WATER AUTHORITY
OF GREAT NECK NORTH
FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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WATER AUTHORITY OF GREAT NECK NORTH
Management's Discussion and Analysis
For Year Ended December 31, 2012 (Unaudited)

The Water Authority of Great Neck North (the "Authority") was established to provide potable water to the northern area of Great Neck peninsula which encompasses the Villages of Great Neck, Great Neck Estates, Kensington, Kings Point, Saddle Rock and portions of Great Neck Plaza, and Thomaston. The service area also includes portions of the unincorporated areas of the Town of North Hempstead within the service territory.

FINANCIAL HIGHLIGHTS

- The assets exceeded its liabilities at the close of its most recent year end by $27,857,593 (net position). Of this amount $10,628,765 (unrestricted component of net position) may be used to meet the Authority's ongoing operations.

- The change in net position of the Authority for the most current year was an increase of $1,817,343 compared with an increase of $1,395,676 in the prior year. This increase is primarily the result of $226,000 in a capital contribution received in 2012 for construction that was not received in 2011, plus a decrease in *other post employment benefits* expense from $391,981 for 2011 to $171,780 in 2012.

- Water sales in the current year increased by $169,166 from $7,915,783 for the 2011 year to $8,084,949 for the 2012 year. Water usage increased in 2012 as a result of lower than average precipitation during the summer of 2012 compared to 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority include the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position, the Statements of Cash Flows, and related notes to the financial statements. The Statement of Net Position, or balance sheet, provides information about the nature and amounts of investments, resources, and deferred outflows (assets) and the obligations to the Authority's creditors and deferred inflows, (liabilities), with the difference between the two reported as net position.

The Statement of Revenue, Expenses and Changes in Net Position, or income statement, shows how the Authority's net position changed during the year. It accounts for all the year's revenues/inflows and expenses/outflows, measures the financial results of the Authority's operations for the year and can be used to determine how the Authority has funded its costs.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments 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 Authority's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Authority's financial position and activities. This overview is provided for the years ended December 31, 2012 and 2011. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net position is an indication of the Authority's financial strength. Our analysis focuses on the net position and changes in net position of the Authority as a whole.

Condensed Statement of Net Position

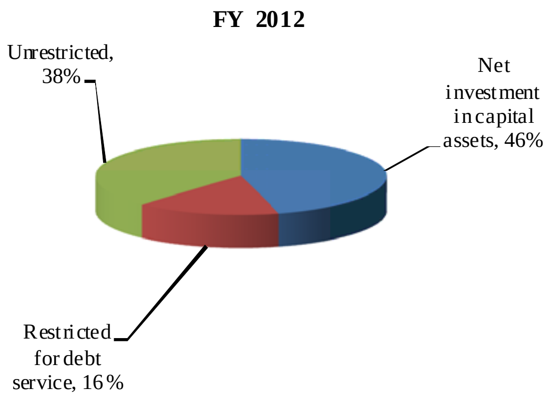
	2012	2011	2010
Assets:			
Current assets	$ 11,568,427	$ 12,999,430	$ 12,456,743
Restricted assets	12,504,283	16,497,574	19,415,438
Other assets	2,659,773	2,653,467	2,426,960
Capital assets	37,754,625	31,500,666	28,935,675
Total assets	64,487,108	63,651,137	63,234,816
Liabilities:			
Current liabilities	1,802,560	1,733,357	1,469,326
Non-current liabilities	34,826,955	35,877,530	37,120,916
Total liabilities	36,629,515	37,610,887	38,590,242
Net assets:			
Net investment in capital assets	12,776,578	9,362,843	8,603,807
Restricted for debt service	4,452,250	4,410,399	4,367,393
Unrestricted	10,628,765	12,267,008	11,673,374
Total net position	$ 27,857,593	$ 26,040,250	$ 24,644,574

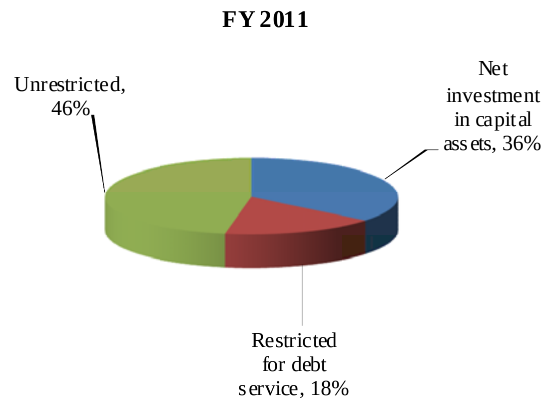
The Authority's total assets at December 31, 2012 were $64,487,108, an increase of $835,971 over the 2011 year. Total liabilities at December 31, 2012 were $36,629,515, a decrease of ($918,372) from the 2011 year. Accordingly, the total net position of the Authority at December 31, 2012 was $27,857,593, an increase of $ 1,638,243 over the 2011 year. Of the Authority's net assets at December 31, 2012, the net investment in capital assets was $12,776,578, $4,452,250 was restricted for debt service and the remaining amount of $10,628,765 was unrestricted.

The Authority's total assets at December 31, 2011, were $63,651,137, an increase of $416,321 over the 2010 year. Total liabilities at December 31, 2011 were $37,610,887, a decrease of ($979,355) from the 2010 year. Accordingly, total net position of the Authority at December 31, 2011 was $26,040,250, an increase of $1,395,676 over the 2010 year. Of the Authority's net position at December 31, 2011, the net investment in capital assets was $9,362,843, $4,410,399 was restricted for debt service and $12,267,008 was unrestricted.

As of December 31, 2012 and 2011, the Authority is able to report a positive balance in all three components of the net position.

The components of net position for the Authority, shown as a proportion of total net position, is as follows as of December 31,





Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2012	2011	2010
Water service revenues	$ 8,084,949	$ 7,915,783	$ 8,570,518
Operating expenses	5,568,280	5,808,303	5,645,901
Operating income	2,516,669	2,107,480	2,924,617
Non-operating revenues	616,460	673,848	593,584
Costs to be recovered from future revenues	171,780	391,981	399,439
Non-operating expenses	(1,812,834)	(1,857,033)	(1,896,633)
Income before capital contributions and extraordinary item	1,492,075	1,316,276	2,021,007
Capital contributions	325,268	79,400	21,600
Extraordinary item	-	-	3,000,000
Change in net position	$ 1,817,343	$ 1,395,676	$ 5,042,607

Water service revenues increased $169,166 or 2.1% during the current year from $7,915,783 in 2011 to 8,084,949 in 2012. Water usage increased in 2012 as a result of lower than normal precipitation during the summer of 2012 compared to 2011. Fluctuations in water sales revenue were consistent with the water usage due to levels of precipitation.

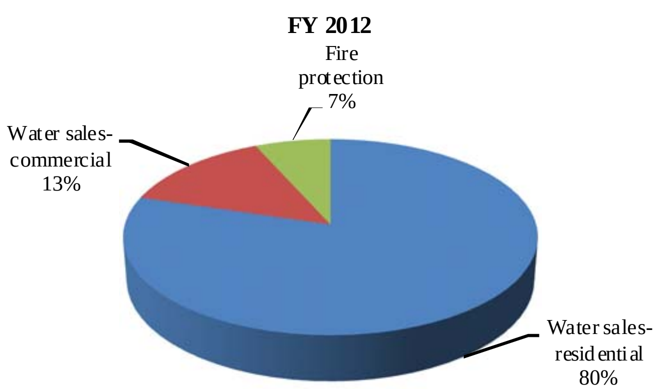
Water service revenues decreased ($654,735) or (2.1%) from $8,570,518 in 2010 to $7,915,783 in 2011. Water usage decreased significantly in 2011 as a result of higher than normal precipitation during the summer of 2011 compared to 2010. Fluctuations in water sales revenue were consistent with the water usage due to levels of precipitation.

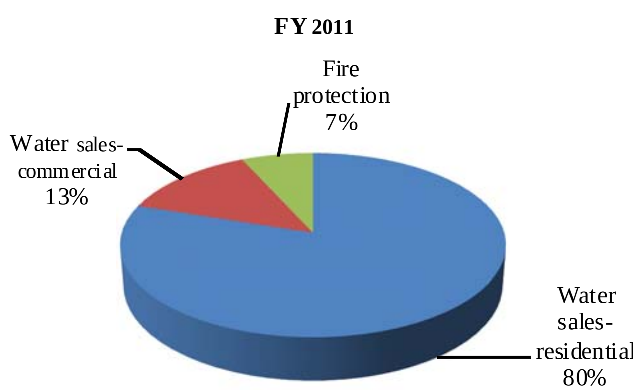
During the year ended December 2010, the Authority received $3,000,000 in settlement with the responsible party for remediation of a groundwater plume. This settlement is being used to offset some of the costs to design and build two (2) packed tower aeration systems to cover the wells already being treated by the existing granular activated system, as well as the construction of the Authority’s Well #14.

Operating expenses decreased ($240,023) or (4.1%) during the current year from $5,808,303 in 2011 to $5,568,280 in 2012. Operating expenses for 2012 include $171,780 to account for GASB Statement No. 45.

Operating expenses increased $162,402 or 2.7% from $5,645,901 in 2010 to $5,808,303 in 2011 and included $391,981 to account for GASB Statement No. 45, which is explained on page 6.

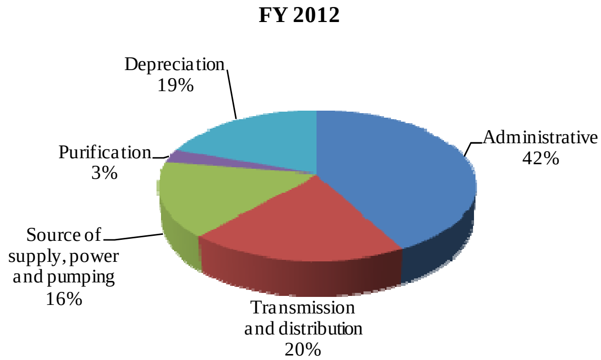
Revenue Percentages by Major Category
For the Fiscal Years Ended December 31, 2012 and 2011

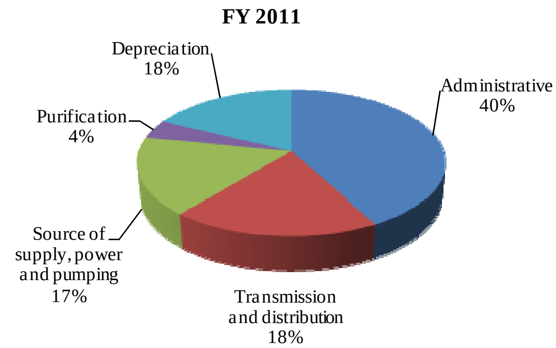




WATER AUTHORITY OF GREAT NECK NORTH
Management's Discussion and Analysis
For Year Ended December 31, 2012 (Unaudited)

Expense Percentages by Type
For the Fiscal Years Ended December 31, 2012 and 2011





Costs to be recovered from future revenues ($171,780) represent the difference between the Authority's annual required contributions for postemployment benefits other than pensions ("OPEB") as required by GASB Statement No. 45 and the amount paid out for such benefits by the Authority during fiscal 2012. In accordance with the accounting authoritative guidance GASB No.62, the Authority has deferred the excess of the annual required contributions over the amount paid during the fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model.

BUDGET HIGHLIGHTS

	Actual	Budget	Variance Positive (Negative)
Operating Revenues:			
Water service	$ 7,546,258	$ 7,900,000	$ (353,742)
Fire protection	538,691	540,000	(1,309)
Total Operating Revenues	8,084,949	8,440,000	(355,051)
Operating Expenses:			
Administrative	2,340,079	2,300,900	(39,179)
Transmission and distribution	1,095,805	1,214,000	118,195
Source of supply, power, and pumping	1,053,909	1,323,000	269,091
Depreciation and amortization	1,078,487	1,078,487	-
Total Operating Expenses	5,568,280	5,916,387	348,107
Operating Income	$ 2,516,669	$ 2,523,613	$ (6,944)

Water service revenues are projected based on average historical usage. This year's operating revenues were approximately 4% under budget. Actual operating expenses overall were approximately 6% lower than the budget. Administrative expenses include the cost of postemployment benefits other than pensions in the amount of $171,780.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB Statement No.45, based on the actuarial valuation, an annual required contribution ("ARC') is determined by the Authority. The ARC is the sum of (a) the normal cost of the year (present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB Statement No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for unfunded accrued liability. The financial statements at December 31, 2012 include a liability in the amount of $1,380,202 that represents the Authority's unfunded liability.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Authority owns and maintains over 117 miles of various types and sizes of water mains, pumping stations, tanks, water treatment plants, four storage facilities, two emergency interconnections with Manhasset-Lakeville Water District, land and other facilities required in the treatment and distribution of portable water to its customers.

Capital assets consisted of the following for the years ended December 31,

	2012	2011	Increase (Decrease)
Land and land rights	$ 639,639	$ 639,639	$ -
Construction in progress	9,236,412	4,747,481	4,488,931
Building	1,697,110	1,695,410	1,700
Pumping and purification	17,684,596	15,337,551	2,347,045
Transmission and distribution	20,890,898	20,488,800	402,098
Transportation equipment	794,603	734,028	60,575
Other equipment	928,161	896,064	32,097
Organization and acquisition	725,646	725,646	-
Total capital asset	52,597,065	45,264,619	7,332,446
Accumulated depreciation and amortization	(14,842,440)	(13,763,953)	(1,078,487)
Total net capital assets	$ 37,754,625	$ 31,500,666	$ 6,253,959

CAPITAL ASSET AND DEBT ADMINISTRATION

On June 5, 2008, the Authority issued $38,850,000 of Series 2008 Water System Revenue Bonds. The Series 2008 Bonds were issued in part to refinance the Authority's 1993 Series A Water System Revenue Bonds outstanding of $18,700,000 and the balance to finance the costs of improvements to the Authority's water system. As of December 31, 2012, the Authority has water revenue bonds outstanding totaling $33,930,000.

The Authority is committed to the long-term maintenance of the water system and currently has plans for capital improvements to the system on a regular basis. The Authority currently has a five year capital budget with expenditures estimated as follows:

2013	$	3,200,000
2014	$	2,350,000
2015	$	2,550,000
2016	$	2,625,000
2017	$	2,625,000

CREDIT RATINGS

The Authority is the recipient of a very favorable AA+ credit rating assigned to its revenue bonds from Standard & Poors.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN AND RATES

The Authority derives a significant portion of its operating revenues from metered water sales. Water revenues are dependent on the amount of rainfall particularly during the summer months. As a result, these revenues are unpredictable and very volatile. Water revenues for the Authority can vary significantly from a rainy year to a dry year. Water revenues are budgeted on the conservative side, which is in anticipation of a rainy year. However, actual water revenues can still fall far short of estimates. The Authority also believes that such adverse weather conditions can easily recur consequently over two or more years running. Water rates are set annually in concurrence with the adoption of its annual operating budget. The 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.

REQUEST FOR INFORMATION

This financial report is designed to provide our readers with a general overview of the Authority's finances and to show the 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 50 Watermill Lane, Great Neck, New York, 11021.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Water Authority of Great Neck North
Great Neck, New York

Report on the Financial Statements

We have audited the accompanying statements of net position of the Water Authority of Great Neck North (the "Authority") (a public benefit corporation of the State of New York) as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2012, and the changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 and the Schedule of Funding Progress for the Retiree Health Plan on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 should be considered in assessing the results of our audit.

Satty, Levine & Ciacco CPAs PC

Satty, Levine & Ciacco, CPAs, P.C.
Jericho, New York
March 15, 2013

WATER AUTHORITY OF GREAT NECK NORTH
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,650,948	$ 10,106,320
Investments	1,699,149	1,699,774
Accounts receivable	364,071	360,613
Accrued unbilled revenue	552,206	565,908
Interest and other receivables	768	1,465
Prepaid expenses and other assets	136,138	107,552
Inventory of materials and supplies	165,147	157,798
TOTAL CURRENT ASSETS	11,568,427	12,999,430
RESTRICTED ASSETS:		
Cash construction fund	8,052,033	12,087,175
Bond fund and bond reserve fund-held by trustee	4,452,250	4,410,399
TOTAL RESTRICTED ASSETS	12,504,283	16,497,574
OTHER ASSETS:		
Unamortized bond issuance costs	1,279,571	1,445,045
Costs to be recovered form future revenues	1,380,202	1,208,422
TOTAL OTHER ASSETS	2,659,773	2,653,467
CAPITAL ASSETS:		
Nondepreciable	9,876,051	5,387,120
Depreciable, net	27,878,574	26,113,546
TOTAL CAPITAL ASSETS	37,754,625	31,500,666
TOTAL ASSETS	64,487,108	63,651,137
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Current portion of water revenue bonds, less current portion of unamortized discounts	1,400,000	1,360,000
Accounts payable and accrued liabilities	42,574	100,188
Retainage payable	304,986	218,169
Deferred revenue	55,000	55,000
TOTAL CURRENT LIABILITIES	1,802,560	1,733,357
NONCURRENT LIABILITIES:		
Water revenue bonds	32,909,651	34,310,043
Postemployment benefits other than pensions	1,380,202	1,208,422
Customer deposits payable	537,102	359,065
TOTAL NONCURRENT LIABILITIES	34,826,955	35,877,530
TOTAL LIABILITIES	36,629,515	37,610,887
NET POSITION		
Net investment in capital assets	12,776,578	9,362,843
Restricted for debt service	4,452,250	4,410,399
Unrestricted	10,628,765	12,267,008
TOTAL NET POSITION	$ 27,857,593	$ 26,040,250

See independent auditors' report and notes to the financial statements.

WATER AUTHORITY OF GREAT NECK NORTH
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUE:		
Water sales-residential and apartments	$ 6,443,657	$ 6,336,083
Water sales-commercial and municipal	1,102,601	1,040,646
Fire protection	538,691	539,054
TOTAL OPERATING REVENUES	8,084,949	7,915,783
OPERATING EXPENSES:		
Administrative	2,340,079	2,441,343
Transmission and distribution	1,095,805	1,107,734
Source of supply, power and pumping	885,005	989,359
Purification	168,904	245,049
Depreciation	1,078,487	1,024,818
TOTAL OPERATING EXPENSES	5,568,280	5,808,303
OPERATING INCOME	2,516,669	2,107,480
NON-OPERATING REVENUES (EXPENSES):		
Interest and other non-operating revenue	234,735	300,721
Amortization of deferred bond costs and refunding	(278,514)	(278,514)
Rental of real property	381,724	373,127
Interest on water system revenue bonds	(1,534,319)	(1,578,519)
Costs to be recovered from future revenues	171,780	391,981
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,024,594)	(791,204)
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,492,075	1,316,276
CAPITAL CONTRIBUTIONS		
Developers and customers	325,268	79,400
Changes in net position	1,817,343	1,395,676
Net position as of January 1,	26,040,250	24,644,574
Net position as of December 31,	$ 27,857,593	$ 26,040,250

See independent auditors' report and notes to the financial statements.

WATER AUTHORITY OF GREAT NECK NORTH
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 8,273,230	$ 8,258,368
Payments to suppliers	(2,463,848)	(2,515,272)
Payments to employees	(1,860,897)	(1,832,365)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,948,485	3,910,731
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	(7,332,445)	(3,589,810)
Contributions for capital assets	325,268	79,400
Payments on revenue bonds	(1,360,000)	(1,320,000)
Interest paid	(1,647,750)	(1,691,950)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(10,014,927)	(6,522,360)
CASH FLOWS FROM INVESTING AND OTHER NON-OPERATING ACTIVITIES		
(Increase) decrease in investments-unrestricted	1,322	(799)
Decrease in construction fund-restricted	4,035,142	2,960,870
(Increase) in restricted assets held by Trustee	(41,851)	(43,006)
Rental income	381,724	373,127
Interest and dividends received	234,733	300,019
NET CASH PROVIDED BY INVESTING ACTIVITIES AND OTHER NON-OPERATING ACTIVITIES	4,611,070	3,590,211
CHANGE IN CASH AND CASH EQUIVALENTS	(1,455,371)	978,582
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	10,106,320	9,127,738
END OF YEAR	$ 8,650,949	$ 10,106,320
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	$ 2,516,669	$ 1,828,966
Adjustments to reconcile change in net assets to net from operating activities:		
Depreciation and amortization	1,078,487	1,303,332
(Increase) decrease in operating assets:		
Accounts receivable	(3,458)	382,808
Accrued unbilled revenue	13,702	69,670
Prepaid expense and other assets	(28,586)	(15,951)
Inventory of materials and supplies	(7,349)	872
Costs to be recovered from future revenues	171,780	391,981
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(57,614)	43,417
Retainage payable	86,817	15,529
Customer deposits	178,037	(109,893)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,948,485	$ 3,910,731

See independent auditors' report and notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Water Authority of Great Neck North (the "Authority") is a public benefit corporation created in 1985 under Public Authorities Law of the State of New York. The 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 Great Neck North. The Authority commenced operations in 1989 and currently provides water service to approximately 32,400 customers.

The Authority is governed by a board of directors consisting of eight members. The chief executive officers of the Incorporated Villages of Great Neck, Great Neck Estates, Great Neck Plaza, Kensington, Saddle Rock, Kings Point, Thomaston and certain unincorporated areas within the Town of North Hempstead each appoint one member who serves for a period of two years.

B. BASIS OF ACCOUNTING

The accompanying financial statements of the 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 Authority is engaged only in business-type activities as defined in GASB Statement No. 34, amended by GASB No. 62. Prior to the adoption of GASB No. 62, the Authority had elected to adopt private sector standards of accounting and financial reporting issued prior to December 1, 1989, which generally followed enterprise fund financial statements to the extent that those standards did not conflict with or contradict guidance of the Governmental Accounting Standards Board. However, the Authority's adoption of GASB No. 62, as discussed in Note 1.T, has incorporated the aforementioned provisions, and eliminated the requirement to make such election.

C. BASIS OF PRESENTATION

GASB Statement No. 34 as amended by GASB Statement No. 63 requires resources be classified for accounting and financial reporting purposes into the following three components:

a) Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and deferred outflows of resources attributable to the acquisition, construction, or improvement of those assets. These assets are reduced by the outstanding balances of any bonds, notes, or other borrowings and deferred inflows that may be attributable to the respective capital assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, the portion of the debt is included in the same asset component as the unspent proceeds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF PRESENTATION (Continued)

b) Restricted —Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation, including those provisions which are enacted by the Authority's own governing body.

c) Unrestricted –All other net assets that do not meet the definition of "restricted" or "Net investment in capital assets."

D. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority's Board of Directors to be used for specific purposes, including rate stabilization, debt service, and capital expenditures. Investments' carrying values are reported at fair market value.

Investments with original maturities of 90 days or less when purchased are considered cash equivalents. Investments with original maturities of longer than 90 days when purchased are reported as investments and are carried at fair value, except for certificates of deposit. Certificates of deposit are valued at cost, which approximates fair value.

E. ACCRUED UNBILLED REVENUES

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

F. MATERIALS AND SUPPLIES

Materials and supplies are stated at cost, which approximates lower of cost or market on a first in first out basis. The Authority maintains a perpetual inventory system.

G. CAPITAL ASSETS (PROPERTY AND EQUIPMENT)

Capital assets are carried at cost. Improvements, renewals and significant repairs that extend the life of the asset are capitalized, other repairs and maintenance costs are expensed as incurred. The capitalized cost of additions to property and equipment includes construction costs such as labor and materials. Depreciation is provided on the straight-line basis using the various lives for each asset which range between 5 and 50 years. Organization and acquisition costs are amortized on the straight-line basis over 30 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. BOND FUND AND BOND FUND RESERVE FUNDS HELD BY TRUSTEE

The Authority's bond resolution authorizing the Series 2008 bond issue establishes a Bond Fund and Bond Reserve Fund to be maintained by a trustee. The debt service is to be paid out of the Bond Fund. As additional security of the bonds, the Authority must maintain an amount equal to the maximum amount of principal and interest coming due during the current or any future years in the Bond Reserve Fund. Amounts held in the Bond Fund are recorded as restricted assets in the accompanying statements of net position.

I. CASH CONSTRUCTION FUND

The Authority's bond resolution authorizing the Series 2008 bond issue establishes a Construction Fund in which the proceeds of the bond are deposited. Amounts paid from the Construction Fund are restricted to the cost of improvements or the replacement of the water system specified in the bond resolution. Amounts held in the Cash Construction Fund are recorded as restricted assets in the accompanying statements of net position.

J. RENEWAL AND REPLACEMENT FUND

In accordance with the Authority's bond resolution, monies in the Renewal and Replacement Fund may be applied to the cost of improvements or betterment to, or the replacement of the water system. Deposits to the Renewal and Replacement Fund are set forth in the annual budget. Amounts held in the Renewal and Replacement Fund are recorded as investments in the accompanying statements of net position.

K. DEBT ISSUANCE COSTS, BOND DISCOUNT AND PREMIUMS, AND OTHER BOND-RELATED COSTS

Debt issuance costs, bond discount or premium are amortized over the life of the related bond issues. Deferred bond refunding costs are amortized to expense over the shorter of the life of the refunding bonds or the refunded bonds. Debt issuance costs of $1,279,571 and $1,445,046 at December 31, 2012 and 2011, respectively, are reported as deferred charges in the statement of net position. Bond discount or premiums and other related losses on refunding are reported net of bonds payable, the balance of which was $899,920 and $1,065,004 as of December 31, 2012 and 2011, in the accompanying statements of net position.

L. DEFERRED REVENUE

Deferred revenues/unearned revenues are those where asset recognition criteria have been met, but which revenue recognition criteria have not been met. Such amounts have been deemed to be "measurable" but not "available" pursuant to GAAP.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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 certain consumers, which are billed monthly since they generally use large volumes of water. The Authority 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. The Authority has elected to record bad-debts using the direct write-off method. GAAP requires the allowance method to be used to recognize bad debts, however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

N. OPERATING AND NON-OPERATING REVENUES AND EXPENSES

Operating revenue consists of water revenue and other related revenue. The Authority defined non-operating revenue as interest earnings on investments, realized gains or losses on sales of investments, miscellaneous rental income and any other revenue not defined as operating revenue. Non-operating expenditures are defined as interest expense on long-term debt, gain/losses on disposals of capital assets and any other expenditure not defined as operating.

O. COSTS TO BE RECOVERED FROM FUTURE REVENUES

The Authority's cost recovery rate model used to establish rates, fees and charges includes an amount for postemployment benefits other than pensions that are expected to be paid out during the fiscal year, but not for the amount of the annual required contribution as calculated under GASB Statement No. 45, Accounting and Financial reporting by Employers for Postemployment Benefits Other than Pensions. In accordance with FASB ASC 980, Regulated Operations (previously FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation), the Authority has deferred the excess of current annual required contribution over the amount paid during the 2010 - 2011 fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount for the year ended December 31, 2012 and 2011 was determined as follows:

	2012	2011
Costs excluded from rate model:		
Annual OPEB costs recoverable from rate payers	$ 244,774	$ 465,738
Costs included in the rate model:		
Amount of current year payments	(72,994)	(73,757)
	171,780	391,981
Balance - beginning of year	1,208,422	816,441
Balance - end of year	$ 1,380,202	$ 1,208,422

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. INCOME TAXES

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales tax.

Q. INSURANCE

The Authority purchases insurance against liability for most risk including, but not limited to, property damage and personal injury. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability not covered by insurance has been incurred and the amount of loss can be reasonably estimated.

R. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets; allowances for and inventory, the valuation of financial instruments other than cash, accrued water services and fire protection revenues, accrued employee welfare costs, workers' compensation and postemployment benefits, and other uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

S. RECLASSIFICATIONS

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 position.

T. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2012, the Authority implemented GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB No. 57 provides guidance on two implementation issues related to Other Postemployment Benefits (OPEB). The Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

Other than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual employer OPEB plans that are eligible. Additionally, Statement No. 57 clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The Authority participates in a single employer plan which has fewer than 100 participants and has obtained an actuarial evaluation as of January 1, 2013 which uses the Alternative Measurement Method as defined above. The methods used, timing and assumptions comply with GASB No. 57 and are consistent with the prior year's methodologies.

Effective January 1, 2012, the Authority also implemented GASB Statement No. 59, Financial Instruments Omnibus. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

Effective January 1, 2012, the Authority also implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. The statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, which eliminates the election for business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with GASB pronouncements. The Authority has updated its disclosures to reference to the updated standards under GASB and eliminate references to the Pre-November 1989 guidance. There has been no change in the application of these principles.

Effective January 1, 2012, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statement No. 4. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. ADOPTED ACCOUNTING PRONOUNCEMENTS (continued)

deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

In March of 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. The Authority has not completed the process of evaluating the impact of Statement No. 65 on its financial statements.

In March of 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority does not believe this statement will have a material impact on its financial statements.

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The guidelines established by the Authority permit the investment of funds held by the Authority and funds held in trust for the 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 Authority's investment policy limits its deposits and investment activity to time deposits, demand deposits, certificates of deposit issued by banks or trust companies and direct obligations of the United States of America.

NOTE 2. **CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

It is the 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 Authority or to be secured by a letter of credit. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States of America and its agencies.

Cash, cash equivalents and investments not controlled by the Trustee are recorded as follows:

	2012	2011
Cash and cash equivalents	$ 8,650,948	$ 10,106,364
Renewal and replacement fund	1,299,149	1,299,729
Rate Stablization Fund	400,000	400,000
Construction fund-restricted	8,052,033	12,087,175
	$ 18,402,130	$ 23,893,268
Demand and time deposits banks	$ 16,704,216	$ 22,193,539
Investments-United States Treasury Bill and Notes	1,697,914	1,699,729
	$ 18,402,130	$ 23,893,268

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 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.

At December 31, 2012 and 2011 the Authority's bank deposit balances were $22,193,847 and $24,378,459 of which $750,000 and $500,000, respectively, was covered by the Federal Deposit Insurance Corporation and the remainder was covered by collateral held by the Authority's agent, a third-party financial institution in the Authority's name.

At December 31, 2012 and 2011 the Authority also had restricted deposits held by the Trustee in the Bond Reserve Fund in the amount of $4,452,250 and $4,410,399, respectively.

Credit Risk- State law limits investments to those authorized by State statutes. The Authority has a written investment policy that is in conformity with those statutes.

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 five percent or more in securities of a single issuer

As of December 31, 2012 and 2011, the Authority did not have any investments subject to credit risk, interest rate risk or concentration of credit risk.

NOTE 2. **CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

Interest Rate Risk- Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if the interest rate substantially increases, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid potential loss.

NOTE 3. CAPTIAL ASSETS (PROPERTY AND EQUIPMENT)

A summary of capital asset transactions for the year ended December 31, 2012 and 2011 is as follows:

	Balance 1/1/2012	Additions	Disposals/ Transfers	Balance 12/31/2012
Capital assets not being depreciated:				
Land and land rights	$ 639,639	$ -	$ -	$ 639,639
Construction in progress	4,747,481	7,332,446	(2,843,515)	9,236,412
Total nondepreciable assets	5,387,120	7,332,446	(2,843,515)	9,876,051
Depreciable capital assets:				
Building	1,695,410	1,700	-	1,697,110
Pumping and purification	15,337,551	2,347,045	-	17,684,596
Transmission and distribution	20,488,800	402,098	-	20,890,898
Transportation equipment	734,028	60,575	-	794,603
Other equipment	896,064	32,097	-	928,161
Organization and acquisition	725,646	-	-	725,646
Total depreciable assets	39,877,499	2,843,515	-	42,721,014
Less: Accumulated depreciation and amortization:	(13,763,953)	(1,078,487)	$ -	(14,842,440)
Total net depreciable capital assets	26,113,546			27,878,574
Total net capital assets	$ 31,500,666			$ 37,754,625

NOTE 3. CAPTIAL ASSETS - PROPERTY AND EQUIPMENT (continued)

	Balance 1/1/2011	Additions	Disposals/ Transfers	Balance 12/31/2011
Capital assets not being depreciated:				
Land and land rights	$ 639,639	$ -	$ -	$ 639,639
Construction in progress	4,280,606	3,589,810	(3,122,935)	4,747,481
Total nondepreciable assets	4,920,245	3,589,810	(3,122,935)	5,387,120
Depreciable capital assets:				
Building	1,695,410	-	-	1,695,410
Pumping and purification	15,129,884	207,667	-	15,337,551
Transmission and distribution	17,755,510	2,733,290	-	20,488,800
Transportation equipment	635,218	117,271	(18,461)	734,028
Other equipment	831,357	64,707	-	896,064
Organization and acquisition	725,646	-	-	725,646
Total depreciable assets	36,773,025	3,122,935	(18,461)	39,877,499
Less: Accumulated depreciation and amortization:	(12,757,595)	$ (1,024,819)	$ 18,461	(13,763,953)
Total net depreciable capital assets	24,015,430			26,113,546
Total net capital assets	$ 28,935,675			$ 31,500,666

Depreciation of capital assets totaled $1,078,487 and $1,024,818 for the years ended December 31, 2012 and 2011, respectively.

NOTE 4. WATER SYSTEM REVENUE BONDS

On June 5, 2008, the Authority issued $38,850,000 of 2008 Series Water Revenue Bonds. The bonds which bear interest at rates ranging from 3.0% to 5.0% have a final maturity date of January 1, 2038. Proceeds of the new debt were used in part to retire existing 1993 Series A bonds in the amount of $18,700,000. The balance of the proceeds will be used for several major capital projects as specified in the bond resolution. The bond resolution required that various funds be established including a Bond Fund, Bond Reserve Fund, Renewal and Replacement Fund and a Construction Fund. The Bond and Bond Reserve Fund are held by the trustee and are required to maintain on deposit amounts sufficient to cover the annual debt service.

The Authority covenants in its Bond Resolution that it will establish water rates so that each year net revenues shall equal the greater of (1) the sum of its aggregate debt service on all bonds outstanding plus the deposits required to fund the Bond Fund and Renewal and Replacement Fund as stated in the Bond Resolution or (2) 110% of the sum of the aggregate debt service. Net revenues are defined as revenues for any period less operating expenses used to maintain reasonable and necessary working capital and operating reserves for such period. As of December 31, 2012, the Authority is in compliance with its financial covenants.

NOTE 4. WATER SYSTEM REVENUE BONDS (continued)

The following is a schedule of water revenue bonds:

	Balance 1/1/2012	Increases	Decreases	Balance 12/31/2012	Due within one year	Long-term portion
2008 Series Bonds	$ 35,290,000	$ -	$ (1,360,000)	$ 33,930,000	$ 1,400,000	$ 32,530,000
Premium on issuance of debt	1,284,362	-	(113,430)	1,170,932	113,430	1,057,502
Deferred loss on refunding, unamortized bond discount and deferred issuance costs	(2,349,364)	-	278,515	(2,070,849)	(278,515)	(1,792,334)
Total Water Revenue Bonds	$ 34,224,998	$ -	$ (1,194,915)	$ 33,030,083	$ 1,234,915	$ 31,795,168

	Balance 1/1/2011	Increases	Decreases	Balance 12/31/2011	Due within one year	Long-term portion
2008 Series Bonds	$ 36,610,000	$ -	$ (1,320,000)	$ 35,290,000	$ 1,360,000	$ 33,930,000
Premium on issuance of debt	1,397,792	-	(113,430)	1,284,362	113,430	1,170,932
Deferred loss on refunding, unamortized bond discount and deferred issuance costs	(2,627,879)	-	278,515	(2,349,364)	(278,515)	(2,070,849)
Total Water Revenue Bonds	$ 35,379,913	$ -	$ (1,154,915)	$ 34,224,998	$ 1,194,915	$ 33,030,083

Future principal and interest payments to maturity are as follows:

Years	Principal	Interest	Total
2013	1,400,000	1,591,750	2,991,750
2014	1,460,000	1,518,750	2,978,750
2015	1,530,000	1,442,250	2,972,250
2016	1,605,000	1,143,350	2,748,350
2017	1,690,000	1,277,500	2,967,500
2018-2022	7,080,000	4,827,150	11,907,150
2023-2027	4,505,000	4,524,375	9,029,375
2028-2032	5,705,000	3,394,250	9,099,250
2033-2037	7,275,000	1,893,250	9,168,250
2038	1,680,000	248,000	1,928,000
	$ 33,930,000	$ 21,860,625	$ 55,790,625

NOTE 4. WATER SYSTEM REVENUE BONDS (continued)

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Subsequently the deposited funds were used to redeem the 1993 Series A Bond in full. This refunding resulted in a deferred loss on the early extinguishment of debt of $2,967,300. The deferred loss is being amortized over the remaining life of the 1993 Series A bonds.

NOTE 5. PENSION PLAN

PLAN DESCRIPTION

The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan collectively known as NYSLRS. This is a cost-sharing multiple-employer retirement system. The NYSLRS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLRS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSLRS and for the custody and control of its fund. The NYSLRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

FUNDING POLICY

The NYSLRS is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for their first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3 percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSLRS fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

2012	$	340,523
2011	$	258,822
2010	$	177,293

NOTE 6. COMPENSATED ABSENCES

Employees of the Authority earn vacation leave each month at a schedule rate in accordance with their years of service and sick leave at a rate of one day per month. Unused vacation days for all employees cannot be carried forward to next year.

NOTE 7. POSTEMPLOYMENT HEALTH CARE BENEFITS

The Authority sponsors a single employer health care plan that provides postemployment medical benefits for eligible retirees and their spouses through the New York State Health Insurance Plan. Substantially all the Authority's employees may become eligible for these benefits if they reach normal retirement age and 15 years of service while working for the Authority. The Authority does not issue a publicly available financial report for the plan.

Benefit provisions for the plan are established and amended through the Authority's Board of Directors and there is no statutory requirement for the Authority to continue this plan for future Authority employees. For eligible employees retiring before December 31, 2012, the Authority shall pay fifty percent (50%) of the individual coverage plus $2,000 per annum (prorated for each monthly premium payment) and thirty-five percent (35%) of the additional cost of family coverage, plus an additional five percent (5%) of the cost for family coverage and $4,000 per annum (prorated for each monthly premium payment) toward the medical plan.

The Authority accounts for its OPEB obligations, in accordance with GASB Statement No. 45 *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions.* The Statement establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

In accordance with this standard, the Authority's annual OPEB cost for the plan is calculated based on the annual required contribution of the employer (ARC). The Authority has elected to calculate ARC and related information using the alternative measurement method permitted in GASB Statement No. 45 for employers with fewer than one hundred total plan members. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

NOTE 7. POSTEMPLOYMENT HEALTH CARE BENEFITS (continued)

The following table shows the components of the Authority's annual OPEB cost of the year, the amount contributed to the plans, and changes in the authority's net OPEB obligation for the years ended December 31, 2012 and 2011.

	2012	2011
Annual required contribution	$ 330,820	$ 433,080
Interest on net OPEB obligation	45,607	32,658
Adjustment to ARC	(131,653)	-
Annual OPEB cost (expense)	244,774	465,738
Contributions made	(72,994)	(73,757)
Increase in net OPEB obligation	171,780	391,981
Net OPEB obligation, beginning of year	1,208,422	816,441
Net OPEB obligation, end of year	$ 1,380,202	$ 1,208,422

As of December 31, 2012 and 2011 the actuarial accrued liability of benefits was $3,365,416 and $3,742,696, respectively, all of which was unfunded. For December 31, 2012 and 2011 the covered payrolls (annual payrolls of active employees covered by the plan) were $1,860,897 and $1,832,365, respectively, and the ratio of unfunded actuarial liability to the covered payroll was 2.074 and 1.896 respectively.

The actuarial valuation date is January 1, 2013. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplemental information provides multiyear information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the 2012 actuarial valuation, the alternate measurement method was used. The actuarial assumptions included 4% discount rate and an annual health care cost trend rate of 10.5% and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over 30 years using the level dollar amortization method. The remaining amortization period at December 31, 2011 was 26 years.

NOTE 8. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Authority leases space for telecommunication transmission equipment to various telecommunication companies. Under the lease agreements, the initial lease term is 10 years, with the option to extend for 5 years. The Authority currently has six lease agreements. Annual lease income from these agreements for the next five years is expected to be:

Years	Income
2013	$ 222,483
2014	222,483
2015	173,018
2016	18,792
	$ 636,776

CONTINGENCIES

The Authority has various insurance policies with third party carriers related to property protection, casualty and statutory and non-statutory employee protection.

The Authority is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have material adverse affect on the financial condition of the Authority.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 15, 2013, which is the date the financial statements were available to be issued and determined that there were no additional items requiring recognition or disclosure in these financial statements.

WATER AUTHORITY OF GREAT NECK NORTH
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEARS ENDED DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	$ -	$ 3,365,416	$ 3,365,416	0%	$ 1,860,897	180.85%
1/1/2009	$ -	$ 3,742,696	$ 3,742,696	0%	$ 1,832,365	204.25%

See independent auditors' report and notes to the financial statements.

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 Great Neck North
Great Neck, New York

We have audited the financial statements of the Water Authority of Great Neck North, New York as of December 31, 2012 and for the year then ended, as listed in the table of contents and have issued our report thereon date March 15, 2013. 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 Great Neck North's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Authority of Great Neck North's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Water Authority of Great Neck North's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Authority of Great Neck North'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 of Directors, management, others within the entity, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Satty, Levine & Ciacco CPAs PC

Satty, Levine & Ciacco, CPAs, P.C.
Jericho, New York
March 15, 2013