

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
FINANCIAL REPORT  
DECEMBER 31, 2012**

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
FINANCIAL REPORT  
DECEMBER 31, 2012 AND 2011**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Clifton Park Water Authority

### Report on the Financial Statements

We have audited the accompanying consolidated statements of net position, the related consolidated statements of revenue, expenses, and changes in net position, and cash flows of Clifton Park Water Authority and Subsidiary (the Authority) as of and for the years ended December 31, 2012 and 2011, and the related notes to the consolidated financial statements which collectively comprise the Authority's basic consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express our opinion on these consolidated financial statements based on our audits. We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Clifton Park Water Authority and Subsidiary as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance accounting principles generally accepted in the United States of America.

### **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 through 9 and the Schedule of Funding Progress for the Retiree Health Plan on page 27 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 Information*

As described in Note #1, Clifton Park Water Authority and Subsidiary implemented Statement of Governmental Accounting Standards (GASB Statement) No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* Standards Board and early implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013, on our consideration of the Clifton Park Water Authority and Subsidiary'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clifton Park Water Authority and Subsidiary's internal control over financial reporting and compliance.

*Marvin and Company, P.C.*

Latham, NY

March 12, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

The Clifton Park Water Authority (CPWA) and Subsidiary (collectively, Authority) is pleased to present its 2012 Annual Financial Report developed in compliance with Statement of Governmental Accounting Standards Board No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* and related standards. We encourage readers to consider the information on pages 3 to 9 in conjunction with the Authority's financial statements (presented on pages 10 to 27 enhance their understanding of the Authority's financial performance).

### CPWA PROFILE

CPWA was created during 1990 as a public benefit corporation under New York State Public Authorities Law, Title 6-B of Article 5. The enabling legislation provided the Authority with power to acquire, construct, operate, and maintain public water supply, and distribution facilities for the benefit of the residents of Clifton Park and Malta. CPWA provides potable drinking water to 13,000 service connections (approximately 31,000 people), through a system comprised of 12 wells on 9 different sites, 5.5 million gallons of storage capacity, several pump stations, and 180 miles of water main.

CPWA is governed by a Board of five members who are residents of the Town of Clifton Park (Town) and are appointed by the Town Board for staggered five-year terms. The CPWA Chairman is appointed on an annual basis by the Town Supervisor.

CPWA began operations in February 1992 with the acquisition of the Crescent Estates Water Company. Since that initial purchase, CPWA acquired Saratoga Water Co. Calico/Woodland Hills Water System and Country Knolls Water Works, Inc. later in 1992, Park Lane Estates Water Works Co., Inc. in August 1993, and finally, Peacock Water Co. in 2004.

In April of 2006, CPWA entered into an operations and maintenance contract with the Rexford Water District. The system consists of 520 customers.

In 2008, CPWA entered into an operations and maintenance contract with the Shenendehowa Central School District. This gave the CPWA full use of the school's supply well (230 gpm), and added 70,000 gallons per day to the system usage and metered water sales.

In 2010, the Clifton Park Water Authority began purchasing water from the Saratoga County Water Authority. The CPWA is obligated to purchase a minimum of 500,000 gallons per day.

Country Knolls Water Works owns a water system that it leases to CPWA. Country Knolls Water Works is a not-for-profit local development corporation organized under the New York Not-For-Profit Corporation Law. CPWA is the sole shareholder of Country Knolls Water Works, Inc.

In order to finance the original purchases of the private water systems and rehabilitate them, CPWA issued bonds in 1993 in the amount of \$25,605,000. In 1999, CPWA issued bonds in the amount of \$8,915,000 to finance additional system upgrades including new wells, treatment, and storage. In 2003, CPWA refinanced the 1993 bonds, taking advantage of the lower interest rates available to reduce their annual bond payments by approximately \$60,000. In 2009, CPWA refinanced the 1999 bonds, reducing their annual bond payments by approximately \$40,000. At that same time, the Authority was required to create a debt service reserve fund (DSRF) for the 2003 bonds, due to a credit rating decline of the insurance company providing the surety policy for the bond issue. The amount bonded to fund the DSRF was \$813,000, and increased the CPWA's annual bond payments by approximately \$30,000. More detailed information about CPWA's long-term obligations is presented in the notes to the financial statements on pages 20 through 21.

## **CPWA PROFILE**

CPWA collects most of its revenues from fees and metered water sales. CPWA does not have the power to levy taxes. CPWA currently produces the majority of the water that is sold to its customers, with the exception of the water purchased from the Saratoga County Water Authority which, in 2012, totaled 320,353,000 gallons. Since the Town of Clifton Park is mostly residential, the annual metered water sales are very dependent on the weather during the summer months, as weather determines the need for lawn irrigation. As a result, excessive rainfall results in decreased revenues from water sales.

CPWA has a three-tiered water rate structure, with a quarterly basic service charge added to all bills. Currently, the basic service charge is \$15.40, and the water rate is as follows:

0-40,000 gallons	\$3.53/1,000 gallons
40,001-80,000 gallons	\$7.06/1,000 gallons
80,000+ gallons	\$14.12/1,000 gallons

This water rate has been in effect since January 2003.

## **RESPONSIBILITY AND CONTROLS**

CPWA has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

CPWA's system of internal accounting controls is evaluated on an ongoing basis by CPWA's internal financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

CPWA has a three-member Audit Committee. This committee meets with management and periodically with the independent external auditors to ensure these groups are fulfilling their obligations and to discuss auditing, controls, and financial reporting matters.

Management believes that its policies and procedures provide guidance and reasonable assurance that CPWA's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of CPWA in conformity with accounting principles generally accepted in the United States of America.

## **AUDIT ASSURANCE**

The unqualified opinion of our independent external auditors, Marvin and Company P.C., is included on page 1 of this report.

This section presents management's discussion and analysis of CPWA's financial condition and activities for the year ended December 31, 2012. This information should be read in conjunction with the financial statements.

## FINANCIAL HIGHLIGHTS

Management believes CPWA's financial position remains strong. The following highlights support management's assertions:

- CPWA saw metered water sales increased by 6.0% from 2011 to 2012, and CPWA was able to contribute approximately \$382,000 to its capital reserves in 2012. Two factors leading to the reserve contribution follow.
  - CPWA is required by its bond covenant to maintain a debt service coverage ratio of 1.15 in each fiscal year. Therefore, the annual budget of CPWA and the active water rates are established such that this debt service ratio is maintained.
  - Operating expenses in 2012 were under budget by \$275,339, and total cash revenues were over budget by \$144,531.

## REQUIRED FINANCIAL STATEMENTS

The financial statements of CPWA report information about CPWA's use of accounting methods, which are similar to those used by private sector companies. These statements offer short and long-term information about CPWA's activities.

The statement of net position includes all of Authority's assets, liabilities, deferred outflow of resources, deferred inflow of resources and net position. Assets are resources with present service capacity that the Authority presently controls and liabilities are present obligation to sacrifice resources that the Authority has little or no discretion to avoid. Assets and liabilities are classified as being current or long-term. A deferred outflow of resources is a consumption of net assets by the Authority that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net assets by the Authority that is applicable to a future reporting period. Net position is the residual of all other elements presented in the statement of net position. This statement provides the basis for assessing the liquidity and financial flexibility.

The statement of revenues, expenses, and changes in net position measures the challenges of the Authority's operations over the past two years. The operating revenues represent the amounts received from metered water sales and various fees in exchange for services provided by the Authority. The operating expenses represent the cost incurred by the Authority to operate and maintain the water distribution systems to service the needs of its customers within the Towns of Clifton Park, Malta, and Halfmoon, New York. The net operating revenue indicates the degree to which the Authority was able to cover its costs of operations.

The final required statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments resulting from operations, investing and financing activities during the year.

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 Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

## FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provide key financial data and indicators to management for analysis and planning.

### CONDENSED STATEMENTS OF NET POSITION

	<u>2012</u>	Restated <u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Property and equipment, net	\$ 24,707,911	\$ 24,785,794	\$ (77,883)	(0.33%)
Restricted assets	2,841,976	2,829,404	12,572	0.44%
Current assets	<u>3,572,796</u>	<u>4,096,898</u>	<u>(524,102)</u>	(12.79%)
Total assets	<u>31,122,683</u>	<u>31,712,096</u>	<u>(589,413)</u>	(1.86%)
Deferred outflows of resources	<u>2,104,121</u>	<u>2,325,554</u>	<u>(221,433)</u>	(9.52%)
	<u>\$ 33,226,804</u>	<u>\$ 34,307,650</u>	<u>(810,846)</u>	(2.38%)
Long-term obligations	22,485,501	23,703,596	\$ (1,218,095)	(5.14%)
Current liabilities	2,035,737	2,289,737	(254,000)	(11.09%)
Other liabilities	<u>741,580</u>	<u>534,343</u>	<u>207,237</u>	38.70%
Total liabilities	<u>25,262,818</u>	<u>26,527,676</u>	<u>(1,264,858)</u>	(4.70%)
Deferred inflows of resources	<u>372,685</u>	<u>411,305</u>	<u>(38,620)</u>	(9.39%)
Net Position				
Invested in capital assets, net of related debt	1,004,316	(93,576)	1,097,892	(1173.26%)
Restricted for debt service	2,841,976	2,829,404	12,572	0.44%
Unrestricted	<u>3,745,009</u>	<u>4,362,841</u>	<u>(617,832)</u>	(14.2%)
Total net position	<u>7,591,301</u>	<u>7,098,669</u>	<u>492,632</u>	6.95%
	<u>\$ 33,226,804</u>	<u>\$ 34,037,650</u>	<u>\$ (810,846)</u>	(2.38%)

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

	<u>2012</u>	(Restated) <u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue	\$ 5,537,281	\$ 5,231,227	\$ 306,054	5.9%
Non-operating revenue	<u>434,137</u>	<u>172,348</u>	<u>261,789</u>	152.0%
	<u>5,971,418</u>	<u>5,403,575</u>	<u>567,843</u>	10.5%
Operating Expenses	2,983,564	2,876,074	107,490	3.7%
Interest expense	1,054,884	1,091,275	(36,391)	(3.3%)
Depreciation and amortization	1,233,101	1,246,462	(13,361)	(0.01%)
Other postemployment benefits expense	<u>207,237</u>	<u>170,324</u>	<u>36,913</u>	2.2%
	<u>5,478,786</u>	<u>5,384,135</u>	<u>94,651</u>	0.02%
<b>Change in net position</b>	<u>492,632</u>	<u>19,440</u>	<u>473,192</u>	2434.1%
NET POSITION, beginning of year as previously reported	7,098,669	7,416,028	(317,359)	(4.3%)
Cumulative effect of change in accounting principle	<u>-</u>	<u>(336,799)</u>	<u>336,799</u>	-
NET POSITION, beginning of year restated	<u>7,098,669</u>	<u>7,079,229</u>	<u>19,440</u>	0.02%
NET POSITION, end of year	<u>\$ 7,591,301</u>	<u>\$ 7,098,669</u>	<u>\$ 492,632</u>	7.0%

## **BUDGETARY HIGHLIGHTS**

By October 30th, the CPWA Board establishes the operating budget for the following calendar year. Management periodically reviews the budget and informs the Board of the need for amendments.

The budget was established based on estimated revenues and expenses. Since CPWA's metered water sales make up a significant portion of its revenues, and since these sales are very much dependent on the weather during the summer months, the budget uses conservatively estimated metered water sales revenues to avoid budgetary shortfalls. Personnel and debt service make up 66% of the budget. Because these costs are contractual in nature, few adjustments can be made when establishing the budget.

The expenditures in the adopted 2012 budget were \$5,371,036, with 2012 total actual expenditures of \$5,162,570. This resulted in CPWA being under budget by \$208,466, or 3.9% of the total adopted budget. The revenues in the adopted 2012 budget were \$5,399,810, with total actual cash revenues of \$5,544,341. This resulted in CPWA being over budget in revenues by \$144,531, or 2.7% of the adopted budget. From a cash perspective, CPWA received approximately \$382,000 more in cash for services rendered than what was paid for associated expenditures (including debt payments) in 2012.

CPWA's operating budget is developed on a cash basis. CPWA's financial statements, however, are prepared using the accrual basis of accounting. The differences between the budget cash surplus and the net income on the financial statements relates in part to non-cash expenses made part of the income statement, but are not included in the budget. These items include depreciation, amortization, and other postemployment benefits expense.

Capital assets purchased during the year do not appear on the income statement. Although CPWA paid for both the principal and interest portions of the debt, only the interest portion is accounted for on the income statement.

## **GENERAL TRENDS AND SIGNIFICANT EVENTS**

CPWA's revenues are most significantly affected by customer growth, weather, and changes in the water rates. Since 1992, CPWA's customer base has grown from around 8,500 customers to 13,000. Last year, CPWA added approximately 85 new customers to its system. This growth rate will likely begin to slow in the coming decade, as there are fewer large tracts of land available for new construction.

In 2009, GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits and Other Than Pensions (OPEB)* was adopted by the Authority. This statement established standards for the measurement, recognition and display of OPEB expenses/expenditures and related liabilities, note disclosures and applicable supplemental information in the financial reports. The Authority obtained an actuarial valuation which calculated the total liability at December 31, 2012 for other postemployment benefits at \$741,580.

In January 2010, CPWA entered into an agreement with the Saratoga County Water Authority (SCWA) to purchase a minimum of 500,000 gallons of water per day from SCWA at a rate of \$2.05 per thousand gallons. This agreement and connection to SCWA's system ensures a plentiful source of water to meet Clifton Park's future needs.

In 2012, GASB Statement #65 *Items Previously Reported as Assets and Liabilities* was adopted by Authority. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). As the result of adopting this Statement the Authority recorded an adjustment reported as a cumulative effect of change in accounting principle of \$(336,799) to its opening net position for 2011 and increased its change in net position for the year ended December 31, 2011 by \$26,937.

In January 2013, the CPWA instituted a new water rate and rate structure, changing its three-tiered water rate structure to a two-tiered structure. The base water rate increased by 6.5%, and the quarterly basic service charge increased by 5%. The basic service charge is now \$16.17, and the water rate is as follows:

0-60,000 gallons	\$3.76/1,000 gallons
60,000+ gallons	\$7.52/1,000 gallons

### **LONG-TERM OBLIGATIONS**

As of December 31, 2012, CPWA had \$23,703,595 in outstanding debt relating to the 2003 and 2009 Serial Bonds. More detailed information about CPWA's long-term obligations is presented in the notes to the financial statements on pages 20 through 21.

### **FINAL COMMENTS**

This financial report is intended to provide a general overview of CPWA's financial position and to illustrate the Authority's accountability for the revenue it receives. If you have any questions about this report or need additional financial information, contact Donald Austin, Administrator at (518) 383-1122.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>(Restated)</u> <u>2011</u>
<b>PROPERTY AND EQUIPMENT, AT COST</b>		
Structures	\$ 1,141,758	\$ 1,136,958
Pipes and appurtenances	26,065,552	26,052,298
Machinery and equipment	9,305,269	8,767,889
Office equipment and furniture	250,034	244,732
Vehicles	532,472	509,399
	<u>37,295,085</u>	<u>36,711,276</u>
Less accumulated depreciation	<u>(14,051,609)</u>	<u>(13,024,978)</u>
	23,243,476	23,686,298
Construction work-in-progress	858,163	493,224
Land	606,272	606,272
Net Property and Equipment	<u>24,707,911</u>	<u>24,785,794</u>
 <b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	1,568,560	1,554,247
Investments	1,273,416	1,275,157
Total Restricted Assets	<u>2,841,976</u>	<u>2,829,404</u>
 <b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,741,677	3,327,273
Accounts receivable, net	210,653	151,438
Unbilled water sales receivable	565,648	540,743
Prepaid expenses	27,612	29,865
Meter inventory	27,206	47,579
Total Current Assets	<u>3,572,796</u>	<u>4,096,898</u>
 <b>TOTAL ASSETS</b>	 <u>31,122,683</u>	 <u>31,712,096</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 <u>2,104,121</u>	 <u>2,325,554</u>
	 <u>\$ 33,226,804</u>	 <u>\$ 34,037,650</u>

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF NET POSITION  
DECEMBER 31, 2012 AND 2011**

**LIABILITIES AND NET POSITION**

	<u>2012</u>	<u>(Restated)</u> <u>2011</u>
<b>LONG-TERM OBLIGATIONS, LESS CURRENT INSTALLMENTS</b>	\$ 22,485,501	\$ 23,703,596
<b>CURRENT LIABILITIES</b>		
Accounts payable	182,842	175,167
Accrued interest payable	314,926	326,076
Accrued expenses	319,875	292,220
Current installments of long-term obligations	1,218,094	1,175,774
Deferred revenue	-	320,500
Total Current Liabilities	2,035,737	2,289,737
<b>OTHER LIABILITIES</b>		
Other post employment benefits	741,580	534,343
<b>TOTAL LIABILITIES</b>	25,262,818	26,527,676
<b>DEFERRED INFLOWS OF RESOURCES</b>	372,685	411,305
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,004,316	(93,576)
Restricted for debt service	2,841,976	2,829,404
Unrestricted	3,745,009	4,362,841
Total Net Position	7,591,301	7,098,669
	\$ 33,226,804	\$ 34,037,650

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	(Restated) <u>2011</u>
<b>OPERATING REVENUE</b>		
Metered water sales	\$ 4,127,988	\$ 3,873,138
Basic service charge	878,131	870,952
Hydrant fees	431,395	412,003
Hook-up fees	88,110	63,750
Other fees	11,657	11,384
Total Operating Revenues	<u>5,537,281</u>	<u>5,231,227</u>
<b>OPERATING EXPENSES</b>		
Operations and maintenance	2,329,669	2,230,964
Administrative	653,895	645,110
Total Operating Expenses	<u>2,983,564</u>	<u>2,876,074</u>
Operating revenue before depreciation and amortization	2,553,717	2,355,153
Depreciation and amortization	<u>1,233,101</u>	<u>1,246,462</u>
Operating Revenue	<u>1,320,616</u>	<u>1,108,691</u>
<b>OTHER REVENUE (EXPENSE)</b>		
Investment earnings	17,612	58,041
Miscellaneous revenue	411,680	106,679
Gain on sale of property	4,845	7,628
Interest expense	(1,054,884)	(1,091,275)
Other post employment benefit expense	(207,237)	(170,324)
Total Other Revenue (Expense)	<u>(827,984)</u>	<u>(1,089,251)</u>
<b>Change in Net Position</b>	492,632	19,440
<b>NET POSITION, beginning of year as previously reported</b>	7,098,669	7,416,028
<b>Cumulative effect of change in accounting principle</b>	<u>-</u>	<u>(336,799)</u>
<b>NET POSITION, beginning of year restated</b>	<u>7,098,669</u>	<u>7,079,229</u>
<b>NET POSITION, end of year</b>	<u>\$ 7,591,301</u>	<u>\$ 7,098,669</u>

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>(Restated)</u> <u>2011</u>
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Received from customers	\$ 5,544,341	\$ 5,350,888
Paid to suppliers and vendors for goods and services	(1,516,405)	(1,538,330)
Paid to employees including benefits	(1,409,203)	(1,394,820)
	<u>2,618,733</u>	<u>2,417,738</u>
 <b>CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments of long-term obligations	(1,175,775)	(1,138,542)
Interest paid	(1,061,187)	(1,097,096)
	<u>(2,236,962)</u>	<u>(2,235,638)</u>
 <b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
Transfers to (from) restricted cash accounts, net	(12,572)	(50,431)
Purchase and construction of capital assets	(977,252)	(727,068)
Proceeds from sale of capital assets	4,845	7,650
Investment earnings received	17,612	58,041
	<u>(967,367)</u>	<u>(711,808)</u>
 <b>Net decrease in cash and cash equivalents</b>	 (585,596)	 (529,708)
 <b>CASH AND CASH EQUIVALENTS, beginning of year</b>	 <u>3,327,273</u>	 <u>3,856,981</u>
 <b>CASH AND CASH EQUIVALENTS, end of year</b>	 <u>\$ 2,741,677</u>	 <u>\$ 3,327,273</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating revenue	\$ 1,320,616	\$ 1,108,691
Adjustments to reconcile operating revenue to net cash provided (used) by operating activities		
Depreciation and amortization	1,233,101	1,246,462
Miscellaneous revenue	91,180	106,679
Decrease (increase) in		
Accounts receivable	(59,215)	(13,458)
Unbilled water sales receivable	(24,905)	31,030
Prepaid expenses	2,253	1,997
Meters inventory	20,373	(5,064)
Increase (decrease) in		
Accounts payable	7,675	(74,612)
Accrued expenses	27,655	16,013
	<u>\$ 2,618,733</u>	<u>\$ 2,417,738</u>

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF ACCOUNTING POLICIES**

***Organization and Principles of Consolidation***

These consolidated financial statements reflect the consolidated assets, liabilities, net position, results of operations, and cash flows of the Clifton Park Water Authority (CPWA) and its subsidiary, Country Knolls Water Works, Inc. (Country Knolls), (collectively, Authority). All significant intercompany accounts and transactions are eliminated in consolidation.

CPWA is a New York State public benefit corporation created by referendum on October 16, 1990, pursuant to Title 6-B of Article 5 of the Public Authorities Law of the State of New York. CPWA was created to acquire the water distribution systems needed to serve residential and commercial water customers within the Towns of Clifton Park, Malta, and Halfmoon, New York, and to operate and maintain the systems.

CPWA is governed by a Board of five members who are residents of the Town of Clifton Park (Town) and are appointed by the Town Board for staggered five-year terms.

Country Knolls owns a water system which it leases to CPWA. Country Knolls is a not-for-profit local development corporation organized under the New York Not-For-Profit Corporation Law.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

***Accounting Changes***

During 2012, the Authority adopted GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Accordingly, certain intangible assets have been reclassified to deferred outflows of resources or deferred inflows of resources.

During 2012, the Authority early implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The beginning net position at January 1, 2011 have been restated by \$336,799 for the cumulative effect of the change in accounting principle and the December 31, 2011 depreciation and amortization expense has been decreased by \$26,937 and change in net position for the year ended December 31, 2011 has increased by \$26,937.

***Accounting Method***

The Authority's financial statements are prepared using the accrual basis in accordance with accounting principles generally accepted in the United States of America for public authorities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority will not apply all Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF ACCOUNTING POLICIES**

***Accounting Method***

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statements of net position. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as miscellaneous revenue and investment earnings, result ancillary activities. Net position (i.e., total assets net of total liabilities) are segregated into restricted and unrestricted components, as follows:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances.
- *Restricted*, have constraints placed on use, either externally or internally.
- *Unrestricted*, consist of assets and liabilities that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

***Property and Equipment***

Property and equipment are recorded at cost, except for contributed property and equipment, which is recorded at fair market value, or the contributor's net book value if fair market value is not readily ascertainable, or at the value of fees waived in exchange for property and equipment. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. When equipment is retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any resultant gain or loss is credited or charged to operations.

Depreciation is provided in amounts to relate the cost of depreciable assets to operations over their estimated useful lives on a straight-line basis. The estimated useful lives used in determining depreciation for vehicles, machinery, and equipment vary from five to twenty years. Pipes and appurtenances are depreciated over fifteen to fifty years. Structures are depreciated over forty years. Depreciation expense for 2012 and 2011 was \$1,055,135 and \$1,061,631, respectively.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash and investments purchased with a maturity of three months or less. All bank balances were fully insured and collateralized at December 31, 2012.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF ACCOUNTING POLICIES**

***Cash and Cash Equivalents***

Restricted cash and cash equivalents consist of commercial paper and uninvested cash held by the Bond trustee, JPMorganChase. Restricted cash and cash equivalents and investments are legally restricted in use and purposes by the Bond documents.

All cash and cash equivalents held by JPMorganChase are held in trust for CPWA and are legally separated from the assets of JPMorganChase.

***Accounts Receivable***

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. CPWA determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. At both December 31, 2012 and 2011, the allowance was \$4,496. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest of 1.5% per month is charged on accounts receivable that are outstanding for more than 30 days and is recognized as it is charged. After the receivable becomes 60 days past due, a shut off notice is sent to the customer. If payment is not received within 15 days of the notice, the customer's water service is terminated and a \$30 shut off fee is added to their account. When the customer pays the outstanding balance along with a \$30 reconnection fee, the service is restored. Final bills that are sent to customers who have sold their residence, are remitted to a collection agency if payment has not been received within 90 days of the bill. At this point, the bill is on non-accrual status and accrual of interest is suspended.

***Investments***

Investments consist of U.S. Treasury obligations and are carried at fair value.

***Meter Inventory***

CPWA values its meter inventory (specific identification) at cost which approximates market.

***Income Taxes***

CPWA is exempt from federal income taxes under Section 115 of the Internal Revenue Code and New York State income taxes. Country Knolls is subject to federal income taxes and is exempt from New York income taxes. Under Accounting Standards Codification (ASC) Section 740, the tax status of tax-exempt entities is an uncertain tax position. U.S. generally accepted accounting

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. SUMMARY OF ACCOUNTING POLICIES**

***Income Taxes***

principles requires agency management to evaluate tax positions taken by the agency and recognize a tax liability (or asset) if the agency has taken an uncertain tax position that more than likely would not be sustained upon the examination by the IRS. Management has analyzed the tax positions taken by the Authority, and have concluded that as of December 31, 2012, there are no uncertain tax positions taken or expected to the taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Authority's management believes it is no longer subject to income tax examinations for years prior to 2009.

***Estimates***

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

***Reclassifications***

Certain 2011 amounts have been reclassified to conform to the 2012 financial statement presentation.

**2. INVESTMENTS**

Investments are carried in the financial statements at fair value based on readily determinable market prices.

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury Notes	<u>\$ 1,240,028</u>	<u>\$ 1,273,416</u>	<u>\$ 1,240,028</u>	<u>\$ 1,275,157</u>
	<u>\$ 1,240,028</u>	<u>\$ 1,273,416</u>	<u>\$ 1,240,028</u>	<u>\$ 1,275,157</u>

The treasury notes mature in 2013 and 2015.

Net investment return is reflected in the accompanying financial statements and consists of realized and unrealized gains and losses and interest income.

Disclosures relating to risk and type of investments as presented above are indicative of the activity and the positions held during the year.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**3. PROPERTY AND EQUIPMENT, NET**

A summary of CPWA's property and equipment, net, is as follows:

	<b>Balance January 1, 2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance December 31, 2012</b>
Building	\$ 1,136,958	\$ 4,800	\$ -	\$ 1,141,758
Pipe and Apparatus	26,052,298	13,254	-	26,065,552
Machinery and Equipment	8,767,889	537,380	-	9,305,269
Vehicles	509,399	51,577	28,504	532,472
Office Equipment	<u>244,732</u>	<u>5,302</u>	<u>-</u>	<u>250,034</u>
	36,711,276	612,313	28,504	37,295,085
Less accumulated depreciation	<u>13,024,978</u>	<u>1,055,135</u>	<u>28,504</u>	<u>14,051,609</u>
	23,686,298	(442,822)	-	23,243,476
Land and improvements	606,272	-	-	606,272
Construction work in process	<u>493,224</u>	<u>819,589</u>	<u>454,650</u>	<u>858,163</u>
	<u>\$ 24,785,794</u>	<u>\$ 376,767</u>	<u>\$ 454,650</u>	<u>\$ 24,707,911</u>
	<b>Balance January 1, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance December 31, 2011</b>
Building	\$ 1,136,958	\$ -	\$ -	\$ 1,136,958
Pipe and Apparatus	26,052,298	-	-	26,052,298
Machinery and Equipment	8,456,969	310,920	-	8,767,889
Vehicles	507,920	55,097	53,618	509,399
Office Equipment	<u>245,198</u>	<u>2,141</u>	<u>2,607</u>	<u>244,732</u>
	36,399,343	368,158	56,225	36,711,276
Less accumulated depreciation	<u>12,019,553</u>	<u>1,061,631</u>	<u>56,206</u>	<u>13,024,978</u>
	24,379,790	(693,473)	19	23,686,298
Land and improvements	606,272	-	-	606,272
Construction work in process	<u>134,316</u>	<u>460,343</u>	<u>101,435</u>	<u>493,224</u>
	<u>\$ 25,120,378</u>	<u>\$ (233,130)</u>	<u>\$ 101,454</u>	<u>\$ 24,785,794</u>

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**4. DEFERRED OUTFLOWS OF RESOURCES**

A summary of deferred outflows of resources and accumulated amortization is as follows:

	<b>December 31,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Authority establishment costs	\$ 1,630,470	\$ 1,630,470
Amounts deferred on defeasance, net of refunds of:		
1993 Series Bonds	3,039,817	3,039,817
1999 Series Bonds	<u>283,457</u>	<u>283,457</u>
	4,953,744	4,953,744
Less accumulated amortization	<u>2,849,623</u>	<u>2,628,190</u>
	<b><u>\$ 2,104,121</u></b>	<b><u>\$ 2,325,554</u></b>

These costs include discounts, insurance, and issuance costs related to the bond issues and initial start-up costs incurred prior to CPWA becoming fully operational. The costs are amortized over 30 to 35 years on the straight-line or effective interest methods. Amortization expense for 2012 and 2011 was \$177,966 and \$211,768, respectively.

A summary of future amortization is as follows:

For the year ending December 31,		
	2013	\$ 212,941
	2014	204,163
	2015	194,997
	2016	185,495
	2017	175,567
Thereafter		<u>1,130,958</u>
Total		<b><u>\$ 2,104,121</u></b>

**5. PROVISION FOR COMPENSATED ABSENCES**

All permanent employees meeting certain conditions are provided with vacation and sick pay, and certain other leave credits based on their length of employment. The accumulation of vacation hours is subject to 240 hour limit, and sick hour is subject to 1,600 hours limit. Accumulated unpaid vacation and sick leave were \$286,082 and \$261,292 at December 31, 2012 and 2011, respectively. The amounts are included in accrued expenses. Leave credits which do not vest with employees are expensed when paid.

Sick days are forfeited upon termination, but may be used at retirement to pay health insurance premiums. The Authority recognizes a liability for vested sick leave for employees who, at the balance sheet date, currently are eligible to convert vested sick leave to the retiree's portion of health insurance premiums as well as other employees who are expected to become eligible in the future to convert such leave.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**6. LONG-TERM OBLIGATIONS**

***Serial Bonds Payable***

2009 Bonds

CPWA obtained \$8,130,000 Series 2009 Bonds to be used by the Authority to (a) refund CPWA's outstanding Series 1999 Bonds; (b) fund debt service reserve fund for the Series 2009 Bonds to satisfy the Reserve Requirement, and (c) pay the costs of issuance of the Series 2009 Bonds.

Principal payments on the 2009 Bonds are due annually on October 1, with semiannual interest payable April 1 and October 1. Interest rates range from 2.50% to 4.25% per annum.

***Optional Redemption***

The 2009 Bonds maturing on and after October 1, 2020, are subject to redemption prior to maturity at the option of CPWA on or after October 1, 2019, in whole or in part at any time, from maturities selected by CPWA, at the respective redemption price of 100% of the principal amount of the Series 2009 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date.

***Mandatory Sinking Fund Redemption***

The 2009 Bonds maturing on October 1, 2029, are subject to mandatory redemption prior to maturity through application of sinking fund installments on October 1 during each of the years. A redemption price is equal to 100% of their principal amount plus accrued interest to the date of redemption.

*October 1, 2029 Redemption*

<u>Amount</u>	<u>Year</u>
\$490,000	2028
510,000	2029

2003 Bonds

CPWA obtained \$22,925,000 Series 2003A Bonds to be used by the Authority to (a) refund CPWA's outstanding Series 1993 Bonds; (b) purchase a municipal bond debt service reserve fund insurance policy to satisfy the Reserve Requirement, and (c) pay the costs of issuance of the Series 2003A Bonds, including the bond insurance premium.

Principal payments on the 2003 Bonds are due annually on October 1, with semiannual interest payable April 1 and October 1. Interest rates range from 2.50% to 5.00% per annum.

***Optional Redemption***

The 2003 Bonds maturing on and after October 1, 2014, are subject to redemption, at the option of CPWA on or after October 1, 2013, in whole or in part at any time, from maturities selected by CPWA, at the respective redemption price of 100% of the principal amount of the Series 2003A Bonds or portions thereof to be redeemed.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**6. LONG-TERM OBLIGATIONS**

***Mandatory Sinking Fund Redemption***

The 2003 Bonds maturing on October 1, 2026, are subject to mandatory redemption prior to maturity through application of sinking fund installments on October 1 during each of the years. A redemption price is equal to 100% of their principal amount plus accrued interest to the date of redemption.

*October 1, 2026 Redemption*

<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>
\$1,255,000	2022	\$ 1,455,000	2025
1,320,000	2023	1,530,000	2026
1,380,000	2024		

***Due to Peacock Glen Water Co.***

During January 2004, CPWA purchased land, pipes, and appurtenances from Peacock Glen Water Co. The purchase agreement calls for 10 annual payments of \$68,000 with no interest, beginning January 2005. CPWA has recorded the purchase net of imputed interest of 3.75%.

Interest expense was \$1,054,884 and \$1,091,275 for the years ended December 31, 2012 and 2011, respectively.

A summary of CPWA's future minimum annual maturities for long-term obligations is as follows:

	<u>Serial Bonds</u>		<u>Due to</u>	<u>Interest</u>	<u>Total</u>
	<u>2003</u>	<u>2009</u>	<u>Peacock Glen</u>	<u>Interest</u>	<u>Total</u>
For the year ending					
December 31,					
2013	\$ 880,000	\$ 275,000	\$ 63,094	1,011,219	\$ 2,229,313
2014	910,000	290,000	65,501	962,161	2,227,662
2015	950,000	295,000	-	911,213	2,156,213
2016	985,000	310,000	-	859,681	2,154,681
2017	1,030,000	320,000	-	804,237	2,154,237
2018-2022	5,805,000	1,810,000	-	3,142,506	10,757,506
2023-2027	5,685,000	3,030,000	-	1,274,791	9,989,791
2028-2031	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>53,550</u>	<u>1,053,550</u>
	<u>\$16,245,000</u>	<u>\$ 7,330,000</u>	<u>\$ 128,595</u>	<u>\$ 9,019,358</u>	<u>\$ 32,722,953</u>

**7. DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources consists of bond premiums received from the issuance of the 2003 Bonds and the 2009 Bonds. The 2003 Bonds were issued at 103%, a premium of \$613,349 and the 2009 Bonds were issued 102%, a premium of \$151,189. The premiums are amortized over the life of the bonds using the effective interest method.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
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**7. DEFERRED INFLOWS OF RESOURCES**

A summary of the future premium amortization is as follows:

2013	\$ 37,071
2014	35,410
2015	33,706
2016	31,941
2017	30,095

**8. NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM**

***Plan Description***

CPWA participates in the New York State and Local Employees' Retirement System (NYSERS). This is a cost-sharing multiple-employer retirement system. The NYSERS 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 NYSERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSERS and for the custody and control of its funds. The NYSERS 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, 110 State Street, Albany, New York 12244.

***Funding Policy***

The NYSERS is noncontributory except for employees who joined the NYSERS after July 27, 1976. Those employees who joined after July 27, 1976 have varying contribution rates and terms based upon their date of membership as follows:

<u>Tiers</u>	<u>Plan Entry Dates</u>	<u>Contribution Rate</u>	<u>Term</u>
4	7/27/1976 – 12/31/2009	3% of salary	1 <sup>st</sup> ten years of membership
5	1/1/2010 – 3/31/2012	3% of salary	Entire career
6	4/1/2012 - present	Ranging from 3% - 6%	Entire career

Under the authority of the NYSRSSL, the Comptroller annually certifies the rates, expressed as proportions of members' payroll which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

CPWA is required to contribute at an actuarially determined rate. The current rates for Tier 4, 5, and 6 members are 18.6%, 15.1%, and 10.1%, respectively, of annual covered payroll.

The required contributions for the current year and two preceding years were:

2012	\$ 164,127
2011	135,678
2010	99,413

Contributions made to the NYSERS were equal to 100% of the contributions required for each year.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**9. RELATED PARTY TRANSACTIONS**

During 2012 and 2011, CPWA reimbursed the Town of Clifton Park (Town) \$85,093 and \$275,418, respectively, for operating costs incurred. CPWA owed the Town \$26,526 and \$13,588 at December 31, 2012 and 2011, respectively.

During 2012 and 2011, the Town purchased water for \$9,990 and \$10,507, respectively, from CPWA.

**10. COMMITMENTS AND CONTINGENCIES**

***Preserve Lease***

CPWA leases certain lands that are located within the area known as the Vischer's Ferry Nature and Historic Preserve from the New York State Canal Corporation for the purpose of installing production wells, control facilities and associated improvements, and for pumping subterranean water for human consumption and other uses to the water system operated by CPWA.

The lease expires in February 2018; however, the lease may be extended for two additional successive terms of ten years based upon certain terms and conditions.

The minimum rental for the lease of the property is calculated at the rate of \$.065 per thousand gallons of water pumped by CPWA for the first 730,000,000 gallons of raw water treated and sold, but in no event shall such minimum rental be less than \$47,450. The minimum rental is subject to an annual increase based on the same percentage increases fixed from time to time by CPWA for metered water sales to its residential customers. The rental payment for quantities of water drawn over and above the minimum shall be calculated in accordance with a graduated fee schedule based on gallons pumped annually. In addition, CPWA is required to pay a percentage of the gross revenues collected from bulk water sales to outside districts.

Lease payments for the rent are to be made on an annual basis, within thirty days following the close of each year. The rental payment for the year shall be equivalent to the minimum rental rate plus the value of the cumulative volume of water pumped during that year. No volume of water pumped during 2012 or 2011 exceeded the minimum rental rate. Total payments under the lease were \$54,072 and \$53,849 for 2012 and 2011, respectively.

A summary of CPWA's future minimum rental commitment under this lease is as follows:

For the year ending December 31,	2013	\$ 51,720
	2014	51,720
	2015	51,720
	2016	51,720
	2017	51,720
Thereafter		<u>51,720</u>
Total		<u>\$ 310,320</u>

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**10. COMMITMENTS AND CONTINGENCIES**

***Agreement with Saratoga County Water Authority***

During 2010, CPWA entered into an agreement with the Saratoga County Water Authority (SCWA) to purchase at least 500,000 gallons of water per day for at least ten years from the date of first delivery of water. The maximum price is set at \$2.05 per 1,000 gallons, and increases at the rate of 1.5% each subsequent year. Total water purchases from Saratoga County Water Authority were \$667,255 and \$463,991 for the years ended December 31, 2012 and 2011 respectively.

During 2010, CPWA entered into a cost sharing agreement with the Town of Ballston. The agreement requires CPWA to reimburse the Town of Ballston annually for maintenance costs directly related to a pump station based on a pro-rated basis of water taken by CPWA through the pump station to the total water provided by SCWA.

***Rental Income***

CPWA rents cell phone tower space to four companies. Annual rental income from these agreements range from \$17,940 to \$17,500. The lessors are responsible for utility costs. The leases expire between 2013 to 2016 with the option to renew for five additional five-year terms at the discretion of CPWA.

A summary of future rental income is as follows:

For the year ending December 31,	2013	\$	70,594
	2014		59,777
	2015		32,259
	2016		15,870

***Workers' Compensation***

CPWA participates in the County of Saratoga's Self Insurance Pool (Plan) to cover losses under the Workers' Compensation Law. Other cities, towns, villages, fire districts, youth commissions, and public benefit corporations within the County of Saratoga can participate. Each participant is billed by the Plan for its share of the estimated costs for the ensuing year. Any deficiencies in the amounts billed are added to the next year's bill.

**11. OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS PAYABLE**

***Plan Description***

The Authority administers the postretirement benefits as a single-employer defined benefit plan (the Plan), through which retirees and their spouses receive benefits. The Plan provides for continuation of medical and/or dental/vision benefits for certain retirees and their survivors and can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a separate financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**11. OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS PAYABLE**

***Funding Policy***

The obligations of the Plan members, employers and other contributing entities are established by action of the Authority pursuant to applicable employment agreements. Employees are required to continue payment of their health benefit contribution amount in retirement; however, employees can apply any unused, unpaid sick leave credits to pay their portion of their health insurance premium. Employees are eligible for the retiree health benefits upon meeting the following requirements: 1) maintained full-time employment with the Authority for a minimum of ten years; 2) has reached the eligible age of retirement as stated by the New York State Retirement System. The Authority currently funds the plan to satisfy current obligations on a pay-as-you-go basis. The cost of providing this benefit for a retiree and his spouse was approximately \$14,000.

The contribution requirements of Plan members and the Authority are established by the Authority.

***Actuarial Methods and Assumptions***

The Authority obtained an actuarial valuation dated December 31, 2012 which indicated that the total liability for other postemployment benefits totaled \$741,580. 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 Authority are subject to continual revision as actual results are compared with past expectations and new estimates about the future.

Projection of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the Authority and the Plan members) and include the types of benefits provided at the time of the 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial funding method used to calculate the costs of the Plan is known as the Entry Age Normal Method. Under this method, the Actuarial Present value of the Projected Benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The accrued liability for active employees is the portion of benefit liability attributed to service years to date. Normal cost is the amount of benefit liability attributed to the current employment year. Normal cost for retired employees is zero. The initial accrued liability is amortized over a 30-year period using the level percent of pay. Actuarial gains and losses will be determined annually and amortized over a fixed 30-year period.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**11. OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS PAYABLE**

***Actuarial Methods and Assumptions***

The following assumptions were used in the calculation: a) interest rate of 4.5%, b) salary scale of 4%, c) inflation rate of 3%, d) mortality rate from 2003 National Center for Health Statistics combined rates, separate for males and females, e) termination rates consistent with GASB 45 abbreviated methodology, f) all employees are assumed to retire at the later of age 58 and first eligibility, g) 2012 medical cost trend rate of 4.2% that will fluctuate in future years but remains at 4.2% for periods beyond 2050, h) active employee and spousal coverage - it is assumed the female spouse is 3 years younger, i) 70% of retirees are assumed to be married at retirement, j) all employees are assumed to maintain current coverage and elect CDPHP Medicare coverage.

***Annual OPEB Cost and Net OPEB Obligation***

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

	<u>2012</u>	<u>2011</u>
Normal Cost	\$ 135,627	\$ 111,207
Amortization of Unfunded Actuarial Liability	83,643	65,042
Interest	-	<u>7,222</u>
ARC	219,270	183,471
Interest on OPEB Obligation	24,045	16,381
Adjustment to ARC	<u>(22,112)</u>	<u>(15,064)</u>
OPEB Expense	<u>\$ 221,203</u>	<u>\$ 184,788</u>
Net OPEB Obligation at the beginning of the year	\$ 534,343	\$ 364,019
OPEB Expense	221,203	184,788
Net OPEB Contributions made during the fiscal year	<u>(13,966)</u>	<u>(14,464)</u>
Net OPEB Obligation at the end of the year	<u>\$ 741,580</u>	<u>\$ 534,343</u>
Percentage of Expense Contributed	6.30%	7.83%
<b><i>Funded Status</i></b>		
Accrued Liability at end of year	\$ 741,580	\$ 534,343
Plan Assets at end of year	-	-
Unfunded Accrued Liability	<u>\$ 741,580</u>	<u>\$ 534,343</u>
Percentage of Funded Accrued Liability	0%	0%

**12. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 12, 2013 which is the date these financial statements were available to be issued. All subsequent events requiring recognition or disclosure have been incorporated into these financial statements.

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
 DECEMBER 31, 2012**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
01/01/2010	\$ -	\$ 1,583,103	\$ 1,583,103	0%	\$ 764,198	\$ 207.16%
01/01/2011	\$ -	\$ 1,594,641	\$ 1,594,641	0%	\$ 794,766	\$ 200.64%
01/01/2012	\$ -	\$ 2,050,704	\$ 2,050,704	0%	\$ 826,474	\$ 261.02%

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

Board of Directors  
Clifton Park Water Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Clifton Park Water Authority and Subsidiary (Authority) as of and for the year ended December 31, 2012, and the related notes to the consolidated financial statements which collectively comprise the Authority's basic consolidated financial statements, and have issued our report thereon dated March 12, 2013.

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**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Authority'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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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*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 consolidated 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.

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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 Authority's consolidated 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.

*Marvin and Company, P.C.*

Latham, NY

March 12, 2013

**CLIFTON PARK WATER AUTHORITY AND SUBSIDIARY  
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Findings - Financial Statement Audit**

**2011-01**

Finding

Our procedures disclosed that the balance of the Authority's investments in U.S. Treasury notes were not adjusted on a monthly basis to reflect the unrealized gain or loss resulting from market activity.

Recommendations

We recommend that upon review of the monthly investment statements, an adjusting entry be recorded to reflect the current month's change in the market value.

Current Status

The recommendation was adopted during 2012 and no similar findings were noted in the December 31, 2012 audit.