

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2010 AND 2009
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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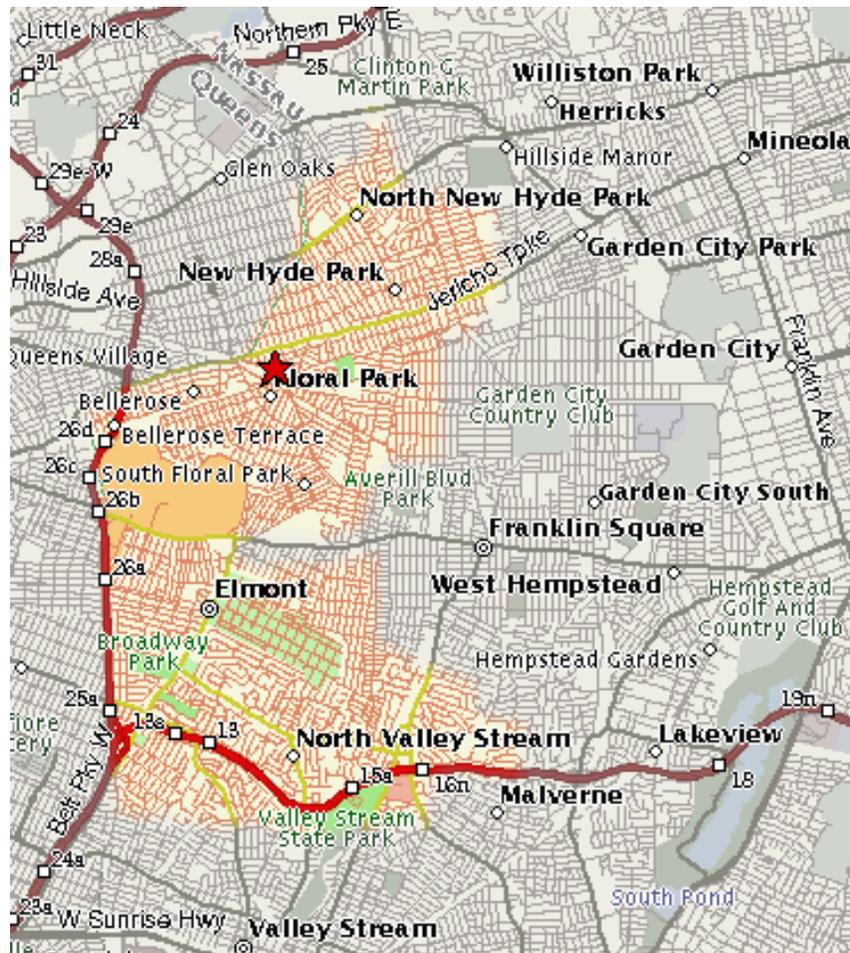
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WATER AUTHORITY OF WESTERN NASSAU COUNTY

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"), a business-type activity, as of and for the year ended May 31, 2010 which comprises the Water Authority's basic financial statements as listed in the table of contents. 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 audit. The financial statements of the Water Authority as of May 31, 2009 were audited by other auditors whose report dated December 22, 2009 expressed an unqualified opinion on those statements.

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, 2010 and the respective changes in its net assets and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010 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 3 through 15 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 31, 2010

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 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 and 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.

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 and 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, 2010 and 2009. 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:

- The Water Authority delivered 4.2 billion gallons of water, approximately the same amount as the previous two fiscal years.
- Total assets as of May 31, 2010 were \$87.6 million and exceeded liabilities in the amount of \$11.3 million (i.e. net assets). Of the total net assets, \$0.6 million was unrestricted. Total assets increased by \$41.2 million (88.7%) between May 31, 2009 and 2010. The net assets increased by \$1.3 million (13.1%) over the same period.
- Debt service coverage was 1.39, exceeding the minimum 1.20 required by the Bond covenants.
- Operating revenues were approximately \$11.0 million as compared to \$10.9 million in the previous year.
- Operating expenses decreased approximately \$0.1 million from \$8.8 million to \$8.7 million for the fiscal years ended May 31, 2009 and 2010, respectively. The 1.1% decrease in operating expenses was due to slightly lower operational and maintenance expenses, primarily from decreases in utility expenses. Operations expenses decreased by \$0.2 million (2.6%) from \$6.1 million to \$5.9 million for the fiscal years ended May 31, 2009 and 2010, respectively. Maintenance expenses remained consistent at \$1.9 million for the fiscal years ended May 31, 2009 and 2010, respectively.
- Operating income for the fiscal year ended May 31, 2010 was \$2.2 million as compared to \$2.0 million in 2009. The increase in operating income of \$0.2 million (9.1%) reflects the impact of stable revenue offset by the decrease in the operations and maintenance expenses. Consequently, the ratio of operating income to total revenues increased to 20.3% from 18.8% for the fiscal year ended May 31, 2010 as compared to 2009.
- The Water Authority's long-term debt increased by \$39.5 million or 134.9% during the fiscal year ended May 31, 2010, from \$29.3 million at May 31, 2009 to \$68.8 million at May 31, 2010, as a result of the Water Authority's issuance of \$40.9 million of Series 2010 bonds, partially offset by the repayment of \$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, 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,			2009 to 2010		2008 to 2009	
	2010	2009	2008	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Current Assets	\$ 5,303,242	\$5,380,906	\$4,737,075	\$ (77,664)	(1.4)	\$643,831	13.6
Noncurrent Assets							
Other Noncurrent Assets	42,090,262	5,233,102	7,715,021	36,857,160	704.3	(2,481,919)	(32.2)
Capital Assets	40,236,512	35,818,270	32,150,650	4,418,242	12.3	3,667,620	11.4
Total Assets	87,630,016	46,432,278	44,602,746	41,197,738	88.7	1,829,532	4.1
Current Liabilities	4,712,170	4,755,420	3,074,762	(43,250)	(0.9)	1,680,658	54.7
Noncurrent Liabilities	2,838,352	2,408,094	2,175,645	430,258	17.9	232,449	10.7
Long-term Debt –Bonds, Net	68,785,927	29,280,612	30,317,974	39,505,315	134.9	(1,037,362)	(3.4)
Total Liabilities	76,336,449	36,444,126	35,568,381	39,892,323	109.5	875,745	2.5
Net Assets							
Invested in Capital,							
Net of Related Debt	10,206,074	8,526,238	6,288,736	1,679,836	19.7	2,237,502	35.6
Restricted	445,000	445,000	500,000	-	-	(55,000)	(11.0)
Unrestricted	642,493	1,016,914	2,245,629	(374,421)	(36.8)	(1,228,715)	(54.7)
Total Net Assets	\$11,293,567	\$9,988,152	\$9,034,365	\$1,305,415	13.1	\$953,787	10.6

The table above and Chart 1 (on the next page) show that the amount of current and other assets increased by \$41,197,738 (88.7%) and current and other liabilities increased by \$39,892,323 (109.5%) from May 31, 2009 to May 31, 2010. The increase in current and other assets was \$1,829,532 (4.1%) and the increase in current and other liabilities was \$875,745 (2.5%) from May 2008 to May 2009. In 2010 the principal reason for the large increases in both assets and liabilities was the issuance of \$40,900,000 of Series 2010 Bonds. In 2009, the principal reason for the decrease in current and other assets was the application of cash to long-term debt.

The amount of bonds net of amortized bond discount increased by \$39,505,315 (134.9%) during fiscal year 2010 as compared to a decrease of \$1,037,362 (3.4%) in 2009. The large increase in fiscal year 2010 is 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 decrease in fiscal year 2009 reflects the payment of that year's debt requirements offset by the amortization of debt issuance costs.

The net assets of the Water Authority increased \$1,305,415 (13.1%) to \$11,293,567 on May 31, 2010 from \$9,988,152 in 2009 (see Chart 2). The amount of the increase in net assets was \$953,787 (10.6%) to \$9,988,152 on May 31, 2009 from \$9,034,365 in 2008. The reason for the increase in net assets as of May 31, 2010 was related to improvements in operating efficiencies reflected in a decrease in operating expenses of \$96,137, an increase in operating revenues of \$90,633 as well as \$98,242 in gains received from litigation settlements.

Restrictions on net assets do not significantly affect the availability of fund resources for future use.

CHART 1

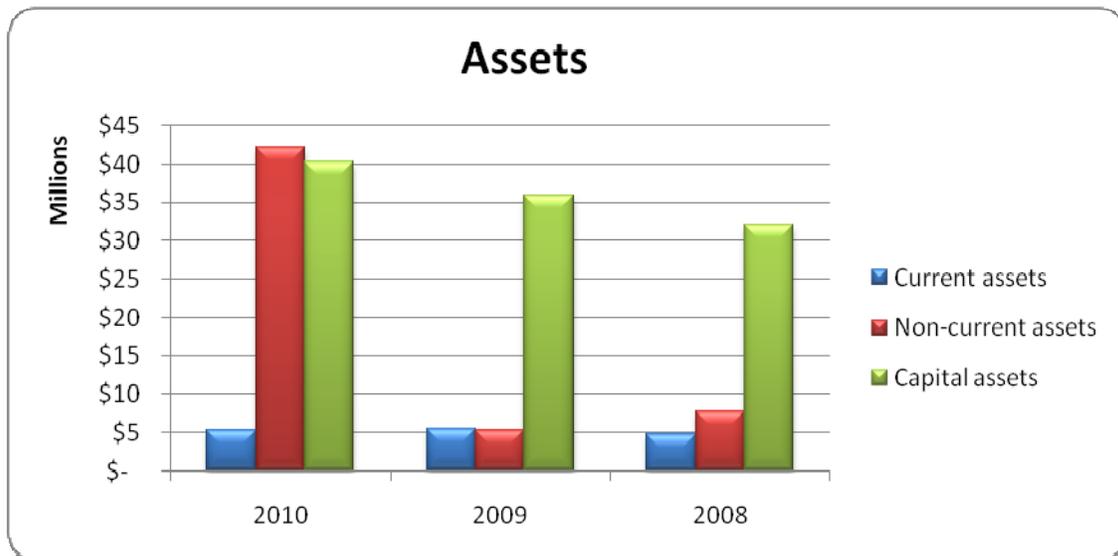
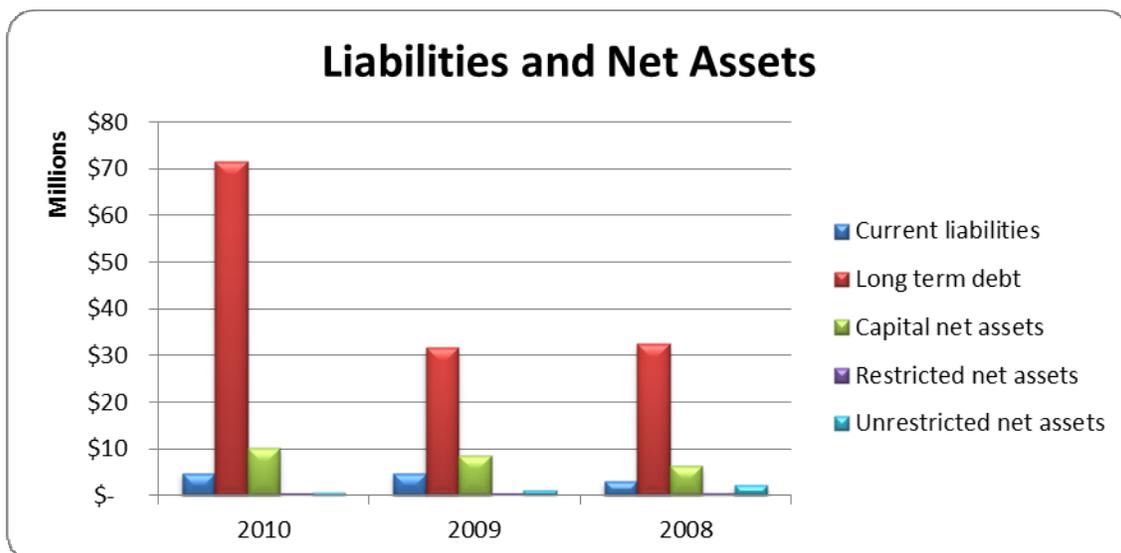


CHART 2



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,			2009 to 2010		2008 to 2009	
	2010	2009	2008	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Operating revenues							
Water sales:							
Residential	\$ 7,710,810	\$7,736,779	\$7,590,343	\$ (25,969)	(0.3)	\$146,436	1.9
Commercial, municipal and other	3,261,772	3,145,170	3,081,199	116,602	3.7	63,971	2.1
Total operating revenues	10,972,582	10,881,949	10,671,542	90,633	0.8	210,407	2.0
Operating expenses							
Operations	5,920,498	6,076,842	6,108,059	(156,344)	(2.6)	(31,217)	(0.5)
Maintenance	1,869,872	1,915,638	1,767,985	(45,766)	(2.4)	147,653	8.4
Depreciation	953,313	847,340	814,527	105,973	12.5	32,813	4.0
Total operating expenses	8,743,683	8,839,820	8,690,571	(96,137)	(1.1)	149,249	1.7
Operating income	2,228,899	2,042,129	1,980,971	186,770	9.1	61,158	3.1
Non-operating revenue (expense)							
Interest income	247,009	154,080	293,519	92,929	60.3	(139,439)	(47.5)
Miscellaneous income	346,336	241,664	224,046	104,672	43.3	17,618	7.9
Interest on long-term debt	(1,656,025)	(1,471,971)	(1,502,209)	(184,054)	(12.5)	30,238	2.0
Other amortization, net	(75,182)	(73,250)	(71,609)	(1,932)	(2.6)	(1,641)	(2.3)
Net non-operating expenses	(1,137,862)	(1,149,477)	(1,056,253)	11,615	1.0	(93,224)	(8.8)
Change in net assets before extraordinary items	1,091,037	892,652	924,718	198,385	22.2	(32,066)	(0.0)
Litigation settlement	214,378	116,135	2,362,677	98,243	84.6	(2,246,542)	(95.1)
Change in total net assets	1,305,415	1,008,787	3,287,395	296,628	29.4	(2,278,608)	(69.3)
Board approved subsidies	-	(55,000)	(590,577)	55,000	100.0	(535,577)	(90.7)
Net change in net assets	1,305,415	953,787	2,696,818	351,628	36.9	(1,743,031)	(64.6)
Net assets, beginning	9,988,152	9,034,365	6,337,547	953,787	10.6	2,696,818	42.6
Net assets, ending	\$11,293,567	\$9,988,152	\$9,034,365	\$1,305,415	13.1	\$953,787	10.6

As of May 31, 2010, the Water Authority provided water to 26,453 residential customers, 1,399 commercial customers, 182 private fire customers and 2,432 municipal fire hydrants. The corresponding figures for May 31, 2009 were 26,435 residential customers, 1,397 commercial customers, 181 private fire customers and 2,432 municipal fire hydrants.

The Water Authority's revenues increased by \$90,633 (0.8%) in fiscal year 2010 and \$210,407 (2.0%) in fiscal year 2009. The increase in revenue in fiscal year 2010 was primarily the result of a \$116,602 (3.7%) rise in fire protection partially offset by a decrease of \$25,969 in water sales (see Chart 3). The operating expenses before depreciation decreased by \$202,110 (2.3%) and increased \$116,436 (1.5%) in fiscal years 2010 and 2009, respectively (see Chart 4). In fiscal year 2010 the operating expenses decreased primarily due to lower utility expenditures. In 2009 the operating expenses increased primarily due to insurance and payroll related costs. The Water Authority's net assets increased by \$1,305,415 during fiscal year 2010 as compared to a \$953,787 increase in fiscal year 2009, an increase of \$351,628 (36.9%).

CHART 3

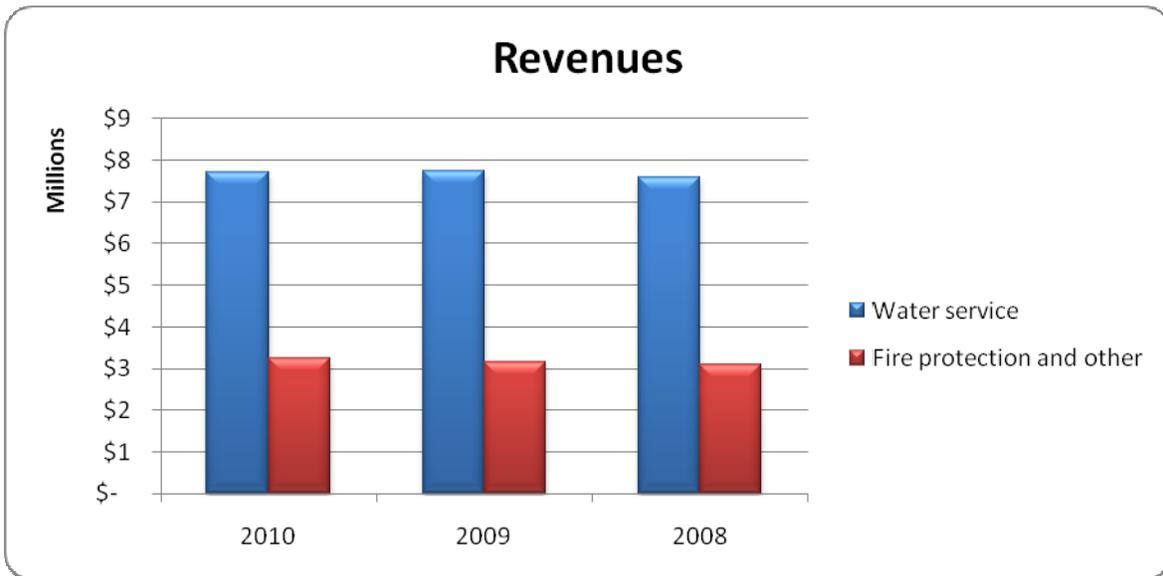
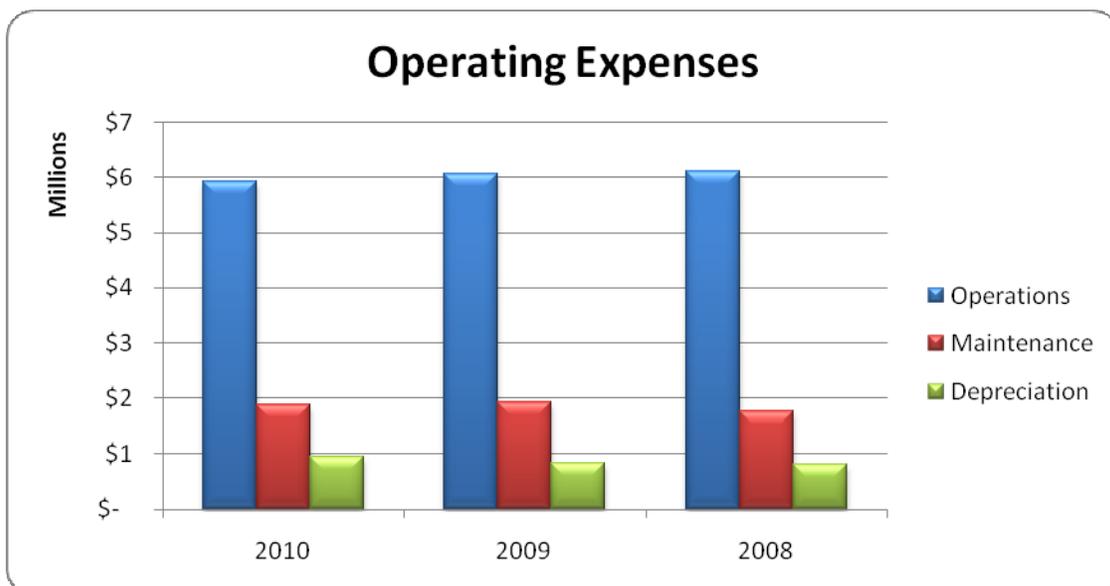


CHART 4



NONOPERATING REVENUES AND EXPENSES

Nonoperating revenue includes interest earnings on investment assets and miscellaneous income. Interest income increased from \$154,080 for the fiscal year ended May 31, 2009 to \$247,009 for the fiscal year ended May 31, 2010. The reason for the increase of \$92,929 (60.3%) was due to interest on investments of funds received from the Series 2010 Bond issuance.

Miscellaneous income increased by \$104,672 (43.3%) from \$241,664 for the fiscal year ended May 31, 2009 to \$346,336 for the fiscal year ended May 31, 2010. This increase was due to additional rental income for lease of space atop water towers to cellular phone companies.

Interest expenses increased \$184,054 (12.5%) from \$1,471,971 for the fiscal year ended May 31, 2009 to \$1,656,025 for the fiscal year ended May 31, 2010. 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 \$214,378 for the year ended May 31, 2010 and \$116,135 for the year ended May 31, 2009 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 \$40.2 million in net assets, an increase of approximately \$4.4 million from the prior year.

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

	2010	2009	2008
Land	\$ 167,708	\$ 167,708	\$ 167,708
Construction in progress	3,819,408	2,946,559	963,193
Wells and standpipes	2,628,253	2,628,253	2,628,253
Pumping and purification	10,749,013	10,385,984	10,325,300
Distribution system	30,714,576	26,600,038	24,201,878
Building, vehicles and equipment	2,262,970	2,241,831	2,169,081
Total capital assets	50,341,928	44,970,373	40,455,413
Accumulated depreciation	(10,105,416)	(9,152,103)	(8,304,763)
Net capital assets	<u>\$40,236,512</u>	<u>\$35,818,270</u>	<u>\$32,150,650</u>

MAJOR INCREASES IN CAPITAL ASSETS

Description	2010	% Change	2009	% Change	2008	% Change
Wells & standpipes	\$ -	0.0	\$ -	0.0	\$ 378	0.0
Structures & improvements	11,032	1.1	24,714	2.5	13,315	1.3
Electric pumping equipment	4,120	0.1	21,296	0.5	144,258	3.7
Structure – water treatment	11,165	0.4	-	0.0	(1,910)	(0.1)
Equipment – water treatment	336,712	14.5	14,751	0.7	13,618	0.7
Mains	1,895,264	16.3	715,725	7.9	45,126	0.5
Services	949,382	10.3	690,612	9.1	587,695	7.7
Meters	(22,349)	(0.5)	266,018	6.5	360,559	8.8
Meter equipment	1,057,829	0.7	621,652	55.3	485,330	43.1
Hydrants	234,412	9.4	196,661	9.6	92,539	4.5
Office equipment	18,305	3.3	2,858	0.5	17,737	3.3
Vehicles	2,039	0.3	57,953	7.8	22,020	3.0
Lease hold improvements	-	0.0	7,885	120.2	-	0.0
Miscellaneous equipment	795	0.4	10,909	6.6	7,050	4.3
Total additions	\$4,498,706		\$2,631,034		\$1,787,715	

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 \$1,895,264 for the construction and placement of water mains during the fiscal year ended May 31, 2010 compared to \$715,725 for the same period ended May 31, 2009. The Water Authority spent \$1,057,829 related to new and replacement water meters during the fiscal year ended May 31, 2010 compared to \$621,652 for the same period ended May 31, 2009.

LONG-TERM DEBT

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. These bonds were redeemed after the issuance of the Series 2005 bonds.

The Bond Resolutions require 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, 2010 consist of the following:

2010 REVENUE BONDS May 31, 2010

Water Revenue Bonds Series 2010	
Serial Bonds A 2.00% - 4.00%, due through 2020	\$ 6,925,000
Term Bonds B 6.00% - 6.70%, due through 2040 (See note on next page)	<u>33,965,000</u>
Total Series 2010	<u><u>\$40,890,000</u></u>

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

The Water Revenue Bonds, Series 2010 were dated April 1, 2010 and issued on April 15, 2010, with accrued interest. The sources and uses of the Water System Revenue Bonds, Series 2010, are shown in the table below:

	Series 2010A Amount	Series 2010B Amount	Total
Source of Funds			
Principal amount of bonds	\$6,925,000	\$33,965,000	\$40,890,000
Net premium	106,875	-	106,875
Total Sources	<u>\$7,031,875</u>	<u>\$33,965,000</u>	<u>\$40,996,875</u>
Use of Funds			
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	-	3,113	3,113
Total Uses	<u>\$7,031,875</u>	<u>\$33,965,000</u>	<u>\$40,996,875</u>

**WATER REVENUE BONDS, SERIES 2005
May 31, 2010**

Serial Bonds 3.00% - 5.00%, due through 2026	\$24,635,000
Term Bonds 5.00%, due 2030	2,015,000
Term Bonds 5.00%, due 2035	3,150,000
Total Series 2005	<u>\$29,800,000</u>

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

1. A portion of the Water Authority's outstanding Water System Revenue Bonds, Series 1996, were redeemed.
2. Financing the cost of acquisition and construction of improvements to the Water System.
3. Funding a deposit to the Reserve Account, Series 2005.
4. Payment of 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 noncallable 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 of, 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.

During the fiscal years ended May 31, 2009 and May 31, 2010, the amounts of principal and interest paid were \$1,070,000 and \$1,656,025 respectively. One indicator of the Water Authority's financial strength and future borrowing capability is its debt coverage ratio, which was 1.39 times for fiscal year ended May 31, 2010 as shown below.

Cash Available for Coverage:

Operating Income	\$ 2,228,899
Add:	
Depreciation	953,313
Interest and Other Income	<u>593,345</u>
 Total Cash Available for Coverage	 3,775,557

Debt Service Requirements:

Interest Payments	1,656,025
Principal Payments	<u>1,070,000</u>
 Total Debt Service Requirements	 \$ <u>2,726,025</u>

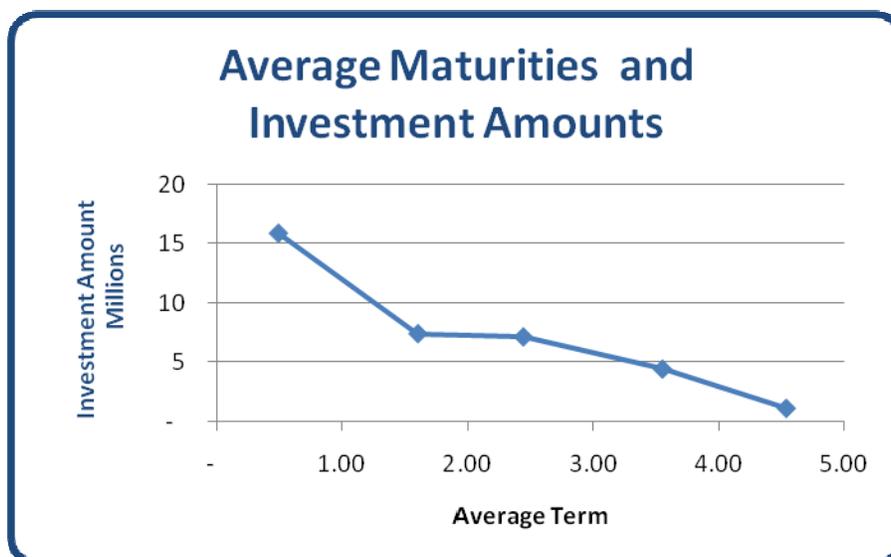
Coverage Ratio	1.39
Coverage Requirement as per Water System Revenue Bonds, Series 2010 and 2005	1.20

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.

RESTRICTED INVESTMENTS

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, 2010, \$36,231,311 (88%) of the total proceeds of the Series 2010 Bonds Revenue Bonds, including \$35,879,722 of fair value and \$351,589 of accrued interest, was invested in the 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			
5/31/2010	5/31/2011	\$15,837,016	44%	0.50
6/01/2011	5/31/2012	7,393,677	21%	1.61
6/01/2012	5/31/2013	7,124,910	20%	2.44
6/01/2013	5/30/2014	4,410,756	12%	3.55
5/16/2014	2/15/2015	1,113,363	3%	4.54
		<u>\$35,879,722</u>	<u>100%</u>	<u>1.61</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 the 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 1.6 years. The weighted average interest yield of total investment was 3.33%, as of May 31, 2010.

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 1.6% higher than planned due to greater than expected revenue from fire protection and water usage by metered customers offset by less than expected other revenues. Actual operating expenses were approximately 2.0% higher resulting from greater than planned maintenance expenses.

The Operating Plan as compared to the actual revenues and expenses for the year ended May 31, 2010 is summarized in the table on the next page.

	12 Months Ended May 31, 2010		
	Actual	Operating Plan	Increase (Decrease)
Operating Revenues:			
Residential	\$7,710,809	\$8,321,520	\$(610,711)
Commercial	1,422,537	1,458,820	(36,283)
Private fire protection	83,842	83,500	342
Public fire protection	1,702,400	1,680,860	21,540
Total Water Sales	10,919,588	11,544,700	(625,112)
Late payment charges	31,466	38,000	(6,534)
Other water revenue	21,528	12,000	9,528
Total Operating Revenues	10,972,582	11,594,700	(622,118)
Operating Expenses:			
Operations	5,920,498	5,997,290	76,792
Maintenance	1,869,872	1,673,360	(196,512)
Depreciation	953,313	927,200	(26,113)
Total Operating Expenses	8,743,683	8,597,850	(145,833)
Operating Margin	2,228,899	2,996,850	(767,951)
Other Income:			
Interest Income	247,009	1,168,600	(921,591)
Miscellaneous Income	346,336	309,540	36,796
Total Other Income	593,345	1,478,140	(884,795)
Income Before Interest Charges	2,822,244	4,474,990	(1,652,746)
Interest Charges:			
Interest on long-term debt	1,656,025	2,683,250	1,027,225
Other amortization, net	75,182	84,100	8,918
Total Interest Charges	1,731,207	2,767,350	1,036,143
Extraordinary Items	214,378	-	214,378
Surplus (Deficit)	<u>\$1,305,415</u>	<u>\$1,707,640</u>	<u>\$(402,225)</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 2010 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 the Nassau County population. According

to the 2000 Census, Nassau County's population was 1,333,776. That was a 3.7% increase from the 1,287,348 residents in 1990. On January 1, 2009, our population estimate for Nassau was 1,360,127 persons as follows:

NASSAU COUNTY	Estimate	Estimate	2000 (b)
	Jan. 1, 2009 (a)	Jan. 1, 2008 (a)	
Town of North Hempstead	226,109	225,291	220,364
Town of Hempstead	766,878	765,234	755,923
City of Long Beach	36,201	36,051	35,462
Town of Oyster Bay	303,285	302,589	295,405
City of Glen Cove	27,654	27,564	26,622
TOTAL NASSAU COUNTY	1,360,127	1,356,729	1,333,776

- a. Source: The Long Island Power Authority , *2009 & 2008 Long Island Population Survey*.
- 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, 2011.

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 6.7% from December 2008 to June 2010. 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 9.6%, 8.2%, and 9.5% respectively in June 2010 as compared to 7.4%, 5.4% and 5.8% for 2008. The inflation rate, as measured by the percentage change in Consumer Price Index for All Urban Consumers (“CPI-U”) from May 2009 to May 2010, 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 2.0% as contrasted to 2.1% in the U.S. for May 2010.

During the first six months of 2010, the CPI-U declined at a 0.3% seasonally adjusted annual rate (SAAR). This compares with an increase of 0.4% for all of 2009. The index for energy, which decreased 18.8% in 2009, decreased at a 9.9% SAAR in the first six months of 2010. The food index has increased at a 1.3% rate thus far in 2010, following a 1.9% rise for all of 2009. Excluding food and energy, the CPI-U advanced at a 0.7% SAAR in the first six months of 2010, as compared to an increase of 1.7% for the entire year 2009.

The Water Authority has adopted its operating and capital plans for the fiscal year ending May 31, 2011. The operating revenues are estimated to be \$12,746,140. The operating expenses for the fiscal year ending May 31, 2011 are planned at \$8,119,540. Nonoperating revenues and expenses are planned to be \$1,636,600 and \$3,120,800 respectively. The increase in net assets is estimated to be \$2,015,500.

Capital expenditures are planned to be \$16,235,800. The projects in the planned capital expenditures include the construction of the Water Authority’s new headquarters building and the construction of two iron removal plants. The major components of the completed construction for fiscal year ended May 31,

2010 was the construction of the new headquarters along with improvements to the transmission and distribution and water treatment systems.

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,

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,798,391	\$ 3,131,838
Accounts receivable:		
Billed, net of \$25,000 allowance for doubtful accounts	466,695	392,124
Unbilled	1,640,000	1,451,000
Prepayments and other current assets	150,335	138,522
Materials and supplies, at weighted average cost	247,821	267,422
Total current assets	5,303,242	5,380,906
Noncurrent assets:		
Restricted cash and cash equivalents		
Rate stabilization fund	445,000	445,000
Bond construction fund	625,420	-
Bond reserve fund	2,454,876	-
Bond payment fund	3,113	-
Customer deposits	881,758	848,853
Restricted investments held by trustees		
Bond construction fund	32,165,352	212,391
Bond reserve fund	4,065,959	2,367,434
Bond payment fund	-	280,735
Capital assets		
Non-depreciable	3,987,116	3,114,267
Depreciable	36,249,396	32,704,003
Other assets		
Unamortized bond issue cost	960,588	478,755
Other assets	488,196	599,934
Total noncurrent assets	82,326,774	41,051,372
Total assets	\$87,630,016	\$46,432,278

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)

	2010	2009
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,884,050	\$ 2,668,135
Deferred revenue	858,985	817,387
Accrued interest payable	332,935	120,281
Water revenue bond payable	1,525,000	1,070,000
Due to employee retirement system	71,200	42,612
Compensated absences	40,000	37,005
Total current liabilities	4,712,170	4,755,420
Noncurrent liabilities:		
Water revenue bonds payable	67,302,339	27,745,063
Unamortized premium on revenue bonds	1,483,588	1,535,549
Customer deposits	942,205	957,889
Other post employment benefits	945,547	747,110
Compensated absences	950,600	703,095
Total noncurrent liabilities	71,624,279	31,688,706
Total liabilities	76,336,449	36,444,126
Net Assets		
Invested in capital, net of related debt	10,206,074	8,526,238
Restricted	445,000	445,000
Unrestricted	642,493	1,016,914
Total net assets	11,293,567	9,988,152
Total Liabilities and Net Assets	\$87,630,016	\$46,432,278

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,

Operating revenues:	2010	2009
Residential	\$ 7,710,810	\$7,736,779
Commercial	1,422,537	1,445,939
Fire protection	1,786,241	1,648,961
Other water revenues	52,994	50,270
	<hr/>	<hr/>
Total operating revenues	10,972,582	10,881,949
Operating expenses:		
Operations	5,920,498	6,076,842
Maintenance	1,869,872	1,915,638
Depreciation	953,313	847,340
	<hr/>	<hr/>
Total operating expenses	8,743,683	8,839,820
Operating income	2,228,899	2,042,129
Non-operating revenues (expenses):		
Interest income	247,009	154,080
Miscellaneous income, net	346,336	241,664
Interest on long-term debt, net	(1,656,025)	(1,471,971)
Other amortization, net	(75,182)	(73,250)
	<hr/>	<hr/>
Net non-operating expenses	(1,137,862)	(1,149,477)
Change in net assets before extraordinary items	1,091,037	892,652
Litigation settlement	214,378	116,135
	<hr/>	<hr/>
Net change in total net assets	1,305,415	1,008,787
Net assets - beginning	9,988,152	8,979,365
	<hr/>	<hr/>
Total net assets - ending	\$11,293,567	\$9,988,152

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>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers	\$10,750,611	\$10,587,422
Payments to suppliers for goods or services	(4,285,860)	(2,665,496)
Payment for employee services	(3,731,721)	(3,310,950)
Board approved subsidies	-	(55,000)
	<hr/>	<hr/>
Net cash provided by operating activities	2,733,030	4,555,976
 Cash flows from capital and related financing activities:		
Repayment of water revenue bonds	(1,070,000)	(1,040,000)
Acquisition of capital assets	(5,371,557)	(4,514,960)
Issuance of revenue bonds	40,996,876	-
Bond issue costs	(499,082)	-
Interest paid on water revenue bonds	(1,443,371)	(1,471,971)
	<hr/>	<hr/>
Net cash provided (used) by investing activities	32,612,866	(7,026,931)
 Cash flows from non-capital financing activities:	-	-
 Cash flows from investing and other non-operating activities:		
Decrease in restricted assets	-	2,411,029
Purchase of fixed income securities	(33,335,095)	-
Due from litigation settlement	214,377	2,478,812
Rental property	346,336	241,664
Interest and dividends received	211,353	154,080
	<hr/>	<hr/>
Net cash provided in financing activities	(32,563,029)	5,285,585
 Net increase in cash and cash equivalents	2,782,867	2,814,630
Cash and equivalents, beginning of year	4,425,691	1,611,061
	<hr/>	<hr/>
Cash and equivalents, end of year	<u>\$ 7,208,558</u>	<u>\$ 4,425,691</u>

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)

	2010	2009
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$2,228,899	\$2,042,129
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	953,313	847,340
Changes in operating assets and liabilities:		
Accounts receivable	(74,571)	(63,091)
Accrued unbilled revenue	(189,000)	(189,000)
Prepaid expenses and other assets	(11,813)	61,451
Inventory of materials and supplies	19,601	17,423
Other assets	87,247	11,617
Accounts payable and accrued expenses	(784,085)	1,599,721
Deferred revenues	41,598	(2,500)
Due to employee retirement system	28,588	(4,988)
Customer deposits	(15,684)	(39,936)
Other post employment benefits	198,437	207,310
Compensated absences	250,500	68,500
	\$2,733,030	\$4,555,976
Net cash provided by operating activities	\$2,733,030	\$4,555,976

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, 2010

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 for the Board members are proportional to the number of water customers in the towns or villages that appoint 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 nonoperating 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 nonoperating 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 \$445,000 as of May 31, 2010.

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, 2010 was \$32,790,772 of which \$5,271,727 was in cash and cash equivalents and the balance of \$27,519,045 was invested in the 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, 2010, the total amount of Bond Reserve Funds was \$7,141,440 of which \$2,454,876 was in cash and cash equivalents and \$4,686,564 was invested in the 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, 2010, the amount in the Bond Fund cash and cash equivalents was \$3,113.

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, 2010 and 2009. The allowance is estimated based on trends in historical collection rates and write-offs.

Prepays

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 unrelated gains or losses are recorded.

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 \$50,690 and \$48,758 and the amortization of bond discount was \$24,492 and \$24,492 for the fiscal years ended May 31, 2010 and 2009, respectively.

Deferred Revenues

The deferred revenues include the advanced payments by the 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 long-term debt 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.

Compensated Absences

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 Nonoperating 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. Nonoperating revenue includes interest earnings on investment assets and miscellaneous income. Nonoperating 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.

New Accounting Pronouncements

Effective June 1, 2009, the Authority adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes

standards for reporting the liability for non-pension postemployment benefits, primarily health care premiums for retirees.

In June 2007, GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which establishes requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The Statement is effective for financial statements periods beginning after June 15, 2009. The Water Authority adopted this Statement. The implementation of this statement is not expected to have material impact on the Water Authority's financial position or results of operations.

In March 2009, GASB issued Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement incorporates the hierarchy of GAAP for state and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The pronouncement applies to the financial reports of all public benefit corporations and authorities and public utilities.

In June 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The Water Authority has adopted this Statement. The implementation of this statement is not expected to have material impact on the Water Authority's financial position or results of operations.

In December 2009, GASB issued Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. This Statement amends Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. It enables certain agent employers to use the alternative measurement method to a full actuarial valuation; adjusts the requirement that a defined benefit OPEB plan obtain an actuarial valuation; and clarifies that the same frequency and timing of determining OPEB measures are required for both agent multiple-employer plans and their participating employers. The Water Authority has adopted this Statement. The implementation of this statement is not expected to have material impact on the Water Authority's financial position or results of operations.

In June 2010, GASB issued Statement No. 59, Financial Instruments Omnibus. This Statement applies the reporting provisions of Statement 31 for interest-earning investment contracts to unallocated insurance contracts reported by pension and other postemployment benefit plans; emphasizes the applicability of SEC requirements to 2a7-like external investment pools; limits interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools; and addresses the applicability of Statement 53 to certain financial instruments. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Water Authority has adopted this Statement. The implementation of this statement is not expected to have material impact on the Water Authority's financial position or results of operations.

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, 2010, the carrying amount of the Water Authority’s deposits, cash and cash equivalents were as follows:

Unrestricted	
Deposit in banks	\$ 704,356
Treasury bills and notes (original maturity less than 90 days)	2,093,335
Petty cash	700
	<hr/>
Total unrestricted cash and cash equivalents	\$2,798,391
	<hr/>
Restricted	
Bank deposits	\$ 1,331,416
Treasury bills and notes (original maturity less than 90 days)	3,078,751
	<hr/>
Total restricted cash and cash equivalents	\$4,410,167
	<hr/>

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, 2010. 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, 2010 and 2009 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, 2010, the investments were in the US Treasury Notes in the following accounts:

2010A Reserve	\$ 697,382
2010B Reserve	3,368,577
	<hr/>
Total Reserve Funds	4,065,959
2010A Construction	5,516,534
2010B Construction	26,648,818
	<hr/>
Total Construction Funds	32,165,352
Total Investments	<u>\$36,231,311</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, 2010, the Water Authority's investment was all in the 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 1.6 years and the weighted average yield of 3.33%.

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, 2010, 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, 2010 and 2009, the cost and the accumulated depreciation of the property, plant and equipment were as follows:

	<u>2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>2010</u>
Capital assets not subject to depreciation:				
Land and land rights	\$ 167,708	\$ -	\$ -	\$ 167,708
Construction in progress	<u>2,946,559</u>	<u>5,375,918</u>	<u>(4,503,069)</u>	<u>3,819,408</u>
Total capital assets not being depreciated	3,114,267	5,375,918	(4,503,069)	3,987,116
Capital assets in service being depreciated:				
Wells and standpipes	2,628,253	-	-	2,628,253
Pumping and purification	10,385,984	363,029	-	10,749,013
Distribution system	26,600,038	4,114,538	-	30,714,576
Building, vehicles and equipment	<u>2,241,831</u>	<u>21,139</u>	<u>-</u>	<u>2,262,970</u>
Total capital assets being depreciated	41,856,106	4,498,706	-	46,354,812
Less accumulated depreciation for:				
Wells and standpipes	(793,196)	(63,055)	-	(856,251)
Pumping and purification	(3,221,241)	(283,865)	-	(3,505,106)
Distribution system	(3,009,227)	(581,762)	-	(3,590,989)
Building, vehicles and equipment	<u>(2,128,439)</u>	<u>(24,631)</u>	<u>-</u>	<u>(2,153,070)</u>
Total accumulated depreciation	<u>(9,152,103)</u>	<u>(953,313)</u>	<u>-</u>	<u>(10,105,416)</u>
Total net capital assets being depreciated	<u>32,704,003</u>	<u>3,545,393</u>	<u>-</u>	<u>36,249,396</u>
Total net capital assets	<u>\$35,818,270</u>	<u>\$8,921,311</u>	<u>\$(4,503,069)</u>	<u>\$40,236,512</u>

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 6.43% to 5.65% (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, 2010 is as follows:

	<u>May 31, 2009</u>	<u>Addition</u>	<u>Reduction</u>	<u>May 31, 2010</u>	<u>Due in one year</u>	<u>Noncurrent portion</u>
Water System Revenue Bonds payable	\$30,870,000	\$40,890,000	\$(1,070,000)	\$70,690,000	\$1,525,000	\$69,165,000
Adjustment for deferred amounts:						
Deferred loss on Series 1996 Bonds	(2,054,937)	-	85,539	(1,969,398)	-	(1,969,398)
Unamortized premium on 2005 Series	1,535,549	-	(51,960)	1,483,589	-	1,483,589
Unamortized premium on Series 2010A	-	106,875	(139)	106,736	-	106,736
Total Revenue Bonds	<u>\$30,350,612</u>	<u>\$40,996,875</u>	<u>\$(1,036,560)</u>	<u>\$70,310,927</u>	<u>\$1,525,000</u>	<u>\$68,785,927</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, 2010 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	\$24,635,000
Term Bonds	2016	5.00%	5.00%	2,015,000	2,015,000
Term Bonds	2026	5.00%	5.00%	<u>3,150,000</u>	<u>3,150,000</u>
Total Series 2005				\$33,065,000	\$29,800,000
Water System Revenue Bonds, Series 2010:					
Series A Bond					
Uninsued Serial Bond	2011-2012	2.00-3.00%	2.64%	\$ 785,000	\$ 785,000
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%	<u>20,455,000</u>	<u>20,455,000</u>
Total Series 2010				\$40,890,000	\$40,890,000
Total				<u>\$73,955,000</u>	<u>\$70,690,000</u>

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

SERIES 2005 BONDS

Date	Principal	Interest	Total
2011	\$ 1,105,000	\$ 1,409,131	\$ 2,514,131
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	<u>3,150,000</u>	<u>487,500</u>	<u>3,637,500</u>
Total	<u>\$29,800,000</u>	<u>\$16,929,249</u>	<u>\$46,729,249</u>

SERIES 2010A BONDS

Date	Principal	Interest	Total
2011	\$ 420,000	\$ 237,118	\$ 657,118
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	<u>5,025,000</u>	<u>608,500</u>	<u>5,633,500</u>
Total	<u>\$6,925,000</u>	<u>\$1,732,720</u>	<u>\$8,657,720</u>

SERIES 2010B BONDS

Date	Principal	Interest	Gross Subsidy	Net Interest	Gross	Net
2011	\$ -	\$ 2,129,034	\$ (745,162)	\$ 1,383,872	\$ 2,129,034	\$ 1,383,872
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
Total	<u>\$33,965,000</u>	<u>\$48,786,971</u>	<u>\$(17,075,439)</u>	<u>\$31,711,532</u>	<u>\$82,751,971</u>	<u>\$65,676,532</u>

NOTE 6 – OTHER LONG-TERM LIABILITIES

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

	May 31, 2009	Addition	Reduction	May 31, 2010	Due in 1- year	Noncurrent Liability
Accrued vacation and sick leave	\$740,100	\$250,500	-	\$990,600	\$40,000	\$950,600

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 systems. 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 tier-1 and tier-4 levels of ERS. 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. 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 three preceding years were:

Year	Contribution Amount
2010	\$306,700
2009	\$354,260
2008	\$134,066

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 adopted a resolution for postretirement benefits. The Water Authority has been self-funding retiree benefits and as of May 31, 2010 has deferred a liability in the amount of \$945,547.

Compensated Absences

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, 2010 the liability for accrued vacation and sick days was \$990,600.

NOTE 8 – NET ASSETS

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

	2010	2009
Invested in capital assets net of related debt:		
Capital assets, net of accumulated depreciation	\$40,236,512	\$35,818,270
Less: related debt		
Revenue bonds payable	(70,690,000)	(30,870,000)
Bond premium	(1,590,325)	(1,535,549)
Loss on defeasance of 1996 Bonds	1,969,398	2,054,937
Unspent debt proceeds in construction and reserve funds	39,319,901	2,579,825
Bond issue costs	960,588	478,755
Total invested in capital assets net of related debt	10,206,074	8,526,238
Restricted for capital activity and debt service:		
Restricted cash and equivalents	1,326,758	1,293,853
Deductions:		
Customer deposits	(881,758)	(848,853)
Total restricted for capital activity and debt service	445,000	445,000
Unrestricted	642,493	1,016,914
Total net assets	\$11,293,567	\$9,988,152

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.

The number of participants as of May 31, 2010, the effective date of the annual OPEB valuation, is as follows:

<u>Participants</u>	<u>Number</u>
Active employees	44
Retired employees	3
Total	47

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, 2010, the Water Authority's annual OPEB cost (expense) of \$239,128 is equal to the Annual Required Contribution. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$26,574 for retirees and their beneficiaries, and the interest earned on the net OPEB obligations of \$33,620, the result was an increase in the Net OPEB Obligation of \$198,437 for the year ended May 31, 2010.

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 2010 and 2009 were as follows:

Annual OPEB Cost and Net OPEB Obligation

Fiscal year ending May 31,	2010	2009
A Annual Required Contribution (ARC)	\$239,128	\$233,305
B Net OPEB Obligation (NOO), beginning	747,110	539,800
C Interest on NOO at 4.5%	33,620	24,291
D Adjustment to ARC (NOO/17.02)	(43,896)	(31,716)
E Annual OPEB Cost (AOC)	<u>228,852</u>	<u>225,880</u>
F Less Amount Contributed	(30,415)	(18,570)
G Change in NOO	<u>198,437</u>	<u>207,310</u>
H NOO, Ending Balance	<u>\$945,547</u>	<u>\$747,110</u>

The funding status

	2010	2009
Actuarial accrued liability	\$1,729,921	\$1,729,921
Actuarial value of plan assets	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability	<u>\$1,729,921</u>	<u>\$1,729,921</u>
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.

<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 exhibit, 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 \$214,378 for the year ended May 31, 2010 and \$116,135 for the year ended May 31, 2009 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 officials 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, 2010, 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 \$276,000 for the fiscal year ended May 31, 2010. 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, 2010 are:

<u>Year</u>	<u>Rent</u>
2011	\$ 240,000
2012	252,000
Total minimum lease payments	<u>\$ 492,000</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>	
2011	\$ 226,663
2012	234,434
2013	242,491
2014	250,843
2015	<u>259,623</u>
Total	<u>\$1,214,054</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>
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%
2001	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, 2010 through August 31, 2010, 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, 2010, and have issued our report thereon dated August 31, 2010. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Water Authority of Western Nassau County as of May 31, 2009, as described in our report on the Water Authority of Western Nassau County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

TABRIZCHI & Co., CPA, P.C.

Garden City, NY
August 31, 2010