

**WATER AUTHORITY OF WESTERN
NASSAU COUNTY**

FINANCIAL STATEMENTS

Years Ended May 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note 2 to the financial statements, the Water Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (OPEB)* and Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* as of and for the year ended May 31, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2009, 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.

PERSONAL SERVICE. TRUSTED ADVICE.

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The management's discussion and analysis 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.

Albrecht, Viggiano, Jurek & Co., P.C.

Hauppauge, New York
December 22, 2009

WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2009 and 2008

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, 2009 and 2008. 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, 2009. The following are financial highlights:

- The assets of the Water Authority exceeded the liabilities at the close of the most current year by approximately \$10.0 million (net assets). Unrestricted net assets of the Water Authority were approximately \$1.0 million.
- The change in net assets of the Water Authority for the most current year was an increase of approximately \$0.9 million an increase of approximately 9.9%.
- The Water Authority increased capital assets by approximately \$4.5 million during the year including water main replacements of approximately \$3.0 million, installing radio transmitters on meters at a cost of approximately \$0.6 million and continuing construction on the Water Authority's new headquarters at a cost of approximately \$0.9 million.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 May 31, 2009 and 2008

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,

	2009	2008	2007
ASSETS			
Current assets	\$ 5,380,906	\$ 4,737,075	\$ 2,526,448
Restricted assets	4,154,413	6,584,103	7,835,560
Capital and other assets	36,896,959	33,281,568	32,212,160
Total Assets	<u>46,432,278</u>	<u>44,602,746</u>	<u>42,574,168</u>
LIABILITIES			
Current liabilities	4,755,420	3,074,762	3,071,025
Non-current liabilities	31,688,706	32,493,619	33,165,596
Total Liabilities	<u>36,444,126</u>	<u>35,568,381</u>	<u>36,236,621</u>
NET ASSETS			
Invested in capital assets, net of debt	8,526,238	6,288,736	5,114,202
Restricted	445,000	500,000	590,579
Unrestricted	1,016,914	2,245,629	632,766
Total Net Assets	<u>\$ 9,988,152</u>	<u>\$ 9,034,365</u>	<u>\$ 6,337,547</u>

The Water Authority's total assets at May 31, 2009 were approximately \$46.4 million, an increase of approximately \$1.8 million or 4.0% from the prior year. Total liabilities at May 31, 2009 were approximately \$36.4 million, an increase of approximately \$0.9 million or 2.5% from the prior year. Total net assets of the Water Authority at May 31, 2009 were approximately \$10.0 million, an increase of approximately \$0.9 million or 9.9% from the prior year. Of the Water Authority's net assets, approximately \$8.5 million were invested in capital assets, net of related debt, approximately \$400,000 were restricted for debt service and capital and approximately \$1.0 million were unrestricted.

The Water Authority's total assets at May 31, 2008 were approximately \$44.6 million, an increase of approximately \$2.0 million or 4.8% from the prior year. Total liabilities at May 31, 2008 were approximately \$35.6 million, a decrease of approximately \$0.7 million or 1.8% from the prior year. Total net assets of the Water Authority at May 31, 2008 were approximately \$9.0 million, an increase of approximately \$2.7 million or 42.6% from the prior year. Of the Water Authority's net assets, approximately \$6.3 million were invested in capital assets, net of related debt, approximately \$0.5 million were restricted for debt service and capital and approximately \$2.2 million were unrestricted.

Components of net assets of prior years have been reclassified in order to provide comparable information to the current year. Accordingly net assets invested in capital assets, net of debt have been decreased and unrestricted increased by \$1,586,052 and \$1,634,856 as of May 31, 2008 and 2007 respectively. Total net assets have not changed.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2009 and 2008

Condensed Statements of Revenues, Expenses and Changes in Net Assets

For the years ended May 31,

	2009	2008	2007
Water service revenues	\$ 10,881,949	\$ 10,671,542	\$ 10,106,910
Operating expenses	8,839,820	8,690,571	8,214,144
Operating Income	2,042,129	1,980,971	1,892,766
Non-operating income	395,744	517,565	687,282
Non-operating expenses	(1,545,221)	(1,573,818)	(1,524,360)
Total Non-Operating Expense	(1,149,477)	(1,056,253)	(837,078)
Income before extraordinary item	892,652	924,718	1,055,688
Extraordinary item	116,135	2,362,677	-0-
Change in Net Assets	1,008,787	3,287,395	1,055,688
Board approved subsidies	(55,000)	(590,577)	(750,000)
Net Change in Total Net Assets	\$ 953,787	\$ 2,696,818	\$ 305,688

Water service revenues increased approximately \$200,000 or 1.9% during the current year from approximately \$10.7 million for the year ended May 31, 2008 to approximately \$10.9 million for the year ended May 31, 2009. Water service revenues increased approximately \$0.6 million or 5.6% during the prior 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. These increases in water sales revenue were consistent with the rates approved by the Board of Directors and water usage.

During the current year ended May 31, 2009, the Water Authority received another \$116,000 in settlement of a Methyl Tertiary Butyl Ether Products Liability class action lawsuit. During the prior year ended May 31, 2008 the Water Authority received approximately \$2.4 million from this settlement. The settlement amount net of legal fees is included as an extraordinary item in the financial statements.

Operating expenses increased approximately \$100,000 or approximately 1.1% during the current year from approximately \$8.7 million for the year ended May 31, 2008 to approximately \$8.8 million for the year ended May 31, 2009. Operating expenses increased approximately \$0.5 million or approximately 5.8% during the prior year from approximately \$8.2 million for the year ended May 31, 2007 to approximately \$8.7 million for the year ended May 31, 2008.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 May 31, 2009 and 2008

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, 2009 is as follows:

Water service revenues are projected based on average historical usage. This year's operating revenues were approximately 0.4% under the planned revenues due to lower than expected consumption. Actual operating expenses were approximately 2.4% under planned expenses.

	Actual	Planned	Variance
Operating Revenues:			
Water service	\$ 9,182,718	\$ 9,221,860	\$ (39,142)
Fire protection	1,648,961	1,648,440	521
Other	50,270	50,000	270
Total Operating Revenues	10,881,949	10,920,300	(38,351)
Operating Expenses:			
Operations	6,076,842	6,282,040	205,198
Maintenance	1,915,638	1,558,960	(356,678)
Depreciation expense	847,340	795,900	(51,440)
Total Operating Expenses	8,839,820	8,636,900	(202,920)
Operating income	2,042,129	2,283,400	(241,271)
Non-Operating Revenues (Expenses):			
Interest income	154,080	658,100	(504,020)
Rental of property	241,664	280,900	(39,236)
Amortization expense	(73,250)	(66,800)	(6,450)
Interest on water system revenue bonds	(1,471,971)	(2,184,670)	712,699
Total Non-Operating Expenses	(1,149,477)	(1,312,470)	162,993
Income Before Extraordinary Item	892,652	970,930	(78,278)
Extraordinary Item	116,135	-0-	116,135
Change in Net Assets	1,008,787	970,930	37,857
Board approved subsidies	(55,000)	(55,000)	-0-
Net Change in Total Net Assets	\$ 953,787	\$ 915,930	\$ 37,857

WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2009 and 2008

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 \$35.8 million in net capital assets, an increase of approximately \$3.7 million from the prior year.

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

	2009	2008
Land	\$ 167,708	\$ 167,708
Construction in progress	2,946,559	963,193
Wells and standpipes	2,628,253	2,628,253
Pumping & purification	10,385,984	10,325,300
Distribution system	26,600,038	24,201,878
Building, vehicles & equipment	2,241,831	2,169,081
	<hr/>	<hr/>
Total Capital Assets	44,970,373	40,455,413
Accumulated depreciation and amortization	9,152,103	8,304,763
	<hr/>	<hr/>
Total Net Capital Assets	<u>\$ 35,818,270</u>	<u>\$ 32,150,650</u>

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

Debt Administration

The Water Authority previously 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. According to the Bond Resolution 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. The Water Authority is in compliance with its financial covenants as of May 31, 2009 and 2008.

Additional information on the Water Authority's indebtedness is shown in Note 5 to the financial statements.

Credit Ratings

The Water Authority has an "A3" rating assigned to its revenue bonds by Moody's Investors Service and an "AA-" rating assigned by Fitch Ratings.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2009 and 2008

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 based on a seven year average which is supposed to normalize for all different types of weather. 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:

	Gallons Pumped	Gallons Billed	Water Revenue Recognized
Years ended May 31, 2009	4,189,898	3,463,115	\$ 9,182,718
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

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, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,131,838	\$ 298,547
Accounts receivable, net	392,124	329,033
Accrued unbilled revenue	1,451,000	1,262,000
Due from litigation settlement	-0-	2,362,677
Prepaid expenses and other assets	138,522	199,973
Materials and supplies	267,422	284,845
Total Current Assets	5,380,906	4,737,075
Restricted Cash and Cash Equivalents		
Rate stabilization fund	445,000	500,000
Customer deposits	848,853	812,514
Total Restricted Cash and Cash Equivalents	1,293,853	1,312,514
Restricted Assets Held by Trustee		
Bond construction fund	212,391	2,605,019
Bond reserve fund	2,367,434	2,396,166
Bond payment fund	280,735	270,404
Total Restricted Assets	2,860,560	5,271,589
Other Assets		
Capital assets:		
Non-depreciable	3,114,267	1,130,901
Depreciable, net	32,704,003	31,019,749
Other assets	1,078,689	1,130,918
Total Other Assets	36,896,959	33,281,568
Total Assets	46,432,278	44,602,746
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	2,668,135	1,010,814
Deferred revenue	817,387	819,887
Accrued interest payable	120,281	122,881
Non-current liabilities due within one year:		
Water revenue bonds payable	1,070,000	1,040,000
Due to Employees' Retirement System	42,612	47,600
Compensated absences	37,005	33,580
Total Current Liabilities	4,755,420	3,074,762
Non-Current Liabilities		
Water revenue bonds payable	27,745,063	28,731,922
Unamortized premium on revenue bonds	1,535,549	1,586,052
Customer deposits payable	957,889	997,825
Other post-employment benefits payable	747,110	539,800
Compensated absences	703,095	638,020
Total Non-Current Liabilities	31,688,706	32,493,619
Total Liabilities	36,444,126	35,568,381
NET ASSETS		
Invested in capital assets, net of related debt	8,526,238	6,288,736
Restricted	445,000	500,000
Unrestricted	1,016,914	2,245,629
Total Net Assets	\$ 9,988,152	\$ 9,034,365

See notes to financial statements.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended May 31, 2009 and 2008

	2009	2008
Operating Revenues:		
Water sales - residential	\$ 7,736,779	\$ 7,590,343
Water sales - commercial and municipal	1,445,939	1,503,040
Fire protection	1,648,961	1,524,886
Other	50,270	53,273
	<u>10,881,949</u>	<u>10,671,542</u>
Total Operating Revenues	<u>10,881,949</u>	<u>10,671,542</u>
Operating Expenses:		
Operations	6,076,842	6,108,059
Maintenance	1,915,638	1,767,985
Depreciation	847,340	814,527
	<u>8,839,820</u>	<u>8,690,571</u>
Total Operating Expenses	<u>8,839,820</u>	<u>8,690,571</u>
Operating Income	2,042,129	1,980,971
Non-Operating Revenues (Expenses)		
Interest income	154,080	293,519
Rental of property	241,664	224,046
Amortization	(73,250)	(71,609)
Interest on water system revenue bonds	(1,471,971)	(1,502,209)
	<u>(1,149,477)</u>	<u>(1,056,253)</u>
Total Non-Operating Expenses	<u>(1,149,477)</u>	<u>(1,056,253)</u>
Income Before Extraordinary Item	892,652	924,718
Extraordinary Item - Due from Litigation Settlement	<u>116,135</u>	<u>2,362,677</u>
Changes in Net Assets	1,008,787	3,287,395
Less: Board Approved Subsidies	<u>(55,000)</u>	<u>(590,577)</u>
Net Change in Total Net Assets	953,787	2,696,818
Total Net Assets - Beginning of Year	<u>9,034,365</u>	<u>6,337,547</u>
Total Net Assets - End of Year	<u><u>\$ 9,988,152</u></u>	<u><u>\$ 9,034,365</u></u>

See notes to financial statements.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
STATEMENTS OF CASH FLOWS
Years ended May 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Receipts from customers	\$ 10,587,422	\$ 10,966,277
Payments to suppliers of goods or services	(2,665,496)	(4,192,448)
Payments to employees for services	(3,310,950)	(3,319,704)
Board approved subsidies	(55,000)	(590,577)
Net Cash Provided by Operating Activities	<u>4,555,976</u>	<u>2,863,548</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of fixed assets	(4,514,960)	(2,270,392)
Repayment of water revenue bonds	(1,040,000)	(1,005,000)
Interest paid on water revenue bonds	(1,471,971)	(1,502,209)
Net Cash Used in Capital and Related Financing Activities	<u>(7,026,931)</u>	<u>(4,777,601)</u>
Cash Flows from Investing and Other Non-Operating Activities		
Decrease in restricted assets	2,411,029	1,206,051
Due from litigation settlement	2,478,812	-0-
Rental of property	241,664	224,046
Interest and dividends received	154,080	293,519
Net Cash Provided by Investing Activities	<u>5,285,585</u>	<u>1,723,616</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,814,630	(190,437)
Cash and Cash Equivalents at Beginning of Year	<u>1,611,061</u>	<u>1,801,498</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,425,691</u></u>	<u><u>\$ 1,611,061</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,042,129	\$ 1,980,971
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	847,340	814,527
(Increase) decrease in:		
Accounts receivable	(63,091)	1,020
Accrued unbilled revenue	(189,000)	78,000
Prepaid expenses and other assets	61,451	(64,534)
Inventory of materials and supplies	17,423	(7,468)
Other assets	11,617	346,388
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,657,321	(8,682)
Unearned revenue	(2,500)	(14,769)
Accrued interest payable	(2,600)	(2,512)
Due to Employees' Retirement System	(4,988)	(5,700)
Customer deposits	(39,936)	230,484
Board approved subsidies	(55,000)	(590,577)
Other post-employment benefits	207,310	98,400
Compensated absences	68,500	8,000
Net Cash Provided by Operating Activities	<u><u>\$ 4,555,976</u></u>	<u><u>\$ 2,863,548</u></u>

See notes to financial statements.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 1 – Organization

The Water Authority of Western Nassau County ("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 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 "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*", 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, 2009 and 2008

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”.

Components of net assets of the prior year have been reclassified in order to provide comparable information to the current year. Accordingly net assets invested in capital assets, net of debt have been decreased and unrestricted increased by \$1,586,052 as of May 31, 2008. Total net assets have not changed.

Cash and Cash Equivalents

For purposes of presenting the Statements 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 Statements 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 Unrestricted - Operating.

Included in operating revenues – water sales were Board approved customer subsidy transfers from the Rate Stabilization Fund of \$55,000 and \$590,577 for the years ended May 31, 2009 and 2008, respectively.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

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, 2009 and 2008.

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, 2009 and 2008

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 Revenue

Deferred revenue includes 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.

Other Post-Employment Benefits

In addition to providing pension benefits, the Water Authority provides health insurance coverage for retired employees. Substantially all of the Water Authority's employees may become eligible for these benefits if they reach ten years of service with the Water Authority and the employees are active upon attaining 55 years of age. Health care benefits are provided through the Oxford Health Plan whose premiums are based on the benefits paid during the year.

The Water Authority's Board of Directors adopted a resolution dated September 17, 2002, (as amended) that provides eligible enrollees with post retirement medical insurance coverage, currently provided by the Oxford Health Plan. Under the provisions of the Oxford Health Plan, premiums are adjusted on a prospective basis for any losses experienced by the pool of small employers (inclusive of the Water Authority) as determined by the Oxford Health Plan. The Water Authority has the option to terminate its participation in the Oxford Health Plan at any time without liability for its respective share of any previously incurred loss.

The Water Authority recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The liability for these other post-employment 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 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.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

Reclassification

Certain reclassifications have been made to the prior year statements to conform to the current year presentation. These changes have no effect on the previously reported change in net assets.

Recently Issued Accounting Pronouncements

Effective with this financial report for the year ended May 31, 2009, the Water Authority has adopted Governmental Accounting Standards Board Statement No. 45, *"Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (OPEB)."* This statement establishes standards for reporting the liability for non-pension post-employment benefits, chiefly the health care premiums for retirees.

In addition, the Water Authority has adopted Governmental Accounting Standards Board Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations"* for the year ended May 31, 2009. This statement establishes standards for reporting the costs and obligations associated with pollution cleanup efforts.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

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, 2009 the Water Authority's unrestricted bank balances were \$4,427,655. This amount is exclusive of petty cash in the amount of \$700. Of the bank balances, \$936,979 was covered by Federal deposit insurance and \$3,490,676 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, 2009 totaled \$2,995,198. Of the total investments \$2,404,086 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.

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, 2009 the Water Authority did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
 May 31, 2009 and 2008

Note 4 – Capital Assets

A summary of changes in capital assets for the year ended May 31, 2009 is as follows:

	Balance June 1, 2008	Additions	Deletions	Balance May 31, 2009
Non-depreciable capital assets				
Land and land rights	\$ 167,708			\$ 167,708
Construction in progress	963,193	\$ 4,447,018	\$ (2,463,652)	2,946,559
Total Non-Depreciable Capital Assets	<u>1,130,901</u>	<u>4,447,018</u>	<u>(2,463,652)</u>	<u>3,114,267</u>
Depreciable capital assets				
Building, vehicles and equipment	2,169,081	72,750		2,241,831
Pumping and purification	10,325,300	60,684		10,385,984
Wells and standpipes	2,628,253			2,628,253
Distribution system	24,201,878	2,398,160		26,600,038
Total Depreciable Capital Assets	<u>39,324,512</u>	<u>2,531,594</u>	<u>-0-</u>	<u>41,856,106</u>
Less: accumulated depreciation				
Building, vehicles and equipment	2,115,494	12,945		2,128,439
Pumping and purification	2,940,423	280,818		3,221,241
Wells and standpipes	730,141	63,055		793,196
Distribution system	2,518,705	490,522		3,009,227
Total Accumulated Depreciation	<u>\$ 8,304,763</u>	<u>\$ 847,340</u>	<u>\$ -0-</u>	<u>9,152,103</u>
Total Net Depreciable Capital Assets				<u>32,704,003</u>
Total Net Capital Assets				<u>\$35,818,270</u>

Depreciation is recorded on the straight-line basis over the estimated useful lives, in years, of the respective assets. Depreciation of capital assets totaled \$847,340 and \$814,527 for the years ended May 31, 2009 and 2008, respectively.

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, 2009, the Water Authority has not recorded any such impairment losses.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
 May 31, 2009 and 2008

Note 5 – Indebtedness

Long – Term Debt

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%	\$ 25,705,000
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>\$ 30,870,000</u>

A summary of changes in long-term indebtedness for the year ended May 31, 2009 is as follows:

	Balance June 1, 2008	Additions	Reductions	Balance May 31, 2009	Non-current liabilities due within one year	Non-current liabilities
Water revenue bonds	\$ 31,910,000		\$ 1,040,000	\$ 30,870,000	\$ 1,070,000	\$ 29,800,000
Deferred loss on refunding	(2,138,078)		(83,141)	(2,054,937)		(2,054,937)
Total water revenue bonds payable	29,771,922	\$ -0-	956,859	28,815,063	1,070,000	27,745,063
Other post-employment benefits payable	539,800	225,880	18,570	747,110		747,110
Compensated absences	671,600	79,208	10,708	740,100	37,005	703,095

The following table summarizes the future debt service requirements as of May 31, 2009:

Year	Principal	Interest	Total
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	1,225,000	1,285,556	2,510,556
2015-2019	6,950,000	5,584,696	12,534,696
2020-2024	8,845,000	3,671,896	12,516,896
2025-2029	5,665,000	1,512,896	7,177,896
2030-2034	3,000,000	625,000	3,625,000
2035	690,000	31,625	721,625
Total	<u>\$ 30,870,000</u>	<u>\$ 18,252,341</u>	<u>\$ 49,122,341</u>

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 5 – Indebtedness (continued)

Long – Term Debt (continued)

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 \$2,054,937 for the year ended May 31, 2009 and \$2,138,078 for the year ended May 31, 2008. 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, 2008	Amortization	Balance May 31, 2009
Premiums on revenue bonds	\$ 1,586,052	\$ (50,503)	\$ 1,535,549
Bond issue costs	\$ 494,875	\$ (16,120)	\$ 478,755

The Water Authority has 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. The Water Authority is in compliance with its financial covenants which are calculated as follows for the years ended May 31:

	2009	2008
Net Revenue Calculation		
Operating Revenue	\$10,881,949	\$10,671,542
Non-Operating Revenue	395,744	517,565
Operations Expense	(6,076,842)	(6,108,059)
Maintenance Expense	(1,915,638)	(1,767,985)
Net Revenue	<u>\$3,285,213</u>	<u>\$3,313,063</u>
Net Revenue Requirement		
Debt Service: Principal and Interest	<u>\$2,511,971</u>	<u>\$2,507,209</u>
Coverage Ratio	<u>1.31</u>	<u>1.32</u>

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 6 – Retirement System

Plan Description

The Water Authority 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:

2009	\$263,067
2008	\$285,414
2007	\$319,035

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

Note 7 – 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 approximately \$740,100 and \$671,600 as of May 31, 2009 and 2008, respectively.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 8 – Other Post-Employment Benefits

In the financial statements, the cost of other post-employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the period in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of Governmental Accounting Standards Board Statement No. 45 during the year ended May 31, 2009, the Water Authority recognizes the costs of other post-employment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Water Authority's future cash flows. Recognition of the unrecognized liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan Description

The Water Authority, as a single-employer defined benefit OPEB plan, per the Board of Directors resolution adopted September 17, 2002 (as amended), will pay sixty percent of the cost for individual coverage and forty percent of the cost for spousal/dependent coverage (provided by Oxford Health Plan) at the date of retirement, provided that the employee retired after ten years of service with the Water Authority and the retiree is at least an active employee upon attaining 55 years of age. In addition, the Water Authority offers life insurance policies at no cost to the retiree, for individuals who were hired prior to June 1, 1996. The value of the life insurance policy is \$20,000 for hourly employees and \$40,000 for salaried employees.

The number of participants as of June 1, 2008, the effective date of the OPEB valuation is as follows:

Active employees	44
Retired employees	<u>2</u>
Total	46

There have been no significant changes in the number of employees or the type of coverage since that date.

Funding Policy

The Water Authority currently pays for other post-employment benefits on a pay-as-you-go basis.

Annual Other Post-Employment Benefit Cost

For the year ended May 31, 2009, the Water Authority's annual other post-employment benefits cost (expenses) was \$225,880. Considering the annual expense as well as the payment of current health insurance premiums, which totaled \$18,570 for retirees, the result was an increase in the other post-employment benefits liability of \$207,310 for the year ended May 31, 2009.

Benefit Obligations and Normal Cost

	Retired Employees		Active Employees		Unfunded actuarial accrued liability (UAAL)
Medical Plan	\$ 279,538	\$	1,450,383	\$	1,729,921

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 8 – Other Post-Employment Benefits (continued)

Annual Other Post-Employment Benefit Cost (continued)

The Water Authority's annual other post-employment 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 following table shows the components of the Water Authority's other post-employment benefits liability:

Level Percentage of Projected Pay Amortization
Calculation of ARC under the Projected Unit Credit Cost Method

	<u>Medical Plan</u>
Normal cost	\$ 126,597
Amortization of unfunded actuarial liability (UAAL) over 30 years	101,629
Interest	<u>5,079</u>
Annual required contribution (ARC)	233,305
Interest on net OPEB obligation	24,291
Adjustment to ARC	<u>(31,716)</u>
OPEB cost	225,880
Less: Contribution for year ended May 31, 2009	<u>18,570</u>
Increase in other post-employment benefits liability	207,310
Other post-employment benefits liability at May 31, 2008	<u>539,800</u>
Other post-employment benefits liability at May 31, 2009	<u><u>\$ 747,110</u></u>
Percent of annual OPEB cost contributed	7.96%

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
 May 31, 2009 and 2008

Note 8 – Other Post-Employment Benefits (continued)

Schedule of Funding Progress

The funded status of the plan as of June 1, 2008 is as follows:

Actuarial Accrued Liability (AAL)	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
\$ 1,729,921	\$ -0-	\$ 1,729,921	0.00%	\$ 2,968,770	58.27%

Actuarial Methods and Assumptions

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

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

In the June 1, 2008 actuarial valuation, the liabilities were computed using the projected unit credit actuarial cost method. The valuation assumes a 10.0% healthcare cost trend increase for the fiscal year ended May 31, 2009 and reduced decrements to a rate of 5.0% after five years. The remaining amortization period at May 31, 2009 was twenty nine years.

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 \$2,478,812 net of legal costs. The Water Authority recognized \$116,135 for the year ended May 31, 2009 and \$2,362,677 for the year ended May 31, 2008 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 \$220,521 for the year ended May 31, 2009 and \$249,215 for 2008. Minimum operating lease commitments for the year ending May 31, 2010 is \$252,000.

WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO FINANCIAL STATEMENTS
May 31, 2009 and 2008

Note 10 – Commitments and Contingencies (continued)

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.

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:

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 itself to remediate pollution.

As of May 31, 2009, the Water Authority has not identified any pollution remediation obligations and therefore no liability has been recorded on the Statement of Net Assets.

Note 11 – Lease Revenue Agreements

The Water Authority has several 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 from a period of one year to five years and are renewable at the discretion of the cell phone provider 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:

For the year ending May 31, 2010	\$ 319,204
2011	226,663
2012	234,434
2013	242,491
2014	250,843
Total	<u>\$1,273,635</u>



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
Floral Park, New York

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, 2009 and 2008, as listed in the table of contents and have issued our report thereon dated December 22, 2009. 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.

PERSONAL SERVICE. TRUSTED ADVICE.

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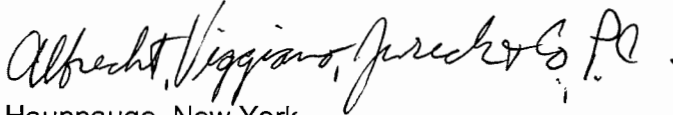
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Compliance and Other Matters

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.

We noted certain matters that we reported to the management of the Water Authority of Western Nassau County, in a separate letter dated December 22, 2009.

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

A handwritten signature in cursive script, reading "Albrecht Viggiano, Jr. Esq.", followed by a period.

Hauppauge, New York
December 22, 2009