funds to affect the advanced refunding of 1996 Series bonds. The interest on the refunding bonds ranges from 2.84% to 5.30% (average interest of 3.7%) and the bonds were issued at a premium of \$1,642,140. The \$28,155,000 remaining balance of the Water Authority's outstanding

Series 1996A bonds had interest rates ranging from 5.65% to 6.43% (average interest of 5.6%). Simultaneously with the issuance of the Series 2005 Bonds, \$28,758,320, the amount of \$27,900,000 from the proceeds of the sale of the Series 2005 Bonds together with other available moneys, were used to purchase non-callable direct obligations of the USA. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the May 1, 2006, redemption of the bonds, at a redemption price of 102% plus accrued interest. As a result, \$28,225,000 of Series 1996A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The bond issuance costs of \$512,778 were paid from bond proceeds. The unamortized bond issue costs and discount on Series 1996A bonds were \$646,742 and \$593,990, respectively.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$2,230,412. The Water Authority completed the refunding to reduce its total debt service payments over the next 30 years to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,314,315.

On April 15, 2010, the Water Authority issued its Series 2010 Revenue Bonds. The Series 2010 Revenue Bonds include the Water System Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), with aggregate principal balance of \$6,925,000, and Water System Revenue Bonds, Series 2010B (the "Series 2010B Bonds"), federally taxable, Build America Bonds, with aggregate principal balance of \$33,965,000. The Bonds were issued pursuant to the water system revenue bonds General Resolution adopted by the Water Authority on May 13, 1996 and the supplemental Series 2010 Resolution adopted on January 25, 2010. The Series 2010 Bonds are the third and fourth Series of Bonds (as that term is defined herein) to be issued under the General Resolution.

The Series 2010A Bonds were issued to finance costs of acquisition, improvements and additions to the water system, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010A Bonds. The Series 2010B Bonds were issued to finance the cost of acquisition, improvements and additions to the water system, including the construction of the Water Authority's headquarters, to fund a deposit to the Reserve Account, and to pay certain costs of issuance relating to the Series 2010B Bonds. The Series 2010 Bonds, which are issued as Senior Lien Bonds, are the third and fourth Series of Bonds issued under the General Resolution. The Series 2010 Bonds are payable as to both interest and principal solely from the net revenues on a parity with other outstanding Bonds.

The General Resolution requires the Water Authority to establish rates and other charges for the water that will be sufficient in each fiscal year to produce revenues (with deposits from Rate Stabilization Fund) that will be at least equal to: (i) the fiscal year's debt service and reserve fund replenishment obligations, operation and maintenance expenses (including amounts to be deposited to the Rate Stabilization Fund), and any other charges or liens; (ii) 1.20 times the debt service for such Fiscal Year.

The Water Authority has elected to treat the Series 2010B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the US Treasury in connection therewith. Pursuant to the Recovery Act, the Water Authority is entitled to receive cash subsidy payments rebating a portion of the interest on the Build America Bonds from the US Treasury equal to 35% of the interest payable on the Series 2010B Bonds. The Water Authority will use this subsidy exclusively to pay interest on the Series 2010B Bonds.

The Series 2010A Bonds are not subject to redemption prior to maturity. The Series 2010B Bonds are subject to Make-Whole and Extraordinary Redemption at the option of the Water Authority.

#### *Make-whole Redemption*

The Series 2010B Bonds are subject to redemption, in whole or in part, prior to their stated maturities, on any date. The redemption price is equal to the greater of:

- (i) 100% of the principal amount of such Series 2010B Bonds to be redeemed, plus accrued and unpaid interest, or
- (ii) The sum of the present values of the remaining scheduled payments of principal and interest discounted to the date of redemption at the Treasury Rate plus 30 basis points. "Treasury Rate" is the yield to maturity of the Treasury Issue, with equivalent maturity.

#### *Extraordinary Redemption*

The Series 2010B Bonds are subject to redemption prior to maturity at the option of the Water Authority, in whole or in part, on any date following the occurrence of an "Extraordinary Event", at redemption price equal to the greater of:

- (i) 100% of the principal amount of such Series 2010B Bonds to be redeemed, plus accrued and unpaid interest, or
- (ii) The sum of the present values of the remaining scheduled payments of principal and interest on such Series 2010B Bonds to be redeemed discounted to the date of redemption on a semiannual basis at the Treasury Rate plus 100 basis points.

An "Extraordinary Event" occurs if the 35% cash subsidy payment from the US Treasury to the Water Authority is reduced or eliminated as a result of change in provisions of Internal Revenue Code of 1986 pertaining to Build America Bonds or determination by the Internal Revenue Service or the US Treasury that the Bonds do not qualify to receive the subsidy.

The Series 2010B Bonds maturing on April 1, 2025, 2030 and 2040 are subject to mandatory redemption prior to their stated maturity in part on each April 1 on and after April 1, 2021, 2026 and 2031, respectively. The Bonds will be redeemed from moneys required to be credited to the Bond Retirement Account in the Bond Fund at a redemption price equal to the principal amount to be redeemed, together with interest accrued on such principal amount to the date fixed for redemption.

A summary of changes in Revenue Bonds Payable for the year ended May 31, 2011 is as follows:

	<u>May 31, 2010</u>	<u>Addition</u>	<u>Reduction</u>	<u>May 31, 2011</u>	<u>Due in one year</u>	<u>Noncurrent portion</u>
Water System Revenue Bonds payable	\$ 70,690,000	\$ -	(1,525,000)	\$ 69,165,000	\$ 1,505,000	\$ 67,660,000
Adjustment for deferred amounts:						
Deferred loss on Series 1996 Bonds	(1,969,398)	-	88,332	(1,881,066)	-	(1,881,066)
Unamortized premium on 2005 Series	1,483,589	-	(53,665)	1,429,924	-	1,429,924
Unamortized premium on Series 2010A	106,736	-	(6,977)	99,759	-	99,759
<b>Total Revenue Bonds</b>	<u>\$ 70,310,927</u>	<u>\$ -</u>	<u>(1,497,310)</u>	<u>\$ 68,813,617</u>	<u>\$ 1,505,000</u>	<u>\$ 67,308,617</u>

The Bond Resolution requires that net revenues equal at least 1.20 times the debt service for such fiscal year. The outstanding Water System Revenue Bonds at May 31, 2011 consist of the following:

Bond	Maturity Date	Interest Rate	Average Interest Rate	Original Principal	Outstanding Principal
Water System Revenue Bonds, Series 2005:					
Serial Bonds	2008-2010	3.00-5.00%	3.70%	\$27,900,000	\$23,530,000
Term Bonds	2016	5.00%	5.00%	2,015,000	2,015,000
Term Bonds	2026	5.00%	5.00%	3,150,000	3,150,000
Total Series 2005				\$33,065,000	\$28,695,000
Water System Revenue Bonds, Series 2010:					
Series A Bond					
Unissued Serial Bond	2011-2012	2.00-3.00%	2.64%	\$ 785,000	\$ 365,000
Serial Bond	2013-2020	3.00-4.00%	3.80%	6,140,000	6,140,000
Series B Bond					
Term Bond	2025	6.01%	6.01%	6,090,000	6,090,000
Term Bond	2030	6.45%	6.45%	7,420,000	7,420,000
Term Bond	2040	6.70%	6.70%	20,455,000	20,455,000
Total Series 2010				\$40,890,000	\$40,470,000
Total				\$73,955,000	\$69,165,000

At May 31, 2011, debt service requirements to maturity for the Bond Series 2010 and 2005 were as follows:

#### SERIES 2005 BONDS

Date	Principal	Interest	Total
2012	1,140,000	1,370,456	2,510,456
2013	1,180,000	1,330,556	2,510,556
2014	1,225,000	1,289,256	2,514,256
2015	1,265,000	1,244,850	2,509,850
2016-2020	7,285,000	5,277,750	12,562,750
2021-2025	9,290,000	3,266,500	12,556,500
2026-2030	4,160,000	1,253,250	5,413,250
2031-2035	3,150,000	487,500	3,637,500
Total	\$28,695,000	\$15,520,118	\$44,215,118

#### SERIES 2010A BONDS

Date	Principal	Interest	Total
2012	365,000	238,313	603,313
2013	370,000	227,363	597,363
2014	370,000	216,263	586,263
2015	375,000	205,163	580,163
2016-2020	5,025,000	608,500	5,633,500
Total	\$ 6,505,000	\$ 1,495,602	\$ 8,000,602

SERIES 2010B BONDS

Date	Principal	Interest	Gross Subsidy	Net Interest	Gross	Net
2012	-	2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2013	-	2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2014	-	2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2015	-	2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2016-2020	-	11,075,900	(3,876,565)	7,199,335	11,075,900	7,199,335
2021-2025	6,090,000	10,372,781	(3,630,473)	6,742,308	16,462,781	12,832,308
2026-2030	7,420,000	8,329,114	(2,915,190)	5,413,924	15,749,114	12,833,924
2031-2035	9,140,000	5,680,438	(1,988,153)	3,692,285	14,820,438	12,832,285
2036-2040	11,315,000	2,338,984	(818,644)	1,520,340	13,653,984	12,835,340
<b>Total</b>	<b>\$ 33,965,000</b>	<b>\$ 46,657,937</b>	<b>\$ (16,330,277)</b>	<b>\$ 30,327,660</b>	<b>\$ 80,622,937</b>	<b>\$ 64,292,660</b>

**NOTE 6 – OTHER LONG-TERM LIABILITIES**

Changes in long-term liabilities, other than the Bonds, were as follows:

	May 31, 2010	Addition	Reduction	May 31, 2011	Due in 1- year	Noncurrent Liability
Accrued vacation and sick leave	\$990,600	-	\$(178,700)	\$811,900	\$40,000	\$771,900

**NOTE 7 – EMPLOYEE BENEFITS**

*Plan Description*

The Water Authority participates in the New York State and Local Employees' Retirement System ("ERS"), a cost-sharing multiple-employer defined benefit retirement system. The ERS 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 ERS.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds. The ERS 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 Water Authority's employees participate in the ERS. Tier levels are dependent on date of hire and prior public service with a participating ERS agency. No contributions are required of tier-1 employees while tier-4 employees are required to contribute 3% of their gross earnings toward retirement benefits until they have accumulated ten years of credited service. A new Tier 5 was added on January 1, 2010 which requires a 3% contribution for the employees' entire employment. These contributions are

considered a reduction of taxable wages for federal income tax purposes. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The Water Authority is required to contribute at an actuarially determined rate. The required contributions for the current year and the two preceding years were:

Year	Contribution Amount
2011	\$ 452,300
2010	\$ 306,700
2009	\$ 354,260

The Water Authority's contributions made to the System were equal to 100% of the amount required.

#### *Retiree Benefits*

The Water Authority's Board of Directors has amended a resolution for postretirement benefits. The Water Authority has been self-funding retiree benefits and as of May 31, 2011 has deferred a liability in the amount of \$1,152,955.

#### *Accrued Vacation and Sick Leave*

The Water Authority employees earn vacation leave each month at a scheduled rate in accordance with the years of service and sick leave at the rate of one day per month. The maximum accumulated sick leave is 60 days. Accumulated unpaid vacation and sick leave amounts are accrued as earned. On May 31, 2011 the liability for accrued vacation and sick days was \$811,900.

### **NOTE 8 – NET ASSETS**

Net assets represent the difference between assets and liabilities. The net asset amounts were:

	2011	2010
<b>Invested in capital assets net of related debt:</b>		
Capital assets, net of accumulated depreciation	\$ 44,800,607	\$ 40,236,512
Less: related debt		
Revenue bonds payable	(69,165,000)	(70,690,000)
Bond premium	(1,529,683)	(1,590,325)
Loss on defeasance of 1996 Bonds	1,881,066	1,969,398
Unspent debt proceeds in construction and reserve funds	35,918,774	39,319,901
Bond issue costs	950,421	960,588
Total invested in capital assets net of related debt	12,856,185	10,206,074
<b>Restricted for capital activity and debt service:</b>		
Restricted cash and equivalents	1,371,551	1,326,758
Deductions:		
Customer deposits	(911,551)	(881,758)
Total restricted for capital activity and debt service	460,000	445,000
Unrestricted	252,906	642,493
<b>Total net assets</b>	<b>\$ 13,569,091</b>	<b>\$ 11,293,567</b>

## NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, similar to 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. Since adopting the requirements of GASB Statement No. 45 during the year ended May 31, 2009, the Water Authority recognized the cost of postemployment healthcare in the year when the employee services were received, reported the accumulated liability from prior years, and provided information useful in assessing potential demands on the Water Authority's future cash flows. Recognition of the liability accumulated from prior periods was phased in over 30 years, commencing with the 2009 liability.

### *Plan Description*

Postemployment health insurance coverage is afforded under single employer defined benefit plan to the Water Authority's retired employees and their dependents in accordance with the provisions of a resolution adopted by the Water Authority's Board of Directors on September 17, 2002 and as amended November 9, 2009. Substantially all Water Authority employees may become eligible for these benefits provided the employee has a minimum of ten years full-time employment with the Water Authority, has obtained 55 years of age and has terminated employment with the Water Authority within five years from the date on which entitled to a retirement allowance from the ERS.

The Board adopted resolution and amended resolution provides eligible enrollees with postretirement medical insurance coverage, limited to the health insurance programs offered by the Water Authority to its then full-time employees, as modified from time-to-time by the Board. The Water Authority pays 60% of the cost of premium for individual coverage and 40% of the cost for dependent coverage for eligible retired employees. These benefits continue for the lifetime of the retiree.

The Water Authority provides life insurance policies, at no cost to the retiree, for individuals who were hired prior to June 1996. The life insurance benefit is \$20,000 for hourly employees and \$40,000 for salaried employees and is subject to age reductions set by the insurance carrier.

The number of participants as of May 31, 2011, the effective date of the annual OPEB valuation, is as follows:

Participants	Number
Active employees	47
Retired employees	4
Total	51

### *Funding Policy*

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

*Annual Other Postemployment Benefit Cost*

For the fiscal year ended May 31, 2011, the Water Authority's annual OPEB cost (expense) of \$245,214 is equal to the Annual Required Contribution. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$24,282 for retirees and their beneficiaries, and the interest earned on the net OPEB obligations of \$42,550, the result was an increase in the Net OPEB Obligation of \$207,408 for the year ended May 31, 2011.

The Water Authority's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC) of the employer, 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 annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and Net OPEB obligation for fiscal year 2011 and 2010 were as follows:

*Annual OPEB Cost and Net OPEB Obligation*

Fiscal year ending May 31,	2011	2010
A Annual Required Contribution (ARC)	\$ 245,214	\$ 239,128
B Net OPEB Obligation (NOO), beginning	945,547	747,110
C Interest on NOO at 4.5%	42,550	33,620
D Adjustment to ARC (NOO/17.02)	(55,555)	(43,896)
E Annual OPEB Cost (AOC)	232,209	228,852
F Less Amount Contributed	(24,801)	(30,415)
G Change in NOO	207,408	198,437
H NOO, Ending Balance	\$ 1,152,955	\$ 945,547

*The funding status*

	2011	2010
Actuarial accrued liability	\$ 1,729,921	\$ 1,729,921
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability	\$ 1,729,921	\$ 1,729,921
Funded status	0.00 %	0.00%
Covered payroll	\$ 2,968,770	\$ 2,968,770
Unfunded actuarial liability as a percentage of covered payroll	58.27 %	58.27%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined

regarding the funded status of the plan and the annual required contributions of the Water Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions*

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

In the June 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 10% investment rate of return (net of administrative expenses) and an annual healthcare cost of 10% and reduced decrements to a rate of 5% after 5 years. The Retiree Health Plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls which was assumed to grow at 3% annually. The remaining balance of the amortization period is 28 years.

<b>ACTUARIAL ASSUMPTIONS</b>	
<i>Interest rate</i>	4.5%
<i>Employee turnover rate</i>	
Age 25	6.80%
Age 30	5.05%
Age 35	3.95%
Age 40	3.25%
Age 45	2.75%
Age 50	2.25%
Age 55+	0.00%
<i>Medical trend</i>	
Beginning rate	10.0%
Ultimate rate	5.0%
Year ultimate rate reached	2013
<i>Expected retirement rates</i>	
62 – 64	9%
65 – 69	20%
70 +	100%
<i>Annual medical premium</i>	
Pre 65 – employee only:	\$7,183
Pre 65 – family:	\$15,386
Post 65 – per person:	\$4,005
<i>Expected claims to be distributed</i>	
Age 40	\$5,771
Age 50	\$7,667
Age 60	\$10,863

<i>Additional Information</i>	
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar
Amortization period:	Single amortization period
Amortization period (in years):	30
Amortization period status:	Open
Asset valuation method:	Market value

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws are expected to have a financial impact on employers who sponsor postemployment health care benefit plans and therefore may affect the GASB 45 valuation. As of the date of this report, the Water Authority could not reasonably conclude which provisions would impact the financial accounting of the plan. Upon release of further regulatory guidance, the impact of PPACA and HCERA will be appropriately reflected in the valuation.

#### **NOTE 10 – EXTRAORDINARY ITEM**

##### *Proceeds from Settlement*

The Water Authority was a member of the plaintiff class in a class action lawsuit related to Methyl Tertiary Butyl Ether (MTBE) products liability against 70% of the total gasoline refining market. This lawsuit was settled on March 12, 2008 and the Water Authority's portion of the settlement was \$2,660,164 net of legal fees. The Water Authority recognized \$11,466 for the year ended May 31, 2011 and \$214,378 for the year ended May 31, 2010 as an extraordinary item in the Statements of Revenue, Expenses and Changes in Net Assets.

#### **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

##### *Litigation*

The Water Authority is subject to lawsuits in the ordinary conduct of its affairs. The Water Authority does not believe, however, that any such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the Water Authority.

##### *Risk Management*

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

##### *Insurance*

The Water Authority's commercial insurance coverage provides for virtually all risks of loss including property, liability, automobile accidents and public official's coverage. The Water Authority also carries umbrella liability insurance coverage. This coverage is comparable to that of the prior fiscal year.

### *Compensated Absences*

The Water Authority estimates that the amount of compensated absences due within one year is \$40,000.

### *Pollution Remediation Obligations*

In adopting the requirements of GASB Statement No. 49 during the year ended May 31, 2009, it is the Water Authority's policy to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

If the Water Authority:

- Is compelled to take remediation action because of imminent endangerment,
- Violates a pollution related permit or license,
- Is named or will be named as a responsible party or potentially responsible party for a remediation,
- Is named, or will be named in a lawsuit to compel pollution remediation, or
- Commences or obligates it to remediate pollution.

As of May 31, 2011, the Water Authority has not identified any pollution remediation obligations and therefore no liability has been recorded on the Statement of Net Assets.

### *Lease Commitments*

The Water Authority had a ten-year lease for its office space, which expired in May 2006 and was extended twice, first for a period of four years ending May 31, 2010, and subsequently for two years ending May 31, 2012. Rental expense under the office space lease was \$240,000 for the fiscal year ended May 31, 2011. Such amounts are included in operating expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

The future minimum rental commitments under operating leases as of May 31, 2011 are:

<u>Year Ended</u> May 31, 2012	<u>Rent</u> \$ <u>252,000</u>
Total minimum lease payments	\$ <u>252,000</u>

### **NOTE 12 – LEASE REVENUE AGREEMENTS**

The Water Authority has several lease agreements in place with various cell phone providers for the leasing of Water Authority property to install and maintain cell phone transmission towers. These lease agreements range for a period of one year to five years and are renewable at the discretion of the cell phone providers for periods that coincide with the initial lease period. The minimum amount of lease income expected to be recognized by the Water Authority over the next five year period is summarized in the following table:

<u>Year Ended May 31,</u>	
2012	234,434
2013	242,491
2014	250,843
2015	259,623
2016	<u>269,518</u>
Total	<u>\$ 1,256,909</u>

#### **NOTE 13 – RATE CHANGES**

Under the Water Authority Charter, the Board is empowered to set rates for all its customers. The rates are to be sufficient to pay for operations, maintenance, reserves, debt service, additions, extensions and betterment of the facilities.

A summary of the annual rate changes that the Water Authority has achieved over the last ten years:

<u>Effective June 1,</u>	<u>Rate change</u>
2011	4.8%
2010	7.2%
2009	7.4%
2008	7.8%
2007	7.1%
2006	7.6%
2005	3.8%
2004	0.0%
2003	0.0%
2002	0.0%

The Water Authority passed back a Rate Stabilization Fund subsidy of \$55,000 to its customers in the fiscal year ended May 31, 2009.

#### **NOTE 14 – SUBSEQUENT EVENTS**

The Water Authority evaluated subsequent events from May 31, 2011 through August 19, 2011, the date on which the financial statements were available to be issued, and determined that there were no material subsequent events.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Water Authority of Western Nassau County  
Floral Park, New York

We have audited the financial statements of the Water Authority of Western Nassau County as of and for the year ended May 31, 2011, and have issued our report thereon dated August 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Water Authority of Western Nassau County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Authority of Western Nassau County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

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

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

*TABRIZTEHI & Co., CPA, P.C.*

Garden City, NY  
August 19, 2011