

**RENSELAER COUNTY
WATER AND SEWER AUTHORITY**

Financial Statements

December 31, 2011 and 2010

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Financial Statements

December 31, 2011 and 2010

Financial Statements

Independent Auditors' Report	1
Statements of Net Assets.....	3
Statements of Revenues, Expenses and Change in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	8

Compliance Report

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>	15
Schedule of Findings and Responses	17



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Rensselaer County Water and Sewer Authority (the "Authority"), a component reporting unit of Rensselaer County, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and change in net assets, and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Authority has omitted the Management's Discussion and Analysis for the year ended December 31, 2011, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Rensselaer County Water and Sewer Authority as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012, on our consideration of Rensselaer County Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
March 29, 2012

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Net Assets

	December 31,	
	2011	2010
		As adjusted (Note F)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,994	\$ 62,505
Restricted cash and cash equivalents	3,815,742	5,254,124
Accounts receivable	600	3,000
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	3,869,336	5,319,629
RESTRICTED CASH AND CASH EQUIVALENTS	906,158	906,058
PROPERTY AND EQUIPMENT, net	10,003,518	2,891,352
CONSTRUCTION IN PROGRESS	799,840	6,404,889
BOND ISSUANCE COSTS, net	382,513	393,288
	<hr/>	<hr/>
TOTAL ASSETS	\$ 15,961,365	\$ 15,915,216

See accompanying notes to financial statements.

	December 31,	
	2011	2010
		As adjusted (Note F)
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of revenue bonds	\$ 155,000	\$ 145,000
Accounts payable	-	118,572
Accrued interest	246,087	247,778
	<u>401,087</u>	<u>511,350</u>
TOTAL CURRENT LIABILITIES	401,087	511,350
REVENUE BONDS, net of current portion	<u>14,115,000</u>	<u>14,270,000</u>
TOTAL LIABILITIES	14,516,087	14,781,350
NET ASSETS		
Invested in capital assets, net of related debt	76,754	258,474
Restricted for debt service	1,188,658	684,055
Restricted for construction of capital assets	126,261	125,844
Unrestricted	53,605	65,493
	<u>1,445,278</u>	<u>1,133,866</u>
TOTAL NET ASSETS	1,445,278	1,133,866
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 15,961,365</u></u>	<u><u>\$ 15,915,216</u></u>

See accompanying notes to financial statements.

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Change in Net Assets

	For the Year Ended December 31,	
	2011	2010
		As adjusted (Note F)
OPERATING REVENUES		
Water and sewer facilities service fees	\$ 896,567	\$ 896,816
Service and connection fees	7,200	45,000
TOTAL OPERATING REVENUES	<u>903,767</u>	<u>941,816</u>
OPERATING EXPENSES		
Depreciation	170,945	45,800
Repairs and maintenance	17,211	2,700
Amortization	10,775	10,775
Professional fees	7,665	5,500
Miscellaneous	1,275	903
TOTAL OPERATING EXPENSES	<u>207,871</u>	<u>65,678</u>
OPERATING INCOME	695,896	876,138
NON-OPERATING REVENUES (EXPENSES)		
Interest income	670	2,381
Interest expense	(385,154)	(386,346)
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>(384,484)</u>	<u>(383,965)</u>
CHANGE IN NET ASSETS	311,412	492,173
NET ASSETS, beginning of year	<u>1,133,866</u>	<u>641,693</u>
NET ASSETS, end of year	<u>\$ 1,445,278</u>	<u>\$ 1,133,866</u>

See accompanying notes to financial statements.

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Cash Flows

	For the Year Ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from water and sewer facilities service fees	\$ 898,967	\$ 893,816
Proceeds from service and connection fees	7,200	45,000
Payments for general and administrative expenses	<u>(26,151)</u>	<u>(9,103)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	880,016	929,713
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for construction of capital assets	(1,796,634)	(3,109,949)
Principal payments on revenue bonds payable	(145,000)	(145,000)
Interest payments on revenue bonds, net of amount capitalized	<u>(386,845)</u>	<u>(387,893)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,328,479)	(3,642,842)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from interest income	<u>670</u>	<u>2,381</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>670</u>	<u>2,381</u>
NET DECREASE IN CASH	(1,447,793)	(2,710,748)
Cash and cash equivalents at beginning of year	<u>6,222,687</u>	<u>8,933,435</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,774,894</u>	<u>\$ 6,222,687</u>

See accompanying notes to financial statements.

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Statements of Cash Flows--Continued

	For the Year Ended December 31,	
	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 695,896	\$ 876,138
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	170,945	45,800
Amortization	10,775	10,775
Changes in operating assets and liabilities:		
Accounts receivable	2,400	(3,000)
	<u>2,400</u>	<u>(3,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 880,016</u>	<u>\$ 929,713</u>

See accompanying notes to financial statements.

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements

December 31, 2011 and 2010

NOTE A--AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Net assets 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 bonds, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in restricted net assets.

Restricted net assets: This component of net assets represents external restrictions on net assets imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets: This component represents net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

Capital Assets

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

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

**NOTE A--AGENCY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--
Continued**

Bond Issuance Costs

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

Income Taxes

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

Use of Estimates

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

NOTE B--RESTRICTED CASH AND CASH EQUIVALENTS

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

	2011	2010
Restricted for future construction – represents the unspent proceeds from the 2008 water and sewer revenue bonds that were earmarked for the construction of water and sewer facilities.	\$ 3,244,208	\$ 4,907,132
Restricted for debt service – represents cash deposits restricted to fulfill the debt service requirements on the outstanding water and sewer revenue bonds when the payments are due and payable.	571,534	346,992
Restricted for debt service reserve - represents amounts required under the 2008 water and sewer revenue bond resolution to meet future debt service requirements.	<u>906,158</u>	<u>906,058</u>
	<u>\$ 4,721,900</u>	<u>\$ 6,160,182</u>

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE C--CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Subtractions</u>	<u>Ending Balance</u>
Sewer facilities, as restated (see Note F)	\$ 3,089,815	\$ -	\$ -	\$ 3,089,815
Water facilities	-	7,283,111	-	7,283,111
Accumulated depreciation, as restated (see Note F)	<u>(198,463)</u>	<u>(170,945)</u>	<u>-</u>	<u>(369,408)</u>
Property and equipment, net	<u>2,891,352</u>	<u>7,112,166</u>	<u>-</u>	<u>10,003,518</u>
Water projects costs	6,320,076	1,400,494	(7,283,111)	437,459
Sewer projects costs	<u>84,813</u>	<u>277,568</u>	<u>-</u>	<u>362,381</u>
Construction in progress	<u>6,404,889</u>	<u>1,678,062</u>	<u>(7,283,111)</u>	<u>799,840</u>
Bond issuance costs	404,063	-	-	404,063
Accumulated amortization	<u>(10,775)</u>	<u>(10,775)</u>	<u>-</u>	<u>(21,550)</u>
Bonds issuance costs, net	<u>393,288</u>	<u>(10,775)</u>	<u>-</u>	<u>382,513</u>
Capital assets, net	<u>\$ 9,689,529</u>	<u>\$ 8,779,453</u>	<u>\$ (7,283,111)</u>	<u>\$11,185,871</u>

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE D--LONG-TERM DEBT

The following is a summary of the Authority's revenue bonds at December 31, 2011:

Series	Year of Earliest Principal Payment	Interest Rate	Original Issue	Principal Outstanding at 12/31/2011
2008 Series Water Bonds	2010	3.2%- 5.35%	\$ 8,005,000	\$ 7,845,000
2008 Series Sewer Bonds	2010	3.2%- 5.35%	6,555,000	6,425,000
				<u>14,270,000</u>
Less current portion				<u>155,000</u>
				<u>\$ 14,115,000</u>

Series	Principal Outstanding at 12/31/2010	Additions	Deletions	Principal Outstanding at 12/31/2011
2008 Series Water Bonds	\$ 7,925,000	\$ -	\$ 80,000	\$ 7,845,000
2008 Series Sewer Bonds	6,490,000	-	65,000	6,425,000
	<u>\$ 14,415,000</u>	<u>-</u>	<u>\$ 145,000</u>	<u>14,270,000</u>
Less current portion				<u>155,000</u>
				<u>\$ 14,115,000</u>

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

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

A summary of debt service requirements of revenue bonds payable at December 31, 2011 are as follows:

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE D--LONG-TERM DEBT--Continued

<u>Year Ending December 31,</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total Debt Service Requirements</u>
2012	\$ 155,000	\$ 738,260	\$ 893,260
2013	155,000	732,448	887,448
2014	165,000	726,442	891,442
2015	170,000	719,842	889,842
2016	180,000	712,828	892,828
Thereafter	13,445,000	14,200,233	27,645,233
	<u>\$ 14,270,000</u>	<u>\$ 17,830,053</u>	<u>\$ 32,100,053</u>

Total interest incurred during the year ended December 31, 2011 was \$741,642, of which \$356,488 was capitalized and \$385,154 was charged to expense.

NOTE E--COMMITMENTS AND CONTINGENCIES

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

RENSELAER COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements--Continued

NOTE F--PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2011 an error was discovered in which certain sewer facilities transferred to the Authority, as well as the corresponding accumulated depreciation, had not been recorded. The facilities should have been recorded in the books at the fair market value at the date of transfer with an offsetting gain. The facilities should have been depreciated over their estimated useful lives. The effect of this error on the financial statements for the year ended December 31, 2010 is presented below:

	<u>As Previously Reported</u>	<u>Adjusted</u>	<u>Effect of Change</u>
Property and equipment, net	\$ 2,794,752	\$ 2,891,352	\$ 96,600
Depreciation expense	42,350	45,800	3,450
Net assets, beginning of year	541,643	641,693	100,500

NOTE G--SUBSEQUENT EVENTS

In accordance with generally accepted accounting principles, the Authority has evaluated for subsequent events between the statement of net assets date of December 31, 2011 and March 29, 2012, the date the financial statements were available to be issued.

COMPLIANCE REPORT



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

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

We have audited the financial statements of Rensselaer County Water and Sewer Authority (the "Authority") as of December 31, 2011 and 2010 and for the years then ended, and have issued our report thereon dated March 29, 2012. 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.

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 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.

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. However, we identified certain deficiencies in internal control over financial reporting, described in finding number 2011-1 in the accompanying schedule of findings and responses that we consider to be

significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

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

Rensselaer County Water and Sewer Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Rensselaer County Water and Sewer Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of Rensselaer County Water and Sewer Authority and applicable state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
March 29, 2012

RENSSELAER COUNTY WATER AND SEWER AUTHORITY

Schedule of Findings and Responses

For the Year Ended December 31, 2011

Finding 2011-1

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

Management's Response:

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

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