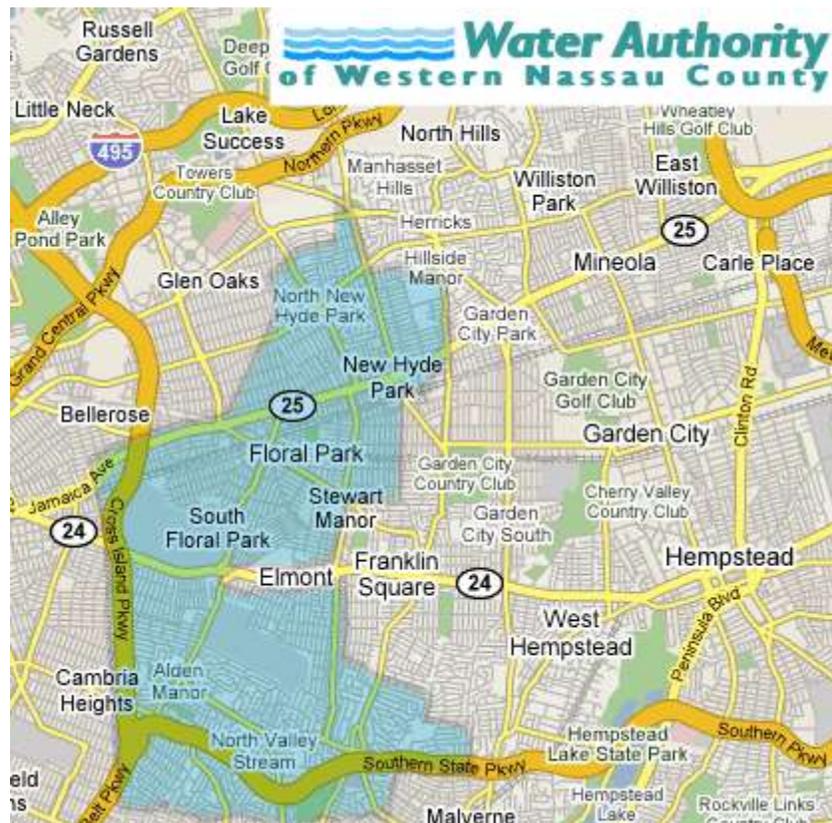


**WATER AUTHORITY OF WESTERN NASSAU COUNTY
FINANCIAL STATEMENTS
FISCAL YEAR ENDED MAY 31, 2014
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**



Prepared by:
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Director of Finance, Accounting & Customer Service
Water Authority of Western Nassau County

WATER AUTHORITY OF WESTERN NASSAU COUNTY
FINANCIAL STATEMENTS
FISCAL YEAR ENDED MAY 31, 2014
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying statement of net position of the Water Authority of Western Nassau County, State of New York, as May 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Water Authority of Western Nassau County'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 opinions 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 from 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.

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the of the Water Authority of Western Nassau County, as of May 31, 2014, and 2013 and the

respective changes in net position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-21 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 August 30, 2014, on our consideration of the Water Authority of Western Nassau County'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* in considering the Water Authority of Western Nassau County's internal control over financial reporting and compliance.



Garden City, New York
August 30, 2014

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three sections: Management's Discussion and Analysis; the Financial Statements; and Notes to the Financial Statements that explain in more detail some of the information in the Financial Statements.

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

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

The financial statements include the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, and the Notes to the Financial Statements.

The *Statement of Net Position* of the Water Authority reports all assets, deferred outflows of resources, liabilities, deferred inflow of resources, and net position. The Statement of Net Position represents the difference between all other elements in a statement of financial position in three components: net investment in capital assets; restricted (distinguishing between major categories or restrictions) and unrestricted. The Statement of Net Position provides information about the nature and amount of investment in resources (assets) and obligations to the Water Authority's creditors (liabilities) at year-end. It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Water Authority. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* presents the results of the activities of the Water Authority and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides information about whether the Water Authority has successfully recovered its costs through its user fees and other charges, its profitability and credit worthiness.

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

This section presents management's analysis of the Water Authority's financial conditions and activities for the fiscal years ended May 31, 2014 and 2013. Please read this information in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

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

- Total assets as of May 31, 2014 were \$89.2 million and exceeded liabilities in the amount of \$18.1 million (i.e. net position). Of the total net position, \$2.1 million was unrestricted. Total assets decreased by \$1.3 million (1.5%) between May 31, 2013 and 2014. Net position increased by \$2.1 million (12.9%) over the same period last year and the economic and financial position of the Water Authority improved.
- Operating revenues were approximately \$14.1 million, showing an increase of \$0.4 million (3.1%), as compared to \$13.7 million in the previous year. The increased revenues from residential water sales of \$0.3 million (3.2%) and commercial and fire protection revenues of \$0.1 million (2.9%) were related to increased consumption of water and a 6.02% increase in water rates.
- Operating expenses increased by approximately \$0.7 million, from \$9.9 million to \$10.6 million for the fiscal years ended May 31, 2013 and 2014. The 7.5% increase in operating expenses was due to higher operational and depreciation expenses. Operations expenses increased by \$0.4 million (7.1%) from \$6.7 million to \$7.2 million for the fiscal years ended May 31, 2013 and 2014, respectively, primarily from increases in costs of labor and purchased power. Maintenance expenses decreased by \$0.01 million (.6%) from \$1.92 million to \$1.91 million for the fiscal years ended May 31, 2013 and 2014.
- Operating income for the fiscal years ended May 31, 2014 and 2013 were \$3.5 and \$3.8 million. The decrease in operating income of \$0.3 million (8.4%) reflects the rise in operating expense, including depreciation, exceeding the increase in operating revenues. As a result of this change, the ratio of operating income to total revenues declined from 27.7% to 24.6%, from the fiscal year ended May 31, 2013 to 2014.
- The Water Authority's long-term bonded debt, including the current portion, decreased by \$ 1.6 million (2.4%) during the fiscal year ended May 31, 2014, from \$66.1 million at May 31, 2013 to \$64.5 million at May 31, 2014, as a result of the repayment of \$0.4 million of Series 2010 bonds and \$1.2 million of Series 2005 Bonds and amortization of bond premiums. Debt service coverage was 1.3, meeting the amount required by the Bond covenants.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE WATER AUTHORITY

One of the most important objectives of the financial analysis is to determine if the Water Authority as a whole is better or worse off as a result of the year's activities. The Statement of Net Position and the statements of revenues, expenses and changes in net position provide useful information in this regard. The amount of net position, the difference between total assets and liabilities, is a significant measure of the financial health or financial position. Over time, increases or decreases in the Water Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and zoning and new or changed government legislation should be considered in evaluating the financial conditions of the Water Authority.

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

NET POSITION

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

CONDENSED STATEMENT OF NET POSITION (BALANCE SHEETS)

	May 31,			2013 to 2014		2012 to 2013	
	2014	2013	2012	Increase (Decrease)		Increase (Decrease)	
	Amount	Amount	Amount	Amount	%	Amount	%
Current assets	\$ 6,989,314	\$ 7,485,682	\$ 6,510,592	\$ (496,368)	(6.6)	\$ 975,090	15.0
Noncurrent assets							
Other noncurrent assets	14,121,304	19,077,012	28,979,670	(4,955,708)	(26.0)	(9,902,658)	(34.2)
Capital assets	68,063,563	63,873,372	52,433,616	4,190,191	6.6	11,439,756	21.8
Total assets	89,174,181	90,436,066	87,923,878	(1,261,885)	(1.4)	2,512,188	2.9
Deferred charge on refunding	1,132,345	1,201,753	1,268,612	(69,408)	(5.8)	(66,859)	(5.3)
Total deferred outflows	1,132,345	1,201,753	1,268,612	(69,408)	(5.8)	(66,859)	(5.3)
Current liabilities	4,031,915	6,113,333	4,418,285	(2,081,418)	(34.0)	1,695,048	38.4
Noncurrent liabilities	3,969,402	3,573,609	3,196,579	395,793	11.1	377,030	11.8
Long-term debt—bonds, net	64,215,818	65,924,806	67,578,373	(1,708,988)	(2.6)	(1,653,567)	(2.4)
Total liabilities	72,217,135	75,611,748	75,193,237	(3,394,613)	(4.5)	418,511	0.6
Net position							
Invested in capital, Restricted for rate stabilization	15,436,386	14,543,793	11,525,474	892,593	6.1	3,018,319	26.2
Unrestricted	570,000	560,000	560,000	10,000	1.8	-	0.0
	2,083,005	922,278	1,913,779	1,160,727	125.9	(991,501)	(51.8)
Total Net Position	\$ 18,089,391	\$ 16,026,071	\$ 13,999,253	\$ 2,063,320	12.9	\$ 2,026,818	14.5

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

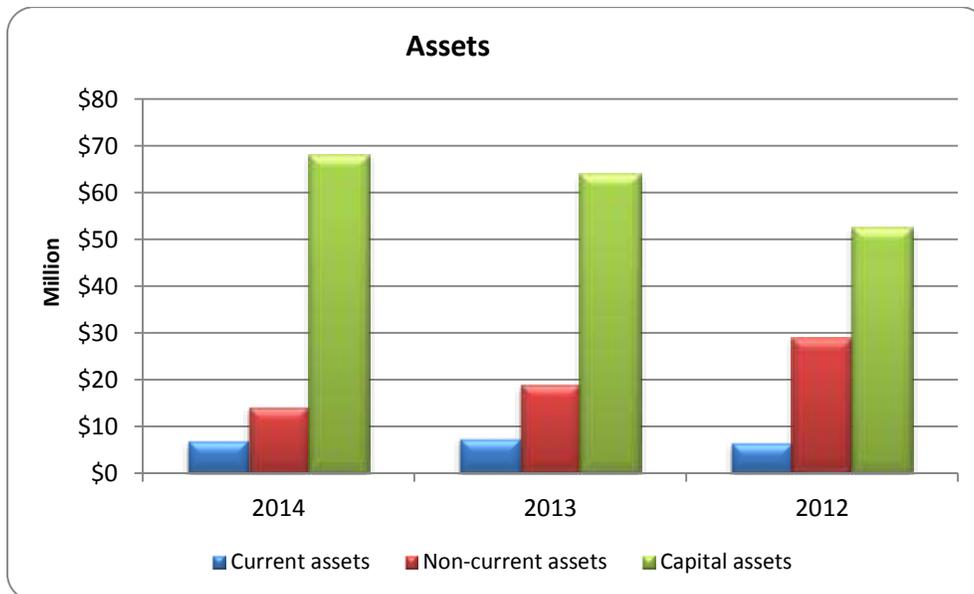
The table above and Chart 1 show that the amount of total assets decreased by 1,261,885 (1.4%) and total liabilities declined by \$3,394,613 (4.5%), from May 31, 2013 to May 31, 2014. The increase in total assets and total liabilities were \$2,512,188 (2.9%) and \$418,511 (.6%), respectively, from May 31, 2012 to May 31, 2013. During the year ended May 31, 2014, the Water Authority increased its gross capital assets by \$5,420,056 (7.1%) by expending the restricted funds held for construction. The addition to capital assets, net of depreciation, was \$4,190,191 (6.6%). The non-current assets, which include the bond proceeds restricted for construction, decreased by \$4,955,708 (26.0%). In 2013, the principal components of changes in assets included the net additions to capital assets of \$11,439,756 (21.8%) and reduction in other non-current assets, restricted cash and investments, of \$9,902,658. The primary reason for a decrease in total liabilities was the repayments of long-term bonds.

During the year ended May 31, 2014, the current assets and current liabilities decreased by \$496,368 (6.6%) and \$2,081,418 (34.0%), respectively. The principal reason for the decrease in current assets was \$431,000 (19.2%) reduction in unbilled accounts receivable and for current liabilities was \$1,930,079 (58.5%) reduction in accounts payable and accrued expenses. As a result of substantial decrease in current liabilities the net working capital position of the Water Authority improved by \$1,585,050 (115.5%) from \$1,372,349, on May 31, 2013, to \$2,597,399, on May 31, 2014.

The amount of bonds, including the current portion, was \$64,515,000 and \$66,110,000, on May 31, 2014 and 2013, respectively. The principal payments made during the fiscal years ended May 31, 2014 were \$1,595,000 as compared to \$1,550,000, in the previous year.

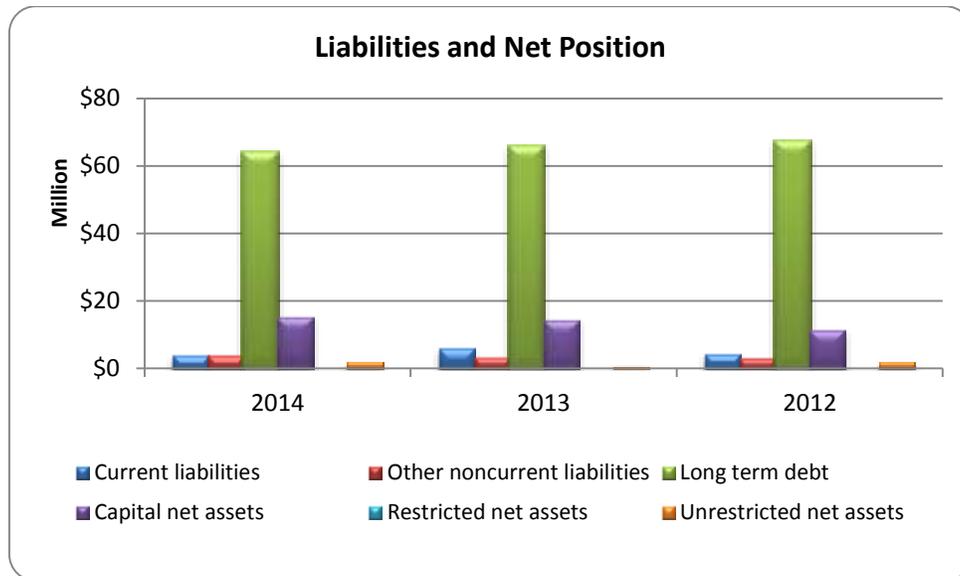
The net position of the Water Authority increased by \$2,063,320 (12.9%), in the fiscal year ended May 31, 2014, as compared to an increase of \$2,026,818 (14.5%), in the fiscal year ended May 31, 2013. The changes in net position represent the excess of operating incomes of \$3,462,974 and \$3,778,788 over the non-operating expenses of \$1,399,654 and \$1,751,970, in the fiscal years ended May 31, 2014 and 2013, respectively.

CHART 1



**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CHART 2



The unrestricted net position increased by \$1,160,727 (125.9%), in the fiscal year ended May 31, 2014, as compared to a decrease of \$991,501 (51.8%) in previous year. The increase in the unrestricted net position represented 56.3% of the total increase in net position of \$2,063,320, in the fiscal year ended May 31, 2014. The net position restricted for rate stabilization was increased by \$10,000, to comply with the Bond covenants regarding maintaining Rate Stabilization restricted cash and cash equivalents. The net position invested in capital increased by \$892,593 (6.1%) from \$14,543,793 on May 31, 2013 to \$15,436,386, on May 31, 2014.

OPERATING RESULTS

As of May 31, 2014, the Water Authority provided water to 26,430 residential customers, 1,359 commercial customers, 195 private fire customers and 2,432 municipal fire hydrants. The corresponding figures for May 31, 2013 were 26,411 residential customers, 1,368 commercial customers, 192 private fire customers and 2,432 municipal fire hydrants.

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

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	May 31,		2013 to 2014		2012 to 2013		
	2014	2013	Increase (Decrease)		Increase (Decrease)		
			2012	Amount	%	Amount	%
Water sales:							
Residential	\$ 10,023,162	\$ 9,715,394	\$ 9,208,977	\$ 307,768	3.2	\$ 506,417	5.5
Commercial, municipal and other	4,054,704	3,941,453	3,779,491	113,251	2.9	161,962	4.3
Total operating revenues	14,077,866	13,656,847	12,988,468	421,019	3.1	668,379	5.1
Operating expenses							
Operations	7,155,325	6,682,648	6,154,917	472,677	7.1	527,731	8.6
Maintenance	1,913,099	1,924,246	1,845,803	(11,147)	(0.6)	78,443	4.2
Depreciation	1,546,468	1,271,165	1,168,265	275,303	21.7	102,900	8.8
Total operating expenses	10,614,892	9,878,059	9,168,985	736,833	7.5	709,074	7.7
Operating income	3,462,974	3,778,788	3,819,483	(315,814)	-8.4	(40,695)	(1.1)
Non-operating revenue (expense)							
Interest income	74,188	122,817	247,852	(48,629)	(39.6)	(125,035)	(50.4)
Miscellaneous income	375,941	375,320	357,310	621	0.2	18,010	5.0
Interest on long-term debt	(1,825,291)	(2,226,107)	(2,624,800)	400,816	(18.0)	398,693	(15.2)
Other amortization, net	(24,492)	(24,000)	(34,529)	(492)	2.1	10,529	(30.5)
Net non-operating expenses	(1,399,654)	(1,751,970)	(2,054,167)	352,316	(20.1)	302,197	(14.7)
Change in total net Position	2,063,320	2,026,818	1,765,316	36,502	1.8	261,502	14.8
Net position, beginning	16,026,071	13,999,253	12,233,937	2,026,818	14.5	1,765,316	14.4
Net position, ending	\$ 18,089,391	\$ 16,026,071	\$ 13,999,253	\$ 2,063,320	12.9	\$ 2,026,818	14.5

OPERATING REVENUES AND EXPENSES

The Water Authority provides water treatment and distribution to a population estimated at 120,000, approximately equal to 10% of Nassau County's total population. The authority's customer base is diverse with no significant customer concentration. It benefits economically from its proximity to New York City. Limited growth is expected because the towns served have little free area for new development.

The Water Authority's revenues increased by \$421,019 (3.1%), in fiscal year ended May 31, 2014, as compared to an increase of \$668,380 (5.1%) in the fiscal year ended May 31, 2013. The increase in revenue in fiscal year ended May 31, 2014 was the result of a \$307,768 (3.2%) increase in residential water sales and \$113,251 (2.9%) in commercial and fire protection sales (Chart 3).

The Lloyd, Magothy and Upper Glacial aquifers provide the Water Authority with a high quality water supply that requires minimal treatment. Storage facilities along with existing well fields provide ample pumping capacity (46 million gallons per day [mgd]) in relation to actual demand. The water system is compliant with all applicable permits and regulatory standards.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The total operating expenses before depreciation increased by \$461,530 (5.4%) and \$606,174 (7.6%) in fiscal years ended May 31, 2014 and 2013, respectively (Chart 4). The change in operations expenses of \$472,677 (7.1%) and \$527,731 (8.65), in the fiscal year ended May 31, 2014 and 2013, respectively, were primarily the result of a rise in labor costs and benefits, along with an increase in the costs of power and chemicals. The maintenance expenses remained relatively unchanged from the previous year. Maintenance expenses were \$1,913,099, in the fiscal years ended May 31, 2014, as compared to \$1,924,246 in previous year. As a result of changes in revenues and expenses, the Water Authority's net position increased by \$2,063,320 and \$2,026,818 during the years ended May 31, 2014 and 2013, respectively.

CHART 3

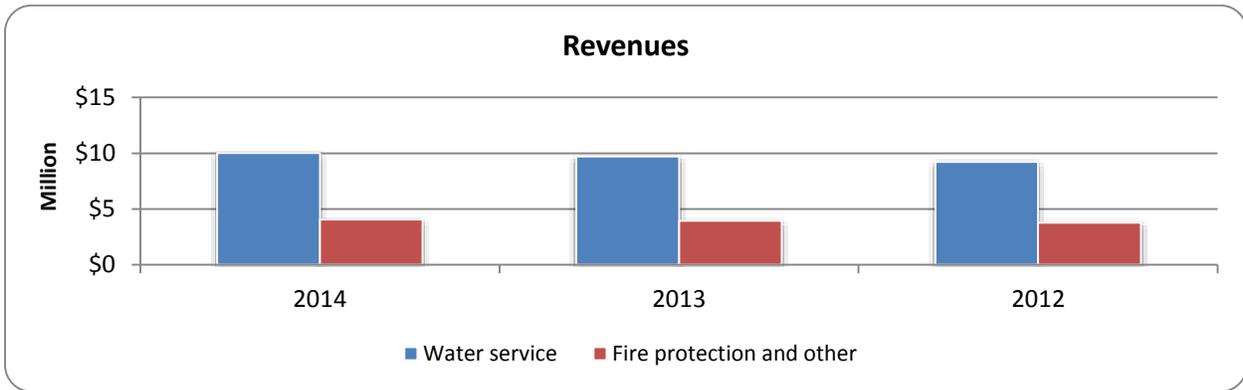
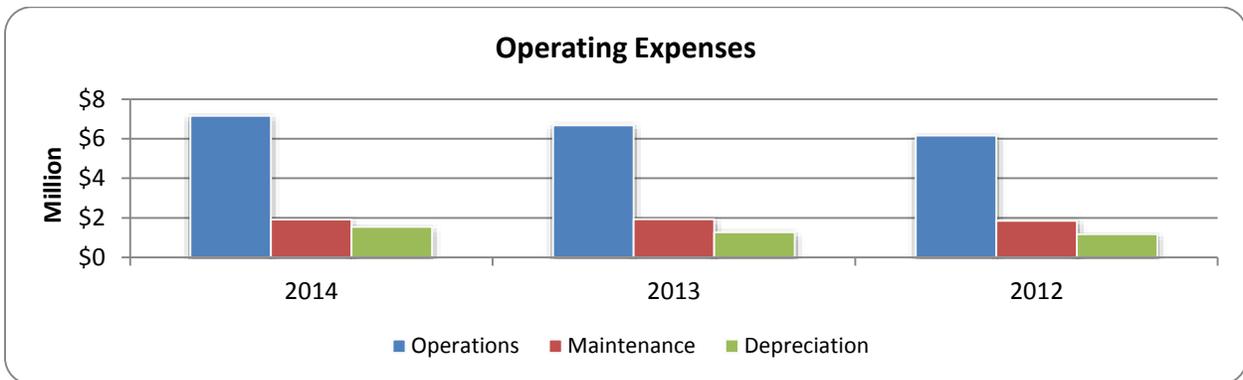


CHART 4



NON-OPERATING REVENUES AND EXPENSES

Non-operating revenue includes interest earnings on investment assets and miscellaneous income. Interest incomes were \$74,188 and \$122,817, in the year ended May 31, 2014 and 2013 respectively. The primary reason for reduction in the interest income was the expenditure of restricted funds held in cash equivalents and investment accounts for construction of capital assets.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Miscellaneous income was \$375,941, in the year ended May 31, 2014 and \$375,320, in the year ended May 31, 2013. This increase was due to additional rental income realized from the lease of space atop water towers to cellular phone companies.

The gross amount of Interest expenses, including amortization of issuance costs, bond premium and accruals, were \$3,010,240 and \$3,007,607, in the years ended May 31, 2014 and 2013, respectively. The amount of interest capitalized during the construction of capital assets were \$1,184,950 and \$781,500 and the net interest expenses were \$1,825,291 and \$2,226,107, in the fiscal years ended May 31, 2014 and 2013, respectively. The Water Authority has presented the interest expense, net of the capitalized portion, for the year ended May 31, 2013 and 2014. The \$2,945,386 interest paid during the year ended May 31, 2014 included \$1,285,556 for Series 2005 Bonds; \$214,412, for Series 2010A bonds; and \$1,501,500 for Series 2010B bonds. The interest paid on Series 2010B was net of a \$713,676 Federal subsidy.

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 \$68.1 million in capital assets, an increase of approximately \$4.2 million (6.6%) from the prior year.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 167,708	\$ 167,708	\$ 167,708
Construction in progress	289,745	22,509,705	11,537,141
Wells and standpipes	2,725,027	2,705,737	2,657,422
Pumping and purification	21,065,839	11,234,460	11,230,913
Distribution system	38,332,125	36,782,613	35,492,957
Building, vehicles and	19,035,411	2,795,575	2,645,900
Total capital assets	<u>81,615,855</u>	<u>76,195,798</u>	<u>63,732,041</u>
Accumulated depreciation	<u>(13,552,292)</u>	<u>(12,322,426)</u>	<u>(11,298,425)</u>
Net capital assets	<u>\$ 68,063,563</u>	<u>\$ 63,873,372</u>	<u>\$ 52,433,616</u>

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

MAJOR INCREASES IN CAPITAL ASSETS

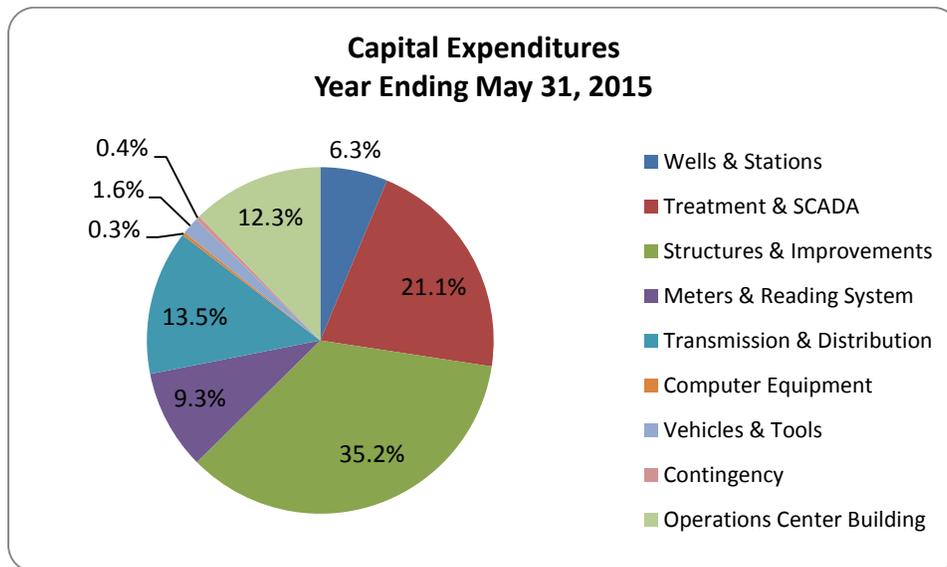
The new capital plan covers the anticipated projects for the fiscal years 2014-2019. The total plan amount is \$35.7 million and will be financed by the proceeds of the 2010 Series A and B Bonds and projected new financing. The planned spending is aimed primarily at improvements to the treatment system and repair and replacement of transmission and distribution lines.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The planned capital expenditures for the year ending May 31, 2015 and five years ending May 31, 2019 are as follows:

	Year Ending May 31, 2015	Years Ending May 31, 2015 to 2019
Wells and stations	\$ 450,000	\$ 7,838,500
Treatment and SCADA	1,500,000	13,450,000
Structures and improvements	2,500,000	4,717,000
Meters and reading system	656,000	2,509,410
Transmission and distribution	954,600	5,232,620
Computer equipment	21,900	125,800
Vehicles and tools	113,930	824,600
Contingency	25,000	125,000
Operations center building	875,000	875,000
Total projected capital expenditures	\$ 7,096,430	\$ 35,697,930

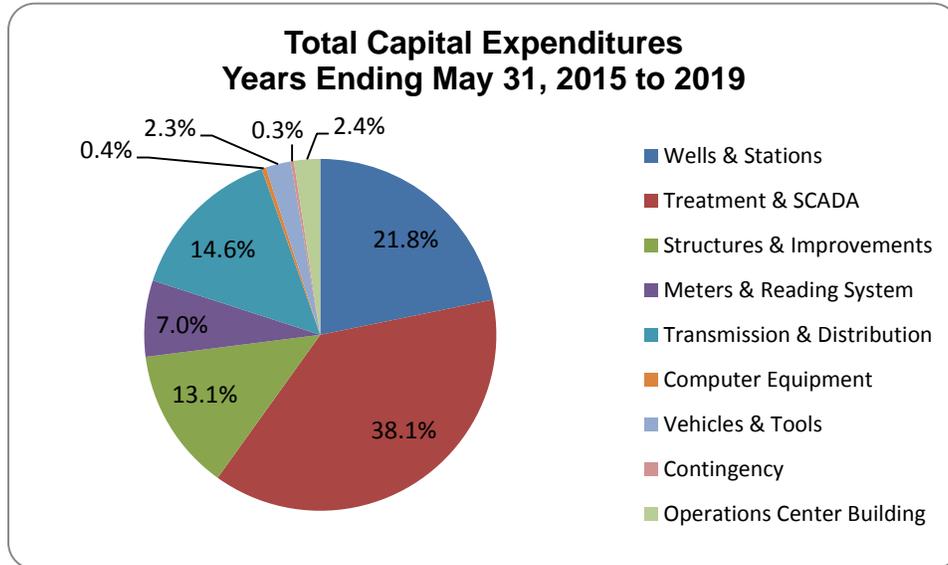
CHART 5



The major planned capital expenditures for the year ending May 31, 2015 include \$2.5 million (35.2%) for structures, \$1.5 million (21.1%) for treatment and SCADA, \$1 million (13.5%) for transmission and distribution and \$0.9 million (12.3%) for completion of operations center building (Chart 5). The capital expenditures of \$7.1 million for the year ended May 31, 2015, represents 10% increase in \$68.1 million capital assets net of depreciation, as of May 31, 2014.

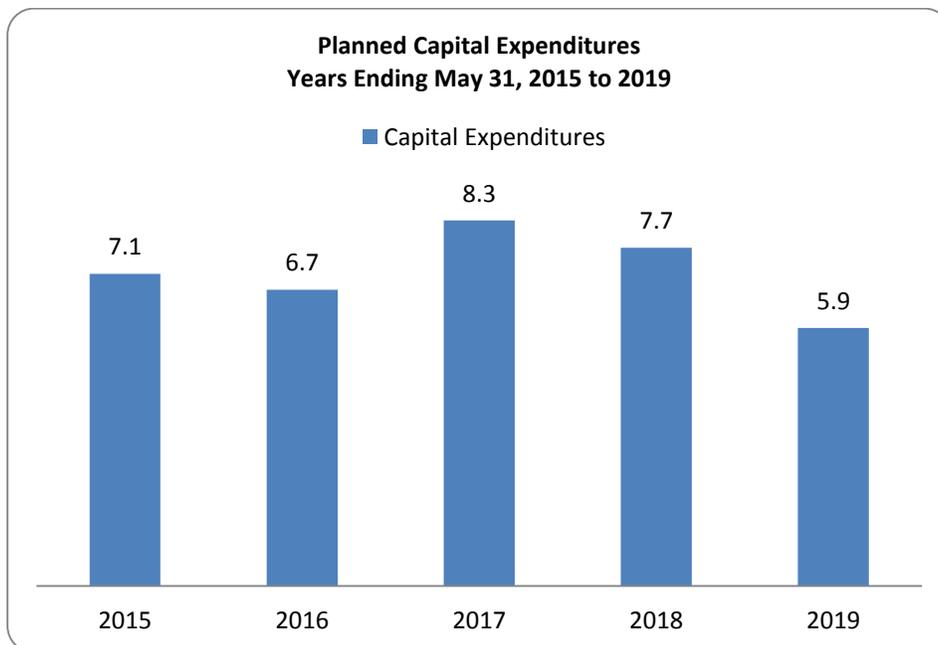
**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CHART 6



Over the five years ending May 31, 2019, the expenditures for treatment and SCADA will be \$13.5 million (38.1%), for wells and stations \$7.8 million (21.8%), for transmission and distribution \$5.2 million (14.6%) and for meter and reading systems \$2.5 million (7%) of the total \$36 million capital expenditures (Chart 6). The planned annual capital expenditures for the years ending May 31, 2015 to 2019 are shown in the Chart 7:

CHART 7



**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

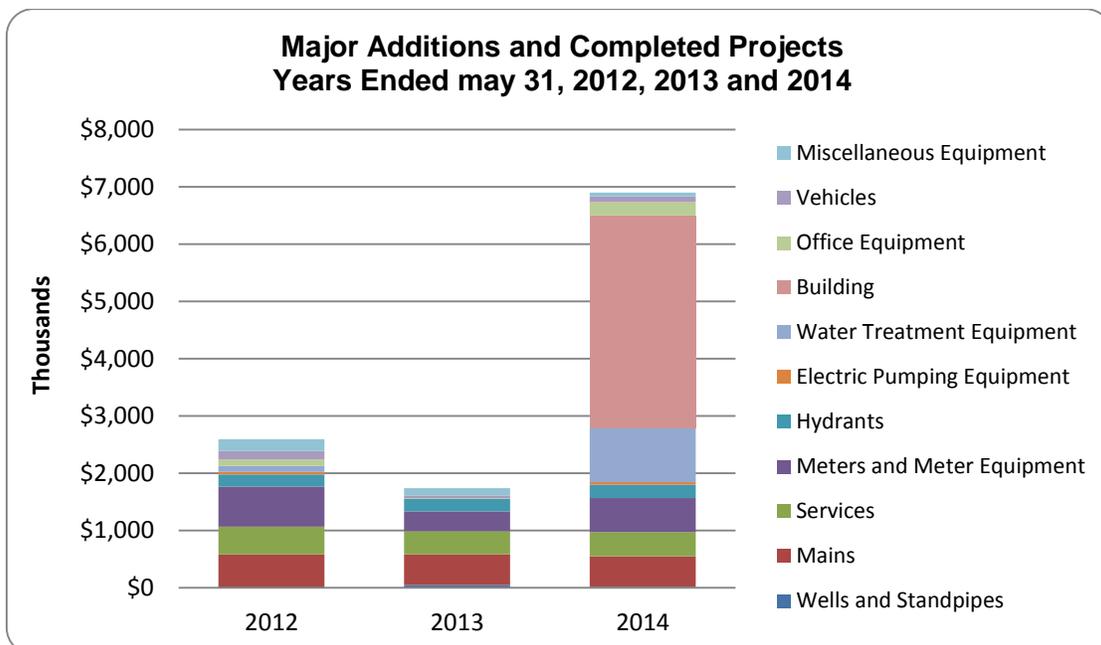
MAJOR ADDITIONS AND COMPLETED PROJECTS

The Water Authority completed the construction and moved its headquarters to the new building located at 1580 Union Turnpike, New Hyde Park, New York. The new building is constructed on an owned, active well station and has enabled the Water Authority to eliminate over \$400,000 of lease cost, property taxes and maintenance charges which were annually incurred on its previously headquarters. The Water Authority also completed two Iron Removal Plants in Elmont and Franklin Square.

The major additions of completed projects put into service to the capital assets in the fiscal years ended May 31, 2014, 2013 and 2012 are presented in the following table and Chart 8:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Wells and Standpipes			
Wells and standpipes	\$ 19,290	\$ 48,315	\$ -
Distribution System			
Mains	531,361	533,633	581,324
Services	419,587	405,336	483,645
Meters and meter equipment	594,671	344,052	703,616
Hydrants	236,956	218,381	206,745
Pumping and Purification			
Electric pumping equipment	44,072	705	45,655
Water treatment equipment	947,979	2,843	106,720
Building and Vehicles			
Building	3,700,094	-	-
Office equipment	235,288	15,604	113,063
Vehicles	101,451	43,411	146,640
Miscellaneous equipment	63,390	126,062	207,079
Total additions	<u>\$ 6,894,139</u>	<u>\$ 1,738,342</u>	<u>\$ 2,594,487</u>

CHART 8



THE WATER AUTHORITY OF WESTERN NASSAU COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

The major cost outlays with respect to capital assets relate to improvements in the Water Authority's water distribution system. The Water Authority spent \$531,361 for the completed construction and placement of water mains during the fiscal year ended May 31, 2014 compared to \$533,633 for the same period ended May 31, 2013. The Water Authority spent \$594,671 related to the installation of meters and radio transmitters for those meters during the fiscal year ended May 31, 2014 compared to \$344,052 for the same period ended May 31, 2013. The completion costs of the operations headquarter and two Iron removal plants were \$3,700,094 and \$947,979, respectively.

LONG-TERM DEBT

REVENUE SERIES 2005 BONDS

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

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

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

The bond proceeds, in part, provided sufficient money to effect the advance refunding of the existing Series 1996 Bonds. Simultaneously with the issuance of the Series 2005 Bonds, a portion of the proceeds, together with other available moneys, was used to purchase non-callable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States of America (the "Federal Securities"), in an amount sufficient, together with the interest to accrue thereon, to pay the principal of, redemption premium and interest on the Refunded Bonds, as the same become due and payable.

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

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**WATER REVENUE BONDS, SERIES 2005
OUTSTANDING PRINCIPALS
May 31, 2014**

Bond	Amount
Serial Bonds 3.00% - 5.00%, due through 2026	\$ 19,985,000
Term Bonds 5.00%, due 2030	2,015,000
Term Bonds 5.00%, due 2035	3,150,000
Total Series 2005	\$ 25,150,000

REVENUE SERIES 2010 BONDS

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

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

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

**WATER REVENUE BONDS, SERIES 2010
SOURCES AND USES OF FUNDS**

	Series 2010A Amount	Series 2010B Amount	Total
Source of funds			
Principal amount of bonds	\$ 6,925,000	\$ 33,965,000	\$ 40,890,000
Net premium	106,875	-	106,875
Total sources	\$ 7,031,875	\$ 33,965,000	\$ 40,996,875
Use of funds			
Project fund	\$ 6,234,361	\$ 30,227,639	\$ 36,462,000
Debt service reserve fund	692,500	3,340,180	4,032,680
Bond insurance cost	35,294	-	35,294
Costs of issuance	69,720	394,068	463,788
Additional proceeds	-	3,113	3,113
Total uses	\$ 7,031,875	\$ 33,965,000	\$ 40,996,875

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**2010 REVENUE BONDS
OUTSTANDING PRINCIPALS
MAY 31, 2014**

<u>Bond</u>	<u>Amount</u>
Water Revenue Bonds Series 2010	
Serial Bonds A 2.00% - 4.00%, due through 2020	\$ 5,400,000
Term Bonds B 6.00% - 6.70%, due through 2040 *	33,965,000
Total Series 2010	<u>\$ 39,365,000</u>

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

The amounts of principal and interest paid were \$1,595,000 and \$2,945,386 respectively, during the fiscal year ended May 31, 2014, as compared to principal and interest payments of \$1,550,000 and \$2,997,786, respectively, in the prior year.

The Water Authority plans to go out for new financing to fund future construction plans. The increases in the net position of the Water Authority are expected to improve the current leverage. On February 5, 2014, Fitch Ratings affirmed the 'AA-' rating of the Water Authority's Series 2005, 2010A and 2010B (taxable Build America Bonds). Fitch noted that the rating outlook is stable; outstanding parity bonds are secured by a first lien on net revenues of the water authority and affordable user charges provide ample flexibility to sufficiently offset the authority's somewhat below-average financial metrics. The authority's demonstrated willingness and ability to set rates independent of outside regulation is a key credit consideration.

In February 2010, the Water Authority was given a rating of "A3" on its Series 2010 Water System Revenue Bonds by Moody's Investor Service.

Reclassifications and Restatement of Bond Issuance Costs and Refunding Loss

In the year ended May 31, 2013, the Water Authority opted for the early adoption of the Government Accounting Standards Board's Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and accordingly restated all previous financial statements presented. For the Series 2005 Bonds, the bond issuance costs of \$363,319 was reclassified as expense and the prepaid bond insurance costs of \$149,459 was reported as an asset in the statement of net position, as of May 31, 2006. Also, For the Series 2010A and Series 2010B Bonds, bond issuance costs of \$463,787 was reclassified as expense and the prepaid insurance costs of \$35,294 was reported as an asset in the statement of net position, as of May 31, 2011. Prepaid insurance costs are recognized as an expense in a systematic manner over the duration of the related bonds.

According to Government Accounting Standards Board Statement No. 65, the net loss on refunding related to the issuance of Series 2005 Bonds was reclassified and reported as a deferred outflow of

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

resources in the statements of all periods presented. It is also recognized as a component of interest expense in a systematic manner over the shorter remaining life of the Bonds.

Certain reclassifications were also made to the fiscal year ended 2013 financial statements to conform to the fiscal 2014 presentation.

Cash Available for Coverage:

During the year ended May 31, 2014, the Water Authority's utilized \$4.0 million net cash flows from operations, \$4.5 million non-capital financing and \$0.7 million of cash to finance \$9.2 million expenditures for expanding and improving its capital assets and paying its debt service charges of \$4.5 million.

The Water Authority's debt coverage ratio was as follows:

Cash Available and Debt Service Requirement	Amount
Operating income	\$ 3,462,974
Add:	
Depreciation and amortization	1,936,732
Interest and other income	450,129
	5,849,835
 Debt service requirements:	
Interest payments	2,945,386
Principal payments	1,595,000
	\$ 4,540,386
 Coverage Ratio	 1.3
Coverage requirement as per Water System Revenue Bonds, Series 2010 and 2005	1.2

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

CASH AND INVESTMENTS

The total amounts of unrestricted and restricted cash, cash equivalents and investment in the US Treasury Securities were \$17,614,716 and \$22,708,240, on May 31, 2014 and 2013, respectively. The decrease of \$5,093,524 (22.4%) in cash and investment was primarily the result of acquiring additional capital assets and paying debt service charges. The acquisition of new capital assets is reflected in the decrease of \$4,951,296 (51.6%) and \$10,062,027 (52.1%), in Bond Construction Fund cash, cash equivalents, on May 31, 2014 and 2013, respectively. To raise the availability of funds for construction, the Water Authority increased the proportion of the Construction Funds held in cash and equivalents, from 49%, on May 31, 2012 to 60%, on May 31, 2013 and 93%, on May 31, 2014.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The amount of cash, cash equivalents and investment in Bond reserve funds increased by \$69,401 (1.0%), from \$7,004,753 on May 31, 2013 to \$7,074,154 on May 31, 2014. The increase in Bond reserve funds was \$105,697 (1.5%), in the previous year.

On May 31, 2014, the cash and cash equivalents of \$16,675,749, included \$4,059,738 (24.3%) of unrestricted and \$12,616,011 (75.7%) restricted amounts. Cash equivalents included \$10,448,729 invested in Dreyfus Government Prime Cash Management 557 Fund and \$2,411,952 of short-term the US Treasury bills. Dreyfus money market funds invest only in the securities of the US government or the US government agencies and enterprises. The amount of restricted investments was \$938,967, of which \$309,969 (33.0%) was invested in Treasury Notes and \$628,998 (67.0%) in the US Treasury Bonds.

As of May 31, 2014, the maturities of investment in the Water Authority's US treasury securities were as follows:

Restricted Investments Held by Trustee

Fund	Investment	Maturity Date	Fair Value	Percent of Total	Term (Days)
Bond construction fund	US Treasury Notes	6/30/2014	309,969	33%	30
Bond reserve fund	US Treasury Bonds	2/15/2015	628,998	67%	260
			<u>\$ 938,967</u>	<u>100%</u>	

The total restricted investment of \$938,967 was composed of \$916,949 of investments at fair market value, plus \$22,018 accrued interest.

The Water Authority's investment strategy is designed to eliminate the default risk and to maximize interest income by matching the maturities of the investments with the cash requirements of construction activities. The strategy minimizes the risk of having to liquidate the investment to pay construction under unfavorable market interest conditions. All of the Water Authority's investments are in the US Treasury Notes and Bonds with maturities of less than one year. All deposits were with a major national bank and were insured by FDIC or collateralized over 102% by the securities held by the bank of New York Mellon under a tri-party collateral agreement.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN AND RATES

The Water Authority's Board of Directors and Management considered many factors when setting the fiscal year ended May 31, 2014 plan, user fees and charges. The Water Authority's service area population is approximately 120,000. The Water Authority presently has over 28,000 accounts in western Nassau County, of which about 94% are residential. Commercial and fire protection constitute most of the remainder. The Water Authority's customer base has mirrored Nassau County's population. According to the 2013 the US Census Bureau estimates, Nassau County's population was 1,352,146. That was a 1.3% increase from the 1,334,546 residents in 2000.

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The population breakdown by towns within Nassau County for 2010 and 2000 is as follows:

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

a. Source: 2010 United States Census

b. Source: 2000 United States Census

Several indicators including unemployment rates in Nassau County and changes in the consumer price index for the New York – Northern New Jersey – Long Island area were considered by the Water Authority's management in developing the operating plan of the Water Authority for the fiscal year ended May 31, 2014. The unemployment rate in Nassau County has continued to be lower than national and State of New York and New York City averages. The average unemployment rates in the County of Nassau decreased from 6% to 4.8% from May 2013 to May 2014. The unemployment rates for the City of New York, State of New York and United States as a whole were 7.7%, 6.4% and 6.3% respectively in May 2013 as compared to 8.3%, 7.6%, and 7.6% in May 2012.

Over the year ended May 31, 2014, the Consumer Price Index for All Urban Consumers (CPI-U) rose 1.9 percent, and the index for all items less food and energy increased 1.7 percent. The 12-month percentage increase in both indexes has been 2.0 percent or less since December 2013. Higher prices for shelter drove the 12-month change in both indexes.

Over the year, the food index increased 2.0 percent. The 12-month percentage change in prices for food at home was 2.6, compared to a 1.2-percent rise in prices for food away from home.

From May 2013 to May 2014, energy prices rose 3.9 percent, reflecting a 6.3-percent increase in electricity prices, tempered by a 1.8-percent decrease in natural gas prices. Gasoline prices, up 3.6 percent over the year, also contributed to the overall increase in energy prices. For the year ended May 2014, the index for all items less food and energy advanced 1.7%. Shelter prices increased 3.2%—owners' equivalent rent rose 3.2% and residential rent, 3.1%. Other expenditure increases included medical care (3.2%), other goods and services (1.2%), and education and communication (0.5%).

The Water Authority has prepared and published an operating plan for the year ending May 31, 2015 and forecast of revenues, expenses and changes in net position, for the four years ending May 31, 2019. For the year ending May 31, 2015, the total operating revenues, operating expenses and operating income are estimated to be \$15.2, \$10.5 and \$4.7 million, respectively. Non-operating revenues and expenses are estimated to be \$.5 and \$3.0 million, respectively. The increase in net position is estimated to be approximately \$2.1 million (12.1%). The amount of \$0.2 million of the revenues is planned to be added to the rate stabilization fund. The forecasts for the year ending May 31, 2015 are based on 5.5% change in revenue requirement, 7% change in customer rate, average annual residential bill of \$404 and average annual commercial bill of \$ \$1,785.

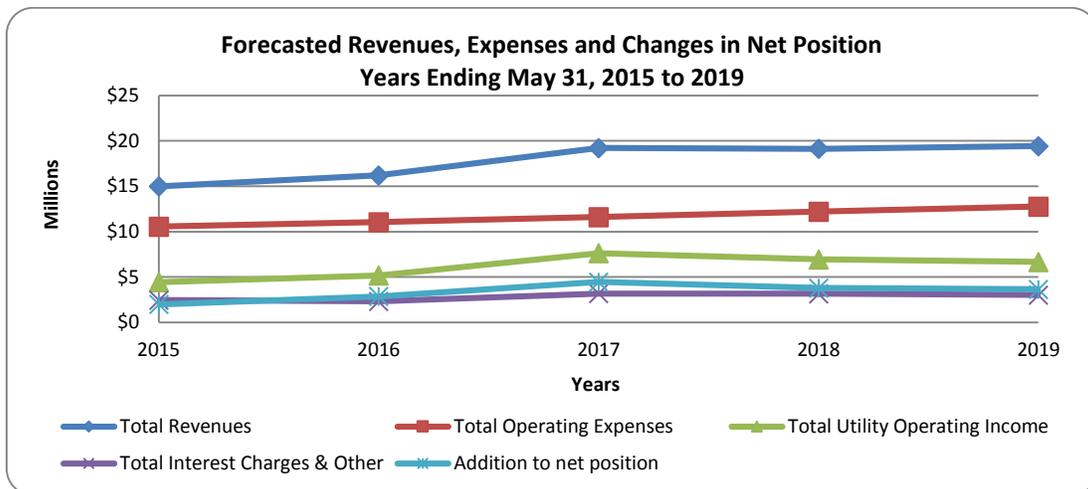
**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ending May 31, 2015, the forecasted revenues, expenses and changes in net position are as follows:

FORECASTED REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDING MAY 31, 2015	Amount
Operating Revenues	
Residential	\$10,813,400
Commercial	1,918,900
Fire hydrants	2,277,000
Private fire	118,100
Other revenue	71,000
Total operating revenues	15,198,400
Operating Expenses	
Operation and maintenance	9,109,740
Depreciation	1,448,000
Total operating expenses	10,557,740
Total utility operating income	4,640,660
Non-operating revenues and expenses	
Interest on long-term debt	2,939,600
Amortization expenses	36,600
Interest and other income	(530,100)
Net non-operating expenses	2,446,100
Increase in net position	\$2,194,560

In planning the future revenues the key considerations have been the forecast of water consumption and adjustment of the water rates to meet the debt service requirements, expected rises in capital and operating costs. The annual change in the customer rate, required to meet revenue plans are estimated to be 9%, 10%, 7% and 1%, for the years ending May 31, 2016, 2017, 2018 and 2019 (Chart 9). The average residential and commercial bill is estimated to rise by 30.6% to \$523 and \$2,330, respectively, in the year ending May 31, 2019.

CHART 9



THE WATER AUTHORITY OF WESTERN NASSAU COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE WATER AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, creditors and public with a general overview of the Water Authority's finances and to demonstrate the Water Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Water Authority's Superintendent at 1580 Union Turnpike, New Hyde Park, NY 11040.



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

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,059,739	\$ 4,318,014
Accounts receivable:		
Billed, net of \$25,000 allowance for doubtful accounts	678,043	535,186
Unbilled	1,810,000	2,241,000
Prepayments and other current assets	205,946	137,527
Materials and supplies, at weighted average cost	<u>235,586</u>	<u>253,955</u>
 Total current assets	 6,989,314	 7,485,682
Noncurrent assets:		
Restricted cash and cash equivalents		
Rate stabilization fund	570,000	560,000
Bond construction fund	4,338,021	5,787,513
Bond reserve fund	6,445,157	5,484,893
Bond payment fund	232,945	234,875
Customer deposits	1,029,887	990,612
Restricted investments held by trustees		
Bond construction fund	309,970	3,811,774
Bond reserve fund	628,997	1,519,860
Capital assets		
Non-depreciable	457,453	22,757,373
Depreciable	67,606,110	41,115,999
Other assets		
Unamortized bond issue cost	141,206	149,558
Other assets	<u>425,121</u>	<u>537,927</u>
 Total noncurrent assets	 <u>82,184,867</u>	 <u>82,950,384</u>
 Total assets	 \$ 89,174,181	 \$ 90,436,066
 Deferred Outflows of Resources		
Deferred charges on refinancing	<u>1,132,345</u>	<u>1,201,753</u>
 Total deferred outflow of resources	 1,132,345	 1,201,753

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

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

	<u>2014</u>	<u>2013</u>
Liabilities and Net position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,371,081	\$ 3,301,160
Deferred revenue	466,723	568,843
Accrued interest payable	377,905	383,460
Customer advance on construction	87,366	100,370
Water revenue bond payable	1,640,000	1,595,000
Due to employee retirement system	48,840	124,500
Accrued vacation and sick leave	40,000	40,000
	<u>4,031,915</u>	<u>6,113,333</u>
Total current liabilities	4,031,915	6,113,333
Noncurrent liabilities:		
Water revenue bonds payable	62,875,000	64,515,000
Unamortized premium on revenue bonds	1,340,818	1,409,806
Customer deposits	1,089,817	1,050,528
Other post employment benefits	2,059,485	1,734,981
Accrued vacation and sick leave	820,100	788,100
	<u>68,185,220</u>	<u>69,498,415</u>
Total noncurrent liabilities	68,185,220	69,498,415
Total liabilities	72,217,135	75,611,748
Net Position		
Net investment in capital assets	15,436,386	14,543,793
Restricted for rate stabilization	570,000	560,000
Unrestricted	2,083,005	922,278
	<u>18,089,391</u>	<u>16,026,071</u>
Total net position	\$ 18,089,391	\$ 16,026,071

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

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

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Residential	\$ 10,023,162	\$ 9,715,394
Commercial	1,749,134	1,760,453
Fire protection	2,239,254	2,109,979
Other water revenues	66,316	71,021
	<hr/>	<hr/>
Total operating revenues	14,077,866	13,656,847
Operating expenses:		
Operations	7,155,325	6,682,648
Maintenance	1,913,099	1,924,246
Depreciation	1,546,468	1,271,165
	<hr/>	<hr/>
Total operating expenses	10,614,892	9,878,059
	<hr/>	<hr/>
Operating income	3,462,974	3,778,788
Non-operating revenues (expenses):		
Interest income	74,188	122,817
Miscellaneous income, net	375,941	375,320
Interest on long-term debt, net	(1,825,291)	(2,226,107)
Other amortization, net	(24,492)	(24,000)
	<hr/>	<hr/>
Net non-operating expenses	(1,399,654)	(1,751,970)
	<hr/>	<hr/>
Change in net position	2,063,320	2,026,818
Net position - beginning	16,026,071	13,999,253
	<hr/>	<hr/>
Total net position - ending	<u>\$ 18,089,391</u>	<u>\$ 16,026,071</u>

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

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

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers	\$ 14,366,009	\$ 13,236,314
Payments to suppliers for goods or services	(6,568,860)	(2,287,306)
Rental property revenues	375,941	375,320
Payments for employee services	<u>(4,173,365)</u>	<u>(4,218,072)</u>
Net cash provided by operating activities	3,999,725	7,106,256
Cash flows from capital and related financing activities:		
Repayment of water revenue bonds	(1,595,000)	(1,550,000)
Acquisition of capital assets	(5,749,663)	(12,790,718)
Interest paid on water revenue bonds	<u>(1,822,074)</u>	<u>(2,216,286)</u>
Net cash used by Capital and related financing activities	(9,166,737)	(16,557,004)
Cash flows from non-capital financing activities:		
Cash flows from investing activities:		
Decrease of fixed income securities	4,392,667	9,476,466
Interest and dividends received	<u>74,187</u>	<u>122,816</u>
Net cash provided by investing activities	<u>4,466,854</u>	<u>9,599,282</u>
Net increase (decrease) in cash and cash equivalents	(700,158)	148,534
Cash and equivalents, beginning of year	<u>17,375,907</u>	<u>17,227,373</u>
Cash and equivalents, end of year	<u>\$ 16,675,749</u>	<u>\$ 17,375,907</u>

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

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

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,462,974	\$ 3,778,788
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,546,468	1,271,165
Rental Income	375,941	375,320
Changes in operating assets and liabilities:		
Accounts receivable	(142,857)	(129,533)
Accrued unbilled revenue	431,000	(291,000)
Prepaid expenses and other assets	(68,418)	67,983
Inventory of materials and supplies	18,369	(35,442)
Other assets	88,314	(43,186)
Accounts payable and accrued expenses	(1,930,079)	1,808,402
Deferred revenues	(102,120)	(93,171)
Due to employee retirement system	(75,660)	19,900
Customer deposits	39,289	41,296
Other post employment benefits	324,504	326,534
Compensated absences	<u>32,000</u>	<u>9,200</u>
Net cash provided by operating activities	<u>\$ 3,999,725</u>	<u>\$ 7,106,256</u>

Non-cash transactions: Write off of \$ 361,601 fully depreciated capital assets.

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

THE WATER AUTHORITY OF WESTERN NASSAU COUNTY
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2014 AND 2013

NOTE 1 – ORGANIZATION

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Water Authority have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Water Authority applies all applicable pronouncements of GASB as well as the following pronouncements issued on or

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before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of Financial Accounting Standards Board ("FASB"), Opinions of the Accounting Principles Board and the Accounting Research Bulletins of the Committee on Accounting Procedure of the American Institute of Certified Public Accountants. In accordance with GASB Statement No. 20, the Water Authority has elected not to apply FASB pronouncements issued after November 30, 1989 and exclusively applies GASB Statements and Interpretations.

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

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

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

The Water Authority has adopted the provisions of Government Accounting Standard Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These statements established reporting standards for all state and local governments which include Statement of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows and inclusion of Management's Discussion and Analysis.

The Statement of Net Position of the Water Authority reports all assets, deferred outflows of resources, liabilities, deferred inflow of resources, and net position. The Statement of Net Position represents the difference between all other elements in a statement of financial position in three components: net investment in capital assets; restricted (distinguishing between major categories or restrictions) and unrestricted. The Statement of Net Position provides information about the nature and amount of investment in resources (assets) and obligations to the Water Authority's creditors (liabilities) at year-end.

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It also provides the basis for computing rate of return, evaluating the capital structure of the Water Authority and assessing the liquidity and financial flexibility of the Water Authority. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statement of Net Position requires the classification of net position into three components as follows:

1. *Net investment in capital assets*– This component of net position consists of capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources, at the end of the period, the portion of the debt or deferred inflow of resources attributable to unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.
2. *Restricted* – The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflow of resources related to those assets. Generally, a liability relates to the restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted asset reported. This component of net position consists of restrictions placed on net position as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* – The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Cash and Cash Equivalents

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

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

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Restricted Cash, Cash Equivalents and Investments held by Trustee

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

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

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

The amount of Rate Stabilization Fund cash and cash equivalents was \$570,000 as of May 31, 2014.

Bond Construction Fund – In accordance with the bond resolution, money deposited in the Bond Construction Fund from the proceeds of the Water System Revenue Bonds, Series 2005 and Series 2010 are restricted to the cost of improvements or the replacement of the water system. The Bond Construction Fund is to be maintained in trust and held by the fund trustee. The total amount in the Bond Construction Funds at May 31, 2014 was \$4,647,991 of which \$4,338,021 was in cash and cash equivalents and the balance of \$309,970 was invested in fixed income US Treasury Notes.

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

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

As of May 31, 2014, the total amount of Bond Reserve Funds was \$7,074,154 of which \$6,445,157 (91.1%) was in cash and cash equivalents and \$628,997 (8.9%) was invested in fixed income US Treasury bonds. The Water Authority considers the expected changes in treasury yield curve in determining the optimal allocation of its debt reserve funds between cash and cash equivalents and investments.

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Bond Payment Fund – The Water Authority’s bond resolution authorizing the Water System Revenue Bonds, Series 2005, and Series 2010 bond issues has established the Bond Payment Fund. The Bond Fund is to be maintained in trust and held by the fund trustee. The Bond Fund is comprised of two separate fund accounts including the Bond Principal and Interest Fund. All money deposited in the Bond Fund is used solely for the purpose of paying the principal and interest on the bonds. As of May 31, 2014, the amount in the Bond Fund cash and cash equivalents was \$232,945.

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

Accrued Unbilled Revenues

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

Accounts Receivable

Accounts receivable is net of an allowance for doubtful accounts of \$25,000 at May 31, 2014 and 2013. The allowance is estimated based on trends in historical collection rates and write-offs.

Prepaid Expenses

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

Materials and Supplies

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

Capital Assets

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

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

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

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

Capitalization of Interest during Construction

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

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

Interest earned is not to be offset against interest cost in determining either capitalization rates or limitations on the amount of interest cost to be capitalized except in situations involving acquisition of qualifying assets financed with the proceeds of tax-exempt borrowings if those funds are externally restricted to finance acquisition of specified qualifying assets or to service the related debt.

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

The Water Authority has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued in December 2010, has fully incorporated the interest capitalization rules of ASC 835. The adoption of GASB Statement No. 62 did not have any effect on the financial statements.

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The interest expenses are shown net of the capitalized portion, in the financial statements for the years ended May 31, 2014 and 2013.

Long-term Obligations

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

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

The amortization of bond insurance costs were \$8,352 and \$6,816 and the bond premium were \$68,988 and \$58,567, during the years ended May 31, 2014 and 2013, respectively.

Deferred Revenues

The deferred revenues include advance payments by customers and charges for future repairs. The Water Authority recognizes the amounts charged as liabilities and credits them to revenue only when associated costs are incurred.

Other Postemployment Benefits

In addition to providing pension benefits, the Water Authority provides health insurance coverage for eligible retired employees. Substantially all the Water Authority's employees may become eligible for these benefits provided the employee has a minimum of ten years full time employment with the Water Authority, has obtained 55 years of age and has terminated employment with the Water Authority within five years from the date on which entitled to a retirement allowance from the New York State and Local Employees Retirement System.

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

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

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Accrued Vacation and Sick Leave

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

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

Retirement Plan

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

Revenue Recognition

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

Operating and Non-operating Revenues and Expenses

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

Taxes

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

Deferred Inflows of Resources/Deferred Outflows of Resources

The GASB has issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and

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related disclosures. In compliance with GASB 63, the Statement of Net Assets has been renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The GASB has also issued Statement 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement is effective for periods beginning after December 15, 2012, although the Water Authority has elected early implementation with the financial statements for the year ended May 31, 2013.

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has only one item that qualifies for reporting in this category – the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred over the shorter of the life of the refunded or refunding debt.

Use of Estimates

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

Operating and Capital Plans

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

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

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

New Accounting Pronouncements

In March 2012, the Governmental Accounting Standards Board (GASB) issued two Statements: Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*

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GASB Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. Debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. Prepaid insurance costs are reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Under GASB Statement No. 66, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement modifies the specific guidance on accounting for operating lease payments that vary from a straight-line basis, the difference between the initial investment and the principal amount of a purchased loan or group of loans, and servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate.

The provisions of Statements No. 65 and No. 66 are effective for periods beginning after December 15, 2012. The Water Authority chose the early adoption of the GASB Statements No. 65 and No. 66 and accordingly restated the prior period financial statements presented.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability of the collective net pension liability, on a basis that is consistent with the manner in which contributions to the pension plan are determined. The employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In the notes to financial statements, the employers should identify the discount rate, assumptions made in the measurement of their proportionate shares of net pension liabilities and disclose information about how their contributions to the pension plan are determined. Also, the employer should disclose as Required Supplementary Information (RSI) 10-year schedules containing (1) the net pension liability and

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certain related ratios and (2) if applicable, statutorily or contractually required contributions and related ratios. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2016.

In January 2013, GASB issued Statement No. 69 Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations and require measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. The notes to the financial statements should disclose information about government combinations and disposals of operations to enable the reader to evaluate the nature and financial effects of those transactions. The provisions of Statement 69 are effective in financial reporting periods beginning after December 15, 2013. The adoption of this statement does not affect the financial statements of the Water Authority.

In April 2013 GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred.

The provisions of Statement No. 70 are effective for financial statements for reporting beginning after June 15, 2013. Earlier application is encouraged. The adoption of this statement does not affect the financial statements of the Water Authority.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent To the Measurement Date—An Amendment of GASB Statement No. 68. This Statement amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The guidance amends GASB Statement No. 68 and is required to be applied simultaneously with the provisions of GASB Statement No. 68, which is effective for financial statements of the Water Authority for the year ending May 31, 2016

NOTE 3 –CASH, CASH EQUIVALENTS AND INVESTMENTS

As of May 31, 2014, the carrying amount petty cash, cash and cash equivalents and investment in cash equivalent and other investment consisted of the following:

Petty cash	\$	700
Cash and cash equivalents		16,675,049
Investments		938,967
Total	\$	<u>17,614,716</u>

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As of May 31, 2014, the carrying amount of deposits, cash and cash equivalents were as follows:

Unrestricted

Deposit in banks	\$	1,951,684
Money Market Funds		2,107,355
Petty cash		700
Total unrestricted cash and cash equivalents		4,059,739

Restricted

Bank Deposit		262,798
Money Market Funds and US Treasury Bills		12,353,212
Total restricted cash and cash equivalents		12,616,010

Total cash and cash equivalents	\$	16,675,749
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Custodial Credit Risk – All cash deposits of the Water Authority are required to be insured by the Federal Deposit Insurance Corporation (“FDIC”) or to be secured by obligations of, or guaranteed by, the United States of America or of the State of New York of a market value equal at all times to the amount on deposit and all banks and trust companies are authorized to give such security for such deposits.

The Water Authority’s cash accounts are secured by the appropriate amount from the FDIC with all remaining amounts covered by fully pledged collateral securities, at over 102% of the amounts on deposit. All pledged collateral are classified in the highest category by being held by the Bank of New York Mellon under a tri-party collateral agreement in the Water Authority’s name. All time and savings deposits and demand deposits of the Water Authority are held in insured depository institution within the State of New York and are separately insured up to \$250,000.

Investments

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

1. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (“USA”).
2. Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by any agency or instrumentality of the USA or any other corporation wholly owned by the USA.
3. Public housing bonds or preliminary, temporary or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions, under an annual contributions contract, or contracts with the USA or any federal agency.

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4. Direct and general obligations of any State or political subdivision of State, as to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged and at the time of their purchase, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies.
5. Bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company which is a member of the FDIC.
6. Obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the USA or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies.
7. Certificates or other obligations of the USA or any state, political subdivision, agency or instrumentality of the USA or any state or political subdivision. It is required that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Bond Fund Trustee under the Bond Resolution. Certificates or other obligations of a state or political subdivision, the payments of all principal of, and interest on such certificates or such obligations, shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, L.P. ("Moody's") and either Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch"), or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's and either S&P or Fitch.
8. Written investment agreements, rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies, and if rated by Moody's, S&P or Fitch, such investment agreements or the long-term unsecured debt obligations of the insurer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.
9. Money market funds registered under the Investment Company Act of 1940, as amended, the investment portfolios of which are comprised solely of investments in obligations described in items 1, 2 and 3 above, and which money market funds are rated in one of the two highest rating categories by the respective agency rating such money market funds.

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

In addition, there is the risk of loss attributed to the magnitude of the Water Authority's investment in a single issuer. Given the relative safety of those investment instruments that the Water Authority can purchase, the policies of the Water Authority do not place a limit on the amount that may be invested in any one issuer. As of May 31, 2014, the Water Authority's investment, including the investment in cash equivalents was as follows.

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	Fair Value	S&P-AAAm Moody's-Aaa-mf NAIC-Class 1	US Treasury Securities
Dreyfus Government Prime Cash management 557	\$ 10,448,729	\$ 10,448,729	\$ -
US Treasury Bills	2,411,952		2,411,952
US Treasury Notes	309,969		309,969
US Treasury Bonds	628,997		628,997
Total	\$ 13,799,647	\$ 10,448,729	\$ 3,350,918

At May 31, 2014, all Water Authority funds were invested in credit risk free US Treasury Securities and money market funds with highest credit rating. The money market funds are managed by Dreyfus Corporation, a BNY Mellon Company. Dreyfus Government Prime Cash Management 557 fund invests in securities issued or guaranteed as to the timely payment of principal and interest by the U.S. Government, or its agencies or instrumentalities. The fund does not invest in repurchase agreements or any other type of money market instrument or security. The investment in the money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

Interest Rate Risk – When investing idle funds, there is the risk that changes in interest rates will adversely affect the fair value of that investment. The Water Authority currently has an investment policy that limits its exposure to fair value losses by establishing maturity timeframes that meet the cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. On May 31, 2014, the maturity dates of the Water Authority's investment securities were as follows:

	Fair Value	3 Months or Less	Less than 12 Months
Dreyfus Government Prime Cash Management 557	\$ 10,448,729	\$ 10,448,729	
US Treasury Bills	2,411,952	2,411,952	
US Treasury Notes	309,969	309,969	
US Treasury Bonds	628,997	-	628,997
Total	\$ 13,799,647	\$ 13,170,650	\$ 628,997

The Weighted Average Maturity of Dreyfus Government Prime Cash Management 557 has been very short, less than 60 days. The yield from money market funds may vary, although they haven't in the past year, and is not fixed for a specific period. A sharp and unexpected rise in interest rates could cause the share price to drop below a dollar. However, the extremely short maturities of the securities held in the portfolio reduce the potential for price fluctuation. Also, the yields of US Treasury securities' and money market funds will fluctuate as the short-term securities in the Water Authority portfolio mature and the proceeds are reinvested in securities with different interest rates.

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Custodial Risk of Investments

Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Water Authority's investments are held by the Bank of New York Mellon as the trustee and custodian.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

As of May 31, 2014 and 2013, the cost and the accumulated depreciation of the property, plant and equipment were as follows:

	<u>2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>2014</u>
Capital assets not subject to depreciation:				
Land and land rights	\$ 167,708	\$ -	\$ -	\$ 167,708
Construction in progress	22,509,705	7,007,944	(29,227,904)	289,745
Total capital assets not being depreciated	22,677,413	7,007,944	(29,227,904)	457,453
Capital assets being depreciated:				
Wells and standpipes	2,705,737	19,290		2,725,027
Pumping and purification	11,234,460	9,831,379		21,065,839
Distribution system	36,782,613	1,782,575	(233,063)	38,332,125
Building, vehicles and equipment	2,795,575	16,359,976	(120,140)	19,035,411
Total capital assets being depreciated	53,518,385	27,993,220	(353,203)	81,158,402
Less accumulated depreciation:				
Wells and standpipes	(1,046,805)	(64,805)		(1,111,610)
Pumping and purification	(4,427,499)	(312,259)		(4,739,758)
Distribution system	(4,585,010)	(772,217)	228,060	(5,129,167)
Building, vehicles and equipment	(2,263,112)	(397,186)	88,541	(2,571,757)
Total accumulated depreciation	(12,322,426)	(1,546,467)	316,601	(13,552,292)
Total net capital assets being depreciated	41,195,959	26,446,751	(36,602)	67,606,110
Total net capital assets	\$ 63,873,372	\$ 33,454,695	\$ (29,264,506)	\$ 68,063,563

As of May 31, 2014 and 2013, the amounts of capitalized interest included in construction in progress were \$1,184,950 and \$781,500, respectively. The \$29,227,904 decrease in the cost of construction in progress was primarily due to the completion of the water treatment facility in Franklin Square and the operating headquarters building on New Hyde Park.

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NOTE 5 – REVENUE BONDS PAYABLE

On August 4, 2005 the Water Authority issued \$33,065,000 Water System Revenue Bonds, Series 2005 in part to provide sufficient funds to affect the advanced refunding of 1996 Series bonds. The interest on the refunding bonds ranges from 2.84% to 5.30% (average interest of 3.7%) and the bonds were issued at a premium of \$1,642,140. The \$28,155,000 remaining balance of the Water Authority's outstanding Series 1996A bonds had interest rates ranging from 5.65% to 6.43% (average interest of 5.6%). Simultaneously with the issuance of the Series 2005 Bonds, \$28,758,320, the amount of \$27,900,000 from the proceeds of the sale of the Series 2005 Bonds together with other available moneys, were used to purchase non-callable direct obligations of the USA. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the May 1, 2006, redemption of the bonds, at a redemption price of 102% plus accrued interest. As a result, \$28,225,000 of Series 1996A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The bond issuance costs of \$512,778 were paid from bond proceeds. The unamortized bond issue costs and discount on Series 1996A bonds were \$646,742 and \$593,990, respectively.

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

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

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

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

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

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

Make-whole Redemption

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

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

Extraordinary Redemption

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

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

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

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

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A summary of changes in Revenue Bonds Payable for the year ended May 31, 2014 is as follows:

	<u>May 31, 2013</u>	<u>Decreases</u>	<u>May 31, 2014</u>	<u>Due in one year</u>	<u>Noncurrent portion</u>
Water System Revenue Bonds payable	\$ 66,110,000	\$ (1,595,000)	\$ 6,4515,000	\$ 1,640,000	\$ 62,875,000
Adjustment for deferred amounts:					
Unamortized premium on 2005 Series	1,316,964	(59,484)	1,257,480	-	1,257,480
Unamortized premium on Series 2010A	92,842	(9,504)	83,338	-	83,338
Total Revenue Bonds	<u>\$ 67,519,806</u>	<u>\$ (1,618,988)</u>	<u>\$ 65,855,818</u>	<u>\$ 1,640,000</u>	<u>\$ 64,215,818</u>

The outstanding Water System Revenue Bonds at May 31, 2014 consist of the following:

<u>Bond</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Average Interest Rate</u>	<u>Original Principal</u>	<u>Outstanding Principal</u>
Water System Revenue Bonds, Series 2005:					
Serial Bonds	2008-2010	3.00-5.00%	3.70%	\$27,900,000	\$19,985,000
Term Bonds	2016	5.00%	5.00%	2,015,000	2,015,000
Term Bonds	2026	5.00%	5.00%	3,150,000	3,150,000
Total Series 2005				<u>33,065,000</u>	<u>25,150,000</u>
Water System Revenue Bonds, Series 2010:					
Series A Bond					
Uninsured Serial Bond	2011-2012	2.00-3.00%	2.64%	785,000	-
Serial Bond	2013-2020	3.00-4.00%	3.80%	6,140,000	5,400,000
Total Series A Bonds				<u>6,925,000</u>	<u>5,400,000</u>
Series B Bond					
Term Bond	2025	6.01%	6.01%	6,090,000	6,090,000
Term Bond	2030	6.45%	6.45%	7,420,000	7,420,000
Term Bond	2040	6.70%	6.70%	20,455,000	20,455,000
Total Series B				<u>33,965,000</u>	<u>33,965,000</u>
Total Series 2010 Bonds				<u>40,890,000</u>	<u>39,365,000</u>
Total				<u>\$73,955,000</u>	<u>\$64,515,000</u>

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At May 31, 2014, debt service requirements to maturity for the Bond Series 2010 and 2005 were as follows:

SERIES 2005 BONDS

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,265,000	\$ 1,244,850	\$ 2,509,850
2016	1,320,000	1,194,250	2,514,250
2017	1,385,000	1,128,250	2,513,250
2018	1,455,000	1,059,000	2,514,000
2019	1,525,000	986,250	2,511,250
2020-2024	8,845,000	3,708,750	12,553,750
2025-2029	5,665,000	1,536,500	7,201,500
2030-2034	3,000,000	637,500	3,637,500
2035	690,000	34,500	724,500
Total	\$ 25,150,000	\$ 11,529,850	\$ 36,679,850

SERIES 2010A BONDS

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 375,000	\$ 205,162	\$ 580,162
2016	935,000	193,913	1,128,913
2017	965,000	161,187	1,126,187
2018	1,000,000	125,000	1,125,000
2019	1,040,000	85,000	1,125,000
2020	1,085,000	43,400	1,128,400
Total	\$ 5,400,000	\$ 813,662	\$ 6,213,662

SERIES 2010B BONDS

<u>Date</u>	<u>Principal</u>	<u>Gross Interest</u>	<u>Subsidy</u>	<u>Net Interest</u>	<u>Total Gross</u>	<u>Total Net</u>
2015	\$	\$ 2,215,180	\$ (775,313)	\$ 1,439,867	\$ 2,215,180	\$ 1,439,867
2016		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2017		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2018		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2019		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2020-2024	4,775,000	10,659,615	(3,730,865)	6,928,750	15,434,615	11,703,750
2025-2029	7,125,000	8,782,909	(3,074,018)	5,708,891	15,907,909	12,833,891
2030-2034	8,765,000	6,263,755	(2,192,314)	4,071,441	15,028,755	12,836,441
2035-2039	10,840,000	3,065,372	(1,072,880)	1,992,492	13,905,372	12,832,492
2040	2,460,000	164,845	(57,696)	107,149	2,624,845	2,567,149
Total	\$ 33,965,000	\$ 40,012,396	\$ (14,004,338)	\$ 26,008,058	\$ 73,977,396	\$ 59,973,058

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NOTE 6 – OTHER LONG-TERM LIABILITIES

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

	<u>May 31, 2013</u>	<u>Addition</u>	<u>Reduction</u>	<u>May 31, 2014</u>	<u>Due in 1- year</u>	<u>Noncurrent Liability</u>
Accrued vacation and sick leave	\$828,100	\$71,900	\$(40,000)	\$860,000	\$40,000	\$820,000

NOTE 7 – EMPLOYEE BENEFITS

Plan Description

The Water Authority participates in the New York State and Local Employees’ Retirement System (“ERS”), a cost-sharing multiple-employer defined benefit retirement system. The ERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (“Comptroller”) serves as sole trustee and administrative head of the ERS.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The Water Authority’s employees participate in the ERS. Tier levels are dependent on date of hire and prior public service with a participating ERS agency. No contributions are required of Tier-1 employees while Tier-4 employees are required to contribute 3% of their gross earnings toward retirement benefits until they have accumulated ten years of credited service and Tier 5 employees are required to contribute 3% for the employees’ entire employment. A new Tier 6 was added on April 1, 2012 which requires various contribution percentages of gross earnings for all years of public service. These contributions are considered a reduction of taxable wages for federal income tax purposes. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The Water Authority is required to contribute at an actuarially determined rate. The Water Authority’s contributions made to the System were equal to 100% of the amount required. The required contributions for the current year and the two preceding years were:

<u>Year</u>	<u>Contribution</u>
2014	\$724,700
2013	696,900
2012	595,700

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Retiree Benefits

The Water Authority's Board of Directors has amended a resolution for postretirement benefits. The Water Authority has been self-funding retiree benefits and as of May 31, 2014 had net OPEB obligation of \$2,059,485.

Accrued Vacation and Sick Leave

The Water Authority employees earn vacation leave each month at a scheduled rate in accordance with the years of service and sick leave at the rate of one day per month. The maximum accumulated sick leave is 60 days. Accumulated unpaid vacation and sick leave amounts are accrued as earned. On May 31, 2014 the liability for accrued vacation and sick days was \$335,000 and \$525,100, respectively.

NOTE 8 – NET POSITION

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

	2014	2013
Invested in capital assets net of related debt:		
Capital assets, net of accumulated depreciation	\$ 68,063,562	\$ 63,873,372
Less: related debt		
Revenue bonds payable	(64,515,000)	(66,110,000)
Bond premium	(1,340,818)	(1,409,806)
Loss on defeasance of 1996 Bonds	1,132,345	1,201,753
Unspent debt proceeds in construction and reserve funds	11,955,091	16,838,915
Bond issue costs	141,206	149,559
	15,436,386	14,543,793
Restricted for Rate Stabilization and Customer Deposits:		
Restricted cash and equivalents	1,599,887	1,550,612
Deductions:		
Customer deposits	(1,029,887)	(990,612)
Total restricted for capital activity and debt service	570,000	560,000
Unrestricted	2,083,005	922,278
Total net assets	\$ 18,089,391	\$ 16,026,071

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, similar to the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Since adopting the requirements of GASB Statement No. 45 during the year ended May 31, 2009, the Water Authority recognized the cost of postemployment

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healthcare in the year when the employee services were received, reported the accumulated liability from prior years, and provided information useful in assessing potential demands on the Water Authority's future cash flows. Recognition of the liability accumulated from prior periods was phased in over 30 years, commencing with the 2009 liability.

Plan Description

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

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

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

The number of participants as of May 31, 2013, the effective date of the annual OPEB valuation, is as follows:

Participants	Number	Average Age
Active employees	48	47
Retired employees	6	66
Total	54	

Funding Policy

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

Annual Other Postemployment Benefit Cost

The Water Authority's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and Net OPEB obligation for fiscal year 2014 and 2013 were as follows:

Annual OPEB Cost and Net OPEB Obligation

Fiscal year ending May 31,	2014	2013
A Annual required contribution (ARC)	\$ 387,517	\$ 379,457
B Net OPEB obligation (NOO), beginning balance	1,734,981	1,408,447
C Interest on NOO at 4.5%	78,074	63,380
D Adjustment to ARC (NOO/17.02)	(101,938)	(82,752)
E Annual OPEB cost (AOC)	<u>363,653</u>	<u>360,085</u>
F Less: amount contributed	<u>(39,149)</u>	<u>(33,551)</u>
G Change in net OPEB obligation	324,504	326,534
H Net OPEB obligation, ending balance	<u>\$ 2,059,485</u>	<u>\$ 1,734,981</u>

The actual contribution of \$39,149 is the sum of the \$53,260 medical premiums, the \$371 life premium and the \$1,969 implicit subsidy paid by the Water Authority less net retiree contributions of \$16,451.

For the six years ended May 31, 2014, the Water Authority's schedule of required and actual annual contributions is presented below:

Year Ended May 31,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2014	387,517	39,149	10%
2013	379,457	33,551	9%
2012	306,512	35,162	11%
2011	245,214	24,801	10%
2010	239,128	30,415	13%
2009	233,305	18,570	8%

The Water Authority's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the seven years ended May 31, 2014 were as follows:

Fiscal Year	Annual OPEB	Annual OPEB Contribution		Net OPEB
	Cost	Amount	Percentage	Obligation
May 31, 2014	363,653	39,149	11%	2,059,485
May 31, 2013	360,085	\$ 33,551	9%	\$ 1,734,981
May 31, 2012	290,654	35,162	12%	1,408,447
May 31, 2011	232,209	24,801	11%	1,152,955
May 31, 2010	228,852	30,415	13%	945,547
May 31, 2009	225,880	18,570	8%	747,110
May 31, 2008	N/A	N/A	N/A	539,800

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The funding status

As of June 1, 2012, the most recent actuarial valuation date, the funded status of the Plan was as follows:

Actuarial Valuation Date June 1,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2012	\$ -	\$ 3,335,117	\$ 3,335,117	-	\$ 3,715,880	90%
2011	-	2,470,292	2,470,292	-	3,708,940	67%
2010	-	1,729,921	1,729,921	-	2,968,770	58%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Water Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

The actuarial assumptions used in the determination of costs and liabilities are as follows:

Interest: 4.5%

Mortality: RP2000 Combined Mortality Table (Generational)

Employee Turnover: Vaughn Ultimate Table multiplied by 0.5, Percentage of Employees Terminating prior to End of Year:

Age	Rate
25	6.80%
30	5.05%
35	3.95%
40	3.25%
45	2.75%
50	2.25%
55+	0.00%

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Retirement Age: Percentage of Employees Retiring Prior to End of Year:

<u>Age</u>	<u>Rate</u>
62-64	9%
65-69	20%
70+	100%

Annual Medical Premium:

	<u>2013</u>	<u>2012</u>
Pre 65 - Employee Only	\$ 9,216	\$ 8,553
Pre 65 - Family	20,239	18,754
Post 65 – Employee Only	4,792	5,031
Post 65 – Two Person	11,709	11,391

Medical Claims Assumption: For the valuation, 50% of the 2012 Premium and 50% of the 2013 premium was used.

Marriage Rates at Retirement: assumed 50% of active females and 50% of active males will be married at retirement, and that husbands will be 3 years older than their wives.

Medical Trend: Starts at 9.0% in 2012, decreases by 1.0% per year down to 5.0% in 2016 and beyond.

Medicare Part B: 3% annual increases.

Claims Morbidity: assumed that actual claims will be distributed according to the following table (pre-65):

<u>Age</u>	<u>Relative Claims Cost</u>
55	\$11,005
60	13,134
64	15,484

Actuarial Methodologies

Actuarial Cost Method: Projected Unit Credit

The Normal Cost is derived for each active participant as the actuarial present value of the projected benefits that are attributed to expected service in the current plan year. The Normal Cost for plan benefits is the total of the individual Normal Costs for active participants.

The Accrued Liability is equal to the portion of the present value of future benefits that is allocated to years of service before the valuation date.

Amortization Method: 30 years, level dollar, open

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The Unfunded Accrued Liability is amortized each year over a constant 30 year period, as a level dollar amount.

Asset Valuation Method: Market Value

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

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

Risk Management

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

Insurance

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

Compensated Absences

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

Pollution Remediation Obligations

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

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If the Water Authority:

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

As of May 31, 2014, the Water Authority has not identified any pollution remediation obligations and therefore no liability has been recorded on the Statement of Net Position.

NOTE 12 – LEASE REVENUE AGREEMENTS

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

<u>Year Ended May 31,</u>	<u>Amount</u>
2015	259,623
2016	269,518
Total	<u>\$ 528,141</u>

NOTE 13 – RATE CHANGES

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

The Board approved 6.02% increase in water rates, effective on June 1, 2013 and 7%, on June 1, 2014. The Water Authority's forecasted operating plan includes annual increases of 9%, 10%, 7% and 1%, for the years ending may 31, 2016, 2017, 2018 and 2019.

NOTE 14 – SUBSEQUENT EVENTS

The Water Authority evaluated subsequent events from May 31, 2014 through August 30, 2014, the date on which the financial statements were available to be issued, and determined that there were no material subsequent events.

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

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

We have audited, in accordance with the 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, the financial statements of Water Authority of Western Nassau County, New York, as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the Water Authority of Western Nassau County, New York's basic financial statements, and have issued our report thereon dated August 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Authority of Western Nassau County's, New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Western Nassau County, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Authority of Western Nassau County, New York's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Authority of Western Nassau County, New York's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "TABRIZCHI & Co., CPA, P.C." The signature is written in a cursive, slightly slanted style.

Garden City, NY
August 30, 2014