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

Financial Statements as of December 31, 2011 Together with Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

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

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INDEPENDENT AUDITORS' REPORT

March 6, 2012

To the Board of Directors of
Monroe County Water Authority:

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, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2010 financial statements and, in our report dated March 10, 2011, we expressed an unqualified opinion on the respective financial statements of the business-type activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2012 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* and should be considered in assessing the results of our audit.

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INDEPENDENT AUDITORS' REPORT
(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying 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 also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

The Statement of Revenue, Expenses and Change in Net Assets, or income statement, shows how the Authority's net assets 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, 2011. 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 2011 financial statements are presented with comparative totals from 2010.

- The assets of the Authority exceeded its liabilities at the close of its most recent fiscal year by $299,016,442 (net assets). Of this amount $55,578,850 (unrestricted net assets) may be used to meet the Authority's ongoing obligations.

- Operating revenues increased approximately $2,239,000 or 4% during the current year from approximately $52 million for the 2010 fiscal year to approximately $54.3 million for the 2011 fiscal year. Most of this increase in revenues occurred in the residential customer class.

FINANCIAL HIGHLIGHTS (Continued)

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

Project Name	2011
2009 Cement Mortar Lining Program	$ 1,422,666
NYS Route 252 Reconstruction	$ 1,190,314
Mill Road Reconstruction	$ 1,005,031
ESWSP Wetlands Mitigation	$ 659,127
Residential Meter Replacements	$ 658,700
Brighton Water Main Replacements	$ 638,292

- The New Construction Fund, an account established under the Trust Indenture to accumulate monies for future construction, increased by $4,405,814. The fund was reimbursed $4,573,674 from 2010A&B bond proceeds in January 2011. $210,723 was drawn from the fund for expenditures for the East Side Water Supply Project and about $42,863 in interest was deposited into the fund in 2011.

Summary of Operations and Change in Net Assets

	2011	2010
Operating revenues	$ 54,271,015	$ 52,032,001
Operating expenses	(48,531,005)	(46,394,523)
Operating income	5,740,010	5,637,478
Non-operating expenses, net	(5,082,396)	(1,556,391)
Income before capital contributions	657,614	4,081,087
Capital contributions	4,160,854	9,184,780
Change in net assets	$ 4,818,468	$ 13,265,867

Capital contributions are revenues from grants, developers and customers for capital water system improvements donated to the Authority.

FINANCIAL HIGHLIGHTS (Continued)

Financial Position Summary
Net assets are an indication of the Authority's financial strength. The Authority's net assets as of December 31, 2011 are $299,016,442. A summary of the Authority's financial position is shown below.

	2011	2010
ASSETS:		
Current assets	$ 48,552,409	$ 41,983,558
Capital assets	334,580,855	288,781,280
Funds held by trustee	32,071,597	26,834,511
Restricted assets	71,302,462	99,648,863
Total assets	486,507,323	457,248,212
LIABILITIES:		
Current liabilities, including current portion of debt	51,783,970	26,985,131
Other liabilities (long-term)	135,706,911	136,065,107
Total liabilities	187,490,881	163,050,238
NET ASSETS:		
Invested in capital assets, net of related debt	239,086,946	236,497,005
Restricted	4,350,646	4,856,228
Unrestricted	55,578,850	52,844,741
Total net assets	$ 299,016,442	$ 294,197,974

As a water utility, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes pipelines ranging from 2" in diameter to 6' in diameter, 39 booster pumping stations, 42 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 assets also include 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 2012. Based on the recommendation of the Authority's independent rate consultant, the daily base charge increased by a modest amount.

FINANCIAL HIGHLIGHTS (Continued)

MCWA Rates and Charges (Continued)

	2012	2011	2010
Residential/quarterly:			
Daily base charge per connection (up to ¾”)	$ 0.15	$ 0.12	$ 0.12
Commodity charge per 1,000 gallons	$ 2.57	$ 2.57	$ 2.49
Large commercial/monthly:			
Daily base charge per connection	$ 0.43-5.30	$ 0.36 - 4.44	$ 0.36 - 4.44
Commodity charge per 1,000 gallons -			
First 125,000 gallons	$ 2.57	$ 2.57	$ 2.49
Each additional 1,000 gallons	$ 1.75	$ 1.75	$ 1.67
Water district rate:			
Daily base charge per connection	$ 0.43-5.30	$ 0.36 – 4.44	$ 0.36 - 4.44
Commodity charge per 1,000 gallons	$ 1.75	$ 1.75	$ 1.67

Summary of Operating Revenues

	2011	2011 Budget	2010
Water sales:			
Residential/quarterly	$ 41,688,628	$ 42,993,503	$ 39,944,917
Large commercial/monthly	5,164,226	5,105,219	4,967,522
Water districts/wholesale	3,481,817	3,308,546	3,238,811
Total water sales	$ 50,334,671	$ 51,407,268	$ 48,151,250
Other water and operating revenue	3,936,344	3,946,530	3,880,751
Total operating revenue	$ 54,271,015	$ 55,353,798	$ 52,032,001

Revenues

Water revenues are projected based on average historical usage with the typical residential customer using approximately 79 thousand gallons of water annually. This year’s water revenues, which include the residential, large commercial and water district classes, were $2,183,421 greater than those of 2010, but were 2.1% under budget. The increase over the prior year is due to an increase in demand and an increase in water rates.

Other water revenue includes private fire services, $664,025, and late charges, $702,940. 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 2011, the Authority received $725,175 from Monroe County and $1,136,855 from Genesee County. Other operating revenues included cell tower rents of $263,703 in 2011.

Total operating revenue for 2011 was $54,271,015; $2,239,014 greater than 2010, but $1,082,783 or 2% less than budget.

Operating Expenses

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

FINANCIAL HIGHLIGHTS (Continued)

Operating Expenses (Continued)

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

	2011	2011 Budget	2010
Functional expenses:			
Administration	$ 756,097	$ 950,020	$ 678,769
Production/transmission	12,695,118	14,700,550	12,459,414
Engineering	2,761,188	2,778,905	2,620,222
Facilities, fleet & operations	11,509,330	11,873,370	11,121,543
Finance and business services	8,963,604	7,465,285	8,030,070
Total functional expenses	$ 36,685,337	$ 37,768,130	$ 34,910,018

Operating expenses (excluding depreciation and amortization) were 2.9% under budget for 2011.

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

	2011	2010
Operating expenses:		
Salaries and fringe benefits	$ 18,980,674	$ 19,143,633
Operations and maintenance	10,892,659	10,334,310
General and administrative	6,812,004	5,432,075
Depreciation and amortization	11,629,214	11,277,636
Amortization of bond expense and deferred amount of funding	216,454	206,869
Total operating expenses	$ 48,531,005	$ 46,394,523

Total operating expenses increased $2,136,482 or 4.6% from $46,394,523 in 2010. Salaries and fringe benefits were $18,980,674 for 2011 compared to $19,143,633 in 2010, which is a decrease of $162,959. This is largely due to the labor savings generated by the early retirement incentive offered in late 2010.

Operations and maintenance expenses totaled $10,892,659, which is an increase of $558,349 over 2010. Most of this is due to increased costs for lawn and pavement restorations and an increase in the scheduled payment due to Monroe County under the agreement for security services. General and administration expenses increased $1,379,929 to $6,812,004 in 2011 as compared to $5,432,075 in 2010. Approximately $1,200,000 of this increase is due to an increase in retiree expense, which is largely attributed to the change in Other Post Employment Benefits (OPEB) liability in 2011.

Non-Operating Revenue (Expenses)

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

	2011	2010
Non-operating revenue (expenses):		
Federal interest subsidy	$ 2,058,649	$ -
Interest earnings	548,295	253,038
Interest expense	(7,600,855)	(1,740,831)
Loss on disposal of capital assets	(86,516)	(67,407)
Realized and unrealized gains (losses) on investments, net	(1,969)	(1,191)
Total non-operating revenue (expenses), net	$ (5,082,396)	$ (1,556,391)

FINANCIAL HIGHLIGHTS (Continued)

Non-Operating Revenue (Expenses) (Continued)
New in 2011 is $2,058,649 from the interest subsidy on the Build America Bonds (BABs) issued by the Authority in December 2010. Interest expense increased substantially in 2011 due to the issuance of the 2010, 2010A and 2010B (BABs) Bonds in 2010 for the construction of the East Side Water Supply Project and other construction projects.

Interest earnings increased by $295,257 in 2011 primarily due to the new bond proceeds. The Authority's investment philosophy is to buy high quality, low-risk investments such as U.S. Treasury bills and keep them to maturity. By holding these investments until maturity, the Authority ensures a relatively predictable level of interest income and cash flow by avoiding the risks of fluctuations and market value.

DEBT ADMINISTRATION

Water Revenue Bonds
As of December 31, 2011, the Authority has five water revenue bond series outstanding totaling $128,645,000. Included in this total is $3,185,064, 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 $18,080,000 is payable by Genesee County to the Authority under the terms of the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. In April 2010, the Authority issued the 2010 Series bonds to refund the outstanding balance ($9,640,000) of Series 1993A and Series 1997 bonds plus $5,380,000 in new debt for certain capital projects. In December 2010, the Authority also issued Series 2010A & Series 2010B for the construction of the East Side Water Supply Project. The Authority issued $1,585,000 in taxable bonds (Series 2010A) and $92,915,000 in Build America Bonds (Series 2010B).

Monroe County Water Authority Bond Series	Bonds Outstanding as of December 2011	Bonds Outstanding as of December 2010	Principal Due 2012
1993 Series B Refunding	$ 3,720,000	$ 4,355,000	$ 670,000
2007 Series Refunding	18,080,000	18,620,000	545,000
2010 Series	12,345,000	14,425,000	890,000
2010A Series	1,585,000	1,585,000	-
2010B Series	92,915,000	92,915,000	-
Total	$ 128,645,000	$ 131,900,000	$ 2,105,000

In December 2009, the Authority issued a bond anticipation note in the amount of $35,500,000 to the New York State Environmental Facilities Corporation (EFC), known as the 2009 E.F.C. Drinking Water Facility Note - 2009A. This note carries a 0% per annum interest rate. In December 2011, the Authority made a principal payment in the amount of $202,000. At December 31, 2011, the amount of the outstanding liability is $27,118,262.

DEBT ADMINISTRATION (Continued)

Obligations under Capital Lease

The Authority entered into an agreement with Monroe County, dated November 18, 1969, in which Monroe County agreed to finance, and the Authority agreed to construct and pay for, certain improvements within Monroe County. Improvements constructed under this agreement are owned by Monroe County but leased to the Authority. The Authority operates these leased facilities with all the responsibilities of ownership. There remains $6,438,848 of principal and interest outstanding which the Authority is required to pay.

County of Monroe Bond Series	Bonds Outstanding as of December 2011	Bonds Outstanding as of December 2010	Principal Due 2012
1996 Series A Refunding	$ 2,162,267	$ 2,365,285	$ 216,478
2004 Series Refunding	1,729,433	2,343,365	588,262
2008 Series C Refunding	1,675,000	1,975,000	320,000
Total	$ 5,566,700	$ 6,683,650	$ 1,124,740

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 2010. 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 and competitive rates are being maintained.

East Side Water Supply Project

Construction on the East Side Water Supply Project continues with the tunnel being approximately 70% complete at the present time and just slightly behind schedule. The pump station and water treatment plant are slightly ahead of schedule and both are approximately 25% complete. Three out of the six transmission pipelines associated with the project are complete, and the remaining three pipelines will be bid during the first quarter of 2012. The project is basically on schedule and on budget, and the intent is to be operational in the first quarter of 2013.

ECONOMIC FACTORS AND NEXT YEAR'S GOALS (Continued)

In addition, in 2012, the Authority intends to spend $10,914,700 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	$ 4,500,000
Meter Replacements	1,505,200
Service/Hydrant/Valve Replacements	850,000
Tank Painting & Rehabilitation	770,000
Total	$ 7,625,200

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 ASSETS
DECEMBER 31, 2011
(With Comparative Totals for 2010)

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,973,928	$ 30,985,936
Accounts receivable	4,825,918	3,711,572
Accrued unbilled revenue	5,750,000	5,460,000
Materials and supplies	1,170,736	1,224,230
Prepayments and other current assets	831,827	601,820
Total current assets	48,552,409	41,983,558
OTHER ASSETS:		
Capital assets -		
Nondepreciable	111,023,221	67,784,122
Depreciable, net	223,557,634	220,997,158
Funds held by trustee -		
Capital improvement fund	8,424,199	7,592,927
New construction fund	23,647,398	19,241,584
Total other assets	366,652,452	315,615,791
RESTRICTED ASSETS:		
Construction fund held by trustee	66,951,816	94,792,635
Debt service fund held by trustee	2,231,890	2,714,562
Debt service reserve held by trustee	2,118,756	2,141,666
Total restricted assets	71,302,462	99,648,863
Total assets	486,507,323	457,248,212
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of water revenue bonds	2,105,000	3,255,000
Current portion of obligations under capital leases	1,124,740	1,116,950
Bond anticipation note	27,118,262	9,790,506
Accounts payable and accrued expenses	13,934,001	8,013,948
Accrued payroll and benefits	4,242,032	3,951,212
Accrued interest on water revenue and capital lease bonds	3,007,628	648,947
Customers' deposits	252,307	208,568
Total current liabilities	51,783,970	26,985,131
OTHER LIABILITIES:		
Water revenue bonds, net of unamortized bond discount, issuance costs and deferred amount on refunding of $2,221,892 and $2,425,254 for 2011 and 2010, respectively	124,318,108	126,219,746
Obligations under capital leases, net of deferred amount on refunding of $114,021 and $127,114 for 2011 and 2010, respectively	4,327,939	5,439,586
Other post-employment benefit obligations	7,060,864	4,405,775
Total other liabilities	135,706,911	136,065,107
Total liabilities	187,490,881	163,050,238
NET ASSETS		
INVESTED IN CAPITAL ASSETS, net of related debt	239,086,946	236,455,396
RESTRICTED	4,350,646	4,856,228
UNRESTRICTED	55,578,850	52,886,350
Total net assets	$ 299,016,442	$ 294,197,974

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 ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

	2011	2010
OPERATING REVENUE:		
Water sales - residential	$ 41,688,628	$ 39,944,917
Water sales - industrial/commercial	5,164,226	4,967,522
Water sales - water district	3,481,817	3,238,811
Other water revenue	3,340,435	3,314,272
Other operating revenue	595,909	566,479
Total operating revenue	54,271,015	52,032,001
OPERATING EXPENSES:		
Salaries and fringe benefits	18,980,674	19,143,633
Operations and maintenance	10,892,659	10,334,310
General and administrative	6,812,004	5,432,075
Depreciation and amortization	11,629,214	11,277,636
Amortization of bond expense and deferred amount on refunding	216,454	206,869
Total operating expenses	48,531,005	46,394,523
Total operating income	5,740,010	5,637,478
NON-OPERATING REVENUE (EXPENSES):		
Federal interest subsidy	2,058,649	-
Interest earnings	548,295	253,038
Interest expense	(7,600,855)	(1,740,831)
Loss on disposal of capital assets	(86,516)	(67,407)
Unrealized and realized losses on investments, net	(1,969)	(1,191)
Total non-operating expenses, net	(5,082,396)	(1,556,391)
INCOME BEFORE CAPITAL CONTRIBUTIONS	657,614	4,081,087
CAPITAL CONTRIBUTIONS:		
Grants	-	5,760,500
Developers and customers	4,160,854	3,424,280
Total capital contributions	4,160,854	9,184,780
CHANGE IN NET ASSETS	4,818,468	13,265,867
NET ASSETS - beginning of year	294,197,974	280,932,107
NET ASSETS - end of year	$ 299,016,442	$ 294,197,974

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, 2011
(With Comparative Totals for 2010)

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 52,890,096	$ 52,130,785
Payments to suppliers	(11,940,811)	(11,892,141)
Payments to employees	(16,034,765)	(17,838,317)
Net cash flow from operating activities	24,914,520	22,400,327
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Deposits into funds held by trustee	(4,731,504)	(91,905,996)
Withdrawals from funds held by trustee	27,840,819	-
Purchases of capital assets	(53,488,002)	(35,950,829)
Proceeds from disposal of capital assets	133,550	163,893
Proceeds from water revenue bond issuance	-	110,810,000
Proceeds from bond anticipation note issuance	17,529,756	9,790,506
Federal interest subsidy	2,058,649	-
Bond premium	-	960,760
Repayments and redemptions of water revenue bonds	(3,457,000)	(12,665,000)
Debt issuance costs	-	(1,941,310)
Repayments of obligations under capital leases	(1,116,950)	(1,082,447)
Interest paid	(5,242,174)	(1,727,808)
Net cash flow from capital and related financing activities	(20,472,856)	(23,548,231)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from investments	-	8,187,083
Interest received	546,328	251,847
Net cash flow from investing activities	546,328	8,438,930
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,987,992	7,291,026
CASH AND CASH EQUIVALENTS - beginning of year	30,985,936	23,694,910
CASH AND CASH EQUIVALENTS - end of year	$ 35,973,928	$ 30,985,936
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income	$ 5,740,010	$ 5,637,478
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	11,845,668	11,484,505
Bad debt expense	20,308	3,001
Changes in:		
Accounts receivable	(1,134,654)	207,129
Accrued unbilled revenue	(290,000)	(140,000)
Materials and supplies	53,494	5,780
Prepayments and other current assets	(230,007)	(235,058)
Accounts payable and accrued expenses	5,920,053	4,100,521
Accrued payroll and benefits	290,820	(255,122)
Other post-employment benefit obligations, net	2,655,089	1,560,438
Customer deposits	43,739	31,655
Net cash flow from operating activities	$ 24,914,520	$ 22,400,327
NON-CASH CAPITAL FINANCING ACTIVITY:		
Capital assets received directly from developers and customers	$ 4,160,854	$ 3,424,280

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. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The Authority has elected not to follow subsequent private sector guidance.

Basis of Presentation

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

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted net assets - This component of net assets 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 assets - This component consists of net assets that do not meet the definition of "invested in capital assets, net of related debt," or "restricted".

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 7.

Accrued Payroll and Benefits

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

Other Postemployment Benefits

The Authority provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts. The Authority recognized the cost of providing these benefits by recording $1,183,811 and $1,095,062 as operating expenses in 2011 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Discount and Expenses
Bond discount and expenses 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.

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. Beginning in 2011, the Authority began receiving Federal interest subsidies which are also considered non-operating revenue.

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

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

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

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

Comparative Information
The financial statements include certain prior year summarized comparative information in total but not in the same detail used for current year presentation. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2010, from which the summarized information was obtained.

3. WATER AGREEMENT

The Authority and the City of Rochester, New York entered into an agreement in 2011 that provides for the exchange of water between the two entities at a fixed rate that is established annually based on the weighted average cost of each entity's typical residential customer. Authority consumption of the City's water is offset against the City's consumption of the Authority's water with the net consumption charged at the annual exchange rate. For the years ended December 31, 2011 and 2010, the Authority had net purchases from the City of $981,177 and $1,199,317, 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 2011, the Authority did not hold any investments in money market funds. The money market funds detailed below are used as savings accounts by the Authority and the income derived from these accounts are classified as cash and equivalents and not investment income. As such these funds do not fall under this requirement. As of December 31, 2011 and 2010, the Authority's deposits and investment in various banks are detailed on the following page.

In 2010, the Authority invested in a money market account which did not require collateral because it invested exclusively in debt instruments of the United States Treasury. Deposits held by the Authority in this investment were $10,654 at December 31, 2010, and are excluded from the table on the following page.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

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

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

	2010	
	Carrying Amount	Bank Balance
Demand deposits	$ 30,975,282	$ 31,960,091
Total cash and investments	$ 30,975,282	$ 31,960,091
Insured cash - FDIC		$ 2,078,109
Uninsured - collateralized with securities held by pledging financial institution		30,321,249
Total insured and collateralized cash, cash equivalents and marketable securities		$ 32,399,358

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

	2011	2010
United States Treasury obligations	$ 294,674	$ 411,519
United States Treasury bills	103,077,848	126,068,471
Money market funds	31,637,822	25,700,960
Cash	4,337,643	5,288,360
	$ 139,347,987	$ 157,469,310

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, 2011 and 2010, or both:

	2011	2010
HSBC Bank	$ 9,243,772	$ 9,174,502
M&T Bank	$ 23,001,741	$ 17,277,978
First Niagara Bank	$ 4,523,480	$ 4,504,966

5. CAPITAL ASSETS

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

	Balance January 1, 2011	Additions	Transfers	Disposals	Balance December 31, 2011
Land and easements	$ 9,089,712	$ -	$ 73,295	$ -	$ 9,163,007
Construction-in-progress	58,694,410	55,561,971	(12,396,167)	-	101,860,214
Total non-depreciable assets	$ 67,784,122	$ 55,561,971	$ (12,322,872)	$ -	$ 111,023,221
Land improvements	$ 1,293,807	$ -	$ 584,127	$ -	$ 1,877,934
Production and distribution system	91,444,206	-	1,608,883	(99,920)	92,953,169
Pipelines and district facilities	209,500,799	1,213,612	7,055,233	-	217,769,644
Meters and services	64,077,193	873,273	2,131,540	(258,948)	66,823,058
Automotive equipment	6,633,271	-	824,070	(463,086)	6,994,255
Water rights	1,986,726	-	-	-	1,986,726
Water facility capital lease	78,056,980	-	-	-	78,056,980
Furniture, fixtures and other equipment	2,606,561	-	119,019	(119,105)	2,606,475
Total at cost	455,599,543	2,086,885	12,322,872	(941,059)	469,068,241

5. CAPITAL ASSETS (Continued)

	Balance January 1, 2011	Additions	Transfers	Disposals	Balance December 31, 2011
Less: Accumulated depreciation and amortization for:					
Land improvements	$ (502,469)	$ (243,430)	$ -	$ -	$ (745,899)
Production and distribution system	(46,201,875)	(3,579,159)	-	85,353	(49,695,681)
Pipelines and district facilities	(81,870,938)	(4,751,273)	-	-	(86,622,211)
Meters and distribution services	(25,134,492)	(1,682,016)	-	174,324	(26,642,184)
Automotive and construction equipment	(3,683,899)	(660,575)	-	348,815	(3,995,659)
Water rights	(720,725)	(49,705)	-	-	(770,430)
Water facility capital lease	(74,606,730)	(529,495)	-	-	(75,136,225)
Furniture, fixtures and other equipment	(1,881,257)	(133,561)	-	112,500	(1,902,318)
Total accumulated depreciation and amortization	(234,602,385)	(11,629,214)	-	720,992	(245,510,607)
Total depreciable assets - net	$ 220,997,158	$ (9,542,329)	$ 12,322,872	$ (220,067)	$ 223,557,634

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance January 1, 2010	Additions	Transfers	Disposals	Balance December 31, 2010
Land and easements	$ 9,057,876	$ -	$ 31,836	$ -	$ 9,089,712
Construction-in-progress	23,200,143	43,152,071	(7,657,804)	-	58,694,410
Total non-depreciable assets	$ 32,258,019	$ 43,152,071	$ (7,625,968)	$ -	$ 67,784,122
Land improvements	$ 1,293,807	$ -	$ -	$ -	$ 1,293,807
Production and distribution system	90,989,646	40,314	414,246	-	91,444,206
Pipelines and district facilities	203,925,154	1,103,875	4,471,770	-	209,500,799
Meters and services	61,612,047	839,349	1,834,290	(208,493)	64,077,193
Automotive equipment	6,305,965	-	883,067	(555,761)	6,633,271
Water rights	1,986,726	-	-	-	1,986,726
Water facility capital lease	78,056,980	-	-	-	78,056,980
Furniture, fixtures and other equipment	2,583,966	-	22,595	-	2,606,561
Total at cost	446,754,291	1,983,538	7,625,968	(764,254)	455,599,543

5. CAPITAL ASSETS (Continued)

	Balance January 1, 2010	Additions	Transfers	Disposals	Balance December 31, 2010
Less: Accumulated depreciation and amortization for:					
Land improvements	$ (411,624)	$ (90,845)	$ -	$ -	$ (502,469)
Production and distribution system	(42,648,884)	(3,552,991)	-	-	(46,201,875)
Pipelines and district facilities	(77,274,394)	(4,596,544)	-	-	(81,870,938)
Meters and distribution services	(23,644,471)	(1,625,021)	-	135,000	(25,134,492)
Automotive and construction equipment	(3,493,251)	(588,602)	-	397,954	(3,683,899)
Water rights	(671,020)	(49,705)	-	-	(720,725)
Water facility capital lease	(73,958,544)	(648,186)	-	-	(74,606,730)
Furniture, fixtures and other equipment	(1,755,515)	(125,742)	-	-	(1,881,257)
Total accumulated depreciation and amortization	(223,857,703)	(11,277,636)	-	532,954	(234,602,385)
Total depreciable assets - net	$ 222,896,588	$ (9,294,098)	$ 7,625,968	$ (231,300)	$ 220,997,158

Depreciation and amortization expense, including water facilities under capital lease, was $11,629,214 and $11,277,636 for the years ended December 31, 2011 and 2010, respectively. Included in this amount is amortization expense relating to the water rights of $49,705 for both years ended December 31, 2011 and 2010.

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 and the related bond issue, whichever is shorter. The lease obligation is shown as a liability with the related interest expense reported as non-operating expenses.

6. CAPITAL LEASES (Continued)

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

	2011	2010
Completed water facilities	$ 78,056,980	$ 78,056,980
Less: Accumulated amortization	(75,136,225)	(74,606,730)
	$ 2,920,755	$ 3,450,250

Amortization expense related to water facilities under capital leases was $529,495 and $648,186 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, the amount of the County bonds outstanding is included in obligations under capital leases. The expended portion of the bond proceeds is included in water facilities under capital leases.

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

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

Long-term capital lease activity for the year ended December 31, 2011 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 in annual amounts ranging from $203,000 to $331,000 from 2012 to 2019 bearing interest ranging from 5.125% to 6.00%	$ 2,365,285	$ -	$ (203,018)	$ (216,478)	$ 1,945,789
County bonds issued in 2004 as part of the series 1993 refunding that mature in annual amounts ranging from $561,000 to $614,000 from 2012 to 2014 bearing interest paid ranging from 4.00% to 5.00%	2,343,365	-	(613,932)	(588,262)	1,141,171

6. CAPITAL LEASES (Continued)

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
County bonds issued in 2008 Series C as part of the Series 1996C refunding that mature in annual amounts ranging from $240,000 to $320,000 from 2011 to 2014 bearing interest paid ranging from 3.00% to 4.00%	$ 1,975,000	$ -	$ (300,000)	$ (320,000)	$ 1,355,000
Add: Deferred loss on refunding	70,982	-	(18,517)	-	52,465
Less: Deferred gain on refunding	(198,096)	31,610	-	-	(166,486)
Long-term capital lease liabilities	$ 6,556,536	$ 31,610	$(1,135,467)	$(1,124,740)	$ 4,327,939

Long-term capital lease activity for the year ended December 31, 2010 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 in annual amounts ranging from $203,000 to $331,000 from 2011 to 2019 bearing interest ranging from 5.125% to 6.00%	$ 2,557,317	$ -	$ (192,032)	$ (203,018)	$ 2,162,267
County bonds issued in 2004 as part of the series 1993 refunding that mature in annual amounts ranging from $561,000 to $614,000 from 2011 and 2014 bearing interest paid ranging from 4.00% to 5.00%	2,933,780	-	(590,415)	(613,932)	1,729,433

6. CAPITAL LEASES (Continued)

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
County bonds issued in 2008 Series C as part of the Series 1996C refunding that mature in annual amounts ranging from $240,000 to $320,000 from 2011 and 2014 bearing interest paid ranging from 3.00% to 4.00%	$ 2,275,000	$ -	$ (300,000)	$ (300,000)	$ 1,675,000
Add: Deferred loss on refunding	89,499	-	(18,517)	-	70,982
Less: Deferred gain on refunding	(229,705)	31,609	-	-	(198,096)
Long-term capital lease liabilities	$ 7,625,891	$ 31,609	$(1,100,964)	$(1,116,950)	$ 5,439,586

The following is a schedule of the future minimum lease payments under the capital leases as of December 31, 2011:

	Principal	Interest	Total
2012	$ 1,124,740	$ 251,544	$ 1,376,284
2013	1,104,159	198,602	1,302,761
2014	1,085,872	145,444	1,231,316
2015	534,873	105,876	640,749
2016	540,337	79,363	619,700
2017 - 2019	1,176,719	91,320	1,268,039
	$ 5,566,700	$ 872,149	$ 6,438,849

7. SHORT-TERM DEBT

Short-term debt provides financing for the Authority. On December 14, 2009, the Authority issued a Bond Anticipation Note (BAN) Series 2009A at 0% interest under the New York State Environmental Facilities Corporation (EFC) short-term financing program for $35,500,000. The BAN requires annual principal payments which began December 1, 2011 and continues until maturity, or December 31, 2012. At this time, the Authority has not received any communication from EFC regarding the ultimate maturity of this BAN.

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

	2011	2010
Balance, January 1	$ 9,790,506	$ -
Increases	17,529,756	9,790,506
Decreases	(202,000)	-
Balance, December 31	$ 27,118,262	$ 9,790,506

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, 2011 and 2010, the Authority is in compliance with its financial covenants.

Of the 1993 Series B bonds, $3,185,064 or 85.62% of the outstanding bonds at December 31, 2011 is payable by the County to the Authority under the terms of the Construction Services Agreement between the County and the Authority dated December 21, 1990. In addition, the entire $20,000,000 of the 2001 Series was payable by Genesee County to the Authority under the terms of the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. The first principal payment on the 2001 Series was made in 2006. During 2007, the bonds were advance refunded by the Authority on behalf of Genesee County with the issuance of the Series 2007 Bonds noted on the following page.

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

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

In 2010, the Authority issued the 2010B Series bond, a Taxable Build America Bond, and receives an interest subsidy over the life of the bond.

8. WATER REVENUE BONDS (Continued)

Long-term water revenue bond activity for the year ended December 31, 2011 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%	$ 4,355,000	-	$ (635,000)	$ (670,000)	$ 3,050,000
Bonds issued in 2007 as part of refunding that mature in annual amounts ranging from $540,000 to $1,115,000 from 2012 to 2036 bearing interest ranging from 3.63% to 4.97%	18,620,000	-	(540,000)	(545,000)	17,535,000
Bonds issued in 2010 as part of refunding that mature in annual amounts ranging from $205,000 to $2,080,000 from 2011 to 2035 bearing interest ranging from 2.0% to 4.5%	14,425,000	-	(2,080,000)	(890,000)	11,455,000
Bonds issued in 2010 Series A that mature in annual amounts ranging from $25,000 to $1,275,000 from 2012 to 2017 bearing interest ranging from 2.190% 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 4.494% to 6.339%	92,915,000	-	-	-	92,915,000
Add: Deferred gain on refunding	960,760	-	(54,092)	-	906,668
Less: Deferred loss on refunding	(771,265)	-	71,473	-	(699,792)
Less: Debt issue costs	(2,614,749)	-	185,981	-	(2,428,768)
Long-term water revenue bond liabilities	$129,474,746	$ -	$ (3,051,638)	$ (2,105,000)	$124,318,108

8. WATER REVENUE BONDS (Continued)

Long-term water revenue bond activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Due After One Year
Bonds issued in 1993 Series A that mature in annual amounts ranging from $175,000 to $260,000 from 2011 to 2018 bearing interest at 5.25%	$ 1,945,000	$ -	$ (1,945,000)	$ -	$ -
Bonds issued in 1993 Series B that mature in annual amounts ranging from $635,000 to $825,000 from 2011 to 2016 bearing interest at 5.25%	4,960,000	-	(605,000)	(635,000)	3,720,000
Bonds issued in 1997 as part of the refunding that mature in annual amounts ranging from $260,000 to $1,725,000 from 2011 to 2019 bearing interest ranging from 4.75% to 5.00%	7,695,000	-	(7,695,000)	-	-
Bonds issued in 2007 as part of refunding that mature in annual amounts ranging from $540,000 to $1,115,000 from 2011 to 2036 bearing interest ranging from 3.63% to 4.97%	19,155,000	-	(535,000)	(540,000)	18,080,000
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%	-	16,310,000	(1,885,000)	(2,080,000)	12,345,000
Bonds issued in 2010 Series A that mature in annual amounts ranging from $25,000 to $1,275,000 from 2011 to 2017 bearing interest ranging from 2.190% to 2.6%	-	1,585,000	-	-	1,585,000
Bonds issued in 2010 Series B as part of refunding that mature in annual amounts ranging from $25,000 to $1,275,000 from 2011 to 2042 bearing interest ranging from 4.494% to 6.339%	-	92,915,000	-	-	92,915,000
Add: Deferred gain on refunding	-	960,760	-	-	960,760
Less: Deferred loss on refunding	(701,193)	(527,039)	456,967	-	(771,265)
Less: Debt issue costs	(937,288)	(1,809,769)	132,308	-	(2,614,749)
Long-term water revenue bond liabilities	$32,116,519	$109,433,952	$(12,075,725)	$ (3,255,000)	$126,219,746

8. WATER REVENUE BONDS (Continued)

The following is a schedule of the future minimum payments under the water revenue bonds as of December 31, 2011:

	Principal	Interest	Total
2012	$ 2,105,000	$ 7,098,291	$ 9,203,291
2013	2,165,000	7,031,392	9,196,392
2014	2,230,000	6,959,691	9,189,691
2015	2,325,000	6,878,413	9,203,413
2016	2,745,000	6,793,117	9,538,117
2017 - 2021	17,370,000	32,053,206	49,423,206
2022 - 2026	18,485,000	28,050,569	46,535,569
2027 - 2031	22,525,000	22,381,405	44,906,405
2032 - 2036	27,345,000	15,139,364	42,484,364
2037 - 2041	25,575,000	6,956,344	32,531,344
2042	5,775,000	373,010	6,148,010
	$ 128,645,000	$ 139,714,802	$ 268,359,802

9. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

Generally all of the Authority's employees (excluding part-time employees) participate in the New York State and Local Employees' Retirement System (the System). The System is a cost-sharing multiple-employer retirement system. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith Office Building, Albany, New York, 12244.

Funding Policy

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

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

9. PENSION PLAN (Continued)

Funding Policy (Continued)

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

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems 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.

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 2011, 2010 and 2009 were equal to the required contributions for the plan fiscal year as follows:

2011	2010	2009
$ 2,613,697	$ 1,510,752	$ 832,010

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

Single Employer Pension Plan Description

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

The Plan provides for tax-deferred participant contributions between a minimum of $260 per year and a maximum contribution of the lesser of 100% of the participant's compensation for the calendar year or the maximum amount permitted by Section 457(e)(15) of the Internal Revenue Code. Benefits paid from the Plan consist of retirement benefits, certain hardship withdrawals and loans to participants as applicable. Participants should refer to the Plan's document for a complete description of the Plan's provisions.

Total employee contributions remitted by the Authority to the Plan were $724,747 and $1,092,480 for the years ended December 31, 2011 and 2010, respectively.

10. POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The Authority provides certain health care benefits for retired employees. The Authority administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Post-employment Benefit Plan (OPEB). In general, the Authority provides health care benefits for those retired personnel who are eligible for a pension through the New York State Employees' Retirement System (ERS). The Retirement Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The number of retired employees currently eligible to receive benefits at December 31, 2011 and 2010, was 128 and 127, respectively.

10. POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Plan Description (Continued)
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:

	2011	2010
Annual required contribution	$ 3,898,400	$ 2,672,500
Interest on net OPEB obligation	220,300	63,100
Adjustment to ARC	(279,800)	(80,100)
Annual OPEB cost	3,838,900	2,655,500
Contributions made	(1,183,811)	(1,095,062)
Increase in net OPEB obligation	2,655,089	1,560,438
Net OPEB obligation - beginning of year	4,405,775	2,845,337
Net OPEB obligation - end of year	$ 7,060,864	$ 4,405,775

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
2011	$3,838,900	$1,183,811	30.8%	$7,060,864
2010	$2,655,500	$1,095,062	41.2%	$4,405,775
2009	$2,655,500	$1,071,675	40.4%	$2,845,337

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.

10. POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

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)
1/1/2011	$ -	$ 38,311,700	$ 38,311,700	0.0%	$13,742,114	278.8%
1/1/2009	$ -	$ 26,490,000	$ 26,490,000	0.0%	$14,554,205	182.0%
1/1/2007	$ -	$ 17,499,400	$ 17,499,400	0.0%	$13,065,608	133.9%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

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

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

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.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

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

2012	$ 345,151
2013	121,515
2014	82,521
2015	79,756
2016	149,562
2017 - 2021	271,513
2022 - 2023	89,891
	$ 1,139,909

Total rental expense charged to operations amounted to $327,613 and $356,268 during the years ended December 31, 2011 and 2010, 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.

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 safety and security 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:

2012	$ 1,000,000
2013	1,350,000
2014	1,500,000
2015	1,650,000
2016	1,850,000
2017 - 2021	8,250,000
2022 - 2027	8,100,000
2028 - 2029	2,150,000
	$ 25,850,000

The Authority expensed $750,000 and $400,000 under this agreement during the years ended December 31, 2011 and 2010, respectively.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

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

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

12. TERMINATION BENEFITS

During 2010, the Authority approved a one-time early retirement incentive plan, known as the 2010-2011 Retirement Incentive Program (the Program), for all employees. This Program was initiated by the System and has two different incentive programs, Part A and Part B. To be eligible for Part A under the Program, employees were required to have 10 years of service with the Authority and be at least 50 years of age or employees must be at least 55 years of age and have five or more years of service as of the date of retirement. To be eligible for Part B of the Program, employees must be Tier 2, 3, or 4 and must be at least 55 years of age and have 25 or more years of service credit. For both Part A and Part B of the Program, an employee also must have been in active service from February 1, 2010 until the commencement of the open period on September 13, 2010. Eligible employees under both Part A and B of the Program were required to retire by December 11, 2010.

Employees taking advantage of Part A of the Program received approximately one month of additional service credit for each year of service, up to a maximum of three additional years of service credit. Employees taking advantage of Part B of the Program are allowed to retire at age 55 without a benefit reduction.

During the year ended December 31, 2010, seventeen employees elected early retirement under the Program. Sixteen of those employees were included in Part A of the Program and one of those employees was included in Part B. The estimated present value of the benefits provided to the retirees under the Program is reported as a liability to the Authority of approximately $778,000 and is included in accrued liabilities in the statement of net assets at December 31, 2010. The Authority funded the Program as a one-time payment to the System in December 2011.

13. SELF-INSURANCE

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

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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, 2012

To the Board of Directors of
Monroe County Water Authority:

We have audited 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, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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(Continued)

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 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the New York State Authorities Budget Office, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 6, 2012

To the Board of Directors of
Monroe County Water Authority:

Compliance

We have audited Monroe County Water Authority's (the Authority's), 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 compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal program for the year ended December 31, 2011. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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(Continued)

Internal Control Over Compliance (Continued)
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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the New York State Authorities Budget Office, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

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, 2011

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	$ 13,129,301
Total Expenditures of Federal Awards			$ 13,129,301

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, the Authority expended $13,129,301 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, 2011, $17,529,756 had been received for this project since inception.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Monroe County Water Authority (the Authority).
2. No significant deficiencies or material weaknesses relating to the audit of the basic financial statements are reported in the 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 Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.
6. No audit findings relative to the financial statement audit for the Authority are required to be reported in accordance with Section 501(a) of OMB Circular A-133.
7. The program tested as a major program was:
   - CFDA No. 66.468 - ARRA - Capitalization Grants for Drinking Water State Revolving Funds
8. The threshold for distinguishing Types A and B programs was $393,879.
9. The Authority was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

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

None.