

**RENSELAER COUNTY
WATER AND SEWER AUTHORITY**

Financial Statements

December 31, 2012 and 2011

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Financial Statements

December 31, 2012 and 2011

Financial Statements

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INDEPENDENT AUDITORS' REPORT

To the Board of
Rensselaer County Water and Sewer Authority
Troy, New York

Report on the Financial Statements

We have audited the accompanying statements of net position of Rensselaer County Water and Sewer Authority (the "Authority"), a component reporting unit of County of Rensselaer, New York, as of December 31, 2012 and 2011, and the related statements of revenues, expenses and change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 principles 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 opinion.

Opinions

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

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis for the year ended December 31, 2012, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2013, on our consideration of Rensselaer County Water and Sewer 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.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
April 22, 2013

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Net Position

	December 31,	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 50,388	\$ 52,994
Restricted cash and cash equivalents	3,272,843	3,815,742
Accounts receivable	7,000	600
	<u>3,330,231</u>	<u>3,869,336</u>
TOTAL CURRENT ASSETS	3,330,231	3,869,336
RESTRICTED CASH AND CASH EQUIVALENTS	906,259	906,158
PROPERTY AND EQUIPMENT, net	10,237,792	10,003,518
CONSTRUCTION IN PROGRESS	921,001	799,840
BOND ISSUANCE COSTS, net	371,738	382,513
	<u>15,767,021</u>	<u>15,961,365</u>
TOTAL ASSETS	<u>\$ 15,767,021</u>	<u>\$ 15,961,365</u>

See accompanying notes to financial statements.

	December 31,	
	2012	2011
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current portion of revenue bonds	\$ 155,000	\$ 155,000
Accounts payable	46,352	-
Accrued interest	244,150	246,087
	<u>445,502</u>	<u>401,087</u>
TOTAL CURRENT LIABILITIES	445,502	401,087
REVENUE BONDS, net of current portion	<u>13,960,000</u>	<u>14,115,000</u>
TOTAL LIABILITIES	14,405,502	14,516,087
NET POSITION		
Net investment in capital assets	1,090,223	1,191,641
Restricted for debt service	87,312	73,771
Restricted for construction of capital assets	126,587	126,261
Unrestricted	57,397	53,605
	<u>1,361,519</u>	<u>1,445,278</u>
TOTAL NET POSITION	1,361,519	1,445,278
TOTAL LIABILITIES AND NET POSITION	<u>\$ 15,767,021</u>	<u>\$ 15,961,365</u>

See accompanying notes to financial statements.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Change in Net Position

	For the Year Ended December 31,	
	2012	2011
OPERATING REVENUES		
Water and sewer facilities service fees	\$ 899,287	\$ 896,567
Service and connection fees	9,000	7,200
TOTAL OPERATING REVENUES	<u>908,287</u>	<u>903,767</u>
OPERATING EXPENSES		
Depreciation	268,266	170,945
Amortization	10,775	10,775
Professional fees	7,500	7,665
Repairs and maintenance	245	17,211
Miscellaneous	4,485	1,275
TOTAL OPERATING EXPENSES	<u>291,271</u>	<u>207,871</u>
OPERATING INCOME	617,016	695,896
NON-OPERATING REVENUES (EXPENSES)		
Interest income	526	670
Interest expense	(701,301)	(385,154)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(700,775)</u>	<u>(384,484)</u>
CHANGE IN NET POSITION	(83,759)	311,412
NET POSITION, beginning of year	<u>1,445,278</u>	<u>1,133,866</u>
NET POSITION, end of year	<u>\$ 1,361,519</u>	<u>\$ 1,445,278</u>

See accompanying notes to financial statements.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Cash Flows

	For the Year Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from water and sewer facilities service fees	\$ 892,287	\$ 898,967
Proceeds from service and connection fees	9,600	7,200
Payments for general and administrative expenses	<u>(12,230)</u>	<u>(26,151)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	889,657	880,016
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for construction of capital assets	(577,349)	(1,796,634)
Principal payments on revenue bonds payable	(155,000)	(145,000)
Interest payments on revenue bonds, net of amount capitalized	<u>(703,238)</u>	<u>(386,845)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(1,435,587)	(2,328,479)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from interest income	<u>526</u>	<u>670</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>526</u>	<u>670</u>
NET DECREASE IN CASH	(545,404)	(1,447,793)
Cash and cash equivalents at beginning of year	<u>4,774,894</u>	<u>6,222,687</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,229,490</u>	<u>\$ 4,774,894</u>

See accompanying notes to financial statements.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Cash Flows--Continued

	For the Year Ended December 31,	
	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 617,016	\$ 695,896
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	268,266	170,945
Amortization	10,775	10,775
Changes in operating assets and liabilities:		
Accounts receivable	<u>(6,400)</u>	<u>2,400</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 889,657</u>	<u>\$ 880,016</u>

See accompanying notes to financial statements.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements

December 31, 2012 and 2011

NOTE A--AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rensselaer County Water and Sewer Authority (the "Authority") was created on July 30, 1986 by a special act of the New York State Legislature. The purpose of the Authority is to produce, develop, distribute and sell water and sewer services within the County of Rensselaer, New York. Members of the Authority are appointed by the County Executive, which exercises no oversight responsibility.

Basis of Presentation

The Authority follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37 "Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 63 "Reporting Deferred Outflows, Deferred Inflows, and Net Position." Statement No. 34, as amended by Statement No. 37 and No. 63, established standards for external reporting for all state and local government entities, which include a statement of net position, statement of revenues, expenses and change in net position and a statement of cash flows. It requires classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets: consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any related debt obligations and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather that portion of the debt is included in restricted net position.

Restricted net position: represents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position: represents net position that does not meet the definition of "restricted" or "net investment in capital assets" and is available for general use.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE A--AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States for government entities, as prescribed by GASB. In accordance with the provisions promulgated by GASB, the Authority has elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 30, 1989.

The operations of the Authority are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the balance sheet with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal on-going operations. All revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers as cash all demand deposits and all highly liquid investments which are readily convertible to known amounts of cash.

Investments

The Authority's bond resolutions and investment guidelines allow for excess funds to be invested in interest-bearing deposit accounts and in authorized government securities purchased through, delivered to and held in the custody of a bank or trust company in New York State. Currently all of the Authority's investments are in money market funds and are, therefore, reported as cash and cash equivalents.

Bond Issuance Costs

Costs related to the issuance of the Authority's bonds are capitalized and amortized using the straight-line method over the term of the related debt.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE A--AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Capital Assets

Acquisitions of property and equipment and expenditures which materially change the capacities or extend the useful lives are capitalized and recorded at historical cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred. When an asset is sold or retired, the cost and accumulated depreciation are removed from their respective accounts and the resulting gain or loss is included in the change in net assets. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the related assets, generally 40 years.

Income Taxes

The Authority is exempt from Federal, State and Local income taxes.

Reclassifications

Certain amounts for the year ended December 31, 2011 have been reclassified to conform to the presentation for the year ended December 31, 2012. These reclassifications had no effect on total change in net position or in total net position.

Accounting Statements Issued Not Yet Effective

In March 2012, GASB issued Statement No. 65 (GASB 65), "Items Previously Reported as Assets and Liabilities." GASB 65 defines what items should be included in the financial statements as deferred outflows of resources and deferred inflows of resources, and also identifies certain items previously reported as assets and liabilities that GASB has determined should be recognized as revenue and expense when incurred. This statement is effective for periods beginning after December 15, 2012, and early application is permitted. Management plans to adopt GASB 65 in the 2013 year. The adoption of GASB 65 will result in a restatement of the beginning balance of net position, reduced by the net bond issuance costs, as this item has been determined to not meet the definition of an asset or deferred outflows of resources.

NOTE B--RESTRICTED CASH AND CASH EQUIVALENTS

The Authority has cash amounts deposited in various trust accounts with a fiscal agent to satisfy certain restrictions imposed by creditors and other legal requirements. The Authority has the following restricted cash and cash equivalents as of December 31:

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE B--RESTRICTED CASH AND CASH EQUIVALENTS--Continued

	<u>2012</u>	<u>2011</u>
Restricted for future construction – represents the unspent proceeds from the 2008 water and sewer revenue bonds that were earmarked for the construction of water and sewer facilities.	\$ 2,702,706	\$ 3,244,208
Restricted for debt service – represents cash deposits restricted to fulfill the debt service requirements on the outstanding water and sewer revenue bonds when the payments are due and payable.	570,137	571,534
Restricted for debt service reserve – represents amounts required under the 2008 water and sewer revenue bond resolution to meet future debt service requirements.	<u>906,259</u>	<u>906,158</u>
	<u><u>\$ 4,179,102</u></u>	<u><u>\$ 4,721,900</u></u>

NOTE C--CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending Balance</u>
Sewer facilities	\$ 3,089,815	\$ -	\$ -	\$ 3,089,815
Water facilities	7,283,111	502,540	-	7,785,651
Accumulated depreciation	<u>(369,408)</u>	<u>(268,266)</u>	-	<u>(637,674)</u>
Property and equipment, net	<u>10,003,518</u>	<u>234,274</u>	-	<u>10,237,792</u>
Water projects costs	437,459	65,081	(502,540)	-
Sewer projects costs	362,381	558,620	-	921,001
Construction in progress	<u>799,840</u>	<u>623,701</u>	<u>(502,540)</u>	<u>921,001</u>
Bond issuance costs	404,063	-	-	404,063
Accumulated amortization	<u>(21,550)</u>	<u>(10,775)</u>	-	<u>(32,325)</u>
Bonds issuance costs, net	<u>382,513</u>	<u>(10,775)</u>	-	<u>371,738</u>
Capital assets, net	<u><u>\$11,185,871</u></u>	<u><u>\$ 847,200</u></u>	<u><u>\$ (502,540)</u></u>	<u><u>\$11,530,531</u></u>

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE D--LONG-TERM DEBT

The following is a summary of the Authority's revenue bonds at December 31, 2012:

Series	Year of Earliest Principal Payment	Interest Rate	Original Issue	Principal Outstanding at 12/31/2012
2008 Series Water Bonds	2010	3.2%- 5.35%	\$ 8,005,000	\$ 7,760,000
2008 Series Sewer Bonds	2010	3.2%- 5.35%	6,555,000	6,355,000
				14,115,000
Less current portion				155,000
				\$ 13,960,000

Series	Principal Outstanding at 12/31/2011	Additions	Deletions	Principal Outstanding at 12/31/2012
2008 Series Water Bonds	\$ 7,845,000	\$ -	\$ 85,000	\$ 7,760,000
2008 Series Sewer Bonds	6,425,000	-	70,000	6,355,000
	\$ 14,270,000	-	\$ 155,000	14,115,000
Less current portion				155,000
				\$ 13,960,000

Interest on the 2008 Series Bonds is payable semi-annually on March 1 and September 1. The principal is payable on September 1. The final maturity of the bonds is September 1, 2047.

The Authority has pledged to the trustee, as collateral, a lien on all revenues, receipts, property rights and interest in the constructed facilities.

A summary of debt service requirements of revenue bonds payable at December 31, 2012 are as follows:

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE D--LONG-TERM DEBT--Continued

Year Ending December 31,	Bond Principal	Bond Interest	Total Debt Service Requirements
2013	\$ 155,000	\$ 732,448	\$ 887,448
2014	165,000	726,442	891,442
2015	170,000	719,842	889,842
2016	180,000	712,828	892,828
2017	185,000	705,178	890,178
Thereafter	13,260,000	13,495,045	26,755,045
	<u>\$ 14,115,000</u>	<u>\$ 17,091,783</u>	<u>\$ 31,206,783</u>

Total interest incurred was \$736,324 and \$741,642 for the years ended December 31, 2012 and 2011, respectively, and consists of the following:

	2012	2011
Capitalized interest	\$ 35,023	\$ 356,488
Interest charged to expense	701,301	385,154
	<u>\$ 736,324</u>	<u>\$ 741,642</u>

NOTE E--COMMITMENTS AND CONTINGENCIES

During the year ended December 31, 2008, the Authority entered into an agreement with the Town of East Greenbush for the Authority to borrow \$8,005,000 and \$6,555,000 in Water Service Agreement Revenue Bonds and Sewer Service Agreement Revenue Bonds, respectively, (see Note D). The proceeds of the bonds were to be used by the Authority in the construction of water and sewer system facilities in the Town of East Greenbush. As part of the agreement the Town of East Greenbush has agreed to pay an annual service fee to the Authority in an amount necessary to cover all principal, interest and related administrative costs. Upon completion of the projects the Town of East Greenbush will operate and maintain the related water and sewer facilities. Once the bonds have been repaid the title to the related assets will transfer to the Town of East Greenbush.

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE F--SUBSEQUENT EVENTS

The Authority evaluates transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through the date on which the financial statements were available to be issued. The financial statements were approved by management and available to be issued on April 22, 2013.

COMPLIANCE REPORT



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

To the Board of
Rensselaer County Water and Sewer Authority
Troy, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Rensselaer County Water and Sewer Authority (the "Authority"), which comprise the statement of net position as of December 31, 2012 and 2011 and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated April 22, 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 and therefore, material weaknesses or significant deficiencies in internal control may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in finding number 2012-1 in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rensselaer County Water and Sewer Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rensselaer County Water and Sewer Authority's Response to Findings

Rensselaer County Water and Sewer Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Rensselaer County Water and Sewer Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
April 22, 2013

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Schedule of Findings and Responses

For the Year Ended December 31, 2012

Finding 2012-1

Preparation of the Financial Statements - The Authority needed assistance in the preparation of their financial statements, including the related footnote disclosures. There were several material audit adjustments required to present the financial statements in accordance with generally accepted accounting principles.

Management's Response:

The Authority does not retain its own permanent staff and relies on staff from the Office of Economic Development and Planning and outside consultants to perform the management and administrative functions of the Authority, which includes the maintenance of books and records on a cash basis throughout the year. As a result, the Authority seeks and relies upon the expertise of our external auditors to assist staff and to assure that the Authority's financial statements are in conformity with GAAP. Considering the nature of the Authority and its operating revenues, we believe this is the most cost-effective approach.

Management and the Board of the Authority carefully review and understand the results of the audit, the financial statements and related footnote disclosures and accepts full ownership and responsibility for the expertise provided by our external auditors to ensure that the financial statements of the Authority are in conformity with GAAP.