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

Financial Statements as of December 31, 2013 Together with Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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(A Discretely Presented Component Unit of the County of Monroe, New York)

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INDEPENDENT AUDITOR'S REPORT

March 6, 2014

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, 2013, 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, 2013, 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.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Matter - Summarized Comparative Totals
We have previously audited the Authority's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 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 - 9 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 schedule of expenditures of federal awards 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 March 6, 2014 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.

Bonadio & Co., LLP

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), deferred outflows, and the obligations to the Authority's creditors (liabilities), with the difference between these reported as net position.

The Statement of Revenue, Expenses and Change in Net Position 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, 2013. 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 2013 financial statements are presented with comparative totals from 2012.

- The assets and deferred outflows of the Authority exceeded its liabilities at the close of its most recent fiscal year by $330,133,733 (net position). Of this amount $66,854,580 (unrestricted net position) may be used to meet the Authority's ongoing obligations.

- Operating revenues remained consistent with 2012.

FINANCIAL HIGHLIGHTS (Continued)

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

Project Name	2013
Webster Water Treatment Plant	$ 62,317,690
Lake Water Booster Pumping Station	$ 16,062,864
Intake/Tunnel	$ 42,964,648
2012 Structural Lining Program	$ 1,905,000
Henrietta Water Main Replacement	$ 1,022,000
Spencerport Water Main Replacement	$ 1,344,000
2013 Residential Meter Replacements	$ 1,823,000

Summary of Operations and Change in Net Position

	2013	2012
Operating revenues	$ 57,292,055	$ 57,332,384
Operating expenses	(53,932,764)	(50,019,764)
Operating income	3,359,291	7,312,620
Non-operating expenses, net	(906,942)	(1,766,855)
Income before capital contributions	2,452,349	5,545,765
Capital contributions	5,143,061	2,654,884
Change in net position before special item	7,595,410	8,200,649
Special Item – EFC Loan Principal Forgiveness	17,750,000	-
Change in net position	$ 25,345,410	$ 8,200,649

Capital contributions are revenues from grants, developers and customers for water system capital improvements donated to the Authority. The special item – EFC Loan Principal Forgiveness represents the amount of principal forgiven as part of the Environmental Facilities Corporation (EFC) Project Finance Agreement for the refunding of the 2009 EFC BAN by the Series 2013 bonds.

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, 2013 is $330,133,733. A summary of the Authority's financial position is shown below.

	2013	2012
ASSETS:		
Current assets	$ 60,032,924	$ 55,207,959
Capital assets	405,249,530	384,125,776
Funds held by trustee	31,640,873	31,785,621
Restricted assets	11,880,509	33,985,707
Total assets	508,803,836	505,105,063
DEFERRED OUTFLOWS	659,684	762,637
LIABILITIES:		
Current liabilities, including current portion of debt	18,749,389	55,949,077
Other liabilities (long-term)	160,580,398	145,130,300
Total liabilities	179,329,787	201,079,377
NET POSITION:		
Net investment in capital assets	259,963,210	238,593,569
Restricted	3,315,943	2,623,792
Unrestricted	66,854,580	63,570,962
Total net position	$ 330,133,733	$ 304,788,323

As a water utility, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes pipelines ranging from 2" in diameter to 5' in diameter, 46 booster pumping stations, 53 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 2014. Based in part on the recommendation of the Authority's independent rate consultant, the daily base charge and the commodity rate increased by a modest amount and are shown in the following table.

FINANCIAL HIGHLIGHTS (Continued)

MCWA Rates and Charges (Continued)

	2014	2013	2012
Residential/quarterly:			
Daily base charge per connection (up to ¾")	$ 0.19	$ 0.18	$ 0.15
Commodity charge per 1,000 gallons	$ 2.66	$ 2.57	$ 2.57
Large commercial/monthly:			
Daily base charge per connection	$ 0.57 - 7.02	$ 0.50 - 6.50	$ 0.43 - 5.30
Commodity charge per 1,000 gallons -			
First 125,000 gallons	$ 2.66	$ 2.57	$ 2.57
Each additional 1,000 gallons	$ 1.84	$ 1.75	$ 1.75
Water district rate:			
Daily base charge per connection	$ 0.57 - 7.02	$ 0.50 - 6.50	$ 0.43 - 5.30
Commodity charge per 1,000 gallons	$ 1.84	$ 1.75	$ 1.75

Summary of Operating Revenues

	2013	2013 Budget	2012
Water sales:			
Residential/quarterly	$ 45,017,668	$ 46,388,130	$ 44,374,739
Large commercial/monthly	5,242,006	5,181,417	5,184,198
Water districts/wholesale	2,661,063	3,440,752	3,553,900
Total water sales	52,920,737	55,010,299	53,112,837
Other water and operating revenue	4,371,318	3,899,470	4,219,547
Total operating revenue	$ 57,292,055	$ 58,909,769	$ 57,332,384

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 $192,100 less than those of 2012 and $2,089,562 less than budget. The spring and early summer of 2013 were unusually wet and resulted in less than anticipated demands.

Other water revenue includes private fire services in the amount of $982,240, and late charges in the amount of $799,634. 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 2013, the service fees for Monroe and Genesee Counties were $724,875 and $1,136,946 respectively. Other operating revenues included cell tower lease income of $264,232 in 2013.

Total operating revenue for 2013 was $57,292,055; $40,329 less than 2012, and $1,617,714 less 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 five 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):

	2013	2013 Budget	2012
Functional expenses:			
Administration	$ 4,640,711	$ 5,329,345	$ 4,908,494
Production/transmission	14,470,424	15,613,350	13,685,833
Engineering	2,851,968	2,717,105	2,406,848
Facilities, fleet & operations	11,201,330	11,588,930	11,715,602
Finance and business services	5,835,260	6,329,075	5,258,389
Total functional expenses	$ 38,999,693	$ 41,577,805	$ 37,975,166

Operating expenses (excluding depreciation and amortization) were $2,578,112, or 6.2% under budget for 2013.

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

	2013	2012
Operating expenses:		
Salaries and fringe benefits	$ 20,894,113	$ 19,524,535
Operations and maintenance	11,363,779	11,593,591
General and administrative	6,741,801	6,857,040
City contract - capital	243,000	-
Depreciation and amortization	14,237,891	11,751,126
Bond expense and amortization of deferred amounts on refunding	452,180	293,472
Total operating expenses	$ 53,932,764	$ 50,019,764

Total operating expenses increased $3,913,000 or 7.8% from $50,019,764 in 2012. Salaries and fringe benefits increased $1,369,578 or 7% over 2012. This is primarily due to contracted wage increases and an increased contribution to the NYS Retirement System. Operations and maintenance expenses totaled $11,363,779, which is a decrease of $229,812 over 2012. General and administration expenses decreased $115,239 from 2012. City contract capital is the Authority's share of capital projects outlined in the 2011 Exchange Agreement for Water Supply with the City of Rochester. Depreciation and amortization expense increased $2,486,765 over 2012 largely due to the completion of the Webster Water Treatment Plant and related projects. It is important to note that while depreciation and amortization expense has a significant impact on the change in net position, it is a non-cash item.

Non-Operating Revenue (Expenses)

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

	2013	2012
Non-operating revenue (expenses):		
Federal interest subsidy	$ 1,855,789	$ 2,003,010
Interest earnings	147,021	192,045
Interest expense	(2,659,701)	(3,703,376)
Loss on disposal of capital assets	(72,583)	(232,323)
Realized and unrealized gains (losses) on investments, net	(177,468)	(26,211)
Total non-operating revenue (expenses), net	$ (906,942)	$ (1,766,855)

FINANCIAL HIGHLIGHTS (Continued)

Non-Operating Revenue (Expenses) (Continued)

The Authority capitalized approximately $5,026,000 of interest expense in 2013 as part of the East Side Water Supply Project. Approximately $3,600,000 of related interest was capitalized in 2012.

DEBT ADMINISTRATION

Water Revenue Bonds

As of December 31, 2013, the Authority has seven water revenue bond series outstanding totaling $148,190,341. Included in this total is $2,007,789, 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 $16,985,000 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.

Monroe County Water Authority Bond Series	Bonds Outstanding as of December 2013	Bonds Outstanding as of December 2012	Principal Due 2014
1993 Series B Refunding	$ 2,345,000	$ 3,050,000	$ 740,000
2007 Series Refunding	16,985,000	17,535,000	560,000
2010 Series	10,545,000	11,455,000	930,000
2010A Series	1,585,000	1,585,000	-
2010B Series	92,915,000	92,915,000	-
2012 Series	6,290,000	6,290,000	155,000
2013 Series	17,525,341	-	465,000
Total	$ 148,190,341	$ 132,830,000	$ 2,850,000

In December 2009, the Authority issued a bond anticipation note (BAN) 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. On August 1, 2013, the Authority closed on the Water System Revenue Bond Series 2013 in the amount of $18,125,341. This series was financed through the EFC, and the proceeds were used to refund the 2009 EFC BAN. As part of the EFC Project Finance Agreement, $17,750,000 of the original principal was forgiven by EFC and has been shown as a special item on the Statement of Revenue, Expenses and Change in Net Position.

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 $3,759,804 of principal and interest outstanding which the Authority is required to pay.

DEBT ADMINISTRATION (Continued)

Obligations under Capital Lease (Continued)

County of Monroe Bond Series	Bonds Outstanding as of December 2013	Bonds Outstanding as of December 2012	Principal Due 2014
1996 Series A Refunding	$ 1,715,846	$ 1,945,789	$ 243,917
2004 Series Refunding	561,955	1,141,171	561,955
2008 Series C Refunding	1,060,000	1,355,000	280,000
Total	$ 3,337,801	$ 4,441,960	$ 1,085,872

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.

In August 2013, the new Webster Water Treatment Plant was commissioned and approved by the New York State Department of Health for operation. Completion of the final transmission main will bring the East Side Water Supply Project to its full capacity in mid-2014, and the project remains under budget.

In addition, in 2014, the Authority intends to spend more than $12 million for improvements to other infrastructure not related to the East Side Water Supply Project.

The following list of anticipated major capital improvements includes:

Water Main Rehabilitation and Replacements	$ 4,000,000
Meter Replacements	$ 2,150,000
Service/Hydrant/Valve Replacements	$ 625,000
Tank Painting and Rehabilitation	$ 1,950,000
Roof Replacements	$ 460,000

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 kathy.prestidge@mcwa.com.

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

STATEMENT OF NET POSITION
DECEMBER 31, 2013
(With Comparative Totals for 2012)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 45,587,766	$ 41,764,992
Accounts receivable	4,743,863	4,975,956
Accrued unbilled revenue	6,920,000	6,000,000
Materials and supplies	1,570,129	1,475,334
Prepayments and other current assets	1,211,166	991,677
Total current assets	60,032,924	55,207,959
OTHER ASSETS:		
Capital assets -		
Nondepreciable	27,888,896	152,522,668
Depreciable, net	377,360,634	231,603,108
Funds held by trustee -		
Capital improvement fund	7,959,121	8,109,267
New construction fund	23,681,752	23,676,354
Total other assets	436,890,403	415,911,397
RESTRICTED ASSETS:		
Construction fund held by trustee	8,564,566	31,361,915
Debt service fund held by trustee	63,737	352,313
Debt service reserve held by trustee	3,252,206	2,271,479
Total restricted assets	11,880,509	33,985,707
Total assets	508,803,836	505,105,063
DEFERRED OUTFLOWS		
Deferred amounts on refunding water revenue and capital lease bonds	659,684	762,637
Total deferred outflows	659,684	762,637
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of water revenue bonds	2,850,000	2,165,000
Current portion of obligations under capital leases	1,085,872	1,104,159
Bond anticipation note	-	32,387,759
Accounts payable and other liabilities	6,788,279	12,771,452
Accrued payroll and benefits	4,911,308	4,556,467
Accrued interest on water revenue and capital lease bonds	3,113,930	2,964,240
Total current liabilities	18,749,389	55,949,077
OTHER LIABILITIES:		
Water revenue bonds, net of bond premium of $1,465,157 and $1,547,026 for 2013 and 2012, respectively	146,805,498	132,212,026
Obligations under capital leases, net of amounts on refunding of $15,431 and $33,948 for 2013 and 2012, respectively	2,267,360	3,371,749
Other postemployment benefit obligations	11,507,540	9,546,525
Total other liabilities	160,580,398	145,130,300
Total liabilities	179,329,787	201,079,377
NET POSITION		
NET INVESTMENT IN CAPITAL ASSETS	259,963,210	238,593,569
RESTRICTED	3,315,943	2,623,792
UNRESTRICTED	66,854,580	63,570,962
Total net position	$ 330,133,733	$ 304,788,323

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, 2013
(With Comparative Totals for 2012)

	2013	2012
OPERATING REVENUE:		
Water sales - residential	$ 45,017,668	$ 44,374,739
Water sales - industrial/commercial	5,242,006	5,184,198
Water sales - water district	2,661,063	3,553,900
Other water revenue	3,751,874	3,552,534
Other operating revenue	619,444	667,013
Total operating revenue	57,292,055	57,332,384
OPERATING EXPENSES:		
Salaries and fringe benefits	20,894,113	19,524,535
Operations and maintenance	11,363,779	11,593,591
General and administrative	6,741,801	6,857,040
City contract - capital	243,000	-
Depreciation and amortization	14,237,891	11,751,126
Bond expense and amortization of deferred amounts on refunding	452,180	293,472
Total operating expenses	53,932,764	50,019,764
Total operating income	3,359,291	7,312,620
NON-OPERATING REVENUE (EXPENSES):		
Federal interest subsidy	1,855,789	2,003,010
Interest earnings	147,021	192,045
Interest expense	(2,659,701)	(3,703,376)
Loss on disposal of capital assets	(72,583)	(232,323)
Unrealized and realized losses on investments, net	(177,468)	(26,211)
Total non-operating expenses, net	(906,942)	(1,766,855)
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,452,349	5,545,765
CAPITAL CONTRIBUTIONS:		
Grant income	481,000	-
Developers and customers	4,662,061	2,654,884
Total capital contributions	5,143,061	2,654,884
CHANGE IN NET POSITION BEFORE SPECIAL ITEM	7,595,410	8,200,649
SPECIAL ITEM:		
Special item - EFC loan principal forgiveness	17,750,000	-
CHANGE IN NET POSITION AFTER SPECIAL ITEM	25,345,410	8,200,649
NET POSITION - beginning of year	304,788,323	296,587,674
NET POSITION - end of year	$ 330,133,733	$ 304,788,323

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, 2013
(With Comparative Totals for 2012)

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 56,581,776	$ 56,929,205
Payments to suppliers	(24,623,665)	(20,326,794)
Payments to employees	(18,578,257)	(16,724,439)
Net cash flow from operating activities	13,379,854	19,877,972
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits into funds held by trustee	(986,125)	(181,679)
Withdrawals from funds held by trustee	23,236,071	37,784,410
Purchases of capital assets	(25,408,607)	(55,466,536)
Proceeds from disposal of capital assets	143,630	196,119
Debt issuance costs	(449,614)	(262,440)
Proceeds from water revenue bond issuance	18,125,341	6,290,000
Proceeds from bond anticipation note issuance	2,226,823	6,140,497
Federal interest subsidy	1,855,789	2,003,010
Proceeds from bond premium	-	694,449
Repayments and redemptions of water revenue bonds	(19,629,582)	(2,976,000)
Repayments of obligations under capital leases	(1,104,159)	(1,124,740)
Interest paid	(7,536,200)	(7,349,832)
Net cash flow from capital and related financing activities	(9,526,633)	(14,252,742)
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	(30,447)	165,834
Net cash flow from investing activities	(30,447)	165,834
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,822,774	5,791,064
CASH AND CASH EQUIVALENTS - beginning of year	41,764,992	35,973,928
CASH AND CASH EQUIVALENTS - end of year	$ 45,587,766	$ 41,764,992
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income	$ 3,359,291	$ 7,312,620
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	14,690,071	12,044,598
Bad debt expense	22,540	29,262
Changes in:		
Accounts receivable	209,553	(179,300)
Accrued unbilled revenue	(920,000)	(250,000)
Materials and supplies	(94,795)	(304,598)
Prepayments and other current assets	(219,489)	(159,850)
Accounts payable and other liabilities	(5,983,173)	(1,414,856)
Accrued payroll and benefits	354,841	314,435
Other postemployment benefit obligations	1,961,015	2,485,661
Net cash flow from operating activities	$ 13,379,854	$ 19,877,972
NON-CASH CAPITAL FINANCING ACTIVITY:		
Capital assets received directly from developers and customers	$ 4,662,061	$ 2,654,884
EFC Loan Forgiveness	$ 17,750,000	$ -

The accompanying notes are an integral part of these statements.

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 categories defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and amortization, 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 net investment in capital assets. 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 “net investment in capital assets," 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 8.

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 accounts payable and other liabilities on the statement of net position. The Authority's employees are granted vacation and sick leave in varying amounts based on the underlying 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 must be constructed over a period of time before they are ready for their intended purpose. The total amount of interest capitalized for the year ended December 31, 2013 was $5,026,189.

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 considered non-operating revenue.

Capital Contributions from Developers and Customers
Capital contributions from developers and customers represent amounts for betterments or additions to capital assets that have been contributed to the Authority.

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.

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, 2012, from which the summarized information was obtained.

3. WATER AGREEMENT

The Authority and the City of Rochester, New York (the City) 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, 2013 and 2012, the Authority had net purchases from the City of $1,266,695 and $1,341,636, respectively.

4. 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.

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 2013, the Authority did not hold any investments in money market funds. The money market funds detailed in this section are used as savings accounts by the Authority and the income derived from these accounts is classified as cash and equivalents and not investment income. As of December 31, 2013 and 2012, the Authority's deposits and investments in various banks are detailed on the following page.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Total deposits of cash and cash equivalents, 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:

	2013	
	Carrying Amount	Bank Balance
Demand deposits	$ 909,062	$ 909,062
Time deposits	44,678,704	45,608,521
Total cash and investments	$ 45,587,766	$ 46,517,583
Insured cash - FDIC		$ 750,960
Uninsured - collateralized with securities held by pledging financial institution		46,685,433
Total insured and collateralized cash and cash equivalents		$ 47,436,393

	2012	
	Carrying Amount	Bank Balance
Demand deposits	$ 3,999,096	$ 3,999,096
Time deposits	37,765,896	39,206,777
Total cash and investments	$ 41,764,992	$ 43,205,873
Insured cash - FDIC		$ 4,499,096
Uninsured - collateralized with securities held by pledging financial institution		39,478,943
Total insured and collateralized cash, cash equivalents and marketable securities		$ 43,978,039

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,’ and ‘Restricted Assets’ in the accompanying financial statements, are as follows:

	2013	2012
United States Treasury obligations	$ 7,140,924	$ 13,724,038
United States Treasury bills	36,288,798	45,738,834
Money market funds	41,235,310	37,321,363
Cash	4,444,116	10,752,085
	$ 89,109,148	$ 107,536,320

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

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, 2013 and 2012, or both:

	2013	2012
M&T Bank	$ 32,216,109	$ 29,688,551
Bank of New York	$ 91,660	$ 6,308,466
First Niagara Bank	$ 13,360,607	$ 12,065,653

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance January 1, 2013	Additions	Transfers	Disposals	Balance December 31, 2013
Land and easements	$ 9,481,324	$ -	$ 372,968	$ -	$ 9,854,292
Construction-in-progress	143,041,344	26,796,456	(151,803,196)	-	18,034,604
Total non-depreciable assets	$ 152,522,668	$ 26,796,456	$ (151,430,228)	$ -	$ 27,888,896
Land improvements	$ 1,869,397	$ -	$ 5,724,405	$ -	$ 7,593,802
Production and distribution system	92,581,170	5,026,189	119,829,346	(216,900)	217,219,805
Pipelines and district facilities	232,626,328	2,570,207	20,926,222	-	256,122,757
Meters and services	70,138,829	1,174,398	4,245,639	(304,400)	75,254,466
Automotive equipment	7,141,546	-	704,616	(396,388)	7,449,774
Water rights	1,986,726	-	-	-	1,986,726
Water facility capital lease	78,056,980	-	-	-	78,056,980
Furniture, fixtures and other equipment	2,062,206	10,609	-	-	2,072,815
Total at cost	486,463,182	8,781,403	151,430,228	(917,688)	645,757,125
Less: Accumulated depreciation and amortization for:					
Land improvements	(826,481)	(201,453)	-	-	(1,027,934)
Production and district facilities	(52,712,374)	(5,325,638)	-	214,611	(57,823,401)
Pipelines and district facilities	(91,634,285)	(5,475,502)	-	-	(97,109,787)
Meters and distribution services	(28,116,859)	(1,885,308)	-	189,050	(29,813,117)
Automotive and construction equipment	(3,973,857)	(619,950)	-	297,813	(4,295,994)
Water rights	(820,098)	(49,668)	-	-	(869,766)
Water facility capital lease	(75,644,713)	(508,488)	-	-	(76,153,201)
Furniture, fixtures and other equipment	(1,131,407)	(171,884)	-	-	(1,303,291)
Total accumulated depreciation and amortization	(254,860,074)	(14,237,891)	-	701,474	(268,396,491)
Total depreciable assets - net	$ 231,603,108	$ (5,456,488)	$ 151,430,228	$ (216,214)	$ 377,360,634

5. CAPITAL ASSETS (Continued)

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	101,860,214	60,538,466	(19,357,336)	-	143,041,344
Total non-depreciable assets	$ 111,023,221	$ 60,538,466	$ (19,032,529)	$ (6,490)	$ 152,522,668
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	2,606,475	-	408,897	(953,166)	2,062,206
Total at cost	469,068,241	1,186,023	19,032,529	(2,823,611)	486,463,182
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	(1,902,318)	(158,708)	-	929,619	(1,131,407)
Total accumulated depreciation and amortization	(245,510,607)	(11,751,126)	-	2,401,659	(254,860,074)
Total depreciable assets - net	$ 223,557,634	$ (10,565,103)	$ 19,032,529	$ (421,952)	$ 231,603,108

Depreciation and amortization expense, including water facilities under capital lease, was \$14,237,891 and \$11,751,126 for the years ended December 31, 2013 and 2012, respectively. Included in this amount is amortization expense relating to the water rights of approximately \$50,000 for both years ended December 31, 2013 and 2012.

6. 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 or 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:

	2013	2012
Completed water facilities	$ 78,056,980	$ 78,056,980
Less: Accumulated amortization	(76,153,201)	(75,644,713)
	$ 1,903,779	$ 2,412,267

Amortization expense related to water facilities under capital leases was $508,488 for each of the years ended December 31, 2013 and 2012.

At December 31, 2013 and 2012, 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 on refunding 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 on refunding 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 interest savings over the life of the bond.

At December 31, 2013, approximately $100,000 of the deferred amounts on refunding the 1993 Revenue Bonds and the 1996C bonds are included in deferred outflows on the statement of net position.

6. CAPITAL LEASES (Continued)

Long-term capital lease activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
County bonds issued in 1996 Series A as part of the refunding that mature annually ranging from $244,000 to $331,000 from 2014 to 2019 bearing interest ranging from 3.37% to 5.47%	$ 1,945,789	$ -	$ (229,943)	$ (243,917)	$ 1,471,929
County bonds issued in 2004 as part of the Series 1993 refunding that matures at $561,000 in 2014 bearing interest at 5%	1,141,171	-	(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 $280,000 from 2014 to 2017 bearing interest from 3.75% to 4%	1,355,000	-	(295,000)	(280,000)	780,000
Add: Deferred gain on refunding, net	33,948	-	(18,517)	-	15,431
Long-term capital lease liabilities	$ 4,475,908	$ -	$ (1,122,676)	$ (1,085,872)	$ 2,267,360

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

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
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, net	52,465	-	(18,517)	-	33,948
Long-term capital lease liabilities	$ 5,619,165	$ -	$ (1,143,257)	$ (1,104,159)	$ 3,371,749

6. CAPITAL LEASES (Continued)

The following is a schedule of the future minimum lease payments under the capital leases as of December 31, 2013:

	Principal	Interest	Total
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	312,240	29,209	341,449
2019	330,696	9,921	340,617
	$ 3,337,801	$ 422,003	$ 3,759,804

7. SHORT-TERM DEBT

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 required annual principal payments which began December 1, 2011 and continued until maturity, or December 31, 2012. During 2013, the Authority met certain conditions of the grant agreement with the EFC, and as a result the EFC forgave $17,750,000 of indebtedness under the EFC revolving loan. This debt forgiveness is reported as a special item in the accompanying statement of revenue, expenses and change in net position.

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

	2013	2012
Balance, January 1	$ 32,387,759	$ 27,118,262
Increases	2,226,823	6,140,497
Forgiveness	(17,750,000)	-
Decreases	(16,864,582)	(871,000)
Balance, December 31	$ -	$ 32,387,759

8. 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, 2013 and 2012, the Authority is in compliance with its financial covenants.

Of the 1993 Series B bonds, $2,611,410 or 85.62% of the outstanding bonds at December 31, 2013 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.

At December 31, 2013, approximately $551,000 of the deferred amount on refunding was included in deferred outflows on the statement of net position. For the year ended December 31, 2013, interest expense was $2,476,837 on the water revenue bonds. Cash paid for interest was $3,449,425 during the year ended December 31, 2013.

8. WATER REVENUE BONDS (Continued)

Long-term water revenue bond activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
Bonds issued in 1993 Series B that mature in annual amounts ranging from $740,000 to $825,000 from 2014 to 2016 bearing interest at 5.25%	$ 3,050,000	$ -	$ (705,000)	$ (740,000)	$ 1,605,000
Bonds issued in 2007 as part of refunding that mature in annual amounts ranging from $560,000 to $1,115,000 from 2014 to 2036 bearing interest ranging from 4.082% to 4.97%	17,535,000	-	(550,000)	(560,000)	16,425,000
Bonds issued in 2010 as part of refunding that mature in annual amounts ranging from $930,000 to $2,080,000 from 2014 to 2035 bearing interest ranging from 3.5% to 4.5%	11,455,000	-	(910,000)	(930,000)	9,615,000
Bonds issued in 2010 Series A that mature in annual amounts ranging from $25,000 to $1,275,000 from 2014 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 2014 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	-	-	(155,000)	6,135,000
Bonds issued in 2013 that mature in annual amounts ranging from $465,000 to $960,000 from 2014 to 2042 bearing interest ranging from 0.2% to 4.69%	-	18,125,341	(600,000)	(465,000)	17,060,341
Add: Bond premium	1,547,026	-	(81,869)	-	1,465,157
Long-term water revenue bond liabilities	$ 134,377,026	$ 18,125,341	$ (2,846,869)	$ (2,850,000)	$ 146,805,498

8. WATER REVENUE BONDS (Continued)

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

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
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	906,668	694,449	(54,091)	-	1,547,026
Long-term water revenue bond liabilities	$ 129,551,668	$ 6,984,449	$ (2,159,091)	$ (2,165,000)	$ 132,212,026

8. WATER REVENUE BONDS (Continued)

The following is a schedule of the future minimum payments under the water revenue bonds as of December 31, 2013:

	Principal	Interest	Total
2014	$ 2,850,000	$ 7,718,201	$ 10,568,201
2015	2,950,341	7,631,608	10,581,949
2016	3,385,000	7,538,440	10,923,440
2017	3,530,000	7,421,732	10,951,732
2018	4,375,000	7,303,632	11,678,632
2019 - 2023	21,260,000	34,001,007	55,261,007
2024 - 2028	23,910,000	28,973,888	52,883,888
2029 - 2033	28,965,000	22,146,365	51,111,365
2034 - 2038	31,655,000	13,412,821	45,067,821
2039 - 2042	25,310,000	4,012,400	29,322,400
	$ 148,190,341	$ 140,160,094	$ 288,350,435

9. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description
Generally all of the Authority's full-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.

9. PENSION PLAN (Continued)

Funding Policy (Continued)

The System is noncontributory for the employees 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 2013, 2012 and 2011 were equal to the required contributions for the plan fiscal year as follows:

2013	2012	2011
$ 2,966,328	$ 2,476,883	$ 2,613,697

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 the 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 $818,919 and $803,408 for the years ended December 31, 2013 and 2012, respectively.

10. 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 both December 31, 2013 and 2012 was 129. 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:

	2013	2012
Annual required contribution	$ 3,293,639	$ 3,898,400
Interest on net OPEB obligation	477,326	220,300
Adjustment to ARC	(621,015)	(279,800)
Annual OPEB cost	3,149,950	3,838,900
Contributions made	(1,188,935)	(1,353,239)
Increase in net OPEB obligation	1,961,015	2,485,661
Net OPEB obligation - beginning of year	9,546,525	7,060,864
Net OPEB obligation - end of year	$ 11,507,540	$ 9,546,525

10. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

The following table provides trend information for the Retirement Plan:

Trend Information

Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percent Contributed	Net OPEB Obligation
2013	$ 3,149,950	$ 1,188,935	37.7%	$ 11,507,540
2012	$ 3,838,900	$ 1,353,239	35.3%	$ 9,546,525
2011	$ 3,838,900	$ 1,183,811	30.8%	$ 7,060,864

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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a% of Covered Payroll (b-a)/(c)
1/1/2013	$ -	$ 33,434,116	$ 33,434,116	0.0%	$14,718,831	227.2%
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%

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.

10. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

In the January 1, 2013 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	5.0%
Inflation rate	2.5%
Medical care cost trend rate	8.5%, or 5.8% 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 2021
Prescription drug trend rate	6.25% initially, reduce by decrements each year to an ultimate rate of 5% in 2021.
Dental care cost trend rate	4%
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.

11. 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:

2014	$ 51,427
2015	50,437
2016	49,452
2017	48,658
2018	47,775
2019 - 2023	223,587
	$ 471,336

Total rental expense charged to operations amounted to $88,646 and $351,406 during the years ended December 31, 2013 and 2012, 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 8). Expenditures of $24,061,115 were incurred for this project with Phase I being completed in 2004.

11. 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:

2014	$ 1,500,000
2015	1,650,000
2016	1,850,000
2017	1,850,000
2018	1,850,000
2019 - 2023	7,250,000
2024 - 2028	6,750,000
2029	800,000
	$ 23,500,000

The Authority expensed $1,350,000 and $1,000,000 under this agreement during the years ended December 31, 2013 and 2012, respectively.

The Authority has entered into a water exchange agreement with the City. A stipulation of the agreement requires the City to replace its Rush Reservoir with covered storage of water. After completion of the project the Authority is required to pay for 54% of the project, not to exceed a total project cost of $9,000,000, over 20 years.

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

2014	$ 243,000
2015	243,000
2016	243,000
2017	243,000
2018	243,000
2019 - 2023	1,215,000
2024 - 2028	1,215,000
2029 - 2033	1,215,000
	$ 4,860,000

The Authority expensed $243,000 under this agreement during the year ended December 31, 2013.

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.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies (Continued)

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.

12. 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, 2013 and 2012, there are no liabilities recorded for workers' compensation claims.

13. IMPACT OF FUTURE GASB PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. This standard improves accounting and financial reporting by expanding disclosures and required supplementary information of state and local governmental pension plans. The Authority is required to adopt the provisions of Statement No. 67 for the year ending December 31, 2014. The Authority's management has not yet assessed the impact of this statement on its future financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Reporting for Pension Plans*. This standard improves accounting and financial reporting by requiring governments to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits through additional disclosures and required supplementary information. The Authority is required to adopt the provisions of Statement No. 68 for the year ending December 31, 2015. The Authority's management has not yet assessed the impact of this statement on its future financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2014. A prospective basis should be applied and early adoption is encouraged.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make payments on the guarantee. The Authority is required to adopt the provisions of the Statement for the year ending December 31, 2015. A prospective basis should be applied and early adoption is encouraged.

Bonadio & Co., LLP
Certified Public Accountants

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*

March 6, 2014

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 6, 2014.

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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(Continued)

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.

Bonadio & Co., LLP

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

March 6, 2014

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, 2013. 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, 2013.

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(Continued)

INDEPENDENT AUDITOR'S 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.

Bonadio & Co., LLP

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, 2013

Federal Grantor/Pass-Through Grantor/Federal Program or Cluster Title Number	Federal CFDA Number	Grant Identifying Number	Amounts Expended
U.S. Environmental Protection Agency:			
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	16323-70	$ 2,039,241
Total Expenditures of Federal Awards			$ 2,039,241

The accompanying notes are an integral part of this statement.

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, 2013, the Authority expended $2,039,241 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, 2013, $25,888,800 had been expended and 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, 2013

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unmodified 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 Independent Auditor's Report on Compliance for each Major Federal Program; and Report on Internal Control Over Compliance.

5. The independent auditor's report on compliance for the major federal award programs for the Authority expresses an unmodified 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.