

**WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED MAY 31, 2015**  
**(WITH INDEPENDENT AUDITORS' REPORT THEREON)**



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



**WATER AUTHORITY OF WESTERN NASSAU COUNTY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED MAY 31, 2015  
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

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## INDEPENDENT AUDITORS' REPORT





## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the of the Water Authority of Western Nassau County, State of New York, as of and for the years ended May 31, 2015 and 2014 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 respective financial position of the of the Water Authority of Western Nassau County, as of May 31, 2015 and 2014 and the respective changes in financial position and, cash flows thereof for the years then ended in conformity 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 to 20 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, 2015, 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.

TABRIZCHI & Co., CPA, P.C.

Garden City, New York  
August 30, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS





## 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 (this section); 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 *Statement 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, 2015 and 2014. 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, 2015 were \$149.4 million and exceeded liabilities in the amount of \$19.9 million (i.e. net position). Of the total net position, \$1.5 million was unrestricted. Total assets increased by \$60.2 million (67.5%) between May 31, 2014 and 2015. Net position increased by \$1.8 million (9.8%) over the same period last year and the economic and financial position of the Water Authority improved.
- Operating revenues were approximately \$15.2 million, showing an increase of \$1.1 million (7.8%), as compared to \$0.4 million (3.1%) in the previous year. The increased revenues from residential water sales of \$0.7 million (6.7%) and commercial and fire protection revenues of \$0.4 million (10.6%) were related to increased consumption of water and a 7.0% increase in water rates.
- Total operating expenses increased by approximately \$0.2 million, from \$10.6 million to \$10.8 million for the fiscal years ended May 31, 2014 and 2015. The 1.5% increase in operating expenses was due to higher maintenance and depreciation expenses. Operations expenses decreased by \$0.4 million (4.4%) from \$7.2 million to \$6.8 million for the fiscal years ended May 31, 2014 and 2015, respectively, primarily from decreases in costs of central operations office and information systems expenses. Maintenance expenses increased by \$0.2 million (11.4%) from \$1.9 million to \$2.1 million for the fiscal years ended May 31, 2014 and 2015.
- Operating income for the fiscal years ended May 31, 2015 and 2014 were \$4.4 and \$3.5 million. The increase in operating income of \$0.9 million (27.1%) is primarily the result of rise in operating revenues of \$1.1 million. As a result of this change, the ratio of operating income to total revenues increased from 24.6% to 29.0%, from the fiscal year ended May 31, 2014 to 2015.
- The Water Authority's long-term bonded debt, including the current portion and premium, increased by \$ 56.2 million (85.4%) during the fiscal year ended May 31, 2015, from \$65.9 million at May 31, 2014 to \$122.1 million at May 31, 2015. The change was principally the net result of the defeasance of the \$25.2 million outstanding balance of Series 2005 Bonds, repayment of \$0.3 million of Series 2010 B Bonds and the issuance of \$73.6 million of Series 2015A and 2015B Bonds at \$9.4 million premium. Debt service coverage was 1.53, 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,			2014 to 2015		2013 to 2014	
	2015	2014	2013	Increase (Decrease)		Increase (Decrease)	
	Amount	Amount	Amount	Amount	%	Amount	%
Current assets	\$ 7,468,584	\$ 6,989,314	\$ 7,485,682	\$ 479,270	6.9	\$ (496,368)	(6.6)
Noncurrent assets							
Other noncurrent assets	71,997,296	14,121,304	19,077,012	57,875,992	409.8	(4,955,708)	(26.0)
Capital assets	69,888,539	68,063,563	63,873,372	1,824,976	2.7	4,190,191	6.6
Total assets	149,354,419	89,174,181	90,436,066	60,180,238	67.5	(1,261,885)	(1.4)
Deferred charge on refunding	32,006	1,132,345	1,201,753	(1,100,339)	97.2	(69,408)	(5.8)
Total deferred outflows	32,006	1,132,345	1,201,753	(1,100,339)	97.2	(69,408)	(5.8)
Current liabilities	5,483,462	4,031,915	6,113,333	1,451,547	36.0	(2,081,418)	(34.0)
Noncurrent liabilities	4,365,249	3,969,402	3,573,609	395,847	10.0	395,793	11.1
Long-term debt—bonds, net	119,683,201	64,215,818	65,924,806	55,467,383	86.4	(1,708,988)	(2.6)
Total liabilities	129,531,912	72,217,135	75,611,748	57,314,777	79.4	(3,394,613)	(4.5)
Net position							
Invested in capital, Restricted for rate stabilization	17,286,185	15,436,386	14,543,793	1,849,799	12.0	892,593	6.1
Unrestricted	1,070,000	570,000	560,000	500,000	87.7	10,000	1.8
	1,498,328	2,083,005	922,278	(584,677)	(28.1)	1,160,727	125.9
Total Net Position	\$ 19,854,513	\$ 18,089,391	\$ 16,026,071	\$ 1,765,122	9.8	\$ 2,063,320	12.9

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

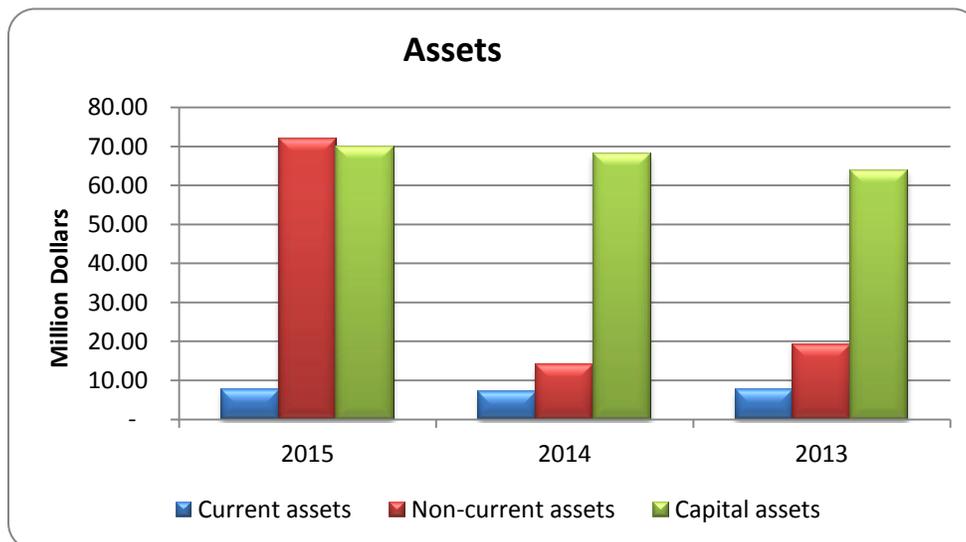
The table above and Chart 1 show that the amount of total assets increased by \$60,180,238 (67.5%) and total liabilities rose by \$57,315,000 (79.4%), from May 31, 2014 to May 31, 2015. The decrease in total assets and total liabilities were \$1,261,885 (1.4%) and \$3,394,613 (4.5%), respectively, during the prior year. During the year ended May 31, 2015, the Water Authority increased its gross capital assets by \$3,377,042 (4.1%) and capital assets, net of depreciation, by \$1,824,976 (2.7%). The non-current assets, which include the bond proceeds restricted for construction, increased by \$57,875,992 (409.8%). In the previous year, the principal components of changes in assets included the net additions to capital assets of \$4,190,191 (6.6%) and reduction in other non-current assets, restricted cash and investments, of \$4,955,708 (26.0%).

During the year ended May 31, 2015, the current assets and current liabilities increased by \$479,270 (6.9%) and \$1,451,547 (36.0%), respectively. The principal reason for the increase in current assets was \$546,712 increase in accounts receivable from metered customers and for municipal water hydrants. The current liabilities increased by \$1,451,547 (36.0%) as a net result of \$833,852 increase in accounts payable and accrued expenses and \$755,000 additional current maturity of long term debt as offset by \$211,914 decrease in deferred revenues and accrued interest. The net working capital of the Water Authority was \$1,985,122, on May 31, 2015 as compared to \$2,957,399 on previous fiscal year end.

During of the previous year the current assets and current liabilities had 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.

The primary reason for a decrease in total liabilities was the repayments of long-term bonds. The amount of bonds, including the current portion, was \$112,590,000 and \$64,515,000, on May 31, 2015 and 2014, respectively (Chart 2). The Water Authority defeased the Series 2005 Bonds, which had unpaid principal balance of \$23,885,000 in the beginning of the fiscal year, and made a principal payment of \$1,265,000 on Series 2010A Bonds. The total principal payments made during the fiscal year ended May 31, 2015 were \$1,640,000 as compared to \$1,595,000, in the previous year.

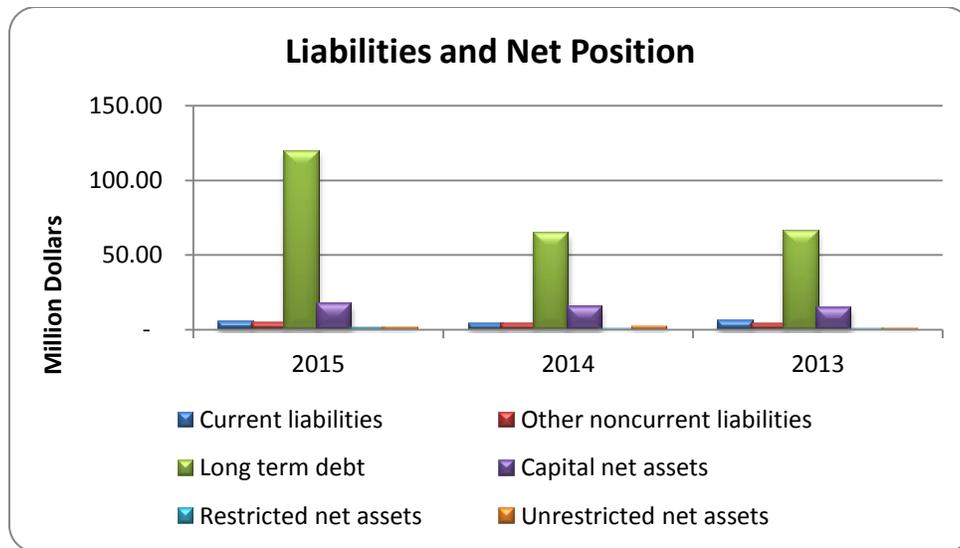
**CHART 1**



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

The net position of the Water Authority increased by \$1,765,122 (9.8%), during the fiscal year ended May 31, 2015, as compared to an increase of \$2,063,320 (12.9%), in the fiscal year ended May 31, 2014. The changes in net position reflect the excess of operating incomes of \$4,402,024 and \$3,462,974 over the non-operating expenses of \$2,636,902 and \$1,399,654, during the fiscal years ended May 31, 2015 and 2014, respectively. The increased interest expense in the current year is due to lower capitalized interest.

**CHART 2**



The unrestricted net position decreased by \$584,677 (28.1%), in the fiscal year ended May 31, 2015, as compared to an increase of \$1,160,727 (125.9%) in the previous year due to lower capitalized interest. The net position restricted for rate stabilization was increased by \$500,000 and \$10,000, during the current and previous fiscal years, respectively, to comply with the Bond covenants regarding maintaining Rate Stabilization restricted cash and cash equivalents. The net position invested in capital increased by \$1,849,799 (12.0%) and \$892,593 (6.1%) during the fiscal years ended May 31, 2015 and 2014, respectively.

**OPERATING RESULTS**

As of May 31, 2015, the Water Authority provided water to 26,411 residential customers, 1,385 commercial customers, 196 private fire customers and 2,432 municipal fire hydrants. The corresponding figures for May 31, 2014 were 26,430 residential customers, 1,359 commercial customers, 195 private fire customers and 2,432 municipal fire hydrants.

The Water Authority's condensed statements of revenues, expenses and changes in net position are as follows:

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

**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	May 31,		2014 to 2015		2013 to 2014		
	2015	2014	Increase (Decrease)		Increase (Decrease)		
			2013	Amount	%	Amount	%
<b>Water sales:</b>							
Residential	\$ 10,694,380	\$ 10,023,162	\$ 9,715,394	\$ 671,218	6.7	\$ 307,768	3.2
Commercial, municipal and other	4,486,444	4,054,704	3,941,453	431,740	10.6	113,251	2.9
Total operating revenues	15,180,824	14,077,866	13,656,847	1,102,958	7.8	421,019	3.1
<b>Operating expenses</b>							
Operations	6,840,640	7,155,325	6,682,648	(314,685)	(4.4)	472,677	7.1
Maintenance	2,131,416	1,913,099	1,924,246	218,317	11.4	(11,147)	(0.6)
Depreciation	1,806,744	1,546,468	1,271,165	260,276	16.8	275,303	21.7
Total operating expenses	10,778,800	10,614,892	9,878,059	163,908	1.5	736,833	7.5
Operating income	4,402,024	3,462,974	3,778,788	939,050	27.1	(315,814)	-8.4
<b>Non-operating revenue (expense)</b>							
Interest income	302,646	74,188	122,817	228,458	307.9	(48,629)	(39.6)
Miscellaneous income	346,696	375,941	375,320	(29,245)	(7.8)	621	0.2
Interest on long-term debt	(3,261,740)	(1,825,291)	(2,226,107)	(1,436,449)	(78.7)	400,816	(18.0)
Other amortization, net	(24,504)	(24,492)	(24,000)	(12)	0.0	(492)	2.1
Net non-operating expenses	(2,636,902)	(1,399,654)	(1,751,970)	(1,237,248)	88.4	352,316	(20.1)
Change in total net Position	1,765,122	2,063,320	2,026,818	(298,198)	(14.5)	36,502	1.8
Net position, beginning	18,089,391	16,026,071	13,999,253	2,063,320	12.9	2,026,818	14.5
Net position, ending	\$ 19,854,513	\$ 18,089,391	\$ 16,026,071	\$ 1,765,122	9.8	\$ 2,063,320	12.9

**OPERATING REVENUES AND EXPENSES**

The Water Authority provides water treatment and distribution to an estimated population of 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 and are not expected to undergo significant zoning changes.

The Water Authority's revenues increased by \$1,102,958 (7.8%), in fiscal year ended May 31, 2015, as compared to an increase of \$421,019 (3.1%), in the fiscal year ended May 31, 2014. The residential water sales revenue increased by \$671,218 (6.7%) and \$307,768 (3.2%). Commercial and fire protection water sales revenues rose by \$431,740 (10.6%) and \$113,251 (2.9%), during the current and previous years, respectively (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

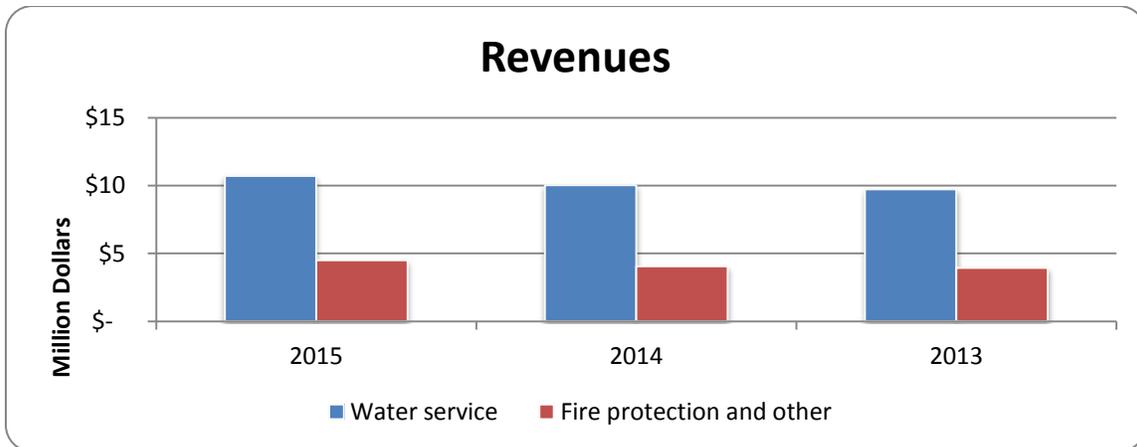
**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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.

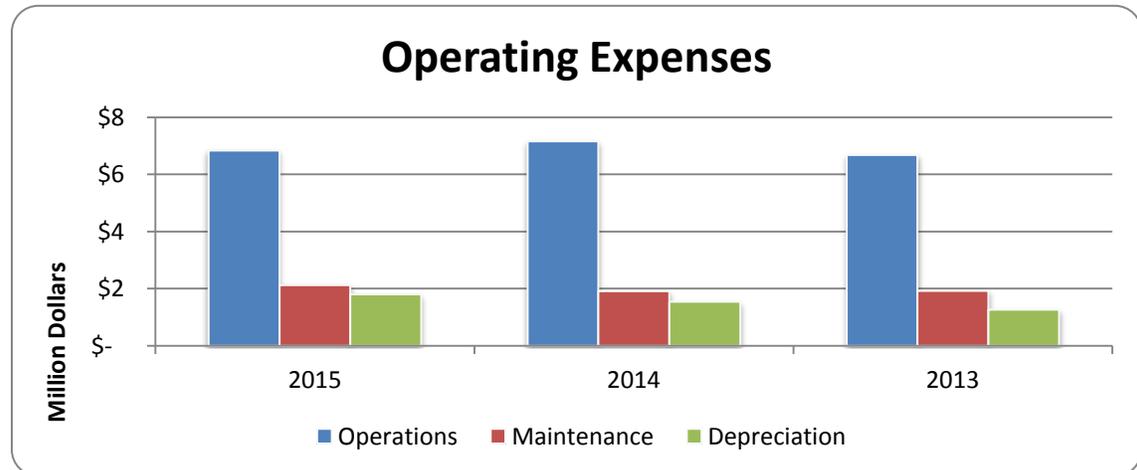
The increase in operating expenses during the current year was \$163,908 (1.5%), as compared to \$736,833 (7.5%) in the previous year (Chart 4). The current year increase in total operating expenses before depreciation was lower than the previous year increase because of the \$314,685 decrease in expenses of operations, which includes reduced costs of purchased power, central office operations and information system. The change in operations expenses of \$472,677 (7.1%), in the previous year was primarily the result of a rise in labor costs and benefits, along with an increase in the costs of power and chemicals. Maintenance expenses increased by \$218,317 (11.4%), during the year ended May 31, 2015, due to additional expenses for transmission and distribution. The maintenance expenses during the previous year had remained relatively unchanged. The depreciation expenses increased by \$260,276 (16.8%) and \$275,303 (21.7%), during the years ended May 31, 2015 and 2014, respectively, primarily because of the increase in treatment structures, services and meter equipment.

As a result of changes in operating revenues and expenses, the Water Authority's operating income were \$4,402,024 and \$3,462,974 during the years ended May 31, 2015 and 2014, respectively.

**CHART 3**



**CHART 4**



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

**NON-OPERATING REVENUES AND EXPENSES**

Non-operating revenue includes interest earnings on investment assets and miscellaneous income. Interest incomes were \$302,646 and \$74,188, in the year ended May 31, 2015 and 2014 respectively. The increased interest income in current fiscal year reflects the additional interest earned on the proceeds of Series 2015 Bonds as offset by the provision of \$231,888 for federal arbitrage rebate. The primary reason for reduction in the interest income during the previous fiscal year was the expenditure of restricted funds held in cash equivalents and investment accounts for construction of capital assets.

Miscellaneous income was \$346,696 and \$375,941, in the year ended May 31, 2015 and 2014, respectively. This miscellaneous income involves the rental income realized from the lease of space atop water towers to cellular phone companies.

The gross amount of interest expenses, including amortization of bond premium and accruals, were \$2,840,081 and \$3,010,240, in the years ended May 31, 2015 and 2014, respectively. The amount of interest capitalized during the construction of capital assets were \$43,300 and \$1,184,950 and the net interest expenses were \$3,261,740 and \$1,825,291, in the fiscal years ended May 31, 2015 and 2014, respectively. The Water Authority has presented the interest expense, net of the capitalized portion, for the year ended May 31, 2015 and 2014. The decrease in current year capitalized plant primarily reflects successful completion of the Water Authority building and the iron removal water station projects in the previous year.

**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 \$69,888,539 in capital assets, an increase of approximately \$1,824,976 (2.7%) from the prior year.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 167,708	\$ 167,708	\$ 167,708
Construction in progress	2,006,198	289,745	22,509,705
Wells and standpipes	2,705,764	2,725,027	2,705,737
Pumping and purification	21,217,955	21,065,839	11,234,460
Distribution system	39,470,121	38,332,125	36,782,613
Building, vehicles and	19,425,151	19,035,411	2,795,575
Total capital assets	<u>84,992,897</u>	<u>81,615,855</u>	<u>76,195,798</u>
Accumulated depreciation	<u>(15,104,358)</u>	<u>(13,552,292)</u>	<u>(12,322,426)</u>
Net capital assets	<u>\$ 69,888,539</u>	<u>\$ 68,063,563</u>	<u>\$ 63,873,372</u>

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

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

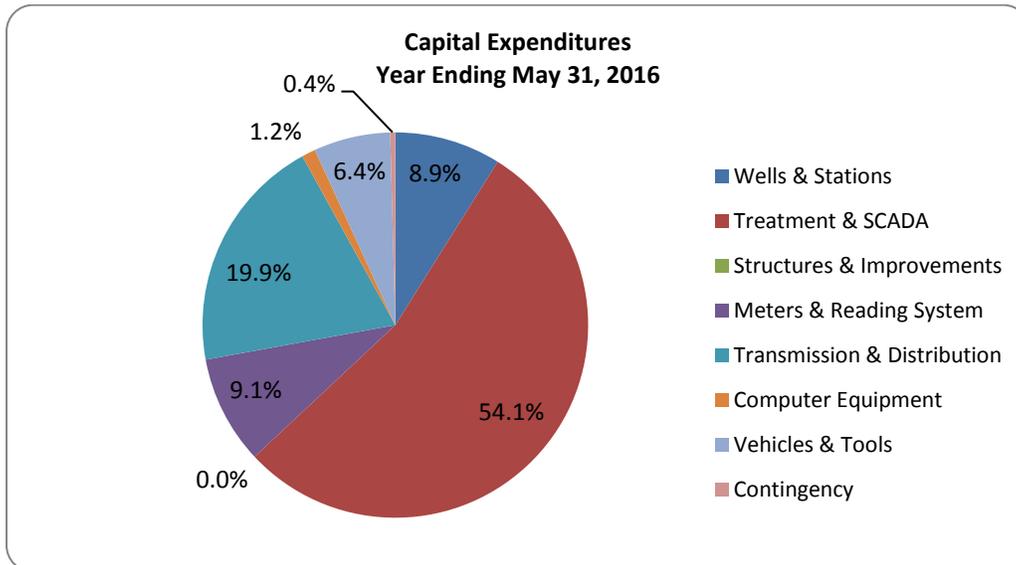
**MAJOR INCREASES IN CAPITAL ASSETS**

The new capital plan covers the anticipated projects for the fiscal years ending May 31, 2016 to 2020. The total plan amount is \$55,172,774 is financed by the balance of the 2010 Series A and the new 2015 Series A funds. The planned spending is aimed primarily at improvements to the treatment system and repair and replacement of transmission and distribution lines. The planned capital expenditures for the year ending May 31, 2016 and five years ending May 31, 2020 are as follows:

**PLANNED CAPITAL EXPENDITURES  
YEAR ENDING MAY 31, 2016 AND TOTAL FOR YEARS ENDING 2016 TO 2020  
(UNAUDITED)**

	<u>Year Ending May 31, 2016</u>	<u>Total for Years Ending May 31, 2016 to 2020</u>
Wells and stations	\$ 518,500	\$ 16,320,494
Treatment and SCADA	3,147,033	21,798,375
Structures and improvements	-	7,040,600
Meters and reading system	529,310	2,694,760
Transmission and distribution	1,155,600	5,908,125
Computer equipment	67,370	439,135
Vehicles and tools	373,515	846,285
Contingency	25,000	125,000
<b>Total projected capital expenditures</b>	<b>\$ 5,816,328</b>	<b>\$ 55,172,774</b>

**CHART 5**

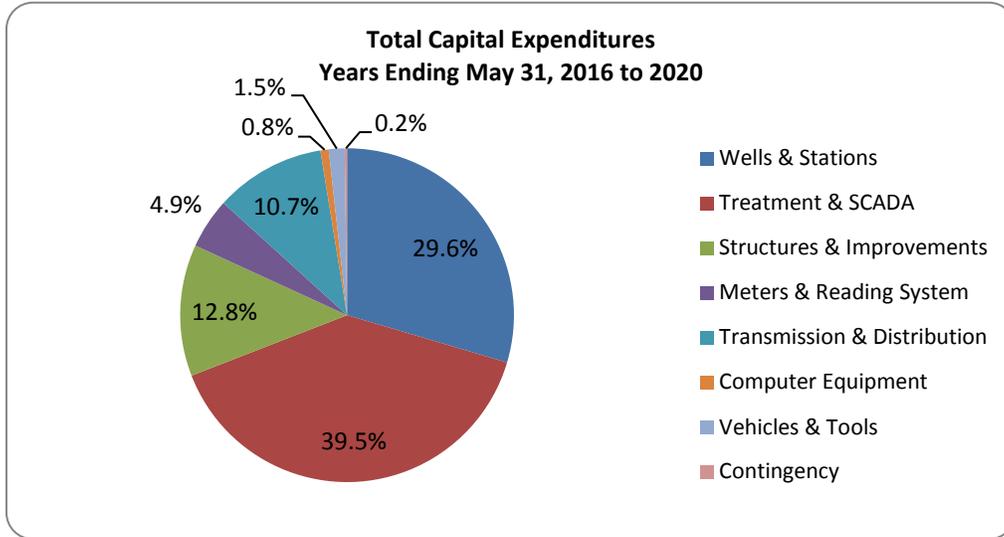


The major planned capital expenditures for the year ending May 31, 2016 include \$3.1 million (54.1%) for treatment and SCADA, \$1.2 million (19.9%) for transmission and distribution and \$0.5 million (8.9%)

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

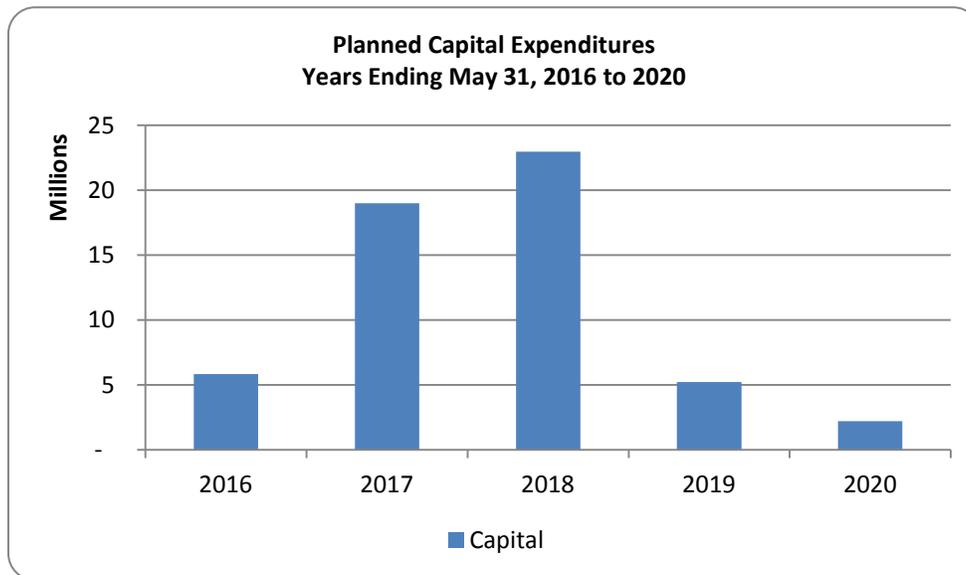
for wells and stations (Chart 5). The capital expenditures of \$5.8 million for the year ending May 31, 2016, represents 10.5% of total \$55.2 million planned capital expenditures, over the next five years.

**CHART 6**



Over the five years ending May 31, 2020, the expenditures for water treatment and SCADA will be \$21.8 million (39.5%), for wells and stations \$16.3 million (29.6%), for transmission and distribution \$5.9 million (10.7%) and for meter and reading systems \$2.7 million (4.9%) of the total \$55.2 million capital expenditures (Chart 6). The planned annual capital expenditures for the years ending May 31, 2016 to 2020 are shown in the Chart 7:

**CHART 7**



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

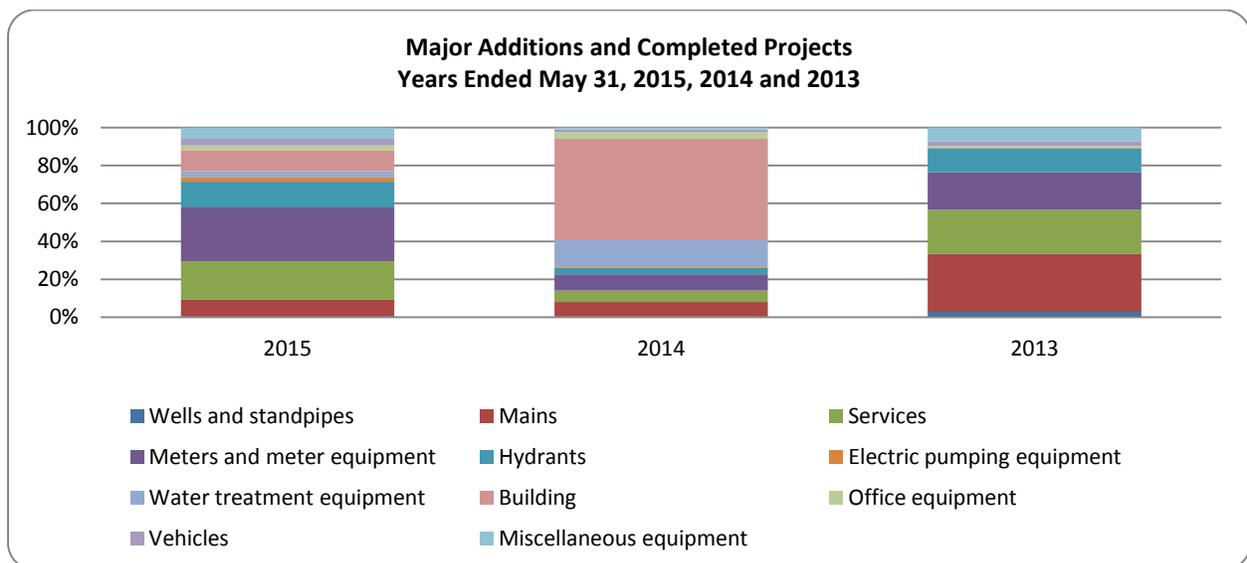
**MAJOR ADDITIONS AND COMPLETED PROJECTS**

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, 2015, 2014 and 2013 are presented in the following table and Chart 8:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Wells and Standpipes</b>			
Wells and standpipes	\$ -	\$ 19,290	\$ 48,315
<b>Distribution System</b>			
Mains	164,493	531,361	533,633
Services	398,334	419,587	405,336
Meters and meter equipment	555,573	594,671	344,052
Hydrants	265,416	236,956	218,381
<b>Pumping and Purification</b>			
Electric pumping equipment	44,898	44,072	705
Water treatment equipment	107,218	947,979	2,843
<b>Building and Vehicles</b>			
Building	167,229	3,700,094	-
Office equipment	49,496	235,288	15,604
Vehicles	68,496	101,451	43,411
Miscellaneous equipment	115,012	63,390	126,062
Total additions	<u>\$ 1,936,165</u>	<u>\$ 6,894,139</u>	<u>\$ 1,738,342</u>

**CHART 8**



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

Over the past three years, the most important outlays for capital assets, other than the headquarters building and iron removal plants, related to the improvements of the distribution system. These expenditures were \$1,382,181, \$1,782,575 and \$1,501,402, during the years ended May 31, 2015, 2014 and 2013 respectively. The cost of installation of meters and radio transmitters for those meters were the most significant part of distribution system improvement costs, accounting for \$553,938 (40.1%) in the current year and \$594,671(33.4%) in the previous year. 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 completion costs of the operations headquarter and two Iron removal plants were \$3,700,094 and \$947,979, respectively in the year ended May 31. 2014.

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

#### **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.

Moody's and Fitch Ratings affirmed the "A1" and 'AA-' rating of the Water Authority's Series 2015 Bonds.

#### **REVENUE SERIES 2015 BONDS**

During the year ended May 31, 2015, the Water Authority completed new financing to fund future construction plans and to refund the 2005 Series A and B Bonds. Water System Series 2015A Revenue (Construction) Bonds and Water System Series 2015B Revenue (Refunding) Bonds were issued on April

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

22, 2015. The 2015A Bonds consist of \$21,660,000 (4.563 % average interest) Serial Bonds, \$17,640,000 (5% interest) Term Bonds due April 1, 2040, \$10,000,000 (5 % interest) Term Bonds due April 1, 2045 and \$4,900,000 (4% interest) Term Bonds due April 1, 2045. The 2015B Bonds consist of \$19,400,000 (4.506% average interest) Serial Bonds. A portion of the proceeds of the Bonds, along with funds transferred from amounts on deposit in the debt service funds, debt service reserve funds were deposited as cash and held in an irrevocable trust (the "Escrow Fund"), and were used solely to refund the \$23,885,000 outstanding balance of the Series 2005 Bonds.

The net present value of the economic gain from refunding the 2005 Series A and B Bonds was \$4,023,167 (16.84% of refunded Bonds and deferred inflows from refunding gain was \$1,028,663.

### **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 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.

### **CASH AND INVESTMENTS**

The total amounts of unrestricted and restricted cash, cash equivalents and investment in the US Treasury Securities were \$75,482,709, \$17,614,716 and \$22,708,240, on May 31, 2015, 2014 and 2013, respectively. The \$57,867,993 increase during the year ended May 31, 2015 was due to issuance of Series 2015 A Bonds and resulting increases in cash and cash equivalent in Bond Construction and Bond Reserve Funds of \$991,126 (22.8%) and \$2,560,714, respectively, the increase in Bond Construction Fund Investment of \$54,243,341 (5,709%) and \$72,812 in other cash accounts. The decrease of \$5,093,524 (22.4%) in cash and investment, during the previous year, was primarily the result of acquiring additional capital assets and paying debt service charges.

On May 31, 2015, the amount of restricted cash and cash equivalents held in the Construction Fund was \$5,329,147, in view of the planned capital expenditures of \$5,816,328 for the year ending May 31, 2016. The amount of cash, cash equivalents and investment in Bond reserve funds increased by \$2,560,714 (39.7%) and \$69,401 (1.0%), during the current and previous year.

On May 31, 2015, of the total cash and cash equivalents of \$20,929,398, the amount of \$3,916,529 (18.7%) was unrestricted and the amount of \$17,012,869 (81.3%) was restricted. On May 31, 2014, the total cash and cash equivalents of \$16,675,749, included \$4,059,739 (24.3%) of unrestricted and

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

\$12,616,010 (75.7%) restricted cash and cash equivalents. Cash equivalents were invested in money market accounts, Dreyfus Government Prime Cash Management Fund and short-term US Treasury bills. Dreyfus money market funds invest only in the securities of the US government or US government agencies and enterprises.

As of May 31, 2015 and 2014, the maturities of investment in the Water Authority's US treasury securities were as follows:

**Restricted Investments Held by Trustee  
May 31, 2015**

<b>Bond construction fund</b>					<b>Average Term</b>
<b>Maturity Date- on or before</b>	<b>Investment</b>		<b>Fair value</b>	<b>Percent</b>	<b>(Days)</b>
5/31/2016	US Treasury Bonds	\$	\$ 6,410,891	11.8%	258
5/31/2017	US Treasury Bonds		19,492,983	35.7%	576
5/31/2018	US Treasury Bonds		21,546,464	39.5%	895
5/31/2019	US Treasury Bonds		5,064,660	9.3%	1291
4/30/2020	US Treasury Bonds		2,038,313	3.7%	1641
		\$	<u>\$54,553,311</u>	<u>100.0%</u>	<u>770</u>

On May 31, 2014, the total restricted investment of \$54,553,311 was composed of \$54,320,613 of investments at fair market value, plus \$232,698 accrued interest.

**Restricted Investments Held by Trustee  
May 31, 2014**

<b>Fund</b>	<b>Maturity Date</b>	<b>Investment</b>		<b>Fair Value</b>	<b>Percent</b>	<b>Term (Days)</b>
Bond construction fund	6/30/2014	US Treasury Notes	\$	\$309,970	33.0%	30
Bond reserve fund	2/15/2015	US Treasury Bonds		628,997	67.0%	260
			\$	<u>\$938,967</u>	<u>100.0%</u>	

The total restricted investment of \$938,967 was composed of \$916,949 of investments at fair market value, plus \$22,018 accrued interest, on May 31, 2014.

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.

**Debt Service Coverage:**

During the year ended May 31, 2015, the Water Authority's utilized \$6.9 million net cash flows from operations, and \$0.1 million of cash to finance \$7.0 million expenditures for expanding and improving its capital assets and paying its debt service charges of \$4.5 million.

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

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

<u>Cash Available and Debt Service Requirement</u>	<u>Amount</u>
Operating income	\$ 4,402,024
Add: Depreciation and amortization	1,806,744
Interest and other income	649,342
Total cash available for coverage	6,858,110
Debt service requirements:	
Interest payments	2,840,080
Principal payments	1,640,000
Total debt service requirements	\$ 4,480,080
Coverage Ratio	1.53
Coverage requirement as per Water System Revenue Bonds, Series 2010 and 2005	1.20

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

**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, 2015 plan, user fees and charges. Population Changes, unemployment rates in Nassau County and changes in the consumer price index for the New York – Northern New Jersey – Long Island area are among these factors .

**Population changes**

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 US Census Bureau estimates, in 2014, Nassau County's population was 1,358,627 and had increased by 1.4% from 1,339,710 in the previous year. The annual rate of increase was 1.1%, in 2013. The population breakdown by towns within Nassau County for 2010 and 2000 is as follows:

<b>NASSAU COUNTY</b>	<u>2010 (a)</u>	<u>2000 (b)</u>
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	<u>1,339,532</u>	<u>1,334,546</u>

a. Source: 2010 United States Census

b. Source: 2000 United States Census

**Changes in Employment**

The unemployment rate in Nassau County has continued to be lower than the State of New York averages. The average unemployment rates in the County of Nassau decreased from 4.7% to 4.3% from

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

May 2014 to May 2015. The unemployment rates for the State of New York and were 5.3% and 6.2% respectively in May 2014 and May 2015.

**Changes in Prices**

Over the year ended May 31, 2015, the Consumer Price Index for All Urban Consumer (CPI-U) was down 0.1 percent. In contrast, the index for all items less food and energy advanced 1.5 percent. The food index rose 2.2 percent. Prices for food at home increased 1.3 percent, and prices for food away from home advanced 3.5 percent. Over the year, the energy index dropped 19.0 percent, due primarily to lower prices for gasoline, which was down 27.0 percent. Among the household energy components, prices fell 18.2 percent for natural gas and 6.4 percent for electricity. From May 2014 to May 2015, the index for all items less food and energy advanced 1.5 percent. Prices for shelter increased 2.0 percent, with residential rent up 2.6 percent. Higher prices were also recorded for medical care (3.0 percent) and apparel (3.6 percent). In May, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) decreased 0.5 percent over the year.

**Forecast of Revenues and Expenses**

The Water Authority has prepared and published an operating plan and forecast of revenues, expenses and changes in net position, for the four years ending May 31, 2020. For the year ending May 31, 2016, the total operating revenues, operating expenses and operating income are estimated to be \$16.5, \$11.1 and \$5.4 million, respectively. Non-operating revenues and expenses are estimated to be \$1.0 and \$3.8 million, respectively. The increase in net position is estimated to be approximately \$2.6 million (12.6%). The forecasts for the year ending May 31, 2016 are based on 7.14% change in revenue requirement, 8.41% change in customer rate, average annual residential bill of \$436 and average annual commercial bill of \$1,775. For the year ending May 31, 2016, the forecasted revenues, expenses and changes in net position are as follows:

**FORECASTED REVENUES, EXPENSES AND CHANGES IN NET POSITION**

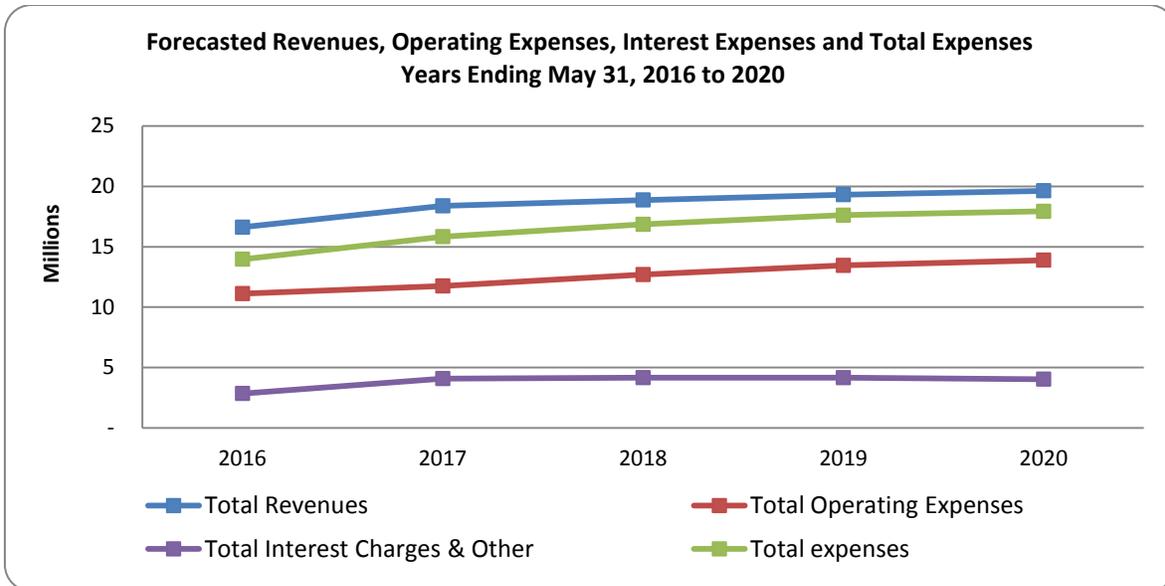
**YEAR ENDING MAY 31, 2016  
(UNAUDITED)**

	<u>Amount</u>
<b>Operating Revenues</b>	
Residential	\$ 11,683,800
Commercial	2,087,300
Fire hydrants	2,276,400
Private fire	130,100
Other revenue	68,700
Rate Stabilization Fund Contributions & Other	300,000
Total operating revenues	16,546,300
<b>Operating Expenses</b>	
Operation and maintenance	9,112,820
Depreciation	2,005,000
Total operating expenses	11,117,820
Total utility operating income	5,428,480
<b>Non-operating revenues and expenses</b>	
Interest on long-term debt, net	3,816,900
Interest and other income	(965,400)
Net non-operating expenses	2,851,500
Increase in net position	\$ 2,576,980

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

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 Water Authority's forecasted operating plan includes annual customer rate increases of 9.70%, 5.56%, 2.35% and 1.70%, for the years ending May 31, 2017, 2018, 2019 and 2020 (Chart 9).

**CHART 9**



**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.



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## BASIC FINANCIAL STATEMENTS





**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**

**STATEMENTS OF NET POSITION**

**MAY 31,**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,916,529	\$ 4,059,739
Accounts receivable:		
Billed, net of \$25,000 allowance for doubtful accounts	1,224,755	678,043
Unbilled	1,850,000	1,810,000
Prepayments and other current assets	190,725	205,946
Materials and supplies, at weighted average cost	286,575	235,586
Total current assets	7,468,584	6,989,314
Noncurrent assets:		
Restricted cash and cash equivalents		
Rate stabilization fund	1,070,000	570,000
Bond construction fund	5,329,147	4,338,021
Bond reserve fund	9,005,871	6,445,157
Bond arbitrage rebate	205,500	-
Bond payment fund	324,404	232,945
Customer deposits	1,077,947	1,029,887
Restricted investments held by trustees		
Bond construction fund	54,553,311	309,970
Bond reserve fund	-	628,997
Capital assets		
Non-depreciable	2,173,906	457,453
Depreciable	67,714,633	67,606,110
Other assets		
Unamortized bond issue cost	25,611	141,206
Other assets	405,505	425,121
Total noncurrent assets	141,885,835	82,184,867
<b>Total assets</b>	<b>\$ 149,354,419</b>	<b>\$ 89,174,181</b>
<b>Deferred Outflows of Resources</b>		
Deferred charges on refinancing	\$ 32,006	\$ 1,132,345
Total deferred outflow of resources	\$ 32,006	\$ 1,132,345

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

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**

**STATEMENTS OF NET POSITION**

**MAY 31,**

	<b>2015</b>	<b>2014</b>
<b>Liabilities and Net position</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,204,933	\$ 1,371,081
Deferred revenue	360,818	466,723
Accrued interest payable	271,896	377,905
Customer advance on construction	96,621	87,366
Water revenue bond payable	2,395,000	1,640,000
Due to employee retirement system	114,194	48,840
Accrued vacation and sick leave	40,000	40,000
Total current liabilities	5,483,462	4,031,915
Noncurrent liabilities:		
Water revenue bonds payable	110,195,000	62,875,000
Unamortized premium on revenue bonds	9,488,201	1,340,818
Customer deposits	1,137,911	1,089,817
Other post employment benefits	2,378,838	2,059,485
Accrued vacation and sick leave	848,500	820,100
Total noncurrent liabilities	124,048,450	68,185,220
<b>Total liabilities</b>	129,531,912	72,217,135
<b>Net Position</b>		
Net investment in capital assets	17,286,185	15,436,386
Restricted for rate stabilization	1,070,000	570,000
Unrestricted	1,498,328	2,083,005
<b>Total net position</b>	\$ 19,854,513	\$ 18,089,391

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 YEARS ENDED MAY 31,**

	<u>2015</u>	<u>2014</u>
<b>Operating revenues:</b>		
Residential	\$ 10,694,380	\$ 10,023,162
Commercial	2,007,228	1,749,134
Fire protection	2,396,619	2,239,254
Other water revenues	<u>82,597</u>	<u>66,316</u>
 Total operating revenues	 15,180,824	 14,077,866
 <b>Operating expenses:</b>		
Operations	6,840,640	7,155,325
Maintenance	2,131,416	1,913,099
Depreciation	<u>1,806,744</u>	<u>1,546,468</u>
 Total operating expenses	 <u>10,778,800</u>	 <u>10,614,892</u>
 <b>Operating income</b>	 4,402,024	 3,462,974
 <b>Non-operating revenues (expenses):</b>		
Interest income	302,646	74,188
Miscellaneous income, net	346,696	375,941
Interest on long-term debt, net	(3,261,740)	(1,825,291)
Other amortization, net	<u>(24,504)</u>	<u>(24,492)</u>
 Net non-operating expenses	 <u>(2,636,902)</u>	 <u>(1,399,654)</u>
 <b>Change in net position</b>	 1,765,122	 2,063,320
Net position - beginning	<u>18,089,391</u>	<u>16,026,071</u>
 <b>Total net position - ending</b>	 <u>\$ 19,854,513</u>	 <u>\$ 18,089,391</u>

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

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 14,594,112	\$ 14,366,009
Payments to suppliers for goods or services	(3,875,678)	(6,568,860)
Rental property revenues	346,696	375,941
Payments for employee services	<u>(4,170,450)</u>	<u>(4,173,365)</u>
Net cash provided by operating activities	6,894,680	3,999,725
<b>Cash flows from capital and related financing activities:</b>		
Proceeds of bonds	83,010,647	-
Repayment of water revenue bonds	(25,525,000)	(1,595,000)
Acquisition of capital assets	(3,588,419)	(5,749,663)
Interest paid on water revenue bonds	<u>(3,458,379)</u>	<u>(1,822,074)</u>
Net cash used by Capital and related financing activities	50,438,849	(9,166,737)
<b>Cash flows from non-capital financing activities:</b>		
<b>Cash flows from investing activities:</b>		
Decrease of fixed income securities	938,967	4,392,667
Additional investment in fixed income securities	(54,553,311)	-
Interest and dividends received	<u>534,464</u>	<u>74,187</u>
Net cash provided by investing activities	<u>(53,079,880)</u>	<u>4,466,854</u>
Net increase (decrease) in cash and cash equivalents	4,253,649	(700,158)
Cash and equivalents, beginning of year	<u>16,675,749</u>	<u>17,375,907</u>
<b>Cash and equivalents, end of year</b>	<b>\$ <u>20,929,398</u></b>	<b>\$ <u>16,675,749</u></b>

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

**THE WATER AUTHORITY OF WESTERN NASSAU COUNTY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MAY 31**

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 4,402,024	\$ 3,462,974
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,806,744	1,546,468
Rental Income	346,696	375,941
Changes in operating assets and liabilities:		
Accounts receivable	(546,712)	(142,857)
Accrued unbilled revenue	(40,000)	431,000
Prepaid items and other assets	15,221	(68,418)
Inventory of materials and supplies	(50,989)	18,369
Other assets	4,367	88,314
Accounts payable and accrued expenses	602,033	(1,930,079)
Deferred revenues	(105,905)	(102,120)
Due to employee retirement system	65,354	(75,660)
Customer deposits	48,094	39,289
Other post employment benefits	319,353	324,504
Compensated absences	28,400	32,000
<b>Net cash provided by operating activities</b>	<b>\$ 6,894,680</b>	<b>\$ 3,999,725</b>

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**  
**FOR THE YEARS ENDED MAY 31, 2015 AND 2014**

**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. 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 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

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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. 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.

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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.

*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:

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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 were \$1,070,000 and \$570,000 as of May 31, 2015 and 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 2015 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 amounts in the Bond Construction Funds at May 31, 2015 and 2014 were \$59,882,458 and \$4,647,991, respectively.

*Bond Reserve Funds* – Under the Series 2015A and 2010 Resolutions, the Water Authority is required to deposit into the Reserve Accounts, the lesser of (i) 10% of the proceeds of the Series 2015A, Series 2010A and Series 2010B Bonds, (ii) the maximum principal and interest payments due on the Series 2015A, 2010A 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 2015A, Series 2010A and Series 2010B Bonds for the current and all future Fiscal Years.

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.

As of May 31, 2015 and 2014, the total amounts of Bond Reserve Funds were \$9,005,871 and \$7,074,154 respectively. 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.

*Bond Payment Fund* – The Water Authority’s bond resolution authorizing the Water System Revenue Bonds, Series 2015, 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. On May 31, 2015 and 2014, the amounts in the Bond Fund cash and cash equivalents were \$324,404 and \$232,945, respectively.

*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.

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*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, 2015 and 2014. 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:

<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.

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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.

The interest expenses are shown net of the capitalized portions of \$43,300 and \$1,840,950, in the financial statements for the years ended May 31, 2015 and 2014, respectively.

#### *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 \$460,496 and \$8,352, the amortization of bond premiums were \$67,212 and \$68,988, and the amortization of deferred refunding loss was \$71,676 and \$69,408, during the years ended May 31, 2015 and 2014, respectively.

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*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.

*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

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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 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 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 Water Authority 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.

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*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 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 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

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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 Non-exchange Financial Guarantees. This Statement requires a government that extends a non-exchange 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.

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 provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2016.

In February 2015, GASB issued the Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach applied consistently, though a change may be appropriate in certain circumstances. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. Earlier application is encouraged. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2017.

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In June 2015, GASB issued the Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2017.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The provisions in Statement 74 are effective for financial statements for fiscal years beginning after June 15, 2016. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2017.

In June 2015, GASB issued Statement No. 75, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide: Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2017.

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In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB.

The Statement also addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of the new pronouncements are effective for reporting periods beginning after June 15, 2015.

In connection with Statement 76, the GASB also recently cleared *Implementation Guide No. 2015-1*, which incorporates changes resulting from feedback received during the public exposure of all of implementation guidance previously issued.

In August 2015 GASB issued Statement No. 77, *Tax Abatement Disclosures*, Statement 77 requires that governments disclose essential information about the tax abatement agreements they have entered into with businesses and other taxpayers. Specifically, the tax abatement disclosure requirements include: the purpose of the tax abatement program; the tax being abated; dollar amount of taxes abated; provisions for recapturing abated taxes; the types of commitments made by tax abatement recipients; and other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The guidance addresses tax abatements resulting from agreements entered into by the reporting government, as well as those initiated by other governments that reduce the reporting government's tax revenues. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The Water Authority has adopted this Statement and it is effective for fiscal year ending May 31, 2017.

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

As of May 31, 2015 and 2014, the carrying amount petty cash, cash and cash equivalents and investment in cash equivalent and other investment consisted of the following:

	<u>2015</u>	<u>2014</u>
Petty cash	\$ 700	\$ 700
Cash and cash equivalents	20,929,398	16,675,049
Investments	<u>54,553,311</u>	<u>938,967</u>
Total	<u>\$ 75,483,409</u>	<u>\$ 17,614,716</u>

As of May 31, 2015 and 2014, the carrying amount of deposits, cash and cash equivalents were as follows:

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	<u>2015</u>	<u>2014</u>
<b>Unrestricted</b>		
Deposit in banks	\$ 1,808,473	\$ 1,951,684
Money Market Funds	2,107,356	2,107,355
Petty cash	700	700
Total unrestricted cash and cash equivalents	<u>3,916,529</u>	<u>4,059,739</u>
<b>Restricted</b>		
Bank Deposit	2,147,947	262,798
Money Market Funds and US Treasury Bills	<u>14,864,922</u>	<u>12,353,212</u>
Total restricted cash and cash equivalents	<u>17,012,869</u>	<u>12,616,010</u>
 Total cash and cash equivalents	 <u>\$ 20,929,398</u>	 <u>\$ 16,675,749</u>

*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.
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

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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, 2015 and 2014, the Water Authority's investment, including the investment in cash equivalents was as follows.

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	May 31, 2015			May 31, 2014		
	Fair Value	S&P-AAAm Moody's- Aaa-mf NAIC-Class 1	US Treasury Securities	Fair Value	S&P-AAAm Moody's- Aaa-mf NAIC-Class 1	US Treasury Securities
Dreyfus Government Prime Cash Management Fund	\$16,152,279	\$16,152,279	\$ -	\$10,448,729	\$10,448,729	\$ -
US Treasury Bills	819,996		819,996	2,411,952	-	2,411,952
US Treasury Notes	-			309,969	-	309,969
US Treasury Bonds	54,320,613		54,320,613	628,997	-	628,997
<b>Total</b>	<b>\$71,292,888</b>	<b>\$16,152,279</b>	<b>\$55,140,609</b>	<b>\$13,799,647</b>	<b>\$10,448,729</b>	<b>\$3,350,918</b>

At May 31, 2015, 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 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, 2015 and 2014, the maturity dates of the Water Authority's investment securities were as follows:

**May 31, 2015**

	Fair Value	12 Months or Less	13 to 21 Months
Dreyfus Government Prime Cash Management Fund	\$ 16,152,279	\$ 16,152,279	\$ -
US Treasury Bills	819,996	819,996	-
US Treasury Bonds	54,320,613	6,382,273	47,938,340
<b>Total</b>	<b>\$ 71,292,888</b>	<b>\$ 23,354,548</b>	<b>\$ 47,983,340</b>

**May 31, 2014**

	Fair Value	3 Months or Less	Less than 12 Months
Dreyfus Government Prime Cash Management	\$ 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
<b>Total</b>	<b>\$ 13,799,647</b>	<b>\$ 13,170,650</b>	<b>\$ 628,997</b>

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The Weighted Average Maturity of Dreyfus Government Prime Cash Management has been very short, less than 60 days. The yields from money market funds may vary, although they have not 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.

*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**

The Changes in the cost of capital assets and accumulated depreciation during the years ended May 31, 2015 and 2014 were as follows:

<u>Year Ended May 31, 2015</u>	<u>2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>2015</u>
Capital assets not subject to depreciation:				
Land and land rights	\$ 167,708	\$	\$	\$ 167,708
Construction in progress	289,745	3,771,365	(2,054,912)	2,006,198
Total capital assets not being depreciated	457,453	3,771,365	(2,054,912)	2,173,906
Capital assets being depreciated:				
Wells and standpipes	2,725,027		(19,263)	2,705,764
Pumping and purification	21,065,839	152,116		21,217,955
Distribution system	38,332,125	1,383,816	(245,820)	39,470,121
Building, vehicles and equipment	19,035,411	400,233	(10,493)	19,425,151
Total capital assets being depreciated	81,158,402	1,936,165	(275,576)	82,818,991
Less accumulated depreciation:				
Wells and standpipes	(1,111,610)	(65,014)		(1,176,624)
Pumping and purification	(4,739,758)	(493,679)		(5,233,437)
Distribution system	(5,129,167)	(799,774)	244,185	(5,684,756)
Building, vehicles and equipment	(2,571,757)	(448,277)	10,493	(3,009,541)
Total accumulated depreciation	(13,552,292)	(1,806,744)	254,678	(15,104,358)
Total net capital assets being depreciated	67,606,110	129,421	(20,898)	67,714,633
Total net capital assets	\$ 68,063,563	\$ 3,900,786	\$ (2,075,810)	\$ 69,888,539

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<u>Year Ended May 31, 2014.</u>	<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	26,446,753	(36,602)	67,606,110
Total net capital assets	\$ <u>63,873,372</u>	\$ <u>33,454,697</u>	\$ <u>(29,264,506)</u>	\$ <u>68,063,563</u>

As of May 31, 2015 and 2014, the amounts of capitalized interest included in construction in progress were \$43,300 and \$1,184,950, 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, in the year ended May 31, 2014.

**NOTE 5 – REVENUE BONDS PAYABLE**

The changes in Revenue Bonds Payable in the year ended May 31, 2015 and 2014 were as follows:

	<u>May 31,</u> <u>2014</u>	<u>Decreases</u>	<u>Increases</u>	<u>May 31,</u> <u>2015</u>
Water System Revenue Bonds payable	\$ 64,515,000	\$ (25,525,000)	\$ 73,600,000	\$ 112,590,000
Adjustment for deferred amounts:				
Unamortized premium	1,340,818	(1,263,264)	9,410,647	9,488,201
Total Revenue Bonds	65,855,818	\$ (26,788,264)	\$ 83,010,647	122,078,201
Due within one year	(1,640,000)			(2,395,000)
Noncurrent portion	\$ <u>64,215,818</u>			\$ <u>119,683,201</u>

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	<u>May 31,</u> <u>2013</u>	<u>Decreases</u>	<u>Increases</u>	<u>May 31,</u> <u>2014</u>
Water System Revenue Bonds payable	\$ 66,110,000	\$ (1,595,000)	\$ -	\$ 64,515,000
Adjustment for deferred amounts:				
Unamortized premium	<u>1,409,806</u>	<u>(68,988)</u>	<u>-</u>	<u>1,340,818</u>
Total Revenue Bonds	67,519,806	\$ (1,663,988)	\$ -	65,855,818
Due within one year	<u>(1,595,000)</u>			<u>(1,640,000)</u>
Noncurrent portion	\$ <u>65,924,806</u>			\$ <u>64,215,818</u>

**SERIES 2005 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, to finance the cost of acquisition and construction of improvements to the Water System and pay certain costs of issuance relating to the Series 2005 Bonds.

The interest on the refunding bonds ranged 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 were removed from the financial statements.

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.

**SERIES 2010 REVENUE BONDS PAYABLE**

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

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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 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.

**SERIES 2015 REVENUE BONDS PAYABLE**

On April 22, 2015 the Water Authority issued the \$54,200,000 Water System Revenue Bonds Series 2015A and \$19,400,000 Water Revenue Refunding Series 2015B. The Series 2015A proceeds are used to finance the cost of construction of improvements to water system, to fund a portion of reserve account and to pay certain issuance costs. The Series 2015B Bond proceeds together with Series 2005 Bond Debt Reserve Fund balances were applied to refund the \$23,885,000 outstanding balance of the Series 2005 Bonds, to pay \$666,789 of interest and fund a portion of reserve account and to pay certain issuance costs. The sources and uses of the Series 2015 Bonds are as follows:

<b>Sources:</b>	Total
Bond Proceeds:	
Par Amount	\$ 73,600,000
Net Premium	9,410,647
Released Bond Funds	3,715,130
Total sources	\$ 86,725,777
<b>Uses:</b>	
Escrow Fund	\$ 24,551,790
Construction Fund	55,822,774
Reserve account, Series 2015	4,780,500
Deposit to Capitalized Interest Account Series 2015	1,128,088
Costs of Issuance	442,625
Total Uses	\$ 86,725,777

Series 2005A and 2005B Bonds are considered to be defeased and the liability for those bonds were removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$1,028,663. 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

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old and new debt service payments) of \$4,023,167. The economic gain represents 16.84% of the outstanding balance of the refunded bonds.

The Series 2015 Bonds are subject to redemption at the option of the Water Authority on or after April 1, 2025, in whole or in part, at a price of par, plus accrued interest.

The Series 2015A Bonds maturing on April 1, 2040 (\$17,640,000), April 1, 2045 (\$10,000,00 at 4% interest) and April 1, 2045 (\$4,900,000 at 5% interest) are subject to mandatory redemption, at a price equal 100% of the principal plus accrued interest, over 5 year periods, commencing on 2036, 2041 and 2041, respectively.

The average life and duration of the Series 2015 Bonds are 17.84 and 12.19, respectively. The average annual debt service is \$4,530,667 and the maximum annual debt service is \$4,780,500. The yield of the component bonds range from 0.31% to 3.79%, depending on the term of the bonds.

*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

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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.

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.

**OUTSTANDING REVENUE BONDS PAYABLE**

The outstanding Water System Revenue Bonds at May 31, 2015 consist of the following:

<u>Water System Revenue Bonds</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Average Rate</u>	<u>Original Principal</u>	<u>Outstanding Principal</u>
<b>Series 2010:</b>					
Series A Bond					
Uninsured Serial Bond	2011-2012	2-3%	2.64%	\$ 785,000	\$ -
Serial Bond	2013-2020	3-4%	3.80%	<u>6,140,000</u>	<u>5,025,000</u>
Total Series A Bonds				6,925,000	5,025,000
Series B Bond					
Term Bond	2025	6.01%	6.01%	6,090,000	6,090,000
Term Bond	2030	6.45%	6.45%	7,420,000	7,420,000
Term Bond	2040	6.70%	6.70%	<u>20,455,000</u>	<u>20,455,000</u>
Total Series B				33,965,000	33,965,000
Total Series 2010 Bonds				40,890,000	38,990,000
<u>Water System Revenue Bonds (Continued)</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Average Rate</u>	<u>Original Principal</u>	<u>Outstanding Principal</u>
<b>Series 2015:</b>					
Serial Bonds - Refunding (2015B)	2035	3%-5%	4.51%	\$ 19,400,000	\$ 19,400,000
Serial Bonds - New Money (2015A)	2035	4%-5%	4.56%	21,660,000	21,660,000
Term Bond 2040 - New Money (2015A)	2040	5%	5.00%	17,640,000	17,640,000
Term Bond 2045 - New Money (2015A)	2045	5%	5.00%	10,000,000	10,000,000
Term Bond 2045 - New Money (2015A)	2045	4%	4.00%	<u>4,900,000</u>	<u>4,900,000</u>
Total Series 2015A				54,200,000	54,200,000
Total Series 2015				<u>73,600,000</u>	<u>73,600,000</u>
Total				\$ <u>114,490,000</u>	\$ <u>112,590,000</u>

**FUTURE DEBT SERVICE REQUIREMENTS**

At May 31, 2015, debt service requirements to maturity for the Bond Series 2010 and 2015 were as follows:

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**SERIES 2010A BONDS**

Date	Principal	Interest	Total
2016	\$ 935,000	\$ 193,913	\$ 1,128,913
2017	965,000	161,188	1,126,188
2018	1,000,000	125,000	1,125,000
2019	1,040,000	85,000	1,125,000
2020	<u>1,085,000</u>	<u>43,400</u>	<u>1,128,400</u>
Total	\$ <u>5,025,000</u>	\$ <u>608,501</u>	\$ <u>5,633,501</u>

**SERIES 2010B BONDS**

Date	Principal	Gross Interest	Subsidy	Net Interest	Total Gross	Total Net
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		2,215,180	(775,313)	1,439,867	2,215,180	1,439,867
2021-2025	6,090,000	10,372,781	(3,630,473)	6,742,308	16,462,781	12,832,308
2026-2030	7,420,000	8,329,114	(2,915,190)	5,413,924	15,749,114	12,833,924
2031-2035	9,140,000	5,680,438	(1,988,153)	3,692,285	14,820,438	12,832,285
2036-2040	<u>11,315,000</u>	<u>2,338,984</u>	<u>(818,644)</u>	<u>1,520,340</u>	<u>13,653,984</u>	<u>12,835,340</u>
Total	\$ <u>33,965,000</u>	\$ <u>37,797,217</u>	\$ <u>(13,229,025)</u>	\$ <u>24,568,192</u>	\$ <u>71,762,217</u>	\$ <u>58,533,192</u>

**SERIES 2015A BONDS**

Date	Principal	Interest	Total
2016	\$ 210,000	\$ 2,405,170	\$ 2,615,170
2017	70,000	2,547,863	2,617,863
2018	70,000	2,545,763	2,615,763
2019	75,000	2,543,663	2,618,663
2020	80,000	2,541,413	2,621,413
2021-2025	445,000	12,669,563	13,114,563
2026-2030	8,240,000	12,069,613	20,309,613
2031-2035	12,470,000	9,685,238	22,155,238
2036-2040	17,640,000	6,214,250	23,854,250
2041-2045	<u>14,900,000</u>	<u>2,143,000</u>	<u>17,043,000</u>
Total	\$ <u>54,200,000</u>	\$ <u>55,365,536</u>	\$ <u>109,565,536</u>

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**SERIES 2015B BONDS**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,250,000	\$ 859,018	\$ 2,109,018
2017	1,245,000	862,231	2,107,231
2018	1,310,000	799,981	2,109,981
2019	1,375,000	734,481	2,109,481
2020	1,440,000	665,731	2,105,731
2021-2025	8,365,000	2,172,656	10,537,656
2026-2030	2,945,000	446,706	3,391,706
2031-2035	1,470,000	149,369	1,619,369
<b>Total</b>	<b>\$ 19,400,000</b>	<b>\$ 6,690,173</b>	<b>\$ 26,090,173</b>

**NOTE 6 – OTHER LONG-TERM LIABILITIES**

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

	<u>May 31, 2014</u>	<u>Addition</u>	<u>Reduction</u>	<u>May 31, 2015</u>	<u>Due in 1- year</u>	<u>Noncurrent Liability</u>
Accrued vacation and sick leave	\$860,000	\$68,500	\$(40,000)	\$888,500	\$40,000	\$848,500

**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

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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:

Year	Contribution
2015	\$748,116
2014	724,700
2013	696,900

*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, 2015 had net OPEB obligation of \$2,378,838.

*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, 2015 and 2014 the liabilities for accrued vacation were 346,100 and \$335,000 and for the sick leave were 542,400 and \$525,100, respectively.

**NOTE 8 – NET POSITION**

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

	<u>2015</u>	<u>2014</u>
<b>Invested in capital assets net of related debt:</b>		
Capital assets, net of accumulated depreciation	\$ 69,888,539	\$ 68,063,563
Less: related debt		
Revenue bonds payable	(112,590,000)	(64,515,000)
Bond premium	(9,488,201)	(1,340,818)
Net loss on defeasance of Bonds	32,006	1,132,345
Unspent debt proceeds in construction and reserve funds	69,418,230	11,955,090
Bond issue costs	25,611	141,206
	<u>17,286,185</u>	<u>15,436,386</u>
Total invested in capital assets, net of related debt		
<b>Restricted for Rate Stabilization and Customer Deposits:</b>		
Restricted cash and equivalents	2,147,947	1,599,887
Less: customer deposits	(1,077,947)	(1,029,887)
Total restricted for capital activity, rate stabilization and debt service	<u>1,070,000</u>	<u>570,000</u>
Unrestricted	1,498,328	2,083,005
	<u>19,854,513</u>	<u>18,089,391</u>
<b>Total net assets</b>	<u>\$ 19,854,513</u>	<u>\$ 18,089,391</u>

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**NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

From an accrual accounting perspective, the cost of postemployment healthcare benefits, similar to the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Since adopting the requirements of GASB Statement No. 45 during the year ended May 31, 2009, the Water Authority recognized the cost of postemployment healthcare in the year when the employee services were received, reported the accumulated liability from prior years, and provided information useful in assessing potential demands on the Water Authority’s future cash flows. Recognition of the liability accumulated from prior periods was phased in over 30 years, commencing with the 2009 liability.

*Plan Description*

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

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

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

<b>Participants</b>	<b>Number</b>	<b>Average Age</b>
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

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parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and Net OPEB obligation for fiscal year 2015 and 2014 were as follows:

*Annual OPEB Cost and Net OPEB Obligation*

<b>Fiscal year ending May 31,</b>		<u><b>2015</b></u>		<u><b>2014</b></u>
Annual required contribution (ARC)	\$	395,940	\$	387,517
Interest on NOO at 4.5%		92,677		78,074
Adjustment to ARC (NOO)		<u>(121,004)</u>		<u>(101,938)</u>
Annual OPEB cost (AOC)		367,613		363,653
Less: amount contributed		<u>(48,260)</u>		<u>(39,149)</u>
Change in net OPEB obligation		319,353		324,504
Net OPEB obligation (NOO), beginning balance		2,059,485		1,734,981
Net OPEB obligation, ending balance	\$	<u>2,378,838</u>	\$	<u>2,059,485</u>

The actual contribution of \$48,260 is the sum of the \$72,664 medical premiums, the \$456 life premium and the \$3,014 implicit subsidy paid by the Water Authority less net retiree contributions of \$27,874.

For the seven years ended May 31, 2015, 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
2015	\$395,940	\$48,260	12%
2014	387,517	39,149	10%
2013	379,457	33,551	9%

The Water Authority's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the eight years ended May 31, 2015 were as follows:

<u><b>Fiscal Year Ended</b></u>		<u><b>Annual OPEB Cost</b></u>		<u><b>Annual OPEB Contribution Amount</b></u>		<u><b>Percentage</b></u>		<u><b>Net OPEB Obligation</b></u>
May 31, 2015	\$	367,613	\$	48,260	13%	\$	2,378,838	
May 31, 2014		363,653		39,149	11%		2,059,485	
May 31, 2013		360,085		33,551	9%		1,734,981	

*The funding status*

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

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Actuarial Valuation Date <u>June 1,</u>	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:

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

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%

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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  
Inflation rate                       3%

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

Asset Valuation Method:       Market Value

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**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. Obligor events include the following:

If the Water Authority:

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

As of May 31, 2015 and 2014, the Water Authority has not identified any pollution remediation obligations and therefore no liability has been recorded on the Statement of Net Position.

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**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>Amount</u>
Year ending May 31, 2016	<u>\$ 264,100</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 8.4% increase in water rates effective on June 1, 2015 and 7.0% on June 1, 2014.

**NOTE 14 – SUBSEQUENT EVENTS**

The Water Authority evaluated subsequent events from May 31, 2015 through August 30, 2015, the date on which the financial statements were available to be issued, and determined that there were no material subsequent events.

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**SECTIOND: COMPLIANCE SECTION**





**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  
New Hyde 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, 2015, 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, 2015.

**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.

TABRIZCHI & Co., CPA, P.C.

Garden City, NY  
August 31, 2015