

**WATER AUTHORITY OF WESTERN  
NASSAU COUNTY**

**FINANCIAL STATEMENTS**

Years Ended May 31, 2008 and 2007

## TABLE OF CONTENTS

### Page No.

Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	2-7
Financial Statements:	
Statements of Net Assets.....	8
Statements of Revenues, Expenses and Changes in Net Assets.....	9
Statements of Cash Flows .....	10
Notes to Financial Statements .....	11-21

### OTHER REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	22-23
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## INDEPENDENT AUDITORS' REPORT

To the 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, (a public benefit corporation of the State of New York) as of and for the years ended May 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Water Authority of Western Nassau County's ("Water Authority") management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 respective financial position of the Water Authority of Western Nassau County as of May 31, 2008 and 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2008, on our consideration of the Water Authority's internal control over financial reporting and 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 2 through 7 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 and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hauppauge, New York  
December 1, 2008

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
May 31, 2008 and 2007

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, Stewart Manor, South Floral Park and portions of Garden City, and Valley Stream. The service area also includes the unincorporated areas of Elmont, New Hyde Park, Floral Park Center and portions of Franklin Square and North Valley Stream.

**Overview of the Financial Statements**

The financial statements of the Water Authority include the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows, and Notes to the Financial Statements.

The Statements of Net Assets, or balance sheets, provide information about the nature, amount of investments and resources (assets) and the obligations to the Water Authority's creditors (liabilities), with the difference between the two reported as net assets.

The Statements of Revenues, Expenses and Changes in Net Assets, or income statements, show how the Water Authority's net assets changed during the year. It accounts for all of the year's revenues and expenses, measures the financial results of the Water Authority's operations for the year and can be used to determine how the Water Authority has funded its costs.

The Statements of Cash Flows provide information about the Water Authority's cash receipts, cash disbursements, and net changes in cash resulting from operations, financing and investing activities.

The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Water Authority's accounting methods and policies.

Management provides the following discussion and analysis of the Water Authority's financial position and activities. This overview is provided for the years ended May 31, 2008 and 2007. The reader should use the information contained in this discussion and analysis in conjunction with the Water Authority's financial statements, which immediately follow this section.

**Financial Highlights**

Management believes that the Water Authority's financial condition is strong and improved for the year ended May 31, 2008. The following are financial highlights:

- The assets of the Water Authority exceeded the liabilities at the close of the most current year by approximately \$9.0 million (net assets). Unrestricted net assets of the Water Authority were approximately \$0.7 million.
- The change in net assets of the Water Authority for the most current year was an increase of approximately \$2.7 million compared with an increase of approximately \$0.3 million in the prior year. The material component of the current year increase is the receipt of a \$2.4 million legal settlement.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 May 31, 2008 and 2007

**Summary of Net Assets and Changes in Net Assets**

Net assets are an indication of the Water Authority's financial strength. Our analysis below focuses on the net assets and changes in net assets of the Water Authority:

**Condensed Statements of Net Assets**

As of May 31,

	2008	2007	2006
<b>ASSETS</b>			
Current assets	\$ 4,737,075	\$ 2,526,448	\$ 2,534,498
Restricted assets	6,584,103	7,835,560	9,942,644
Capital and other assets	33,281,568	32,212,160	30,499,093
Total Assets	<u>44,602,746</u>	<u>42,574,168</u>	<u>42,976,235</u>
<b>LIABILITIES</b>			
Current liabilities	3,074,762	3,071,025	3,076,191
Non-current liabilities	32,493,619	33,165,596	33,868,185
Total Liabilities	<u>35,568,381</u>	<u>36,236,621</u>	<u>36,944,376</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of debt	7,874,788	6,749,058	5,988,896
Restricted	500,000	590,579	1,311,900
Unrestricted	659,577	(1,002,090)	(1,268,937)
Total Net Assets	<u>\$ 9,034,365</u>	<u>\$ 6,337,547</u>	<u>\$ 6,031,859</u>

The Water Authority's total assets at May 31, 2008 were \$44.6 million, an increase of \$2.0 million or 4.8% from the prior year. Total liabilities at May 31, 2008 were \$35.6 million, a decrease of \$0.7 million or 1.8% from the prior year. Total net assets of the Water Authority at May 31, 2008 were \$9.0 million, an increase of approximately \$2.7 million or 42.6% from the prior year. Of the Water Authority's net assets, \$7.9 million were invested in capital assets, net of related debt, \$0.5 million were restricted for debt service and capital and \$0.7 million were unrestricted.

The Water Authority's total assets at May 31, 2007 were \$42.6 million, a decrease of \$0.4 million or 0.9% from the prior year. Total liabilities at May 31, 2007 were \$36.2 million, a decrease of \$0.7 million or 1.9% from the prior year. Total net assets of the Water Authority at May 31, 2007 were \$6.3 million, an increase of approximately \$0.3 million or 5.0% from the prior year. Of the Water Authority's net assets, \$6.7 million were invested in capital assets, net of related debt, \$0.6 million were restricted for debt service and capital and \$(1.0) million were unrestricted.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 May 31, 2008 and 2007

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

For the years ended May 31,

	2008	2007	2006
Water service revenues	\$ 10,671,542	\$ 10,106,910	\$ 9,588,772
Operating expenses	8,690,571	8,214,144	8,313,046
Operating Income	1,980,971	1,892,766	1,275,726
Non-operating income	517,565	687,282	599,312
Non-operating expenses	(1,573,818)	(1,524,360)	(1,633,816)
Total Non-Operating Expense	(1,056,253)	(837,078)	(1,034,504)
Income before extraordinary item	924,718	1,055,688	241,222
Extraordinary item	2,362,677	-0-	-0-
Change in Net Assets	3,287,395	1,055,688	241,222
Board approved subsidies	(590,577)	(750,000)	(500,000)
Net Change in Total Net Assets	\$ 2,696,818	\$ 305,688	\$ (258,778)

Water service revenues increased approximately \$0.6 million or 5.6% during the current year from approximately \$10.1 million for the year ended May 31, 2007 to approximately \$10.7 million for the year ended May 31, 2008. This increase in water sales revenue was consistent with the rate increase approved by the Board of Directors in the annual operating plan. Water service revenues increased approximately \$0.5 million or 5.4% during the prior year from approximately \$9.6 million for the year ended May 31, 2006 to approximately \$10.1 million for the year ended May 31, 2007. This increase in water sales revenue was consistent with the rate increase approved by the Board of Directors in the prior year annual operating plan.

During the current year ended May 31, 2008, the Water Authority was awarded approximately \$2.4 million in settlement of a Methyl Tertiary Butyl Ether Products Liability class action lawsuit. The settlement amount net of legal fees is included as an extraordinary item in the financial statements. This settlement accounts for 87.6% of the increase in Net Assets for the year ended May 31, 2008.

Operating expenses increased approximately \$0.5 million or approximately 5.8% during the current year from approximately \$8.2 million for the year ended May 31, 2007 to approximately \$8.7 for the year ended May 31, 2008. Maintenance and repair costs to the treatment facilities which are necessary for the safety of water customers increased significantly during the current year. Operating expenses decreased approximately \$0.1 million or approximately 1.2% during the prior year from approximately \$8.3 million for the year ended May 31, 2006 to approximately \$8.2 million for the year ended May 31, 2007. Depreciation expense decreased significantly during the previous year due to certain assets having been fully depreciated.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 May 31, 2008 and 2007

**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. The Operating Plan as compared to the actual revenues and expenses for the year ended May 31, 2008 is as follows:

Water service revenues are projected based on average historical usage. This year's operating revenues were approximately 3.1% under the planned revenues due to lower than expected consumption. Actual operating expenses were approximately 2.2% under planned expenses.

	Actual	Planned	Variance
<b>Operating Revenues:</b>			
Water service	\$ 9,093,383	\$ 9,379,700	\$ (286,317)
Fire protection	1,524,886	1,524,600	286
Other	53,273	44,800	8,473
Total Operating Revenues	10,671,542	10,949,100	(277,558)
<b>Operating Expenses:</b>			
Operations	6,108,059	6,176,200	68,141
Maintenance	1,767,985	1,797,300	29,315
Depreciation expense	814,527	912,750	98,223
Total Operating Expenses	8,690,571	8,886,250	195,679
Operating income	1,980,971	2,062,850	(81,879)
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	293,519	509,000	(215,481)
Rental of property	224,046	280,900	(56,854)
Amortization expense	(71,609)	(74,400)	2,791
Interest on water system revenue bonds	(1,502,209)	(1,802,070)	299,861
Total Non-Operating Revenues (Expenses)	(1,056,253)	(1,086,570)	30,317
Income Before Extraordinary Item	924,718	976,280	(51,562)
<b>Extraordinary Item</b>	2,362,677	-0-	2,362,677
Change in Net Assets	3,287,395	976,280	2,311,115
Board approved subsidies	(590,577)	(590,577)	-0-
Net Change in Total Net Assets	<u>\$ 2,696,818</u>	<u>\$ 385,703</u>	<u>\$ 2,311,115</u>

**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.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
May 31, 2008 and 2007

**Capital Assets** (continued)

Capital assets consisted of the following for the years ended May 31, 2008 and 2007:

	2008	2007
Land	\$ 167,708	\$ 167,708
Construction in progress	963,193	826,222
Wells and standpipes	2,628,253	2,627,875
Pumping & purification	10,325,300	10,155,942
Distribution system	24,201,878	22,538,121
Building, vehicles & equipment	2,169,081	2,113,152
	<hr/>	<hr/>
Total Capital Assets	40,455,413	38,429,020
Accumulated depreciation and amortization	8,304,763	7,734,235
	<hr/>	<hr/>
Total Net Capital Assets	<u>\$ 32,150,650</u>	<u>\$ 30,694,785</u>

Additional information on the Water Authority's capital assets is shown in Note 4 to the financial statements.

**Debt Administration**

The Water Authority has issued \$33,065,000 of Water System Revenue Bonds, Series 2005 to refinance the Water System Revenue Bonds, Series 1996 in addition to providing financing for certain construction expenditures of the water system and costs of issuance relating to the Water System Revenue Bonds, Series 2005 and funding for a deposit to the reserve account.

According to the official statement of the Water System Revenue Bonds, Series 2005 the Water Authority must comply with a rate covenant requiring that net revenues equal at least 1.20 times the debt service for each year.

Additional information on the Water Authority's capital assets is shown in Note 4 to the financial statements.

**Credit Ratings**

The Water Authority has an Aaa insured rating assigned to its revenue bonds by Moody's Investors Service.



**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
May 31, 2008 and 2007

**Economic Factors and Next Year's Plan and Rates**

The Water Authority derives substantially all of its operating revenues from metered water sales. Water revenues are significantly influenced by the amount of rainfall particularly during the summer months. As a result, these revenues are unpredictable and volatile. Water revenues are planned on the conservative side, which is in anticipation of a rainy year. However, actual water revenues can still fall far short of estimates. The Water Authority also believes that such adverse weather conditions can easily recur consecutively over multiple years. Water rates, gallons pumped and metered revenues for the past five years are as follows:

	<u>Gallons Pumped</u>	<u>Gallons Billed</u>	<u>Water Revenue Recognized</u>
Years ended May 31, 2008	4,199,998	3,611,352	\$ 9,093,383
2007	4,409,328	3,555,072	8,630,742
2006	4,565,103	3,756,358	8,216,306
2005	4,202,395	3,434,275	8,427,702
2004	4,230,259	3,465,330	7,968,244

The Water Authority reviews its rates annually in concurrence with the adoption of its annual operating plan. The Water Authority is required to set rates and fees sufficient to cover all its operating and capital expenses as well as meeting debt service covenant requirements.

**Contacting the Water Authority's Financial Management**

This financial report is designed to provide our 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 financial information, contact the Water Authority's Superintendent at 58 South Tyson Avenue, Floral Park, New York.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENTS OF NET ASSETS**  
May 31, 2008 and 2007

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 298,547	\$ 443,578
Accounts receivable, net	329,033	330,053
Accrued unbilled revenue	1,262,000	1,340,000
Due from litigation settlement	2,362,677	-0-
Prepaid expenses and other assets	199,973	135,440
Inventory of materials and supplies	284,845	277,377
Total Current Assets	<u>4,737,075</u>	<u>2,526,448</u>
<b>Restricted Cash and Cash Equivalents</b>		
Rate stabilization fund	500,000	590,579
Customer deposits	812,514	767,341
Total Restricted Cash and Cash Equivalents	<u>1,312,514</u>	<u>1,357,920</u>
<b>Restricted Assets Held by Trustee</b>		
Bond construction fund	2,605,019	3,517,821
Bond reserve fund	2,396,166	2,722,578
Bond payment fund	270,404	237,241
Total Restricted Assets	<u>5,271,589</u>	<u>6,477,640</u>
<b>Other Assets</b>		
Capital assets:		
Non-depreciable	1,130,901	993,930
Depreciable, net	31,019,749	29,700,855
Other assets	1,130,918	1,517,375
Total Other Assets	<u>33,281,568</u>	<u>32,212,160</u>
Total Assets	<u>44,602,746</u>	<u>42,574,168</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	1,010,814	1,019,496
Deferred revenue	819,887	834,656
Accrued interest payable	122,881	125,393
Non-current liabilities due within one year		
Water revenue bonds payable	1,040,000	1,005,000
Due to Employees' Retirement System	47,600	53,300
Compensated absences	33,580	33,180
Total Current Liabilities	<u>3,074,762</u>	<u>3,071,025</u>
<b>Non-Current Liabilities</b>		
Water revenue bonds payable	28,731,922	29,691,579
Unamortized premium on revenue bonds	1,586,052	1,634,856
Customer deposits payable	997,825	767,341
Post employment benefits payable	539,800	441,400
Compensated absences	638,020	630,420
Total Non-Current Liabilities	<u>32,493,619</u>	<u>33,165,596</u>
Total Liabilities	<u>35,568,381</u>	<u>36,236,621</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	7,874,788	6,749,058
Restricted	500,000	590,579
Unrestricted	659,577	(1,002,090)
Total Net Assets	<u>\$ 9,034,365</u>	<u>\$ 6,337,547</u>

See notes to financial statements.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
Years ended May 31, 2008 and 2007

	2008	2007
<b>Operating Revenues:</b>		
Water sales - residential and apartments	\$ 7,590,343	\$ 7,312,545
Water sales - commercial and municipal	1,503,040	1,318,197
Fire protection	1,524,886	1,425,535
Other	53,273	50,633
	<u>10,671,542</u>	<u>10,106,910</u>
<b>Total Operating Revenues</b>	<u>10,671,542</u>	<u>10,106,910</u>
<b>Operating Expenses:</b>		
Operations	6,108,059	6,141,007
Maintenance	1,767,985	1,546,139
Depreciation expense	814,527	526,998
	<u>8,690,571</u>	<u>8,214,144</u>
<b>Total Operating Expenses</b>	<u>8,690,571</u>	<u>8,214,144</u>
<b>Operating Income</b>	1,980,971	1,892,766
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	293,519	445,150
Rental of property	224,046	242,132
Amortization expense	(71,609)	(31,524)
Interest on water system revenue bonds	(1,502,209)	(1,492,836)
	<u>(1,056,253)</u>	<u>(837,078)</u>
<b>Total Non-Operating Expenses</b>	<u>(1,056,253)</u>	<u>(837,078)</u>
<b>Income Before Extraordinary Item</b>	924,718	1,055,688
<b>Extraordinary Item - Due from Litigation Settlement</b>	<u>2,362,677</u>	<u>-0-</u>
<b>Changes in Net Assets</b>	3,287,395	1,055,688
<b>Less: Board Approved Subsidies</b>	<u>(590,577)</u>	<u>(750,000)</u>
<b>Net Change in Total Net Assets</b>	2,696,818	305,688
<b>Total Net Assets - Beginning of Year</b>	<u>6,337,547</u>	<u>6,031,859</u>
<b>Total Net Assets - End of Year</b>	<u>\$ 9,034,365</u>	<u>\$ 6,337,547</u>

See notes to financial statements.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENTS OF CASH FLOWS**  
Years ended May 31, 2008 and 2007

	2008	2007
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 10,966,277	\$ 10,169,763
Payments to suppliers of goods or services	(4,192,448)	(4,652,727)
Payments to employees for services	(3,319,704)	(3,178,897)
Board approved subsidies	(590,577)	(750,000)
Net Cash Provided by Operating Activities	<u>2,863,548</u>	<u>1,588,139</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of fixed assets	(2,270,392)	(1,850,872)
Repayments of water revenue bonds	(1,005,000)	(960,000)
Interest paid on water revenue bonds	(1,502,209)	(1,492,838)
Net Cash Used in Capital and Related Financing Activities	<u>(4,777,601)</u>	<u>(4,303,710)</u>
<b>Cash Flows from Investing and Other Non-Operating Activities</b>		
Increase in restricted assets	1,206,051	1,489,350
Rental of property	224,046	242,132
Interest and dividends received	293,519	445,150
Net Cash Provided by Investing Activities	<u>1,723,616</u>	<u>2,176,632</u>
Net Decrease in Cash and Cash Equivalents	(190,437)	(538,939)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,801,498</u>	<u>2,340,437</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,611,061</u>	<u>\$ 1,801,498</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 1,980,971	\$ 1,892,766
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	814,527	526,998
(Increase) decrease in:		
Accounts receivable	1,020	(55,999)
Accrued unbilled revenue	78,000	38,000
Prepaid expenses and other assets	(64,534)	136,059
Inventory of materials and supplies	(7,468)	(31,215)
Other assets	346,388	(416,008)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(8,682)	23,294
Unearned revenue	(14,769)	(18,493)
Accrued interest payable	(2,512)	(58,505)
Due to Employees' Retirement System	(5,700)	-0-
Customer deposits	230,484	99,345
Board approved subsidies	(590,577)	(750,000)
Post employment benefits	98,400	131,136
Compensated absences	8,000	70,761
Net Cash Provided by Operating Activities	<u>\$ 2,863,548</u>	<u>\$ 1,588,139</u>

See notes to financial statements.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 1 – Organization**

The Water Authority of Western Nassau County (the "Water Authority") is a Public Benefit Corporation created in 1990 under the Public Authorities Law of the State of New York. The Water Authority was created to acquire, construct, finance, operate and maintain the supply and distribution system for the benefit of the residents within the boundaries of the Water Authority of Western Nassau County. The Water Authority currently provides water service to approximately 28,000 customers with a population of approximately 120,000.

The Water Authority is governed by a Board of Directors consisting of nine members. The Board of the Town of Hempstead appoints two members and the Board of the Town of North Hempstead appoints one member. The Boards of the Incorporated Villages of Bellerose, Floral Park, Garden City, New Hyde Park, South Floral Park and Stewart Manor each appoint a single member. Each member serves for a period of two years. The number of votes for the Board members is proportional to the number of water customers in the Town or Village that appointed them.

**Note 2 – Summary of Significant Accounting Policies**

Basis of Accounting and Presentation

The accompanying financial statements of the Water Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

The Water Authority is engaged in a business-type activity and accordingly is accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statements of Net Assets. The Statements of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Operating revenues in the Proprietary Fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Water Authority applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

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, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows and the inclusion of a Management Discussion and Analysis.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 2 – Summary of Significant Accounting Policies (continued)**

Basis of Accounting and Presentation (continued)

GASB requires the classification of net assets into three components – invested in capital assets, net of related debt, restricted and unrestricted. These classifications included in the Statement of Net Assets are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, the portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted”.

Cash and Cash Equivalents

For purposes of presenting the statement of cash flows, the Water Authority considers all highly liquid short-term investments with a maturity of three months or less from the date of purchase to be cash or cash equivalents. The Statement of Cash Flows presented uses the direct method of reporting cash flows.

Restricted Cash and Cash Equivalents

The Rate Stabilization Fund (reported in Cash – Restricted on the Statement of Net Assets) is a fund maintained by the Water Authority. Money deposited in the Rate Stabilization Fund shall be used in the following order:

- To the extent provided for in the current operating plan, money should be credited to or transferred to any other fund or account created under resolution.
- 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.
- 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.
- Transferred to the General Fund.

Included in operating revenues – water sales were Board approved customer subsidy transfers from the Rate Stabilization Fund of \$590,577 and \$750,000 for the years ended May 31, 2008 and 2007, respectively.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 2 – Summary of Significant Accounting Policies (continued)**

Accrued Unbilled Revenues

Accrued unbilled revenues represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and based on estimated billings occurring in the first three months of the succeeding year using historical trends.

Accounts Receivable

Accounts receivable is net of an allowance for doubtful accounts of \$25,000 at May 31, 2008 and 2007.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the Statements of Net Assets.

Materials and Supplies

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

Capital Assets

Capital assets are carried at cost to the Water Authority. Improvements, renewals 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:

Distribution System	35-105 years
Wells and Standpipes	40-60 years
Pumping and Purification	20-50 years
Other Property and Equipment	5-10 years

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.

Restricted Assets Held by Trustee

*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 is restricted to the cost of improvements or the replacement of the water system.

*Bond Fund*

The Water Authority's bond resolution authorizing the Water System Revenue Bonds, Series 2005 bond issue established the Bond 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 and the Bond Reserve Fund. All money deposited in the Bond Fund shall be used solely for the purpose of paying the principal and interest on the senior lien bonds and for the retirement of the senior lien bonds prior to maturity as stated in the bond resolution.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 2 – Summary of Significant Accounting Policies (continued)**

Unamortized Bond Premiums and Issue Costs

Premiums and 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.

Deferred Revenues

Deferred revenues include advanced payments by customers and charges for future repairs. The Board of Directors approves 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.

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 non-current 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.

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 described under the Contingent Agreements section of Note 10. 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 State Public Service Commission.

Operating and Non-Operating Revenues and Expenses

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

Income Taxes

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



**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 2 – Summary of Significant Accounting Policies (continued)**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Note 3 – Cash, Cash Equivalents and Investments**

The guidelines established by the Water Authority permit the investment of funds held by the Water Authority and funds held in trust for the Water Authority to be invested in accordance with New York State Public Authority Law. Investments must be in the form of obligations of the State of New York, or in general obligations of its political subdivisions; obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government; and in collateralized time deposits or certificates of deposits issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC). The Water Authority's investment policy limits its deposit and investment activity to time deposits, demand deposits, certificate of deposits issued by banks or trust companies and direct obligations of the United States of America.

It is the Water Authority's policy to require its demand deposits, money market deposits and certificates of deposit, not controlled by the Trustee to be fully collateralized by federal deposit insurance or other collateral held in the name of the Water Authority. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States of America and its agencies.

Custodial Credit Risk – Deposits/Investments - Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover the deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

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

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

At May 31, 2008 the Water Authority's unrestricted bank balances were \$1,296,242. This amount is exclusive of petty cash in the amount of \$700. Of the bank balances, \$200,000 was covered by Federal deposit insurance and \$1,096,242 was secured by collateral held by the Water Authority's agent, a third-party financial institution, in the Water Authority's name.

Restricted investments held by the Trustee as of May 31, 2008 totaled \$5,714,036. Of the total investments \$2,406,000 was held in Treasury Bills which are recorded at cost. The fair value of the Treasury Bills is not materially different from their reported amount. The remaining balance was held in cash management accounts consisting primarily of high interest earning cash investments.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
 May 31, 2008 and 2007

**Note 3 – Cash, Cash Equivalents and Investments** (continued)

Credit Risk – State law limits investments to those authorized by State statutes. The Water Authority has a written investment policy.

Concentration of Credit Risk – Credit risk can arise as a result of failure to adequately diversify investments. Concentration risk disclosure is required for positions of 5 percent or more in securities of a single issuer.

As of May 31, 2008 the Water Authority did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

**Note 4 – Capital Assets**

A summary of changes in capital assets for the year ended May 31, 2008 is as follows:

	Balance June 1, 2007	Additions	Deletions / Transfers	Balance May 31, 2008
<b>Non-depreciable capital assets</b>				
Land and land rights	\$ 167,708	\$ -0-	\$ -0-	\$ 167,708
Construction in progress	826,222	2,281,024	(2,144,053)	963,193
<b>Total Non-Depreciable Capital Assets</b>	<b>993,930</b>	<b>2,281,024</b>	<b>(2,144,053)</b>	<b>1,130,901</b>
<b>Depreciable capital assets</b>				
Building, vehicles and equipment	2,113,152	73,713	(17,784)	2,169,081
Pumping and purification	10,155,942	169,358	-0-	10,325,300
Wells and standpipes	2,627,875	378	-0-	2,628,253
Distribution system	22,538,121	1,889,972	(226,215)	24,201,878
<b>Total Depreciable Capital Assets</b>	<b>37,435,090</b>	<b>2,133,421</b>	<b>(243,999)</b>	<b>39,324,512</b>
<b>Less: accumulated depreciation</b>				
Building, vehicles and equipment	2,098,678	34,600	(17,784)	2,115,494
Pumping and purification	2,661,513	278,910	-0-	2,940,423
Wells and standpipes	667,091	63,050	-0-	730,141
Distribution system	2,306,953	437,967	(226,215)	2,518,705
<b>Total Accumulated Depreciation</b>	<b>\$ 7,734,235</b>	<b>\$ 814,527</b>	<b>\$ (243,999)</b>	<b>8,304,763</b>
<b>Total Net Depreciable Capital Assets</b>				<b>31,019,749</b>
<b>Total Net Capital Assets</b>				<b>\$32,150,650</b>

Depreciation is recorded on the straight-line basis over the estimated useful lives, in years, of the respective assets. Depreciation of capital assets totaled \$814,527 and \$526,998 for the years ended May 31, 2008 and 2007, respectively. In addition Accumulated Depreciation was reduced by approximately \$60,000 for the year ended May 31, 2007 due to charges for retirements and costs associated with retiring plant assets net of salvage value.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
 May 31, 2008 and 2007

**Note 4 – Capital Assets (continued)**

The Water Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Water Authority's policy is to record an impairment loss in the period when the Water Authority determines that the carrying amount of the asset will not be recoverable. At May 31, 2008, the Water Authority has not recorded any such impairment losses.

**Note 5 – Indebtedness**

**Water System Revenue Bonds**

The Water Authority has issued \$33,065,000 Water System Revenue Bonds, Series 2005 to provide sufficient funds to affect the advanced refunding of the Water System Revenue Bonds, Series 1996 and to secure financing for future capital needs. The following is a summary of the water revenue bonds outstanding with corresponding interest rates and maturity dates:

Description of issue	Maturity Date	Interest Rate	Amount Outstanding
Water system revenue bonds, serial bond, 2005	2008-2026	3.00% - 5.00%	\$ 26,745,000
Water system revenue bonds, term bond, 2005	2030	5.00%	2,015,000
Water system revenue bonds, term bond, 2005	2035	5.00%	3,150,000
Total Authority Activities			<u>\$ 31,910,000</u>

A summary of changes in long-term indebtedness for the year ended May 31, 2008 is as follows:

	Balance June 1, 2007	Additions	Reductions	Balance May 31, 2008
Water revenue bonds	\$ 32,915,000		\$ (1,005,000)	\$ 31,910,000
Deferred loss on refunding	(2,218,421)		80,343	(2,138,078)
Water revenue bonds payable	30,696,579		(924,657)	29,771,922
Less: amount due within one year	(1,005,000)		(35,000)	(1,040,000)
Water revenue bonds, non-current	<u>\$ 29,691,579</u>	<u>\$ -0-</u>	<u>\$ (959,657)</u>	<u>\$ 28,731,922</u>

The following table summarizes the future debt service requirements as of May 31, 2008:

Year	Principal	Interest	Total
2009	\$ 1,040,000	\$ 1,471,971	\$ 2,511,971
2010	1,070,000	1,440,518	2,510,518
2011	1,105,000	1,405,908	2,510,908
2012	1,140,000	1,367,131	2,507,131
2013	1,180,000	1,327,115	2,507,115
2014-2018	6,650,000	5,890,356	12,540,356
2019-2023	8,425,000	4,094,896	12,519,896
2024-2028	7,095,000	1,861,688	8,956,688
2029-2033	2,855,000	768,354	3,623,354
2034-2035	1,350,000	96,375	1,446,375
<b>Total</b>	<u>\$ 31,910,000</u>	<u>\$ 19,724,312</u>	<u>\$ 51,634,312</u>

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
 May 31, 2008 and 2007

**Note 5 – Indebtedness** (continued)

Water System Revenue Bonds

During the year ended May 2006, the Water Authority performed a refunding of its debt to obtain a financial benefit due to lowered interest rates. The interest on the refunding bonds range from 2.84% to 5.30%. The \$28,155,000 remaining balance of the Water Authority's outstanding Series 1996 bonds had interest rates ranging from 5.65% to 6.43%. 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 United States of America. 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 the Series 1996 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

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. The net carrying value of the refunding debt as shown on the Statements of Net Assets is shown net of unamortized deferred loss on refunding of \$2,138,078 for the year ended May 31, 2008 and \$2,218,421 for the year ended May 31, 2007. These bonds were issued at a premium of \$1,642,140 and bond issuance cost of \$512,778. Amortization of premiums and issuance costs are as follows:

	Balance June 1, 2007	Amortization	Balance May 31, 2008
Premiums on revenue bonds	\$ 1,634,856	\$ (48,804)	\$ 1,586,052
Bond issue costs	\$ 510,453	\$ (15,578)	\$ 494,875

The Water Authority covenants in its Bond Resolution that it will establish water rates so that each year revenues together with other moneys which lawfully may be applied to the purpose, will be equal to at least the sum of debt service for such year on all bonds, the necessary expenses of operating, maintaining, renewing and replacing the water system, and maintaining the reserve accounts and secondary reserve accounts at the applicable reserve account requirement and the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the revenues in such year. In addition net revenue shall equal at least 1.20 times the debt service for such year. As of May 31, 2008, the Water Authority is in compliance with its financial covenants.

**Note 6 – Compensated Absences**

Employees of the Water Authority earn vacation leave each month at a scheduled rate in accordance with their years of service and sick leave at a rate of one day per month. Generally, employees are entitled to a maximum of sixty days of sick leave and all accrued vacation leave upon termination. Estimated vacation and sick leave accumulated by Water Authority employees have been recorded in the Statements of Revenues, Expenses and Changes in Net Assets. Payment of vacation time and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. The total value of the Water Authority's accumulated vacation time and sick leave was \$671,600 and \$663,600 as of May 31, 2008 and 2007, respectively.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 7 – Retirement System**

Plan Description

The Water Authority of Western Nassau County participates in the New York State and Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan (the "Retirement System"). This is a cost sharing multiple public employer retirement system. The Retirement System provides retirement benefits as well as death and disability benefits. Obligation 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 a sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement System and for the custody and control of its funds. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The Retirement System requires all regular, full time employees who joined the Retirement System on or after September 1, 1983 to contribute 3% of their gross earnings toward their retirement benefits until they accrue ten years of service credit.

The Water Authority is required to contribute at an actuarially determined rate. Contributions are deducted by employers from employees' paychecks and are sent currently to the New York State and Local Employees' Retirement System. 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 required contributions for the current year and two preceding years are as follows:

2008	\$285,414
2007	\$319,035
2006	\$309,665

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

**Note 8 – Post-Employment Health Care Benefits**

In addition to pension benefits, the Water Authority provides health insurance coverage, for retired employees. Employees retiring from the Retirement System must have completed ten years of service with the Water Authority in order to be eligible for these benefits. Currently, health care benefits are provided through the Oxford Health Plan. The Water Authority recognizes the cost of providing these future benefits currently by recording an estimated liability in the amount of \$539,800 and \$441,400 for the years ended May 31, 2008 and 2007, respectively. During the year ended May 31, 2008, \$5,486 was paid on behalf of 2 retirees and during the year ended May 31, 2007, \$1,893 was paid on behalf of 1 retiree.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 9 – 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 was \$2,362,677 net of legal costs. Payment was received during October 2008 and was recognized as an extraordinary item in the Statements of Revenue, Expenses and Changes in Net Assets.

**Note 10 – Commitments and Contingencies**

Lease Commitments

The Water Authority is committed under a noncancelable operating lease for the office building located at 58 South Tyson Avenue, Floral Park, New York. Total rental expenditure on this lease was \$249,215 for the year ended May 31, 2008 and \$221,464 for 2007. Future minimum operating lease commitments are as follows:

Years ending May 31, 2009	\$240,000
2010	<u>252,000</u>
	<u><u>\$492,000</u></u>

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 two years.

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.

Contingent Agreements

On November 2, 2006 the New York Racing Association (“NYRA”), the largest metered customer of the Water Authority filed for Chapter 11 Bankruptcy in the United States Bankruptcy Court for the Southern District of New York. On December 1, 2007, NYRA and the Water Authority entered into an agreement with respect to pending and future charges. As a result of this agreement the Water Authority is guaranteed payment to cover these pending charges and is assured of payment for future required service. During October 2008 a settlement was reached between the Water Authority and NYRA for all outstanding charges.

**Note 11 – Recently Issued Pronouncements**

**GASB Statement Number 45: “Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions”**

In 2004, the Governmental Accounting Standards Board (“GASB”) approved new accounting standards applicable to “other post-employment benefits” (OPEB’s), which are non-pension benefits provided after a person leaves employment, including retiree health care. Until now, these benefits have generally been administered by municipalities on a pay-as-you-go basis and by recording an estimate as a liability in the financial statements.

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2008 and 2007

**Note 11 – Recently Issued Pronouncements** (continued)

GASB Statement Number 45: “Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions” (continued)

GASB 45 requires municipalities which adhere to generally accepted accounting principles (“GAAP”) to account for OPEB liabilities on an accrual basis much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities have not set aside any funds against this liability.

Under GASB 45, based on actuarial valuation, an annual required contribution (“ARC”) will be determined for each municipality and then be periodically updated depending on the number of members within the OPEB plan.

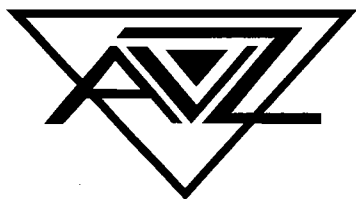
The Water Authority will be required to implement GASB 45 for the year beginning June 1, 2008.

GASB Statement Number 49: “Accounting and Financial Reporting for Pollution Remediation Obligations”

The Governmental Accounting Standards Board (GASB) approved new accounting standards applicable to financial reporting requirements for pollution remediation obligations.

GASB No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting requirements for pollution (including contamination) remediation obligations.

The Water Authority is required to implement GASB No. 49 for the year beginning June 1, 2008.



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

To the Board of Directors  
Water Authority of Western Nassau County

We have audited the basic financial statements of the Water Authority of Western Nassau County, New York, as of and for the years ended May 31, 2008 and 2007, as listed in the table of contents and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Water Authority of Western Nassau County's ability to initiate, authorize record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Water Authority of Western Nassau County's financial statements that is more than inconsequential will not be prevented or detected by the Water Authority of Western Nassau County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Water Authority of Western Nassau County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 of Western Nassau County'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 the Board, management, and federal or state awarding agencies and is not intended to be and should not be used by anyone other than specified parties.

A handwritten signature in cursive script, appearing to read "Alfred J. Viggiano, President of G.P.C.", written in dark ink.

Hauppauge, New York  
December 1, 2008