

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit**  
**of the County of Monroe, New York)**

**Financial Statements as of**  
**December 31, 2012**  
**Together with**  
**Independent Auditor's Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

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## INDEPENDENT AUDITOR'S REPORT

February 28, 2013

To the Board of Directors of  
Monroe County Water Authority:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Monroe County Water Authority (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Monroe, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

### **Opinion**

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

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### ***Other Matter - Summarized Comparative Totals***

We have previously audited the Authority's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 10 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.

### **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

**MONROE COUNTY WATER AUTHORITY**  
(A Discretely Presented Component Unit of the County of Monroe, New York)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**DECEMBER 31, 2012**

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The Monroe County Water Authority (the Authority) is a not-for-profit public benefit corporation that reliably provides quality, affordable water to residents of Monroe County and area communities who request service.

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

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

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities.

The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Authority's accounting methods and policies.

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

**FINANCIAL HIGHLIGHTS**

The Authority's financial statements are prepared on the accrual basis of accounting promulgated by the Governmental Accounting Standards Board (GASB). The Authority is a single-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

The 2012 financial statements are presented with comparative totals from 2011.

- The assets of the Authority exceeded its liabilities at the close of its most recent fiscal year by \$304,788,323 (net position). Of this amount \$63,570,962 (unrestricted net position) may be used to meet the Authority's ongoing obligations.
- Operating revenues increased approximately \$3,061,000 or 5.6% during the current year from approximately \$54.3 million for the 2011 fiscal year to approximately \$57.3 million for the 2012 fiscal year. Most of this increase in revenues occurred in the residential customer class.

## FINANCIAL HIGHLIGHTS (Continued)

- Several major construction projects were completed during the year increasing the Authority's assets as follows:

<u>Project Name</u>	<u>2012</u>
Sweets Corners Rd 48" Transmission Main	\$ 7,994,000
Salt to Ridge 30" & 48" Transmission Main	\$ 1,986,645
Residential Water Main Replacement	\$ 1,585,000
Jefferson Ave WM Replacement	\$ 773,000
Scottsville-Mumford Transmission Main	\$ 634,000
Pipebridge Replacements	\$ 445,000

## Summary of Operations and Change in Net Position

	<u>2012</u>	<u>2011</u> (As restated)
Operating revenues	\$ 57,332,384	\$ 54,271,015
Operating expenses	<u>(50,019,764)</u>	<u>(48,531,005)</u>
Operating income	7,312,620	5,740,010
Non-operating expenses, net	<u>(1,766,855)</u>	<u>(5,082,396)</u>
Income before capital contributions	5,545,765	657,614
Capital contributions	<u>2,654,884</u>	<u>4,160,854</u>
Change in net position before change in accounting principle	8,200,649	4,818,468
Change in accounting principle	<u>-</u>	<u>(2,428,768)</u>
Change in net position	<u>\$ 8,200,649</u>	<u>\$ 2,389,700</u>

Capital contributions are revenues from grants, developers and customers for capital water system improvements donated to the Authority. The change in accounting principle represents the expensing of bond issuance costs as described further in Footnote 3 to the financial statements.

## FINANCIAL HIGHLIGHTS (Continued)

### Financial Position Summary

Net position is an indication of the Authority's financial strength. The Authority's net position as of December 31, 2012 is \$304,788,323. A summary of the Authority's financial position is shown below.

	<u>2012</u>	<u>2011</u> (As restated)
<b>ASSETS:</b>		
Current assets	\$ 55,207,959	\$ 48,552,409
Capital assets	384,125,776	334,580,855
Funds held by trustee	31,785,621	32,071,597
Restricted assets	<u>33,985,707</u>	<u>71,302,462</u>
Total assets	<u>505,105,063</u>	<u>486,507,323</u>
<b>DEFERRED OUTFLOWS</b>		
	<u>762,637</u>	<u>866,278</u>
<b>LIABILITIES:</b>		
Current liabilities, including current portion of debt	55,949,077	51,783,970
Other liabilities (long-term)	<u>145,130,300</u>	<u>139,001,957</u>
Total liabilities	<u>201,079,377</u>	<u>190,785,927</u>
<b>NET POSITION:</b>		
Invested in capital assets, net of related debt	238,593,569	236,658,178
Restricted	2,623,792	4,350,646
Unrestricted	<u>63,570,962</u>	<u>55,578,850</u>
Total net position	<u>\$ 304,788,323</u>	<u>\$ 296,587,674</u>

As a water utility, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes pipelines ranging from 2" in diameter to 6' in diameter, 37 booster pumping stations, 45 tanks, 2 reservoirs, 3 water treatment plants, land and other facilities required in the treatment and distribution of potable water to its customers. The Authority's net position also includes funds available to pay for ongoing and future construction of replacements, and/or additions, to this infrastructure.

### MCWA Rates and Charges

The Authority sets its rates annually in concurrence with the adoption of its annual operating budget. The Authority is required by its Master Trust Indenture dated October 1, 1991 and Supplemental Indentures issued with and specific to each subsequent revenue bond issue (Trust Indentures) to set rates and fees sufficient to cover all of its operating and capital expenses.

Many factors were considered by the Authority's Board Members when the rates were being set for 2013. Based in part on the recommendation of the Authority's independent rate consultant, the daily base charge increased by a modest amount.

## FINANCIAL HIGHLIGHTS (Continued)

### MCWA Rates and Charges (Continued)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Residential/quarterly:			
Daily base charge per connection (up to ¾")	\$ 0.18	\$ 0.15	\$ 0.12
Commodity charge per 1,000 gallons	\$ 2.57	\$ 2.57	\$ 2.57
Large commercial/monthly:			
Daily base charge per connection	\$ 0.50-6.50	\$ 0.43 - 5.30	\$ 0.36 - 4.44
Commodity charge per 1,000 gallons -			
First 125,000 gallons	\$ 2.57	\$ 2.57	\$ 2.57
Each additional 1,000 gallons	\$ 1.75	\$ 1.75	\$ 1.75
Water district rate:			
Daily base charge per connection	\$ 0.50-6.50	\$ 0.43 - 5.30	\$ 0.36 - 4.44
Commodity charge per 1,000 gallons	\$ 1.75	\$ 1.75	\$ 1.75

### Summary of Operating Revenues

	<u>2012</u>	<u>2012 Budget</u>	<u>2011</u>
Water sales:			
Residential/quarterly	\$ 44,374,739	\$ 44,274,928	\$ 41,688,628
Large commercial/monthly	5,184,198	5,056,107	5,164,226
Water districts/wholesale	<u>3,553,900</u>	<u>3,365,086</u>	<u>3,481,817</u>
Total water sales	53,112,837	52,696,121	50,334,671
Other water and operating revenue	<u>4,219,547</u>	<u>3,763,699</u>	<u>3,936,344</u>
Total operating revenue	<u>\$ 57,332,384</u>	<u>\$ 56,459,820</u>	<u>\$ 54,271,015</u>

### Revenues

Water sales are projected based on average historical usage with the typical residential customer using approximately 77 thousand gallons of water annually. This year's water sales, which include the residential, large commercial and water district classes, were \$2,778,166 greater than those of 2011 and exceeded budget estimates by 0.8%. The increase over the prior year is due to an increase in demand and an increase in water rates.

Other water revenue includes private fire services in the amount of \$793,241, and late charges in the amount of \$774,077. Also included are payments made to the Authority by both Monroe County and Genesee County for debt service on facilities constructed and owned by the Authority for the benefit of the respective counties. In 2012, the Authority received \$725,811 from Monroe County and \$1,136,970 from Genesee County. Other operating revenues included cell tower rents of \$274,005 in 2012.

Total operating revenue for 2012 was \$57,332,384; \$3,061,369 greater than 2011, and \$872,564 or 1.6% greater than budget estimates.

### Operating Expenses

The Authority's expenses (excluding depreciation and amortization) are budgeted and tracked functionally by operating department. The Authority is functionally divided into the following departments: Administration; Production/Transmission; Engineering; Facilities, Fleet & Operations; and Finance & Business Services.

## FINANCIAL HIGHLIGHTS (Continued)

### Operating Expenses (Continued)

The following is a breakdown of the Authority's functional expenses by operating department (excluding depreciation and amortization):

	<u>2012</u>	<u>2012 Budget</u>	<u>2011</u>
Functional expenses:			
Administration	\$ 4,908,494	\$ 5,336,305	\$ 756,097
Production/transmission	13,685,833	15,091,785	12,695,118
Engineering	2,406,848	2,648,845	2,761,188
Facilities, fleet & operations	11,715,602	11,702,970	11,509,330
Finance and business services	<u>5,258,389</u>	<u>6,025,625</u>	<u>8,963,604</u>
Total functional expenses	<u>\$ 37,975,166</u>	<u>\$ 40,805,530</u>	<u>\$ 36,685,337</u>

Operating expenses (excluding depreciation and amortization) were 6.9% under budget for 2012.

The following is a breakdown of the Authority's total operating expenses:

	<u>2012</u>	<u>2011</u>
Operating expenses:		
Salaries and fringe benefits	\$ 19,524,535	\$ 18,980,674
Operations and maintenance	11,593,591	10,892,659
General and administrative	6,857,040	6,812,004
Depreciation and amortization	11,751,126	11,629,214
Bond expense and amortization of deferred amounts on refunding	<u>293,472</u>	<u>216,454</u>
Total operating expenses	<u>\$ 50,019,764</u>	<u>\$ 48,531,005</u>

Total operating expenses increased \$1,488,759 or 3.1% from \$48,531,005 in 2011. Salaries and fringe benefits were \$19,524,535 for 2012 compared to \$18,980,674 in 2011, which is an increase of \$543,861. This is primarily due to contracted wage increases and an increased contribution to the NYS Retirement System.

Operations and maintenance expenses totaled \$11,593,591, which is an increase of \$700,932 over 2011. Most of this is due to increased costs for lawn and pavement restorations and an increase in the scheduled payment due to Monroe County under the agreement for safety and security equipment and services. General and administration expenses increased \$45,036 to \$6,857,040 in 2012 as compared to \$6,812,004 in 2011.

### Non-Operating Revenue (Expenses)

The Authority's non-operating revenue (expenses) is composed of the following:

	<u>2012</u>	<u>2011</u>
Non-operating revenue (expenses):		
Federal interest subsidy	\$ 2,003,010	\$ 2,058,649
Interest earnings	192,045	548,295
Interest expense	(3,703,376)	(7,600,855)
Loss on disposal of capital assets	(232,323)	(86,516)
Realized and unrealized gains (losses) on investments, net	<u>(26,211)</u>	<u>(1,969)</u>
Total non-operating revenue (expenses), net	<u>\$ (1,766,855)</u>	<u>\$ (5,082,396)</u>

## FINANCIAL HIGHLIGHTS (Continued)

### Non-Operating Revenue (Expenses) (Continued)

The Authority capitalized approximately \$3,500,000 of interest expense in 2012 as part of the East Side Water Supply project, which is why interest expense recognized decreased significantly in 2012. Interest earnings decreased substantially in 2012 due to the loss on disposal of capital assets, as well as historically low interest rates.

## DEBT ADMINISTRATION

### Water Revenue Bonds

As of December 31, 2012, the Authority has six water revenue bond series outstanding totaling \$132,830,000. Included in this total is \$2,611,410, which represents 85.62% of the outstanding portion of the 1993 Series B Refunding that is payable by Monroe County to the Authority under the terms of the Construction Services Agreement between Monroe County and the Authority dated December 21, 1990. In addition, the 2007 Series Refunding bonds outstanding of \$17,535,000 is payable by Genesee County to the Authority under the terms of the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. In April 2010, the Authority issued the 2010 Series bonds to refund the outstanding balance (\$9,640,000) of Series 1993A and Series 1997 bonds plus \$5,380,000 in new debt for certain capital projects. In December 2010, the Authority also issued Series 2010A & Series 2010B for the construction of the East Side Water Supply Project. The Authority issued \$1,585,000 in taxable bonds (Series 2010A) and \$92,915,000 in Build America Bonds (Series 2010B). In 2012, the Authority issued \$6,290,000 in new debt for certain capital projects.

Monroe County Water Authority Bond Series	Bonds Outstanding as of December 2012	Bonds Outstanding as of December 2011	Principal Due 2013
1993 Series B Refunding	\$ 3,050,000	\$ 3,720,000	\$ 705,000
2007 Series Refunding	17,535,000	18,080,000	550,000
2010 Series	11,455,000	12,345,000	910,000
2010A Series	1,585,000	1,585,000	-
2010B Series	92,915,000	92,915,000	-
2012 Series	<u>6,290,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 132,830,000</u>	<u>\$ 128,645,000</u>	<u>\$ 2,165,000</u>

In December 2009, the Authority issued a bond anticipation note in the amount of \$35,500,000 to the New York State Environmental Facilities Corporation (EFC), known as the 2009 E.F.C. Drinking Water Facility Note - 2009A. This note carries a 0% per annum interest rate. In November 2012, the Authority made a principal payment in the amount of \$871,000. As of December 31, 2012, the amount of the outstanding liability is \$32,387,759.

## DEBT ADMINISTRATION (Continued)

### Obligations under Capital Lease

The Authority entered into an agreement with Monroe County, dated November 18, 1969, in which Monroe County agreed to finance, and the Authority agreed to construct and pay for, certain improvements within Monroe County. Improvements constructed under this agreement are owned by Monroe County but leased to the Authority. The Authority operates these leased facilities with all the responsibilities of ownership. There remains \$5,062,565 of principal and interest outstanding which the Authority is required to pay.

<u>County of Monroe Bond Series</u>	Bonds Outstanding as of December <u>2012</u>	Bonds Outstanding as of December <u>2011</u>	Principal Due <u>2013</u>
1996 Series A Refunding	\$ 1,945,789	\$ 2,162,267	\$ 229,943
2004 Series Refunding	1,141,171	1,729,433	579,216
2008 Series C Refunding	<u>1,355,000</u>	<u>1,675,000</u>	<u>295,000</u>
Total	<u>\$ 4,441,960</u>	<u>\$ 5,566,700</u>	<u>\$ 1,104,159</u>

### Credit Ratings

The Authority is the recipient of very favorable credit ratings from both Moody's Investors Service and Standard & Poor's. The Authority has an Aa2 rating assigned to its revenue bonds by Moody's Investors Service and an AA+ rating by Standard & Poor's. The Authority's bond ratings were last reviewed by Moody's Investor Service and by Standard & Poor's in December of 2012. The Authority issues revenue bonds subject to its Master Trust Indenture dated October 1, 1991 and Supplemental Indentures issued with, and specific to, each subsequent revenue bond issue.

## ECONOMIC FACTORS AND NEXT YEAR'S GOALS

The Authority continues to develop the necessary infrastructure and operational practices to meet its short and long-term plans while ensuring quality customer service is provided and competitive rates are being maintained.

### East Side Water Supply Project

Construction on the East Side Water Supply Project continues and is fundamentally on schedule and on budget, and the intent is to be operational in the late first quarter/early second quarter of 2013. The pump station and water treatment plant are undergoing the equipment commissioning process and are partially operational. The screen building (included in the pump station contract) will be completed this summer. Three out of the six transmission pipelines associated with the project are complete, two are under construction, and the last one remaining will be bid during 2013.

## **ECONOMIC FACTORS AND NEXT YEAR'S GOALS (Continued)**

In addition, in 2013, the Authority intends to spend more than \$13 million for improvements to other infrastructure not related to the East Side Water Supply Project.

The following list of anticipated major capital improvements includes:

SWTP Electrical Substation Renovation	\$ 3,800,000
Water Main Rehabilitation and Replacements	2,950,000
Meter Replacements	2,516,000
Service/Hydrant/Valve Replacements	785,000
Tank Painting and Rehabilitation	<u>2,375,000</u>
Total	<u>\$ 12,426,000</u>

The Authority believes it possesses the financial and leadership capabilities to accomplish its goals during the upcoming year.

### **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Director of Finance & Business Services, Monroe County Water Authority, 475 Norris Drive, Rochester, New York, 14610 or by email to [kevin.finnerty@mcwa.com](mailto:kevin.finnerty@mcwa.com).

**MONROE COUNTY WATER AUTHORITY**  
(A Discretely Presented Component Unit of the County of Monroe, New York)

**STATEMENT OF NET POSITION**

**DECEMBER 31, 2012**

(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u> (As restated) (See Footnote 3)
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 41,764,992	\$ 35,973,928
Accounts receivable	4,975,956	4,825,918
Accrued unbilled revenue	6,000,000	5,750,000
Materials and supplies	1,475,334	1,170,736
Prepayments and other current assets	<u>991,677</u>	<u>831,827</u>
Total current assets	<u>55,207,959</u>	<u>48,552,409</u>
OTHER ASSETS:		
Capital assets -		
Nondepreciable	152,522,668	111,023,221
Depreciable, net	231,603,108	223,557,634
Funds held by trustee -		
Capital improvement fund	8,109,267	8,424,199
New construction fund	<u>23,676,354</u>	<u>23,647,398</u>
Total other assets	<u>415,911,397</u>	<u>366,652,452</u>
RESTRICTED ASSETS:		
Construction fund held by trustee	31,361,915	66,951,816
Debt service fund held by trustee	352,313	2,231,890
Debt service reserve held by trustee	<u>2,271,479</u>	<u>2,118,756</u>
Total restricted assets	<u>33,985,707</u>	<u>71,302,462</u>
Total assets	<u>505,105,063</u>	<u>486,507,323</u>
<b>DEFERRED OUTFLOWS</b>		
Deferred amounts on refunding water revenue bonds and capital leases	<u>762,637</u>	<u>866,278</u>
Total deferred outflows	<u>762,637</u>	<u>866,278</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Current portion of water revenue bonds	2,165,000	2,105,000
Current portion of obligations under capital leases	1,104,159	1,124,740
Bond anticipation note	32,387,759	27,118,262
Accounts payable and other liabilities	12,771,452	14,186,308
Accrued payroll and benefits	4,556,467	4,242,032
Accrued interest on water revenue and capital lease bonds	<u>2,964,240</u>	<u>3,007,628</u>
Total current liabilities	<u>55,949,077</u>	<u>51,783,970</u>
OTHER LIABILITIES:		
Water revenue bonds, net of bond premium of \$1,547,026 and \$906,668 for 2012 and 2011, respectively	132,212,026	127,446,668
Obligations under capital leases, net of amounts on refunding of \$33,948 and \$52,465 for 2012 and 2011, respectively	3,371,749	4,494,425
Other postemployment benefit obligations	<u>9,546,525</u>	<u>7,060,864</u>
Total other liabilities	<u>145,130,300</u>	<u>139,001,957</u>
Total liabilities	<u>201,079,377</u>	<u>190,785,927</u>
<b>NET POSITION</b>		
INVESTED IN CAPITAL ASSETS, net of related debt	238,593,569	236,658,178
RESTRICTED	2,623,792	4,350,646
UNRESTRICTED	<u>63,570,962</u>	<u>55,578,850</u>
Total net position	<u>\$ 304,788,323</u>	<u>\$ 296,587,674</u>

The accompanying notes are an integral part of these statements.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u> (As restated) (See Footnote 3)
<b>OPERATING REVENUE:</b>		
Water sales - residential	\$ 44,374,739	\$ 41,688,628
Water sales - industrial/commercial	5,184,198	5,164,226
Water sales - water district	3,553,900	3,481,817
Other water revenue	3,552,534	3,340,435
Other operating revenue	<u>667,013</u>	<u>595,909</u>
Total operating revenue	<u>57,332,384</u>	<u>54,271,015</u>
<b>OPERATING EXPENSES:</b>		
Salaries and fringe benefits	19,524,535	18,980,674
Operations and maintenance	11,593,591	10,892,659
General and administrative	6,857,040	6,812,004
Depreciation and amortization	11,751,126	11,629,214
Bond expense and amortization of deferred amounts on refunding	<u>293,472</u>	<u>216,454</u>
Total operating expenses	<u>50,019,764</u>	<u>48,531,005</u>
Total operating income	<u>7,312,620</u>	<u>5,740,010</u>
<b>NON-OPERATING REVENUE (EXPENSES):</b>		
Federal interest subsidy	2,003,010	2,058,649
Interest earnings	192,045	548,295
Interest expense	(3,703,376)	(7,600,855)
Loss on disposal of capital assets	(232,323)	(86,516)
Unrealized and realized losses on investments, net	<u>(26,211)</u>	<u>(1,969)</u>
Total non-operating expenses, net	<u>(1,766,855)</u>	<u>(5,082,396)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<u>5,545,765</u>	<u>657,614</u>
<b>CAPITAL CONTRIBUTIONS:</b>		
Developers and customers	<u>2,654,884</u>	<u>4,160,854</u>
Total capital contributions	<u>2,654,884</u>	<u>4,160,854</u>
<b>CHANGE IN NET POSITION BEFORE CHANGE IN ACCOUNTING PRINCIPLE</b>	<u>8,200,649</u>	<u>4,818,468</u>
<b>CHANGE IN ACCOUNTING PRINCIPLE:</b>		
Bond issuance costs	<u>-</u>	<u>(2,428,768)</u>
Total change in accounting principle	<u>-</u>	<u>(2,428,768)</u>
<b>CHANGE IN NET POSITION</b>	<u>8,200,649</u>	<u>2,389,700</u>
<b>NET POSITION - beginning of year</b>	<u>296,587,674</u>	<u>294,197,974</u>
<b>NET POSITION - end of year</b>	<u>\$ 304,788,323</u>	<u>\$ 296,587,674</u>

The accompanying notes are an integral part of these statements.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u> (As restated) (See Footnote 3)
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 56,929,205	\$ 52,890,096
Payments to suppliers	(20,326,794)	(11,940,811)
Payments to employees	<u>(16,724,439)</u>	<u>(16,034,765)</u>
Net cash flow from operating activities	<u>19,877,972</u>	<u>24,914,520</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Deposits into funds held by trustee	(181,679)	(4,731,504)
Withdrawals from funds held by trustee	37,784,410	27,840,819
Purchases of capital assets	(55,466,536)	(53,488,002)
Proceeds from disposal of capital assets	196,119	133,550
Debt issuance costs	(262,440)	-
Proceeds from water revenue bond issuance	6,290,000	-
Proceeds from bond anticipation note issuance	6,140,497	17,529,756
Federal interest subsidy	2,003,010	2,058,649
Proceeds from bond premium	694,449	-
Repayments and redemptions of water revenue bonds	(2,976,000)	(3,457,000)
Repayments of obligations under capital leases	(1,124,740)	(1,116,950)
Interest paid	<u>(7,349,832)</u>	<u>(5,242,174)</u>
Net cash flow from capital and related financing activities	<u>(14,252,742)</u>	<u>(20,472,856)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Interest received	<u>165,834</u>	<u>546,328</u>
Net cash flow from investing activities	<u>165,834</u>	<u>546,328</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>5,791,064</b>	<b>4,987,992</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b><u>35,973,928</u></b>	<b><u>30,985,936</u></b>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b><u>\$ 41,764,992</u></b>	<b><u>\$ 35,973,928</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 7,312,620	\$ 5,740,010
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	12,044,598	11,845,668
Bad debt expense	29,262	20,308
Changes in:		
Accounts receivable	(179,300)	(1,134,654)
Accrued unbilled revenue	(250,000)	(290,000)
Materials and supplies	(304,598)	53,494
Prepayments and other current assets	(159,850)	(230,007)
Accounts payable and other liabilities	(1,414,856)	5,963,792
Accrued payroll and benefits	314,435	290,820
Other postemployment benefit obligations, net	<u>2,485,661</u>	<u>2,655,089</u>
Net cash flow from operating activities	<u>\$ 19,877,972</u>	<u>\$ 24,914,520</u>
<b>NON-CASH CAPITAL FINANCING ACTIVITY:</b>		
Capital assets received directly from developers and customers	<u>\$ 2,654,884</u>	<u>\$ 4,160,854</u>

The accompanying notes are an integral part of these statements.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 (with comparative totals for 2011)**

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**1. ORGANIZATION**

Monroe County Water Authority (the Authority), a discretely presented component unit of the County of Monroe, New York (the County), is a public benefit corporation organized under the Public Authorities Law of the State of New York. The Authority was created to finance, construct, operate and maintain a water supply and distribution system for the benefit of the residents of the County and the State of New York.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

**Basis of Presentation**

GASB requires the classification of net position into three classifications defined as follows:

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted net position - This component of net position consists of amounts which have external constraints placed on its use 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.
- Unrestricted net position - This component consists of net position that does not meet the definition of "invested in capital assets, net of related debt," or "restricted."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Cash and Cash Equivalents**

For purposes of presenting the statement of cash flows, the Authority considers all highly liquid short-term investments with a maturity of three months or less from year-end to be cash or cash equivalents.

### **Accounts Receivable**

Accounts receivable consists of fees for services for water charges due from individuals, businesses, and other governments. Accounts receivable are carried on the balance sheet at net realizable value. The Authority has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

### **Accrued Unbilled Revenues**

Accrued unbilled revenues represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and is an estimate made by management using historical trends.

### **Materials and Supplies**

Materials and supplies are stated at cost and are determined using a weighted-average method.

### **Capital Assets**

Capital assets are stated at cost. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives or lease term if shorter:

Production and distribution system	5 - 40 years
Water facility capital lease	5 - 25 years
Water rights	40 years
Pipelines and district facilities	40 years
Meters and distribution services	25 - 40 years
Automotive and construction equipment	5 years
Land improvements	10 - 20 years
Furniture, fixtures and other equipment	5 - 15 years

Improvements, renewals and significant repairs over \$5,000 that extend the life of the asset are capitalized; other repairs and maintenance costs are expensed as incurred. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any unrelated gains or losses are recorded.

### **Funds Held by Trustee**

Funds held by Bank of New York (the Trustee) consist of fixed income United States Government securities. The Authority reports these items at fair value based on quoted market prices. These funds are required to be held in accordance with the trust indentures for the water revenue bonds as described in Note 9.

### **Accrued Payroll and Benefits**

It is the Authority's policy to record employee benefits, including accumulated vacation and sick leave, as a current liability in accrued expenses on the statement of net position. The Authority's employees are granted vacation and sick leave in varying amounts based on employee contracts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Other Postemployment Benefits**

The Authority provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts.

### **Unamortized Bond Discount and Premium**

Bond discount and premium related to the issuance of debt obligations are amortized over the term of the respective bond issues and capital leases.

### **Revenue Recognition**

Revenues from water sales are recognized at the time of service delivery based on actual or estimated water meter readings.

### **Budget**

The Authority is not required to have a legally adopted budget.

### **Interest Capitalization**

Interest costs are capitalized as part of the historical costs of acquiring certain assets. To qualify for interest capitalization, assets be constructed over period of time before they are ready for their intended purpose. The total amount of interest capitalized for the year ended December 31, 2012 was \$3,603,069.

### **Operating and Non-Operating Revenues and Expenses**

Operating revenue consists of water revenue and other related revenue. The Authority defines non-operating revenue as interest earnings on investment assets and realized/unrealized gains or losses on sales of investments. Non-operating expenses are defined as interest expense on long-term debt and gains/losses on disposals of capital assets. The Authority also receives Federal interest subsidies which are also considered non-operating revenue.

### **Capital Contributions from Developers and Customers**

Capital contributions from developers and customers represent amounts that developers and customers have contributed for betterments or additions to capital assets.

### **Income Tax Status**

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

### **Estimates**

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

### **Reclassifications**

Certain prior year amounts have been reclassified to conform with the current year presentation.

### **Comparative Information**

The financial statements include certain prior year summarized comparative information in total but not in the same detail used for current year presentation. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2011, from which the summarized information was obtained.

### 3. CHANGE IN ACCOUNTING PRINCIPLE

Recently, GASB issued statements No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and No. 65, "*Items Previously Reported as Assets and Liabilities*." These statements update and improve existing standards by providing users with information about how past transactions will continue to impact a government's financial statements in the future. The statements require that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities and identifies net position as the residual of all other elements presented. The Authority adopted the provisions of these statements retroactively for the years ended December 31, 2012 and 2011.

The 2011 financial statements have been restated to recognize this change in accounting principle. The effect of this restatement was a decrease of \$2,428,768 to change in net position.

The effect of the restatement as of and for the year ended December 31, 2011 is as follows:

	<u>As Previously Reported</u>	<u>Restated</u>
Bond issuance costs	\$ 2,428,768	\$ -
Change in accounting principle	\$ -	\$ (2,428,768)
Net position, end of year	\$ 299,016,442	\$ 296,587,674

### 4. WATER AGREEMENT

The Authority and the City of Rochester, New York entered into an agreement in 2011 that provides for the exchange of water between the two entities at a fixed rate that is established annually based on the weighted average cost of each entity's typical residential customer. Authority consumption of the City's water is offset against the City's consumption of the Authority's water with the net consumption charged at the annual exchange rate. For the years ended December 31, 2012 and 2011, the Authority had net purchases from the City of \$1,341,636 and \$981,177, respectively.

### 5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The guidelines established by the Authority permit the investment of funds held by the Authority and funds held in trust for the Authority to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State of New York, or in general obligations of its political subdivisions; obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government; and in collateralized time deposits or certificates of deposit issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC). The Authority's investment policy limits its deposit and investment activity to time deposits, demand deposits, certificates of deposit, United States Government obligations and repurchase agreements.

## 5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

The Authority's investment policy requires its deposits and investments, not controlled by the Trustee, to be 100% collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States or the State of New York. Collateral must be delivered to the Authority or an authorized custodial bank. In addition, the Authority's investment policy includes the following provisions for credit risk and custodial credit risk (as defined below):

- Custodial credit risk
  - For cash deposits or investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.
  - The Authority limits its investments (other than United States securities held by the Trustee) at any financial institution to 1% of such institution's total assets.
  - Any financial institution in which the Authority invests funds must have in excess of \$50,000,000 in capital stock and retained earnings and the Authority limits its investments (other than United States securities held by the Trustee) at these institutions to 5% of the total capital stock and retained earnings.
- Credit risk
  - The Authority limits its investments in money market funds to those with the highest short-term or long-term rating by at least one nationally recognized rating agency. In 2012, the Authority did not hold any investments in money market funds. As of December 31, 2012 and 2011, the Authority's deposits and investment in various banks are detailed on the following page.

Total deposits of cash and cash equivalents and marketable securities and related collateral, included in cash and cash equivalents and marketable securities, not controlled by the Trustee (including certificates of deposit and money market funds) are as follows for the years ended December 31:

	2012	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	<u>\$ 41,764,992</u>	<u>\$ 43,205,873</u>
Total cash and investments	<u>\$ 41,764,992</u>	<u>\$ 43,205,873</u>
Insured cash - FDIC		\$ 4,499,096
Uninsured - collateralized with securities held by pledging financial institution		<u>39,478,943</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 43,978,039</u>

**5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)**

	<u>2011</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 35,973,928	\$ 37,905,686
Total cash and investments	<u>\$ 35,973,928</u>	<u>\$ 37,905,686</u>
Insured cash - FDIC		\$ 2,151,027
Uninsured - collateralized with securities held by pledging financial institution		<u>36,207,190</u>
Total insured and collateralized cash, cash equivalents and marketable securities		<u>\$ 38,358,217</u>

Total cash and cash equivalents and marketable securities by type as of December 31, including certificates of deposit controlled by the Trustee and reported in 'Capital improvement fund', 'New construction fund,' 'Construction fund,' and 'Restricted Assets' in the accompanying financial statements, are as follows:

	<u>2012</u>	<u>2011</u>
United States Treasury obligations	\$ 13,724,038	\$ 294,674
United States Treasury bills	45,738,834	103,077,848
Money market funds	37,321,363	31,637,822
Cash	<u>10,752,085</u>	<u>4,337,643</u>
	<u>\$ 107,536,320</u>	<u>\$ 139,347,987</u>

The following deposits and investments, excluding amounts controlled by the Trustee, held with one financial institution represent five percent or more of the Authority's total deposits and investments at either December 31, 2012 and 2011, or both:

	<u>2012</u>	<u>2011</u>
HSBC Bank	\$ -	\$ 9,243,772
M&T Bank	\$ 29,688,551	\$ 23,001,741
Bank of New York	\$ 6,308,466	\$ 1,537
First Niagara Bank	\$ 12,065,653	\$ 4,523,480

## 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance January 1, 2012	Additions	Transfers	Disposals	Balance December 31, 2012
Land and easements	\$ 9,163,007	\$ -	\$ 324,807	\$ (6,490)	\$ 9,481,324
Construction-in-progress	<u>101,860,214</u>	<u>60,538,466</u>	<u>(19,357,336)</u>	<u>-</u>	<u>143,041,344</u>
Total non-depreciable assets	<u>\$ 111,023,221</u>	<u>\$ 60,538,466</u>	<u>\$ (19,032,529)</u>	<u>\$ (6,490)</u>	<u>\$ 152,522,668</u>
Land improvements	\$ 1,877,934	\$ -	\$ 9,076	\$ (17,613)	\$ 1,869,397
Production and distribution system	92,953,169	11,631	257,674	(641,304)	92,581,170
Pipelines and district facilities	217,769,644	631,983	14,224,701	-	232,626,328
Meters and services	66,823,058	542,409	3,177,341	(403,979)	70,138,829
Automotive equipment	6,994,255	-	954,840	(807,549)	7,141,546
Water rights	1,986,726	-	-	-	1,986,726
Water facility capital lease	78,056,980	-	-	-	78,056,980
Furniture, fixtures and other equipment	<u>2,606,475</u>	<u>-</u>	<u>408,897</u>	<u>(953,166)</u>	<u>2,062,206</u>
Total at cost	<u>469,068,241</u>	<u>1,186,023</u>	<u>19,032,529</u>	<u>(2,823,611)</u>	<u>486,463,182</u>
Less: Accumulated depreciation and amortization for:					
Land improvements	\$ (745,899)	\$ (92,357)	\$ -	\$ 11,775	\$ (826,481)
Production and district facilities	(49,695,681)	(3,603,658)	-	586,965	(52,712,374)
Pipelines and district facilities	(86,622,211)	(5,012,074)	-	-	(91,634,285)
Meters and distribution services	(26,642,184)	(1,762,847)	-	288,172	(28,116,859)
Automotive and construction equipment	(3,995,659)	(563,326)	-	585,128	(3,973,857)
Water rights	(770,430)	(49,668)	-	-	(820,098)
Water facility capital lease	(75,136,225)	(508,488)	-	-	(75,644,713)
Furniture, fixtures and other equipment	<u>(1,902,318)</u>	<u>(158,708)</u>	<u>-</u>	<u>929,619</u>	<u>(1,131,407)</u>
Total accumulated depreciation and amortization	<u>(245,510,607)</u>	<u>(11,751,126)</u>	<u>-</u>	<u>2,401,659</u>	<u>(254,860,074)</u>
Total depreciable assets - net	<u>\$ 223,557,634</u>	<u>\$ (10,565,103)</u>	<u>\$ 19,032,529</u>	<u>\$ (421,952)</u>	<u>\$ 231,603,108</u>

## 6. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance December 31, <u>2011</u>
Land and easements	\$ 9,089,712	\$ -	\$ 73,295	\$ -	\$ 9,163,007
Construction-in-progress	<u>58,694,410</u>	<u>55,561,971</u>	<u>(12,396,167)</u>	-	<u>101,860,214</u>
<b>Total non-depreciable assets</b>	<b><u>\$ 67,784,122</u></b>	<b><u>\$ 55,561,971</u></b>	<b><u>\$ (12,322,872)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 111,023,221</u></b>
Land improvements	\$ 1,293,807	\$ -	\$ 584,127	\$ -	\$ 1,877,934
Production and distribution system	91,444,206	-	1,608,883	(99,920)	92,953,169
Pipelines and district facilities	209,500,799	1,213,612	7,055,233	-	217,769,644
Meters and services	64,077,193	873,273	2,131,540	(258,948)	66,823,058
Automotive equipment	6,633,271	-	824,070	(463,086)	6,994,255
Water rights	1,986,726	-	-	-	1,986,726
Water facility capital lease	78,056,980	-	-	-	78,056,980
Furniture, fixtures and other equipment	<u>2,606,561</u>	<u>-</u>	<u>119,019</u>	<u>(119,105)</u>	<u>2,606,475</u>
<b>Total at cost</b>	<b><u>455,599,543</u></b>	<b><u>2,086,885</u></b>	<b><u>12,322,872</u></b>	<b><u>(941,059)</u></b>	<b><u>469,068,241</u></b>
Less: Accumulated depreciation and amortization for:					
Land improvements	\$ (502,469)	\$ (243,430)	\$ -	\$ -	\$ (745,899)
Production and district facilities	(46,201,875)	(3,579,159)	-	85,353	(49,695,681)
Pipelines and district facilities	(81,870,938)	(4,751,273)	-	-	(86,622,211)
Meters and distribution services	(25,134,492)	(1,682,016)	-	174,324	(26,642,184)
Automotive and construction equipment	(3,683,899)	(660,575)	-	348,815	(3,995,659)
Water rights	(720,725)	(49,705)	-	-	(770,430)
Water facility capital lease	(74,606,730)	(529,495)	-	-	(75,136,225)
Furniture, fixtures and other equipment	<u>(1,881,257)</u>	<u>(133,561)</u>	<u>-</u>	<u>112,500</u>	<u>(1,902,318)</u>
<b>Total accumulated depreciation and amortization</b>	<b><u>(234,602,385)</u></b>	<b><u>(11,629,214)</u></b>	<b><u>-</u></b>	<b><u>720,992</u></b>	<b><u>(245,510,607)</u></b>
<b>Total depreciable assets - net</b>	<b><u>\$ 220,997,158</u></b>	<b><u>\$ (9,542,329)</u></b>	<b><u>\$ 12,322,872</u></b>	<b><u>\$ (220,067)</u></b>	<b><u>\$ 223,557,634</u></b>

Depreciation and amortization expense, including water facilities under capital lease, was \$11,751,126 and \$11,629,214 for the years ended December 31, 2012 and 2011, respectively. Included in this amount is amortization expense relating to the water rights of approximately \$50,000 for both years ended December 31, 2012 and 2011.

## 7. CAPITAL LEASES

The Authority and the County entered into an agreement in 1969 which provides for the Authority, as agent of the County, to plan, construct, operate, manage, repair and maintain certain water facilities owned by the County and primarily financed through County bond issues. These water facilities are leased to the Authority, which, along with capital assets owned by the Authority, become an integrated water system.

These leases are defined as capital leases and the related facilities are recorded as an asset that is generally amortized over the term of the lease and the related bond issue, whichever is shorter. The lease obligation is shown as a liability with the related interest expense reported as non-operating expenses.

Water facilities under capital leases that are included within capital assets as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Completed water facilities	\$ 78,056,980	\$ 78,056,980
Less: Accumulated amortization	<u>(75,644,713)</u>	<u>(75,136,225)</u>
	<u>\$ 2,412,267</u>	<u>\$ 2,920,755</u>

Amortization expense related to water facilities under capital leases was \$508,488 and \$529,495 for the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the amount of the County bonds outstanding is included in obligations under capital leases. The expended portion of the bond proceeds is included in water facilities under capital leases.

The County issued \$51,005,000 in general obligation refunding bonds in 2004, of which \$5,964,830 refunded the County's 1993 Revenue Bonds. This resulted in a deferred loss of \$185,170 and an interest savings of approximately \$585,000 to the Authority. The excess of the reacquisition price over the net carrying amount of the refunded bonds, or a deferred loss, in the amount of \$185,170 has been deferred and is being amortized over the term of the new bonds using the straight-line method through 2014.

In 2008, the County issued \$2,570,000 in general obligation refunding bonds, which refunded the remaining 1996C bonds. This resulted in a deferred loss of \$30,000 and, along with the remaining unamortized gain on the previous refunding, is being amortized over the term of the new bond using the straight-line method through 2014. This refunding resulted in approximately \$125,000 of savings over the life of the bond.

## 7. CAPITAL LEASES (Continued)

Long-term capital lease activity for the year ended December 31, 2012 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Due Within <u>One Year</u>	Due After <u>One Year</u>
County bonds issued in 1996 Series A as part of the refunding that mature annually ranging from \$203,000 to \$331,000 from 2012 to 2019 bearing interest ranging from 5.125% to 6%	\$ 2,162,267	\$ -	\$ (216,478)	\$ (229,943)	\$ 1,715,846
County bonds issued in 2004 as part of the Series 1993 refunding that mature annually ranging from \$561,000 to \$614,000 from 2012 to 2014 bearing interest paid ranging from 4% to 5%	1,729,433	-	(588,262)	(579,216)	561,955
County bonds issued in 2008 Series C as part of the Series 1996C refunding that mature annually ranging from \$240,000 to \$320,000 from 2013 to 2014 bearing interest from 3% to 4%	1,675,000	-	(320,000)	(295,000)	1,060,000
Add: Deferred gain on refunding	<u>52,465</u>	<u>-</u>	<u>(18,517)</u>	<u>-</u>	<u>33,948</u>
Long-term capital lease liabilities	<u>\$ 5,619,165</u>	<u>\$ -</u>	<u>\$ (1,143,257)</u>	<u>\$ (1,104,159)</u>	<u>\$ 3,371,749</u>

Long-term capital lease activity for the year ended December 31, 2011 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Due Within <u>One Year</u>	Due After <u>One Year</u>
County bonds issued in 1996 Series A as part of the refunding that mature annually ranging from \$203,000 to \$331,000 from 2011 to 2019 bearing interest ranging from 5.125% to 6%	\$ 2,365,285	\$ -	\$ (203,018)	\$ (216,478)	\$ 1,945,789
County bonds issued in 2004 as part of the Series 1993 refunding that mature annually ranging from \$561,000 to \$614,000 from 2011 and 2014 bearing interest paid ranging from 4% to 5%	2,343,365	-	(613,932)	(588,262)	1,141,171
County bonds issued in 2008 Series C as part of the Series 1996C refunding that mature annually ranging from \$240,000 to \$320,000 from 2012 and 2014, bearing interest from 3% to 4%	1,975,000	-	(300,000)	(320,000)	1,355,000
Add: Deferred gain on refunding	<u>70,982</u>	<u>-</u>	<u>(18,517)</u>	<u>-</u>	<u>52,465</u>
Long-term capital lease liabilities	<u>\$ 6,754,632</u>	<u>\$ -</u>	<u>\$ (1,135,467)</u>	<u>\$ (1,124,740)</u>	<u>\$ 4,494,425</u>

## 7. CAPITAL LEASES (Continued)

The following is a schedule of the future minimum lease payments under the capital leases as of December 31, 2012:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,104,159	\$ 198,602	\$ 1,302,761
2014	1,085,872	145,444	1,231,316
2015	534,873	105,876	640,749
2016	540,337	79,363	619,700
2017	533,783	52,190	585,973
2018 - 2019	<u>642,936</u>	<u>39,130</u>	<u>682,066</u>
	<u>\$ 4,441,960</u>	<u>\$ 620,605</u>	<u>\$ 5,062,565</u>

## 8. SHORT-TERM DEBT

Short-term debt provides financing for the Authority. On December 14, 2009, the Authority issued a Bond Anticipation Note (BAN) Series 2009A at 0% interest under the New York State Environmental Facilities Corporation (EFC) short-term financing program for \$35,500,000. The BAN requires annual principal payments which began December 1, 2011 and continues until maturity, or December 31, 2012. The Authority is in the process of bonding this BAN in 2013.

The following is a summary of changes in short-term debt for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Balance, January 1	\$ 27,118,262	\$ 9,790,506
Increases	6,140,497	17,529,756
Decreases	<u>(871,000)</u>	<u>(202,000)</u>
Balance, December 31	<u>\$ 32,387,759</u>	<u>\$ 27,118,262</u>

## 9. WATER REVENUE BONDS

The Authority has entered into Trust Indentures under which all outstanding bonds have been issued. The Trust Indentures pledge all revenues and other income collected by the Authority for payment of principal and interest on the bonds. The Trust Indentures also generally require establishment of a trust fund called "the water system revenue fund," for which the Authority acts as a trustee, into which all revenue is to be deposited, as well as a debt service reserve fund under which the Authority is required to maintain on deposit amounts sufficient to cover the annual debt service or provide a surety bond (as defined in the Trust Indentures) of its bonds. The Authority covenants in its indenture that it will establish water rates sufficient to cover the sum of: (1) 1.2 times debt service, (2) expenses of operating, maintaining, renewing and replacing the water system and maintaining the debt service reserve fund, and (3) any additional amounts required to pay all other charges payable from the Authority's revenue. As of December 31, 2012 and 2011, the Authority is in compliance with its financial covenants.

## **9. WATER REVENUE BONDS (Continued)**

Of the 1993 Series B bonds, \$2,611,410 or 85.62% of the outstanding bonds at December 31, 2012 is payable by the County to the Authority under the terms of the Construction Services Agreement between the County and the Authority dated December 21, 1990. In addition, the entire \$20,000,000 of the 2001 Series was payable by Genesee County to the Authority under the terms of the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. The first principal payment on the 2001 Series was made in 2006. During 2007, the bonds were advance refunded by the Authority on behalf of Genesee County with the issuance of the Series 2007 Bonds noted on the following page.

The refunding of the Series 2001 Bonds by the Authority for the Genesee County Project closed on July 26, 2007. The \$20,212,787 bond was part of the New York State Environmental Facilities Corporation issue of \$146,030,000 State Clean Water & Drinking Water Revolving Fund Revenue Bonds Series 2007D, dated July 26, 2007. This refinancing and its associated costs will save Genesee County over \$4,900,000 over the term of the bond. The entire \$20,212,787 of the 2007D Series is payable by Genesee County to the Authority under the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. In addition, the bond refunding resulted in an economic gain on refunding of \$2,381,667. The excess of the net carrying amount of the refunded bonds over the reacquisition price in the amount of \$1,061,231 has been deferred and was allocated between bond discount and deferred gain on refunding and is being amortized over the term of the new bonds using the straight-line method through 2036.

In 2010, the Authority issued the 2010 Series bonds which refunded the 1993 Series A bonds and the 1997 bonds. This refinancing and its associated costs were paid by the Authority and will save the Authority approximately \$773,000 over the term of the bond. In addition, the bond refunding resulted in an economic gain on refunding of \$680,000. The excess of the net carrying amount of the refunded bonds over the reacquisition price in the amount of \$527,039 has been deferred and was allocated between bond premium and deferred gain on refunding and is being amortized over the term of the new bonds using the straight-line method through 2035.

In 2010, the Authority issued the 2010B Series bond, a Taxable Build America Bond, and receives an interest subsidy over the life of the bond. This was followed in 2012 by the issuance of the 2012 Series Bonds by the Authority. This Series was issued to finance the cost of development, acquisition, and construction of certain improvements and additions to the water system.

## 9. WATER REVENUE BONDS (Continued)

Long-term water revenue bond activity for the year ended December 31, 2012 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
Bonds issued in 1993 Series B that mature in annual amounts ranging from \$635,000 to \$825,000 from 2012 to 2016 bearing interest at 5.25%	\$ 3,720,000	\$ -	\$ (670,000)	\$ (705,000)	\$ 2,345,000
Bonds issued in 2007 as part of refunding that mature in annual amounts ranging from \$540,000 to \$1,115,000 from 2012 to 2036 bearing interest ranging from 3.63% to 4.97%	18,080,000	-	(545,000)	(550,000)	16,985,000
Bonds issued in 2010 as part of refunding that mature in annual amounts ranging from \$205,000 to \$2,080,000 from 2011 to 2035 bearing interest ranging from 2.0% to 4.5%	12,345,000	-	(890,000)	(910,000)	10,545,000
Bonds issued in 2010 Series A that mature in annual amounts ranging from \$25,000 to \$1,275,000 from 2012 to 2017 bearing interest ranging from 2.19% to 2.6%	1,585,000	-	-	-	1,585,000
Bonds issued in 2010 Series B as part of refunding that mature in annual amounts ranging from \$25,000 to \$1,275,000 from 2012 to 2042 bearing interest ranging from 4.49% to 6.34%	92,915,000	-	-	-	92,915,000
Bonds issued in 2012 that mature in annual amounts ranging from \$155,000 to \$410,000 from 2014 to 3037 bearing interest ranging from 3.0% to 5.0%	-	6,290,000	-	-	6,290,000
Add: Bond premium	<u>906,668</u>	<u>694,449</u>	<u>(54,091)</u>	<u>-</u>	<u>1,547,026</u>
Long-term water revenue bond liabilities	<u>\$ 129,551,668</u>	<u>\$ 6,984,449</u>	<u>\$ (2,159,091)</u>	<u>\$ (2,165,000)</u>	<u>\$ 132,212,026</u>

## 9. WATER REVENUE BONDS (Continued)

Long-term water revenue bond activity for the year ended December 31, 2011 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Due Within <u>One Year</u>	Due After <u>One Year</u>
Bonds issued in 1993 Series B that mature in annual amounts ranging from \$635,000 to \$825,000 from 2011 to 2016 bearing interest at 5.25%	\$ 4,355,000	\$ -	\$ (635,000)	\$ (670,000)	\$ 3,050,000
Bonds issued in 2007 as part of refunding that mature in annual amounts ranging from \$540,000 to \$1,115,000 from 2011 to 2036 bearing interest ranging from 3.63% to 4.97%	18,620,000	-	(540,000)	(545,000)	17,535,000
Bonds issued in 2010 as part of refunding that mature in annual amounts ranging from \$205,000 to \$2,080,000 from 2011 to 2035 bearing interest ranging from 2.0% to 4.5%	14,425,000	-	(2,080,000)	(890,000)	11,455,000
Bonds issued in 2010 Series A that mature in annual amounts ranging from \$25,000 to \$1,275,000 from 2011 to 2017 bearing interest ranging from 2.19% to 2.6%	1,585,000	-	-	-	1,585,000
Bonds issued in 2010 Series B as part of refunding that mature in annual amounts ranging from \$25,000 to \$1,275,000 from 2011 to 2042 bearing interest ranging from 4.49% to 6.34%	92,915,000	-	-	-	92,915,000
Add: Bond premium	<u>960,760</u>	<u>-</u>	<u>(54,092)</u>	<u>-</u>	<u>906,668</u>
Long-term water revenue bond liabilities	<u>\$ 132,860,760</u>	<u>\$ -</u>	<u>\$ (3,309,092)</u>	<u>\$ (2,105,000)</u>	<u>\$ 127,446,668</u>

## 9. WATER REVENUE BONDS (Continued)

The following is a schedule of the future minimum payments under the water revenue bonds as of December 31, 2012:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,165,000	\$ 7,198,737	\$ 9,363,737
2014	2,385,000	7,233,529	9,618,529
2015	2,485,000	7,147,601	9,632,601
2016	2,915,000	7,055,905	9,970,905
2017	3,055,000	6,941,592	9,996,592
2018 - 2022	18,915,000	32,506,918	51,421,918
2023 - 2027	20,430,000	27,969,598	48,399,598
2028 - 2032	25,015,000	21,676,702	46,691,702
2033 - 2037	28,820,000	13,793,972	42,613,972
2038 - 2042	<u>26,645,000</u>	<u>5,304,458</u>	<u>31,949,458</u>
	<u>\$ 132,830,000</u>	<u>\$ 136,829,012</u>	<u>\$ 269,659,012</u>

## 10. PENSION PLAN

### **New York State and Local Employees' Retirement System Plan Description**

Generally all of the Authority's employees (excluding part-time employees) participate in the New York State and Local Employees' Retirement System (the System). The System is a cost-sharing multiple-employer retirement system. 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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith Office Building, Albany, New York, 12244.

### **Funding Policy**

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

**10. PENSION PLAN (Continued)**

**Funding Policy (Continued)**

The Authority’s employees are among all of the six Tiers and employees in Tier 3, 4, 5, and 6 are required to contribute at least 3% of their wages to the System. For employees in Tier 3 and 4, the 3% contribution ceases after 10 years of membership or 10 years of credited service.

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members’ payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who join on or after April 1, 2012 will contribute 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will vary based on each member’s annual compensation varying between 3-6%.

The System cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The Authority’s contributions for the years 2012, 2011 and 2010 were equal to the required contributions for the plan fiscal year as follows:

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ <u>2,476,883</u>	\$ <u>2,613,697</u>	\$ <u>1,510,752</u>

Effective May 14, 2003, the System requires a minimum employer contribution of 4.5% annually of the System’s fund value at April 1 of the previous fiscal year.

**Single Employer Pension Plan Description**

The Authority has one single employer defined contribution pension plan for its employees. The name of the plan is Deferred Compensation Plan for Employees of Monroe County Water Authority (the Plan). The Plan’s fiscal year ends on December 31 of each year. The Deferred Compensation Committee of the Authority administers the Plan and also has the authority to establish and amend the contribution requirements and benefit provisions of the Plan. The Authority does not make contributions to this plan.

The Plan provides for tax-deferred participant contributions between a minimum of \$260 per year and a maximum contribution of the lesser of 100% of the participant’s compensation for the calendar year or the maximum amount permitted by Section 457(e)(15) of the Internal Revenue Code. Benefits paid from the Plan consist of retirement benefits, certain hardship withdrawals and loans to participants as applicable. Participants should refer to the Plan’s document for a complete description of the Plan’s provisions. Total employee contributions remitted by the Authority to the Plan were \$803,408 and \$724,747 for the years ended December 31, 2012 and 2011, respectively.

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS

### Plan Description

The Authority provides certain health care benefits for retired employees. The Authority administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Post-employment Benefit Plan (OPEB). In general, the Authority provides health care benefits for those retired personnel who are eligible for a pension through the New York State Employees' Retirement System (ERS). The Retirement Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements.

The number of retired employees currently eligible to receive benefits at December 31, 2012 and 2011 was 129 and 128, respectively. The Retirement Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

### Funding Policy

The obligations of the Retirement Plan are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required premium contribution rates of retirees range from 0% to 10%, depending on when the employee was hired. The Authority will pay its portion of the premium for the retiree and spouse for the lifetime of the retiree. The costs of administering the Retirement Plan are paid by the Authority. The Authority currently contributes enough money to the Retirement Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums.

### Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the Authority's net OPEB obligation:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 3,898,400	\$ 3,898,400
Interest on net OPEB obligation	220,300	220,300
Adjustment to ARC	<u>(279,800)</u>	<u>(279,800)</u>
Annual OPEB cost	3,838,900	3,838,900
Contributions made	<u>(1,353,239)</u>	<u>(1,183,811)</u>
Increase in net OPEB obligation	2,485,661	2,655,089
Net OPEB obligation - beginning of year	<u>7,060,864</u>	<u>4,405,775</u>
Net OPEB obligation - end of year	<u>\$ 9,546,525</u>	<u>\$ 7,060,864</u>

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The following table provides trend information for the Retirement Plan:

### Trend Information

Year <u>Ended</u>	Annual OPEB <u>Cost</u>	Actual Employer <u>Contribution</u>	Percent <u>Contributed</u>	Net OPEB <u>Obligation</u>
2012	\$3,838,900	\$1,353,239	35.3%	\$9,546,525
2011	\$3,838,900	\$1,183,811	30.8%	\$7,060,864
2010	\$2,655,500	\$1,095,062	41.2%	\$4,405,775

### Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of 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 Retirement Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Retirement Plan is currently not funded.

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities (AAL) for benefits.

### Schedule of Funding Progress for the Authority's Plan

Actuarial <u>Valuation Date</u>	Actuarial Value of <u>Assets (a)</u>	Actuarial Accrued Liability <u>(AAL) (b)</u>	Unfunded AAL (UAAL) <u>(b) - (a)</u>	Funded Ratio <u>(a)/(b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>(b-a)/(c)</u>
1/1/2011	\$ -	\$ 38,311,700	\$ 38,311,700	0.0%	\$13,742,114	278.8%
1/1/2009	\$ -	\$ 26,490,000	\$ 26,490,000	0.0%	\$14,554,205	182.0%
1/1/2007	\$ -	\$ 17,499,400	\$ 17,499,400	0.0%	\$13,065,608	133.9%

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and 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.

## 11. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

In the January 1, 2011 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	5.0%
Medical care cost trend rate	7.8%, 8.4%, or 10.3% initially, based on age of employees and type of plan chosen. The rate is reduced by decrements each year to an ultimate rate of 5% in 2075
Dental care cost trend rate	5% until 2082
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

\* As the plan is unfunded, the assumed discount rate considers that the Authority's investment assets are low risk in nature, such as money market funds or certificates of deposit.

## 12. COMMITMENTS AND CONTINGENCIES

### Commitments

The Authority has entered into agreements with various water districts, towns and villages whereby the Authority obtains the use of the water facilities and agrees to provide water services to the residents of such districts. A number of these agreements require payments to be made by the Authority equal to the interest and principal due each year on the districts' outstanding debt related to the leased facilities. These agreements are classified as operating leases in the accompanying financial statements and recorded as a component of operating expenses. Any improvements to these facilities are capitalized by the Authority.

Amounts due under these commitments are summarized as follows for the years ending December 31:

2013	\$	121,515
2014		82,521
2015		79,756
2016		77,176
2017		74,239
2018 - 2022		242,953
2023		<u>44,211</u>
	\$	<u>722,371</u>

Total rental expense charged to operations amounted to \$351,406 and \$327,613 during the years ended December 31, 2012 and 2011, respectively.

The Authority has entered into a Water System Construction/Operation Agreement with Genesee County to finance, construct, own, operate and supply water service in the County of Genesee. The Authority plans to develop the Genesee County project in two phases.

Phase I of the project involved the construction of approximately thirty-five miles of water mains financed with the proceeds of the 2001 Series Water Revenue Bonds and capital grants from state and federal agencies (See further disclosure in Note 9). Expenditures of \$24,061,115 were incurred for this project with Phase I being completed in 2004.

## 12. COMMITMENTS AND CONTINGENCIES (Continued)

### Commitments (Continued)

Phase II of the project has not yet started but will include an additional water main connection to the Authority's system in several towns of Genesee and Monroe Counties. There have been no expenditures incurred for Phase II of the project.

The Authority has entered into an agreement with the County for the County to provide certain public security and safety services to the Authority from January 1, 2010 through December 31, 2029.

Amounts due under this agreement are summarized as follows for the years ended December 31:

2013	\$	1,350,000
2014		1,500,000
2015		1,650,000
2016		1,850,000
2017		1,850,000
2018 - 2022		7,750,000
2023 - 2027		6,750,000
2028 - 2029		<u>2,150,000</u>
	\$	<u>24,850,000</u>

The Authority expensed \$1,000,000 and \$750,000 under this agreement during the years ended December 31, 2012 and 2011, respectively.

### Contingencies

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The Authority has various insurance policies with third-party carriers related to property protection, casualty and statutory and non-statutory employee protection.

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

## 13. SELF-INSURANCE

Beginning January 1, 2010, the Authority elected to be self-insured for workers' compensation claims. The Authority transfers its risk of loss through the purchase of commercial insurance for workers' compensation benefits up to a maximum aggregate of \$5,000,000, subject to a deductible of \$400,000 per occurrence. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At December 31, 2012 and 2011, there are no liabilities recorded for workers' compensation claims.

**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**

February 28, 2013

To the Board of Directors of  
Monroe County 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 contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Monroe County Water Authority (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Monroe, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 28, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 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.

*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.

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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***  
(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

February 28, 2013

To the Board of Directors of  
Monroe County Water Authority:

**Report on Compliance for Each Major Federal Program**

We have audited Monroe County Water Authority's (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Monroe, New York, compliance with the types of the compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2012. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

(Continued)

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**MONROE COUNTY WATER AUTHORITY**  
 (A Discretely Presented Component Unit of the County of Monroe, New York)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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Federal Grantor/Pass-Through Grantor/Federal Program or <u>Cluster Title Number</u>	<u>Federal CFDA Number</u>	<u>Grant Identifying Number</u>	<u>Amounts Expended</u>
U.S. Environmental Protection Agency:			
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	16323-70	\$ 3,909,332
Congressionally Mandated Projects	66.202	97209511	<u>481,000</u>
Total Expenditures of Federal Awards			<u>\$ 4,390,332</u>

**MONROE COUNTY WATER AUTHORITY**  
(A Discretely Presented Component Unit of the County of Monroe, New York)

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of the federal award programs of Monroe County Water Authority (the Authority). The schedule includes expenditures of federal programs received directly from federal agencies, as well as federal assistance passed through other organizations. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States.

**3. MATCHING COSTS**

Matching costs, i.e., the Authority's share of certain program costs, are not included in the schedule of expenditures of federal awards.

**4. REIMBURSED EXPENSES**

For the year ended December 31, 2012, the Authority expended \$3,909,332 on the ARRA - Capitalization Grants for Drinking Water State Revolving Funds program (CFDA Number 66.468) for construction of the East Side Water Supply Project. Through December 31, 2012, \$23,661,977 had been received for this project since inception.

**MONROE COUNTY WATER AUTHORITY**  
(A Discretely Presented Component Unit of the County of Monroe, New York)

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Monroe County Water Authority (the Authority).
2. No significant deficiencies or material weaknesses relating to the audit of the basic financial statements are reported in the 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*.
3. No instances of noncompliance material to the basic financial statements of the Authority were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Report on Compliance for each Major Federal Program; and Report on Internal Control Over Compliance.
5. The auditor's report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.
6. No audit findings relative to the financial statement audit for the Authority are required to be reported in accordance with Section 501(a) of OMB Circular A-133.
7. The program tested as a major program was:
  - CFDA No. 66.468 - ARRA - Capitalization Grants for Drinking Water State Revolving Funds
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Authority was determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.