

FINANCIAL STATEMENTS

**CAYUGA COUNTY WATER AND
SEWER AUTHORITY**

DECEMBER 31, 2012 AND 2011

CAYUGA COUNTY WATER AND SEWER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

The Members of the Board
Cayuga County Water and Sewer Authority
Auburn, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Cayuga County Water and Sewer Authority (the "Authority"), a component unit of the County of Cayuga, New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cayuga County Water and Sewer Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Turtur, Marbell + Roseng, LLP

March 18, 2013
Syracuse, New York

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

As management of the Cayuga County Water and Sewer Authority (the "Authority"), Cayuga County, New York, a component unit of Cayuga County, New York, we hereby submit this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2012 and December 31, 2011. The information herein is presented in conjunction with additional information contained in the financial statements.

FINANCIAL HIGHLIGHTS - 2012

As a water and sewer utility, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes water transmission lines ranging from 6" in diameter to 12" in diameter. The Authority also owns a sewer transmission system which includes, to date, four pump stations, 77,549 LF of low pressure and gravity sewer transmission lines. The Authority's net position includes funds available to pay for ongoing and future construction, replacements and/or additions to its existing infrastructure, as well as meet ongoing capital debt and operational obligations.

The Authority's net position increased \$4,300,889 during 2012, primarily due to an increase in loan receivables, grant receivables and capital assets related to Cayuga County Sewer District 2. There was also a reduction in total liabilities as the Authority reduced the amount of short-term debt needed for the interim-financing of the sewer district. The assets of the Authority exceeded its liabilities by \$13,195,482 (net position) at December 31, 2012. Of this amount, \$4,071,241 (unrestricted net position) may be used to meet the Authority's ongoing obligations.

In 2012, a Revenue Refunding Note ("RRN") was renewed in the amount of \$2,500,000 at 2.00% to finance an ongoing sewer construction project (Cayuga County Sewer District 2) in the Village of Fair Haven and Town of Sterling, NY. This refunding note paid a 2011 RRN and provided the ability to continue financing the ongoing construction.

FINANCIAL HIGHLIGHTS – 2011

The Authority's net assets increased \$879,715 during 2011 primarily due to an increase in restricted cash and cash equivalents reduced by an increase in current and noncurrent liabilities, both due to project delays. Environmental Facilities Corp. ("EFC") and United States Department of Agriculture, Rural Development ("USDA RD") financial and legal services worked cooperatively to adjust all language in bonding documents to meet the various mandates to protect each agency, also meeting the various requirements of the Trustee charged with handling the project funding. Due to the schedules of the entities involved, the project was delayed until all approving entities were satisfied with the content of the documents. The assets of the Authority exceeded its liabilities by \$8,894,593 (net position) at December 31, 2011. Of this amount, \$6,261,983 (unrestricted net position) may be used to meet the Authority's ongoing obligations.

In 2011, a Revenue Refunding Note ("RRN") was renewed in the amount of \$4,040,000 (\$2,000,000 at 1.15% and \$2,040,000 at 1.35%) to finance an ongoing sewer construction project (Cayuga County Sewer District 2) in the Village of Fair Haven and Town of Sterling, NY. This refunding note paid a 2010 RRN and provided the ability to continue financing the ongoing construction.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority include the Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position, the Statements of Cash Flows, and related notes to the financial statements for the years ended December 31, 2012 and 2011.

The Statements of Net Position provide information about the nature and amounts of cash and cash equivalents and resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position, or income statement, shows the Authority's net position change during the year. It accounts for revenues and expenses, measures the financial results of the Authority's operations and can be used to determine how the Authority has funded its costs. The Statements of Cash Flows provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing activities.

The notes to the financial statements contain information that is essential to the understanding of the 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 years ended December 31, 2012 and 2011. The information contained in this analysis should be used by the reader in conjunction with the information contained in the Authority's audited financial statements and the notes to those financial statements, all of which follow this narrative.

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 assets of the Authority exceeded its liabilities at the close of its most recent fiscal year by \$13,195,482 (net position). Of this amount, \$4,071,241 (unrestricted net position) may be used to meet the Authority's ongoing obligations.

Summary of Operations and Change in Net Position 2012 - 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Charges for services	<u>\$ 1,161,083</u>	<u>\$ 1,148,599</u>

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Summary of Operations and Change in Net Position 2012 - 2011 (Cont'd)

	<u>2012</u>	<u>2011</u>
OPERATING EXPENSES:		
Water and sewer	\$ 453,372	\$ 412,948
Program expenses	20,306	39,062
Employee benefits	156,542	146,883
Administrative	32,732	32,387
Legal and accounting	50,427	49,476
Insurance	11,025	19,935
Telephone	4,972	4,993
Utilities	17,788	16,724
Other	-	8,386
Depreciation	<u>415,944</u>	<u>345,120</u>
Total operating expenses	<u>1,163,108</u>	<u>1,075,914</u>
OPERATING INCOME (LOSS)	<u>(2,025)</u>	<u>72,685</u>
OTHER INCOME (EXPENSE):		
Federal assistance	4,146,315	571,032
Property taxes	202,923	163,846
Intergovernmental	50,000	20,139
Interest income	2,107	2,333
Interest subsidy	23,148	13,990
Interest expense	(118,305)	(120,728)
Other income	52,919	165,220
Other expense	<u>(56,193)</u>	<u>(8,802)</u>
Total other income	<u>4,302,914</u>	<u>807,030</u>
CHANGES IN NET POSITION	<u>\$ 4,300,889</u>	<u>\$ 879,715</u>

Charges for services in 2012 were slightly higher than in 2011 due to an increase in the number of customers using the sewer system. Water and sewer operating expenses were higher in 2012, primarily due to the purchase of trailers and equipment which were expensed, as they were below the Authority's capitalization threshold. Employee benefits increased in 2012 due to an increase in employee compensation. Utilities expense is slightly higher due to the increase in operational grinder pumps in the sewer district. Depreciation expense increased in 2012 due to significant construction on Phase 2 of Cayuga County Sewer District 2. Federal assistance was significantly higher due to three construction contracts for Cayuga County Sewer District 2 being in progress throughout 2012.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Summary of Operations and Change in Net Position 2012 - 2011 (Cont'd)

Property tax income increased due to all customers in Cayuga County Sewer District 2 being included. Intergovernmental income increased due to a greater contribution to the Authority from Cayuga County. Interest subsidy income increased due to the interest subsidies on debt obligations through New York State Environmental Facilities Corporation ("NYSEFC"), used to finance the construction of the sewer system. All these factors, but primarily a significant increase in federal assistance due to sewer construction, contributed to an increase in net position of \$4,300,889 between 2012 and 2011.

Summary of Operations and Change in Net Position 2011 - 2010

Charges for services in 2011 were slightly higher than in 2010 due to an increase in water consumption and several new customers using the sewer system. Federal loan proceeds were also slightly higher due to the funding structure of Cayuga County Sewer District 2. All these factors, but primarily a significant decrease in program revenue due to project delays, contributed to a decrease in total operating revenue from 2010 of \$2,053,854.

Water and sewer operating expenses were slightly lower than in 2010 due to regular preventative maintenance being performed, keeping repair costs low. Program expenses were higher than in 2010 due to project delays. Employee benefits and professional fees (legal and accounting) increased slightly in 2011 due to part-time employees working more hours and legal activity related to the Inter-municipal Task Force. Administrative expense increased as the Authority purchased materials for work at Emerson Park. Insurance expense increased in 2011 due to the addition of equipment, the completion of construction of part of Cayuga County Sewer District 2 and rising insurance costs. Telephone, utilities and other expense decreased from 2010 due to a mild winter and preventative maintenance resulting in fewer emergency calls and repairs. Depreciation expense increased due an increase in capital asset additions. This combination of factors contributed to an increase in total operating expense from 2010 of \$42,759.

Interest income was slightly higher due to interim funding for Cayuga County Sewer District 2 earning modest interest while construction was delayed in 2011. Interest expense was slightly higher due to the initial interest payments being made on the re-financing of the capital debt associated with Phases 1 and 1A of Cayuga County Sewer District 2, coupled with an increase in interest subsidy income in 2011 due to the fact it had been reported in 2010 as a reduction of interest expense. Other income increased significantly due to the reduction of the Port Byron Tank Debt liability, as the liability to the Authority is less per the agreement, and the Allowance for Doubtful accounts being reduced. Other expense increased due to a reclassification of the expense category. All these factors, but primarily the reduction of long-term liabilities and the allowance for doubtful accounts, contributed to an increase in other income from 2010 of \$192,858.

Due to all contributing factors stated above, but primarily the decrease in federal program revenue, the Authority's change in net position for 2011 was significantly lower than in 2010.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Financial Position Summary - 2012

Net position is an indication of the Authority's financial strength. The Authority's net position as of December 31, 2012 is \$13,195,482. A summary of the Authority's financial position is shown below.

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 514,462	\$ 392,487
Accounts receivable	214,818	215,031
Loans receivable	2,183,000	987,000
Grants receivable	311,502	-
Prepaid expenses and other assets	<u>10,217</u>	<u>22,465</u>
Total current assets	<u>3,233,999</u>	<u>1,616,983</u>
Noncurrent assets:		
Restricted cash and cash equivalents	2,351,463	5,604,680
Loans receivable	-	677,980
Capital assets, net	<u>15,688,313</u>	<u>10,644,070</u>
Total noncurrent assets	<u>18,039,776</u>	<u>16,926,730</u>
Total assets	<u>21,273,775</u>	<u>18,543,713</u>
Current liabilities:		
Accounts payable	111,721	125,724
Retainage payable	162,760	-
Accrued expenses	16,920	44,154
Notes payable, current	1,578,497	3,979,271
Bonds payable, current	<u>29,864</u>	<u>12,680</u>
Total current liabilities	<u>1,899,762</u>	<u>4,161,829</u>
Noncurrent liabilities:		
Notes payable	4,950,254	5,199,150
Bonds payable	<u>1,228,277</u>	<u>288,141</u>
Total noncurrent liabilities	<u>6,178,531</u>	<u>5,487,291</u>
Total liabilities	<u>8,078,293</u>	<u>9,649,120</u>
Net position:		
Net investment in capital assets	7,964,421	1,236,828
Restricted	1,159,820	1,395,782
Unrestricted	<u>4,071,241</u>	<u>6,261,983</u>
Total net position	<u>\$ 13,195,482</u>	<u>\$ 8,894,593</u>

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Financial Position Summary 2012 (Cont'd)

Unrestricted cash and cash equivalents increased in 2012 due to an increase in receipts from water operations. When considered separately from sewer operations and the capital construction project, the income from water operations less expenses incurred through water operations results in an increase in cash and cash equivalents. Loans receivable and grants receivable increased due to the construction of Phases 2 & 4 of Cayuga County Sewer District 2. These factors, but primarily the increase in loans and grants receivable, contributed to an increase in current assets in 2012 of \$1,617,016.

Restricted cash and cash equivalents decreased due to three construction contracts in progress during the year. Capital assets increased due to significant construction on Phase 2 of Cayuga County Sewer District 2. These factors contributed to an increase in noncurrent assets in 2012 of \$1,113,046.

Due to all the factors stated above, the Authority's total assets increased \$2,730,062.

Accounts payable decreased in 2012 due to the timing of invoice receipts. Retainage payable increased due to sewer project activity. Total liabilities decreased \$1,570,827, primarily due to the reduction of short-term obligations used to finance sewer construction.

All the factors stated above contributed to an increase in the Authority's total net position of \$4,300,889.

Financial Position Summary - 2011

Net position is an indication of the Authority's financial strength. The Authority's net position as of December 31, 2011 is \$8,894,593. A summary of the Authority's financial position is shown below.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Financial Position Summary - 2011 (Cont'd)

	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 392,487	\$ 222,308
Accounts receivable	215,031	187,052
Loans receivable	987,000	-
Grants receivable	-	1,582,610
Prepaid expenses and other assets	22,465	13,995
Total current assets	<u>1,616,983</u>	<u>2,005,965</u>
Noncurrent assets:		
Restricted cash and cash equivalents	5,604,680	702,048
Loans receivable	677,980	678,050
Capital assets, net	<u>10,644,070</u>	<u>10,361,369</u>
Total noncurrent assets	<u>16,926,730</u>	<u>11,741,467</u>
Total assets	<u>18,543,713</u>	<u>13,747,432</u>
Current liabilities:		
Accounts payable	125,724	350,328
Retainage payable	-	54,216
Accrued expenses	44,154	49,607
Notes payable, current	3,979,271	2,750,330
Bonds payable, current	<u>12,680</u>	<u>12,384</u>
Total current liabilities	<u>4,161,829</u>	<u>3,216,865</u>
Noncurrent liabilities:		
Notes payable	5,199,150	2,109,746
Bonds payable	<u>288,141</u>	<u>405,943</u>
Total noncurrent liabilities	<u>5,487,291</u>	<u>2,515,689</u>
Total liabilities	<u>9,649,120</u>	<u>5,732,554</u>
Net position:		
Net investments in capital assets	1,236,828	5,268,966
Restricted	1,395,782	1,628,967
Unrestricted	<u>6,261,983</u>	<u>1,116,945</u>
Total net position	<u>\$ 8,894,593</u>	<u>\$ 8,014,878</u>

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Financial Position Summary - 2011 (Cont'd)

Cash and cash equivalents increased in 2011 due to a decrease in general operating expenses and an increase in charges for services. Accounts receivable increased in 2011 due to the timing of invoice issuance. Loans receivable increased due to the closing of the loans associated with Phases 1B and 1C-E of Cayuga County Sewer District 2. Grants receivable decreased due to the project delay, as grant reimbursement requests are processed after expenses have been incurred. Prepaid expenses increased due to prepaid retirement. These factors contributed to a decrease in current assets from 2010 of \$388,982.

Restricted cash and cash equivalents increased significantly due to the project delay. Capital assets increased due to an increase in capital asset additions offset by depreciation. These factors contributed to an increase in noncurrent assets from 2010 of \$5,185,263, primarily from the increase in restricted cash and cash equivalents of \$4,902,632.

Due to all the factors stated above, but primarily the increase in restricted cash and cash equivalents, the Authority's total assets increased \$4,796,281.

Accounts payable decreased from 2010 due to the timing of invoice receipts. Retainage payable decreased due to the project delay. Current and noncurrent liabilities increased \$3,060,839 due to the obligation of short-term market rate financing through NYSEFC. These factors contributed to an increase in the Authority's total liabilities of \$3,916,566, primarily from the increase in long-term liabilities.

All the factors stated above contributed to an increase in the Authority's total net position of \$879,715.

CCWSA Rates and Charges

The Authority reviews its rates and charges annually in concurrence with the adoption of its annual operating budget. The Authority is required by its Master Trust Indenture, dated March 8, 2010, and Supplemental Indentures issued with and specific to each subsequent revenue bond issuance (Trust Indenture), 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 and 2011. No change in rates was made in FY2012. The Authority anticipates an increase to the water rate in FY2013 due to a rate increase from their supplier. The Authority also anticipates a decrease to the operational/maintenance Sewer District 2 rate in FY2013 due to an increase in customer base.

The Cayuga County Water and Sewer Authority funds its day to day operations primarily through the collection of charges for services. The taxes collected by Cayuga County on behalf of the Authority are appropriated to pay the associated capital debt obligations. The Authority's Operating Budget is used by the Board of Directors as a tool for gauging the Authority's year to year performance.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Budgetary Comparison - 2012

Summary of Operating Revenues

	<u>2012 Actual</u>	<u>2012 Budget</u>
Charges for services	\$ <u>1,161,083</u>	\$ <u>1,101,600</u>

Wholesale water consumption was higher than expected in 2012, with a significant increase in the consumption of the Town of Springport and the NYS Thruway Authority, offset by a decrease in the Village of Port Byron. Administrative income was higher than anticipated, due to late fees, grinder pump fees and a large amount of application fees in the sewer district. These factors contributed to the Authority being over budget for total operating revenues by \$59,483.

Summary of Operating Expenses

	<u>2012 Actual</u>	<u>2012 Budget</u>
Water and Sewer	\$ 453,372	\$ 435,500
Program expenses	20,306	-
Employee benefits	156,542	177,000
Administrative	32,732	16,900
Legal and accounting	50,427	67,700
Insurance	11,025	14,300
Telephone	4,972	5,200
Utilities	17,788	21,500
Other	-	74,390
Depreciation	415,944	-
Total operating expenses	<u>\$ 1,163,108</u>	<u>\$ 812,490</u>

Water and sewer operating expenses were over budget \$17,872 due to the purchase of non-capitalized equipment for both the water and sewer systems being charged to the expense category. The Authority does not budget for program expenses incurred through the sewer project. The project budget is maintained and monitored by the USDA and the Authority's financial consultant. Employee benefits were under budget \$20,458 due to part-time wage employees working less hours than anticipated and employee benefits available to full-time employees being unused. Administrative expense was \$15,832 over-budget due to higher than anticipated fees. Professional fees (legal and accounting) were under budget \$17,273 due to the inactivity of the Inter-municipal Task Force. The Authority has engaged special counsel in regards to the Task Force.

Insurance was under budget by \$3,275 due to the consolidation of two of the Authority's policies. Utilities was under budget by \$3,712 due to an over-estimation of the cost of electrical service in the sewer district. Other expense was under-budget \$74,390 due to budgeting for contingencies and W/MBE expenditures that remain unspent. The Authority's revenues and expenses are budgeted annually and tracked quarterly. The Authority does not budget for depreciation, a non-cash expense, as depreciation is scheduled. These factors contributed to the Authority's total operating expenses being over budget by \$350,618.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Budgetary Comparison – 2012 (Cont'd)

Summary of Other Revenue (Expense)

	<u>2012 Actual</u>	<u>2012 Budget</u>
Federal assistance	\$ 4,146,315	\$ -
Property taxes	202,923	142,000
Intergovernmental	50,000	-
Interest income	2,107	2,100
Interest subsidy	23,148	-
Interest expense	(118,305)	(78,000)
Other income	52,919	-
Other expense	(56,193)	(272,600)
	<u>\$ 4,302,914</u>	<u>\$ (206,500)</u>

The Authority does not budget for federal assistance. The Cayuga County Sewer District 2 project budget is maintained and monitored by the USDA and the Authority's financial consultant. The Authority was over-budget for property taxes due to all customers in the sewer district being charged. The Authority does not budget for intergovernmental income. The Authority has not historically received support from the Cayuga County budget and when they have, the funds have been appropriated for specific purposes, apart from day to day operating costs. The Authority does not budget for the receipt of interest subsidies, as they are not guaranteed. The Authority only budgets for interest expense paid through the rates and charges it collects for services. The remainder of interest payments are funded by the revenue collected through property taxes. The Authority was over-budget for interest expense by \$40,305 due to not budgeting for interest paid on interim financing for the sewer project. Other income was over-budget \$52,919 due to the Authority not budgeting for items in the income category. Other expense was under-budget due to the Authority budgeting for principal and reserve payments on long-term debt. These factors, but primarily federal assistance, resulted in other income being \$4,509,414 over budget.

Budgetary Comparison - 2011

Summary of Operating Revenues

	<u>2011 Actual</u>	<u>2011 Budget</u>
Charges for services	<u>\$ 1,148,599</u>	<u>\$ 1,092,000</u>

Water consumption was higher than expected in 2011, while the number of households expected to hook to the sewer system was lower than expected. The Authority was involved in the renovation of the pavilion building at Emerson Park which produced revenue that was not budgeted. These factors contributed to the Authority being over budget for total operating revenues by \$56,599.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Budgetary Comparison - 2011 (Cont'd)

Summary of Operating Expenses

	<u>2011 Actual</u>	<u>2011 Budget</u>
Water and Sewer	\$ 412,948	\$ 469,000
Program expenses	39,062	-
Employee benefits	146,883	155,000
Administrative	32,387	40,000
Legal and accounting	49,476	50,000
Insurance	19,935	25,000
Telephone	4,993	7,000
Utilities	16,724	10,000
Other	8,386	-
Depreciation	<u>345,120</u>	<u>-</u>
Total operating expenses	<u>\$ 1,075,914</u>	<u>\$ 756,000</u>

The Authority does not budget for program expenses incurred through the sewer project or for depreciation, a non-cash expense. The project budget is maintained and monitored by the USDA and the Authority's financial consultant and depreciation is scheduled. These factors contributed to the Authority's total operating expenses being over budget by \$319,914.

Water and sewer operating expenses, employee benefits, administrative expenses and telephone were under budget by \$73,789 due to preventative maintenance being performed, requiring less time and materials for repairs and emergencies. Professional fees (legal and accounting) and insurance were under budget by \$5,589 due to an over-estimation of the increase in insurance cost. Utilities were over budget by \$6,724 due to an under-estimation of the cost of electrical service in the sewer district.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

Budgetary Comparison - 2011 (Cont'd)

Summary of Other Revenue (Expense)

	<u>2011 Actual</u>	<u>2011 Budget</u>
Federal assistance	\$ 571,032	\$ -
Property taxes	163,846	154,000
Intergovernmental	20,139	-
Interest income	2,333	1,000
Interest subsidy	13,990	-
Interest expense	(120,728)	(125,000)
Other income	165,220	-
Other expense	(8,802)	(366,000)
	<u>\$ 807,030</u>	<u>\$ (336,000)</u>

The Authority does not budget for loan and program revenues associated with the sewer project. The project budget is maintained and monitored by the USDA and the Authority's financial consultant. This contributed to the Authority being \$571,032 over budget. Other income was significantly over budget, due to a reduction in long-term liabilities and the allowance for doubtful accounts. The Authority does not budget for the Cayuga County Budget Allocation. The Authority has not historically received support from the Cayuga County budget and when they have, the funds have been appropriated for specific purposes, apart from day to day operating costs. Interest income was slightly over budget, due to interim financing for Cayuga County Sewer District 2 earning modest interest in the Authority's accounts while construction was delayed. The Authority does not budget for the receipt of interest subsidies, as they are not guaranteed. Other expense was under budget due to the Authority budgeting for principal payments on long-term liabilities while these payments are not contained in the statement of revenues and expenses. These factors, but primarily federal assistance and other income and expense, contributed to total other income being \$1,143,030 over budget.

DEBT ADMINISTRATION

As of December 31, 2012, the Authority has outstanding long-term debt totaling \$7,786,892, of which \$1,608,361 is due within one year. Included in this total is \$3,359,588 in market rate financing for the payment of interim costs incurred due to the construction of Cayuga County Sewer District 2.

In March 2012, the Authority issued a Revenue Refunding Note (RRN) in the amount of \$2,500,000 to fund the interim costs of constructing Cayuga County Sewer District 2. At December 31, 2012 \$1,250,000 was outstanding under this note.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

DEBT ADMINISTRATION (CONT'D)

Obligations under Agreement with Cayuga County, New York

The Authority entered into an agreement with Cayuga County, dated March 3, 1999 and revised June 26, 2002, in which Cayuga County agreed to finance, and the Authority agreed to construct and pay for, certain improvements within Cayuga County. Improvements constructed under this agreement are owned by Cayuga County but leased to the Authority. The Authority operates these leased facilities with all the responsibilities of ownership. There remains \$1,090,000 in principal outstanding which the Authority is obligated to pay.

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. In addition to current activities, the Authority is preparing to carry out an asset management inventory development project. Because the water and wastewater infrastructure projects represent large capital investments, the Authority is building the foundation for an asset management plan to protect these critical assets. The critical asset focus will increase the water and wastewater facility's life and educate the Authority's future staff and Board members on the necessity of maintaining these systems' resources. As the infrastructure systems age, it is imperative that a systematic review and monitoring of the infrastructure be the focus of all necessary operations and maintenance.

Cayuga County Sewer District 2 Project

In 2005, the Cayuga County Sewer District 2 was formed by the Cayuga County Legislature to satisfy a Department of Environmental Conservation Consent Decree with the Village of Fair Haven to protect Little Sodus Bay and Lake Ontario. The Village of Fair Haven was mandated to make changes to the way the sewage was handled. The Village and the Town of Sterling continue to work cooperatively with this Authority to construct the sewer system to its completion. This project is a multi-phase, multi-funded sewer project to satisfy the sewer requirements and mandates of the DEC, EPA and Department of Health, in addition to funding agency requirements. The sewage is collected via gravity and low-pressure lines and transported directly to the Red Creek Wastewater Treatment Plant, owned and operated by Wayne County Water and Sewer Authority. As of this date, Contract 1, 2, 3, 4, 5 and Contract 6 have been successfully completed. Contract 7 is approximately 95% complete. Four pump stations are currently operational. Approximately ninety percent of the infrastructure construction is complete. Engineering design is complete and the final contract was awarded in January 2013. The entire project is expected to be in service by the end of 2013.

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

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2012 AND 2011**

ECONOMIC FACTORS AND NEXT YEAR'S GOALS (CONT'D)

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 Operations, Cayuga County Water and Sewer Authority or by email to ccwsa@roadrunner.com.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 514,462	\$ 392,487
Accounts receivable	214,818	215,031
Loans receivable	2,183,000	987,000
Grants receivable	311,502	-
Prepaid expenses and other assets	10,217	22,465
Total current assets	3,233,999	1,616,983
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	2,351,463	5,604,680
Loans receivable	-	677,980
Capital assets, net	15,688,313	10,644,070
Total noncurrent assets	18,039,776	16,926,730
Total assets	21,273,775	18,543,713
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	111,721	125,724
Retainage payable	162,760	-
Accrued expenses	16,920	44,154
Notes payable, current	1,578,497	3,979,271
Bonds payable, current	29,864	12,680
Total current liabilities	1,899,762	4,161,829
NONCURRENT LIABILITIES:		
Notes payable	4,950,254	5,199,150
Bonds payable	1,228,277	288,141
Total noncurrent liabilities	6,178,531	5,487,291
Total liabilities	8,078,293	9,649,120
NET POSITION		
Net investment in capital assets	7,964,421	1,236,828
Restricted	1,159,820	1,395,782
Unrestricted	4,071,241	6,261,983
Total net position	\$ 13,195,482	\$ 8,894,593

See Notes to Financial Statements

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Charges for services	\$ 1,161,083	\$ 1,148,599
OPERATING EXPENSES:		
Water and Sewer	453,372	412,948
Program expenses	20,306	39,062
Employee benefits	156,542	146,883
Administrative	32,732	32,387
Legal and accounting	50,427	49,476
Insurance	11,025	19,935
Telephone	4,972	4,993
Utilities	17,788	16,724
Other	-	8,386
Depreciation	415,944	345,120
Total operating expenses	1,163,108	1,075,914
OPERATING INCOME (LOSS)	(2,025)	72,685
OTHER INCOME (EXPENSE):		
Federal assistance	4,146,315	571,032
Property taxes	202,923	163,846
Intergovernmental	50,000	20,139
Interest income	2,107	2,333
Interest subsidy	23,148	13,990
Interest expense	(118,305)	(120,728)
Other income	52,919	165,220
Other expense	(56,193)	(8,802)
Total other income (expense), net	4,302,914	807,030
CHANGES IN NET POSITION	4,300,889	879,715
NET POSITION - BEGINNING OF YEAR	8,894,593	8,014,878
NET POSITION - END OF YEAR	\$ 13,195,482	\$ 8,894,593

See Notes to Financial Statements

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 1,161,296	\$ 1,120,621
Cash payments to suppliers of goods and services	(161,291)	(877,651)
Cash payments for employees and benefits	(452,102)	(145,887)
Net cash provided by operating activities	547,903	97,083
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from federal loans and programs	3,316,793	1,166,713
Proceeds from short-term debt	2,500,000	4,040,000
Principal payments on short-term debt	(4,890,000)	(2,900,000)
Proceeds from long-term debt	987,000	4,223,751
Principal payments on long-term debt	(289,350)	(1,162,912)
Interest payments on debt	(117,642)	(106,738)
Proceeds from other income	225,412	320,264
Proceeds from other government	50,000	20,139
Acquisition of capital assets	(5,463,465)	(627,821)
Net cash provided by (utilized in) capital and related financing activities	(3,681,252)	4,973,396
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	2,107	2,333
Net cash provided by investing activities	2,107	2,333
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,131,242)	5,072,812
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,997,167	924,355
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,865,925	\$ 5,997,167
Reconciliation of end of year balance to the statement of net position		
Cash and cash equivalents	\$ 514,462	\$ 392,487
Restricted cash and cash equivalents	2,351,463	5,604,680
	\$ 2,865,925	\$ 5,997,167

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ (2,025)	\$ 72,685
Adjustment to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	415,944	345,120
Changes in:		
Accounts receivable	213	(27,978)
Prepaid expenses and other assets	12,248	(8,470)
Accounts payable	(14,003)	(278,821)
Retainage payable	162,760	-
Accrued expenses	<u>(27,234)</u>	<u>(5,453)</u>
Total adjustments	<u>549,928</u>	<u>24,398</u>
Net cash provided by operating activities	<u>\$ 547,903</u>	<u>\$ 97,083</u>

See Notes to Financial Statements

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Cayuga County Water and Sewer Authority (the "Authority") is a public benefit corporation organized in July 1995 pursuant to Title 8-G of New York State (the "State") public authorities law. The Authority was organized to construct, improve, maintain, develop, expand, or rehabilitate water or sewage facilities in the County of Cayuga, New York (the "County"). The Authority is governed by a board consisting of nine members which are appointed by the legislature of the County. The County also provides economic support to the Authority and has incurred debt on the Authority's behalf. Consequently, under the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, and Statement No. 39, the Authority is a component unit of the County, and is part of its reporting entity.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar funding are recognized as revenue when all eligibility requirements imposed by the grantor have been met.

The Authority is a proprietary fund which distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. The principal revenues of the Authority are charges to customers for water and sewer services. All revenues and expenses not meeting this definition are reported as non-operating items.

GASB is the accepted standard setting body for establishing generally accepted accounting principles for state and local governmental entities. The Authority's accounting policies conform to these principles.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash and Cash Equivalents

The Authority's investment policies are governed by the financial provisions set forth within Article 5, Title 8-G of the Public Authorities Law of the State of New York and the General Municipal Law Sections 10 and 11. The Authority is authorized to use demand accounts and certificates of deposit. Collateral is required for demand deposits and certificates of deposit not covered by Federal Deposit Insurance Corporation ("FDIC") insurance. Obligations that may be pledged as collateral include obligations of the United States and obligations of the State and its municipalities.

For the purposes of these financial statements, the Authority considered all short-term investments with an original maturity of three months or less to be cash equivalents.

Restricted cash and cash equivalents represent funds restricted for a capital project and funds reserved for emergency use by the Authority's Board.

Accounts Receivable

Accounts receivable represents amounts due from customers for current and delinquent water and sewer sales, including penalties, unpaid bill charges, collection fees and shut-off charges. Water and sewer customers are billed either on a monthly or quarterly basis depending on the type of user (retail or wholesale). Customers may make payments without penalty on current charges up until 30 days after the billing date. Any current charges in arrears are subject to a penalty of 10% (water customers) or 20% (sewer customers), and those customers receive an unpaid bill notice. If balances remain unpaid for sixty days, shut-off procedures commence at seventy days. The Authority is able to relevel any uncollected balances. Accordingly, all receivables are considered fully collectible for the years ending December 31, 2012 and 2011.

Loans Receivable

The Authority utilizes short-term notes payable to fund construction on a sewer project in anticipation of receiving federal grants and long-term financing. Expenses are incurred up to these loan thresholds prior to drawing down grant funds. Current loan receivables represent amounts for the sewer project expected to be collected within one year. Remaining loan receivables are long-term in nature as they are associated with meeting the threshold for loans awarded by the United States Department of Agriculture (USDA), a process anticipated to take greater than one year.

Grants Receivable

Grants receivable represent amounts due from third party grantors for use on the Authority's sewer construction project. Grants receivable are expected to be received within one year.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at the estimated fair value at the date of donation. Depreciation is recorded using the straight line method over the estimated useful life (3 to 40 years). Improvements are capitalized, while expenses for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of revenue, expenses and change in net position. Costs related to the construction of infrastructure are categorized in construction in progress until the project is completed. At that time, these costs are then categorized in the appropriate asset category.

Equity Classifications

Equity is classified as net position and displayed in three components:

- Net investments in capital assets - represents the net amount invested in capital assets (original cost, net of accumulated depreciation, and capital-related debt).
- Restricted net position - net assets with constraints placed on use either by (1) external groups such as creditors (i.e. through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - all other net position that does not meet the definition of "restricted" is deemed to be available for general use by the Authority.

Income Taxes

The Authority is a public benefit corporation of the State and as such is exempt from income taxes under Section 115 of the Internal Revenue Code. Accordingly, no income taxes have been provided for in these financial statements.

Subsequent Events

Subsequent events have been evaluated by management through March 18, 2013, which is the date the financial statements were available to be issued.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

2. CASH AND CASH EQUIVALENTS

The Authority maintains its principal banking relationships with Manufacturers and Traders Trust Company (M&T Bank) and Key Bank. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, unlimited insurance coverage is provided for all non interest-bearing accounts through December 31, 2012. The \$250,000 insurance established by the FDIC remains for all interest-bearing accounts.

At December 31, 2012, the carrying amount of the Authority's deposits with financial institutions was approximately \$2,876,000. Of this amount, approximately \$2,026,000 represents money market accounts and \$850,000 represents cash accounts. At December 31, 2011, the carrying amount of the Authority's deposits with financial institutions was approximately \$6,000,000. Of this amount, approximately \$2,640,000 represented money market accounts, and \$3,360,000 represented cash of which \$2,815,000 was maintained by the NYS Environmental Facilities Corporation (NYSEFC) and committed to the Authority.

At December 31, 2012, cash balances maintained at Key Bank are secured by approximately \$3,395,000 of collateral. All non-insured funds were fully collateralized. At December 31, 2011, cash balances maintained at Key Bank were secured by approximately \$1,320,000 in collateral. At December 31, 2011, the Authority had funds at M&T Bank in excess of FDIC limits by \$1,105,000. These funds were uncollateralized.

Investments made by the Authority are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by the three categories described as follows:

- Category 1 - Insured or registered, or securities held by the Authority or its agent in the Authority's name
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name
- Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Authority's name

All Authority investments are Category 1. Pursuant to General Municipal Law Section 11, the Authority is authorized to invest moneys not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following type of investments:

- Special time deposit accounts
- Certificates of deposit
- Obligations of the United States of America
- Obligations guaranteed by agencies of the United States of America where payment of principal and interest are guaranteed by the United States of America
- Obligations of the State of New York

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

3. CAPITAL ASSETS

The Authority's capital asset activity as of and for the year ended December 31, 2012 is summarized as follows:

	Balance at January 1, 2012	Increases	Decreases	Balance at December 31, 2012
Capital assets, being depreciated:				
Water and sewer lines	\$ 10,222,319	\$ 1,898,443	\$ -	\$ 12,120,762
Machinery and equipment	<u>65,498</u>	<u>-</u>	<u>-</u>	<u>65,498</u>
Total capital assets being depreciated	<u>10,287,817</u>	<u>1,898,443</u>	<u>-</u>	<u>12,186,260</u>
Less accumulated depreciation:				
Water and sewer lines	(2,191,096)	(405,975)	-	(2,597,071)
Machinery and equipment	<u>(6,822)</u>	<u>(9,969)</u>	<u>-</u>	<u>(16,791)</u>
Total accumulated depreciation	<u>(2,197,918)</u>	<u>(415,944)</u>	<u>-</u>	<u>(2,613,862)</u>
 Total being depreciated, net	 8,089,899	 1,482,499	 -	 9,572,398
Capital assets, not being depreciated:				
Construction in progress	<u>2,554,171</u>	<u>5,463,465</u>	<u>(1,901,721)</u>	<u>6,115,915</u>
 Capital assets, net	 <u>\$ 10,644,070</u>	 <u>\$ 6,945,964</u>	 <u>\$ (1,901,721)</u>	 <u>\$ 15,688,313</u>

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

3. CAPITAL ASSETS (CONT'D)

The Authority's capital asset activity as of and for the year ended December 31, 2011 is summarized as follows:

	Balance at January 1, 2011	Increases	Decreases	Balance at December 31, 2011
Capital assets, being depreciated:				
Water and sewer lines	\$ 10,222,319	\$ -	\$ -	\$ 10,222,319
Machinery and equipment	<u>9,710</u>	<u>55,788</u>	<u>-</u>	<u>65,498</u>
Total capital assets being depreciated	<u>10,232,029</u>	<u>55,788</u>	<u>-</u>	<u>10,287,817</u>
Less accumulated depreciation:				
Water and sewer lines	(1,850,455)	(340,641)	-	(2,191,096)
Machinery and equipment	<u>(2,343)</u>	<u>(4,479)</u>	<u>-</u>	<u>(6,822)</u>
Total accumulated depreciation	<u>(1,852,798)</u>	<u>(345,120)</u>	<u>-</u>	<u>(2,197,918)</u>
 Total being depreciated, net	 8,379,231	 (289,332)	 -	 8,089,899
Capital assets, not being depreciated:				
Construction in progress	<u>1,982,138</u>	<u>572,033</u>	<u>-</u>	<u>2,554,171</u>
 Capital assets, net	 <u>\$ 10,361,369</u>	 <u>\$ 282,701</u>	 <u>\$ -</u>	 <u>\$ 10,644,070</u>

4. SHORT-TERM NOTES PAYABLE

The Authority utilizes short-term notes to fund construction on a sewer project in anticipation of receiving federal grants and long-term financing. During March 2012, the Authority's revenue refunding note (RRN) was renewed for an amount of \$2,500,000 with interest of 2%. Total principal repayments of \$1,250,000 were made during the year. State law requires that notes issued for general purposes be converted to long-term financing within five years after the original issue date.

	Balance at January 1, 2012	Increases	Decreases	Balance at December 31, 2012
2011 Revenue refunding note (RRN)	\$ 3,640,000	\$ -	\$ (3,640,000)	\$ -
2012 Revenue refunding note (RRN)	<u>-</u>	<u>2,500,000</u>	<u>(1,250,000)</u>	<u>1,250,000</u>
	<u>\$ 3,640,000</u>	<u>\$ 2,500,000</u>	<u>\$ (4,890,000)</u>	<u>\$ 1,250,000</u>

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

4. SHORT-TERM NOTES PAYABLE (CONT'D)

	Balance at January 1, 2011	Increases	Decreases	Balance at December 31, 2011
Bond anticipation note (BAN)	\$ 2,500,000	\$ -	\$ (2,500,000)	\$ -
Revenue refunding note (RRN)	-	4,040,000	(400,000)	3,640,000
	<u>\$ 2,500,000</u>	<u>\$ 4,040,000</u>	<u>\$ (2,900,000)</u>	<u>\$ 3,640,000</u>

5. LONG-TERM DEBT

Long-term debt consists of notes payable to the New York State Environmental Facilities Corporation ("NYSEFC") and bonds payable to United States Department of Agriculture Rural Development Agency ("RDA"). The interest rates on long-term debt range from 0.51% to 5.5% with maturity dates through 2049.

Long-term liability activity for the year ended:

	Balance at January 1, 2012	Increases	Decreases	Balance at December 31, 2012	Amount due within one year
Note payable - NYSEFC: 2017	\$ 1,300,000	\$ -	\$ (210,000)	\$ 1,090,000	\$ 210,000
Note payable - NYSEFC: 2014	3,359,588	-	(10,000)	3,349,588	89,334
Note payable - NYSEFC: 2041	864,163	-	(25,000)	839,163	29,163
RDA Bonds Payable: 2040	228,821	-	(3,680)	225,141	3,864
RDA Bonds Payable: 2019	72,000	-	(9,000)	63,000	9,000
RDA Bonds Payable: 2049	-	360,000	(6,000)	354,000	6,000
RDA Bonds Payable: 2049	-	106,000	(2,000)	104,000	2,000
RDA Bonds Payable: 2049	-	356,000	(6,000)	350,000	6,000
RDA Bonds Payable: 2049	-	165,000	(3,000)	162,000	3,000
Note payable - TDS: 2012	14,670	-	(14,670)	-	-
	<u>\$ 5,839,242</u>	<u>\$ 987,000</u>	<u>\$ (289,350)</u>	<u>\$ 6,536,892</u>	<u>\$ 358,361</u>

Long-term liability activity for the year ended:

	Balance at January 1, 2011	Increases	Decreases	Balance at December 31, 2011	Amount due within one year
Note payable - NYSEFC: 2017	\$ 1,505,000	\$ -	\$ (205,000)	\$ 1,300,000	\$ 210,000
Note payable - NYSEFC: 2014	-	3,359,588	-	3,359,588	89,601
Note payable - NYSEFC: 2041	-	864,163	-	864,163	25,000
RDA Bonds Payable: 2011	498,000	-	(498,000)	-	-
RDA Bonds Payable: 2011	316,000	-	(316,000)	-	-
RDA Bonds Payable: 2040	232,327	-	(3,506)	228,821	3,680
RDA Bonds Payable: 2019	186,000	-	(114,000)	72,000	9,000
Note payable - TDS: 2012	41,076	-	(26,406)	14,670	14,670
	<u>\$ 2,778,403</u>	<u>\$ 4,223,751</u>	<u>\$ (1,162,912)</u>	<u>\$ 5,839,242</u>	<u>\$ 351,951</u>

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

5. LONG-TERM DEBT (CONT'D)

The Authority's obligation to the RDA with a maturity date of October 2019 stems from an agreement with the Village of Port Byron (the "Village") through 2019 and relates to use of the Village's water tower, construction of which was funded by proceeds from the RDA debt. Under this agreement the Authority does not assume the debt obligation from the Village but instead makes debt service payments as a part of the contracted terms. The agreement provides for the possibility of renewal in 2019 for an additional 20 years, in which case the Authority would continue to make debt service payments beyond the outstanding \$63,000.

The following is a summary of maturing debt service requirements of long-term debt for the year ending:

December 31,	Principal	Interest	Total
2013	\$ 358,361	\$ 100,877	\$ 459,238
2014	3,530,311	95,486	3,625,797
2015	276,259	83,720	359,979
2016	282,471	76,840	359,311
2017	277,694	69,136	346,830
2018-2022	293,223	286,355	579,578
2023-2027	271,718	231,062	502,780
2028-2032	310,281	181,413	491,694
2033-2037	352,561	121,991	474,552
2038-2042	335,013	53,105	388,118
2043-2047	176,000	18,248	194,248
2048-2049	<u>73,000</u>	<u>1,676</u>	<u>74,676</u>
Total	<u>\$ 6,536,892</u>	<u>\$ 1,319,909</u>	<u>\$7,856,801</u>

The interest rates presented above are the stated interest rates on the debt; however, to date the interest actually charged on the debt has been reduced by an interest subsidy from the New York State Environmental Facilities Corporation. The 2012 and 2011 interest subsidies totaled \$23,148 and \$13,990, respectively. Future interest subsidies are not guaranteed.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

6. NET POSITION

Pursuant to an agreement with the County dated March 3, 1999 and revised June 26, 2002, the Authority assumed from the County an obligation payable to NYSEFC requiring annual principal and semi-annual interest payments through April 2017. Per this agreement, the Authority must use funds remaining after operational costs and capital reserve requirements have been met to reduce its outstanding debt with NYSEFC. Restricted net position, in the amount of \$1,159,820 and \$1,395,782 at December 31, 2012 and 2011, respectively, represents the restriction stated above for the payment on debt and debt service, which will be lifted when the debt is retired.

7. OPERATING LEASE

The Authority leases office space through July 2013; payments are made quarterly in accordance with the lease agreement. Rental expense amounted to \$12,077 and \$13,565 in 2012 and 2011, respectively. Future minimum lease payments, assuming no change in current terms, are \$6,163.

8. CONSTRUCTION COMMITMENT

As of December 31, 2012, the Authority was committed to approximately \$121,000 for a major sewer construction project.

9. NEW PRONOUNCEMENTS

As of January 1, 2012, the Authority adopted the provision of Governmental Accounting Standards Board (GASB) No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountant Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. In addition, GASB Statement No. 62 eliminated the election to apply post-November 30, 1989 FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. The implementation of this guidance did not have a significant effect on the Authority's financial statements.

As of January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in GASB 34 by incorporating deferred inflows of resources and deferred outflows of resources and by renaming the measure as net position, rather than net assets. The Authority has retrospectively applied the provisions of GASB No. 63 to all financial statement years presented.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

10. RECLASSIFICATION

Certain amounts reported at December 31, 2011 have been reclassified to reflect information and assumptions existing at December 31, 2012. These reclassifications had no affect on net position or change in net position as originally reported.



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

The Members of the Board
Cayuga County Water and Sewer Authority
Auburn, New York

We have audited, 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, the financial statements of Cayuga County Water and Sewer Authority (the "Authority"), a component unit of the County of Cayuga, New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 12-01 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 12-02 through 12-04 to be significant deficiencies.

Compliance and Other Matters

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

Management's Responses to Findings

Cayuga County Water and Sewer Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tertone, Marshall & Davago, LLP

March 18, 2013
Syracuse, New York



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Members of the Board
Cayuga County Water and Sewer Authority
Auburn, New York

Report on Compliance for Each Major Federal Program

We have audited Cayuga County Water and Sewer Authority's (the "Authority"), a component unit of County of Cayuga, 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 programs for the years ended December 31, 2012 and 2011. The Authority's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Water and Waste Program Cluster - 10.760, 10.781

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with compliance requirement for Reporting regarding Water and Waste Program Cluster - 10.760, 10.781 as described in finding 12-05. Compliance with such requirement is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

Qualified Opinion on Water and Waste Program Cluster - 10.760, 10.781

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Water and Waste Program Cluster - 10.760, 10.781 for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal controls over compliance that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-05 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-06 and 12-07 to be significant deficiencies.

The Cayuga County Water and Sewer Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Tertine, Michael + Duran, LLP

March 18, 2013
Syracuse, New York

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Direct Programs:		
Water and Waste Program Cluster		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 10,661
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	<u>4,645,906</u>
Total Water and Waste Program Cluster		<u>4,656,567</u>
U.S. Environmental Protection Agency		
Direct Program:		
Congressionally Mandated Programs	66.202	<u>607,600</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 5,264,167</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2012

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cayuga County Water and Sewer Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. EXPENDITURES OF FEDERAL REVENUE

The amounts reported as expenditures of federal revenue were obtained from the accounting records utilized to record activity for the applicable program and periods. These accounting records are periodically reconciled to the appropriate deferral financial reports for each program.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part I - Summary of Auditor's Results

- The Independent Auditor's Report on the Basic Financial Statements expressed an unqualified opinion.
 - A material weakness in internal control was disclosed during the audit of the financial statements as required to be reported in accordance with *Government Auditing Standards*.
 - Significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements as required to be reported in accordance with *Government Auditing Standards*.
 - No instances of noncompliance material to the basic financial statements were disclosed during the audit.

- The Independent Auditor's Report on Compliance with Requirements Applicable to Major Federal Award Programs expressed both a qualified opinion and unqualified opinion. The audit disclosed findings which are required to be reported under Section 510(a) of OMB Circular A-133.
 - Material noncompliance with requirements applicable to a major federal program was identified as required to be reported in accordance with OMB Circular A-133.
 - A material weakness in internal control over compliance with requirements applicable to a major federal awards program was identified as required to be reported in accordance with OMB Circular A-133.
 - Significant deficiencies in internal control over compliance with requirements applicable to a major federal award program were identified as required to be reported in accordance with OMB Circular A-133.
 - Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in the Schedule.

- The dollar threshold to determine Type A programs was \$300,000. The major federal programs of the Authority for the year ended December 31, 2012 were as follows:
 - U.S. Department of Agriculture**
 - Water and Waste Program Cluster (10.760, 10.781)

 - U.S. Environmental Protection Agency**
 - Congressionally Mandated Programs (66.202)

- The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133 for the year ended December 31, 2012.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II - Financial Statement Findings

Reference Number: 12-01

Criteria:

A fundamental concept in an effective system of internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction.

Condition/Cause:

The Authority lacks adequate segregation of duties over several functions. Given the size of the organization and small number of employees, there are a number of instances where employees perform a variety of duties of which are not compatible resulting in a lack of segregation of duties. The following instances were noted:

- With respect to cash receipts and cash disbursements processes, the same employee prepares and makes deposits; posts all journal entries to the general ledger, without subsequent review; maintains the Williamson Law Books software; prepares and mails all check disbursements; and is responsible for reconciling cash. This same employee maintains blank check stock.
- The same employee reviews employee timesheets; supplies information to the payroll processing company; receives payroll reports; and distributes employee paychecks. There is no formal review and approval process over the processing of payroll.
- The same employee is responsible for recording capital assets transactions; maintaining access to and custody of property equipment; and editing the property and equipment master file.
- After review, checks are provided back to the check preparer to mail.
- The same employee records the cash and related debt liabilities as well as the periodic principal and interest payments and expense in the general ledger. These activities are not reviewed for accuracy.

Effect:

If the separation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and go undetected. As a result, the Authority's assets are subject to misappropriation when internal controls do not effectively safeguard assets.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 12-01 (Cont'd)

Recommendation:

We recommend the Authority perform an analysis for each type of transaction and document office personnel and the accounting duties which they perform and isolate any incompatible accounting functions that are the responsibility of one employee. In addition, the Authority should reassign responsibility for these duties, if practical, or create a supervisory review of these functions.

Management's Response:

The Authority has observed internal control procedures that do not formally segregate the duties of the office staff. Although employees do not always perform the same functions, segregation of duties, including access to both the physical assets and the related accounting records need assignment to key personnel whenever possible. Subsequent to the audit for fiscal year 2011, the Authority began the process of formalizing the segregation of duties and assigning responsibility for incompatible accounting functions to separate employees and institute a formal review of these functions. Although a draft has been compiled, it is difficult to adequately segregate duties with the current number of employees. A process must be deemed achievable if it is to be implemented.

Cash receipts are currently reviewed weekly by office staff and monthly by the Director of Operations, the Treasurer and the Board of Directors. Cash disbursements are currently reviewed monthly by the office staff, the Treasurer, the Director of Operations, the Authority's financial advisor and the Board of Directors. Subsequent to the review of cash disbursements, the Director of Operations and the Chairman of the Board of Directors review and sign each check. All cash accounts are reviewed monthly by office staff and certain cash accounts are reviewed by the Authority's financial advisor. Certain project related cash accounts are managed by M&T Bank as trustee for the Authority. Cash receipts and disbursements from these accounts undergo the same level of review as all other accounts with an added level of formal requisition requests by the Authority, followed by review and disbursement by the trustee. The cash accounts are reconciled monthly and cash account balances are reviewed monthly by the Treasurer and reported to the Board of Directors. All cash transfers are reviewed and signed by the Director of Operations and reported monthly to the Board of Directors. All documentation is available for review upon request.

The wages, salaries and employee benefits of the Authority's employees are reviewed and authorized by the Personnel Committee and the Board of Directors. Bi-weekly payroll reports are reviewed by the office staff. The Director of Operations or Treasurer periodically reviews payroll reports and all payroll disbursements are reviewed monthly by the Board of Directors for consistency.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 12-01 (Cont'd)

Management's Response (Cont'd):

No single staff member is solely responsible for maintaining access to and custody of property equipment. The acquisition and disposition of property and equipment is initiated by formal motion of the Board of Directors, pursuant to the Authority's Procurement Policy. All cash receipts and disbursements related to property and equipment undergo the same level of review and authorization as all other cash receipts and disbursements of the Authority. Access to and custody of property and equipment is maintained by the Director of Operations at the discretion of the Board of Directors.

Notes payable and long-term debts are issued by the Authority upon the recommendation of the Authority's bond counsel and financial advisor. No debt is issued by the Authority without a formal motion by the Board of Directors. All debt-related cash receipts, principal and interest payments are reviewed by the office staff, the Director of Operations, the Treasurer, the Authority's financial advisor and the Board of Directors. The Authority maintains constant communication with USDA Rural Development and the New York State Environmental Facilities Corporation, the Authority's primary debt-holders.

Reference Number: 12-02

Criteria:

Internal controls should be implemented and followed to safeguard cash receipts.

Condition/Cause:

The Authority reconciled customer receivables at December 31, 2012. However, throughout the year customer receivables were not reconciled on a regular basis, and reconciled supporting documentation was not reviewed. In addition, significant cash receipts were kept on site in an unsecured location.

Effect:

The Authority's assets are subject to misappropriation or theft when not appropriately safeguarded.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 12-02 (Cont'd)

Recommendation:

We recommend that cash receipts be opened and controlled by a person independent of the employee responsible for the accounts receivable subsidiary ledger. This same person should perform a reconciliation of the daily list of receipts to the posting of customer's accounts.

We also recommend the Authority safeguard cash on hand in a secure location and consider making regular bank deposits so that cash on hand does not accumulate. The Authority should also consider reconciling accounts receivable to the general ledger on a monthly basis to check that the recording of transactions is accurate and proper. Documentation of this reconciliation should be maintained and reviewed for accuracy and completeness.

Management's Response:

Management will review controls that safeguard cash on hand and customer information. A reconciliation of the daily list of receipts to the posting of customer's accounts is produced and maintained each time receipts are posted to customer's accounts. Customer receipts are separated, tallied and initialed by the employee who has performed the calculations. These amounts are deposited into the correct bank accounts and the financial institutions' total, documented on the deposit receipt, is verified against the Authority's tally and filed with the customer receipts. The individual amounts are then posted to each customer account in the billing software. The total amount posted to customer accounts is documented on a report produced by the billing software and verified against the deposit receipt. All documentation is reviewed and maintained. The receipts are then entered into the general ledger and reconciled against the billing software report. Customer accounts and records are maintained by the office staff and reviewed periodically by the Director of Operations. Electronic data is entered into and maintained by metering software, billing software, accounting software and several summary spreadsheets. Customer records are maintained in electronic files and the aforementioned software, as well as hard-copies containing documentation of certain charges levied and payments received. These files also contain records of the Authority's communications with customers and pertinent customer information, such as owner-tenant agreements, payment arrangements and property detail.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 12-02 (Cont'd)

Management's Response (Cont'd):

The Authority deposits checks and cash several times each week. The Authority accepts cash as payment on account and the cash is kept in a lock-box during business hours and in the safe when the office is closed. The Authority maintains a Petty Cash fund kept in the safe at all times. The total cash balance rarely exceeds one-thousand dollars and is typically deposited within 5 days of large cash receipts. The processes in place will be documented in writing and the cash accounts maintained in the office will be documented as imprest funds and maintained at fixed amounts.

Reference Number: 12-03

Criteria:

Application controls should be adequately designed and implemented to ensure the Williamson Law Books software is protected from unauthorized use.

Condition/Cause:

Access to Williamson Law Books is unrestricted to users on the Authority's network.

Effect:

There is increased likelihood that customer information and financial data can be modified by unauthorized users.

Recommendation:

We recommend the Authority password protect the Williamson Law Books software and establish unique login information for each user.

Management's Response:

Access to Williamson Law Books cannot be restricted other than tracking which employee has logged in. Management will review application controls and work with Williamson Law Books to determine if a higher level of security is available.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 12-04

Criteria:

Maintain an adequate and effective internal control system that will result in efficient operations. Section 2800 of the Public Authorities Law requires management to perform an internal control assessment which is an annual evaluation to determine the effectiveness of its internal control system. This assessment should be sufficiently thorough so as to identify significant weaknesses in controls, recognize emerging or inherent risks, and to enable early detection of existing or potential problems.

Condition/Cause:

The Authority does not have a risk assessment and monitoring process that identifies and assesses risks.

Effect:

There is an increased likelihood that misstatements will go undetected and assets will not be safeguarded.

Recommendation:

We recommend the Authority develop a risk assessment and monitoring process that will result in an effective internal control system that includes the identification and assessment of existing risks. On a periodic basis this process should be reviewed and modified as necessary.

Management's Response:

The Authority has obtained and is in the process of implementing a formal risk assessment tool obtained from similar entities and is revising it to meet its own internal needs and establish its own formal risk assessment tool. Either the Board of Directors or appointed management will need to assume this responsibility. This Internal Control Assessment will be conducted in conjunction with the annual organizational meeting each January.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part III - Federal Award Findings and Questioned Costs

Reference Number: 12-05

Federal Grantor/Pass-through Grantor/Program Title/CFDA:

U.S. Department of Agriculture - Water and Waste Program Cluster - 10.760, 10.781

Program Year(s):

2012

Criteria:

Per the Compliance Supplement of the Office of Management and Budget's Circular A-133 ("OMB Circular A-133"), Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding aimed at providing transparency into the use of these funds. As part of Section 1512, the Authority is required to submit quarterly recipient reports disclosing total funds received and spent on projects and activities.

Condition/Cause:

Current controls did not allow for the detection of material misstatements on the quarterly submitted recipient reports for the year ending December 31, 2012. Misstatements were the result of erroneous inclusion of non-ARRA and non-federal funds received and spent offset by one instance of an understatement of funds received and spent.

Effect:

Recipient reports were materially overstated by approximately \$724,000 for the year ending December 31, 2012. As a result, the Authority was not in compliance with reporting requirements outlined in OMB Circular A-133.

Questioned Costs:

None.

Recommendation:

The Authority should review current internal controls and identify weaknesses that resulted in the material overstatement of the recipient reports as required by Section 1512 of the Recovery Act. Recipient reports should continue to be reviewed by an individual other than the preparer. Such review should be done by an individual with knowledge and understanding of both OMB Circular A-133 and Section 1512 of the Recovery Act.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part III - Federal Award Findings and Questioned Costs (Cont'd)

Reference Number: 12-05 (Cont'd)

Management's Response:

The Authority is required to submit quarterly recipient reports disclosing total funds received and spent on projects and activities. Management will review current internal controls and identify weaknesses as recommended by the auditors. While internal controls are reviewed, ARRA Quarterly reports will continue to be submitted to an external reviewer with knowledge and understanding of both OMB Circular A-133 and Section 1512 of the Recovery Act as previously recommended. After external review and concurrence, the staff member inputs the quarterly report into the ARRA reporting system. The quarterly report is then reviewed by the funding agency and if necessary, the Authority is notified of revisions to be completed to meet the requirement(s) of the use of ARRA funds. Revisions are completed and then re-submitted for further review by the funding agency. The funding agency then submits the approved documentation as final for the quarterly electronic report. Once all reviews are completed and the report is submitted as final, no revisions are allowed. During the next reporting cycle and as a result of any inaccurate or incorrect reporting, misstatements or corrections are documented and corrected in the required reporting system. A follow-up explanation may be necessary by the funding agency to the national reporting official(s).

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part III - Federal Award Findings and Questioned Costs (Cont'd)

Reference Number: 12-06

Federal Grantor/Pass-through Grantor/Program Title/CFDA:

U.S. Department of Agriculture - Water and Waste Program Cluster - 10.760, 10.781

U.S. Environmental Protection Agency - Surveys - Studies - Investigations and Special Purpose Grants - 66.202

Program Year(s):

2012

Criteria:

Internal controls should ensure that the Schedule of Expenditures of Federal Awards (the "SEFA") is prepared in accordance with the Compliance Supplement of the Office of Management and Budget's Circular A-133 ("OMB Circular A-133"). Amounts reported on the SEFA should reflect all expenditures for the year ended December 31, 2012 and amounts should be easily traced to the accounting records that support audited financial statements. All federal programs and/or clusters should be presented with accurate and current Catalog of Federal Domestic Assistance numbers ("CFDA number").

Condition/Cause:

The Authority does not reconcile the expenditures in the general ledger detail to the expenditures on the SEFA by CFDA number, but rather prepares the SEFA using the corresponding revenue and cash receipts. At December 31, 2012, the SEFA was improperly understated by an immaterial amount for expenditures incurred but not yet claimed for reimbursement. In two instances, the Authority did not assign the proper CFDA number to federal expenditures.

Effect:

The Schedule of Expenditures of Federal Awards was not prepared in accordance with OMB Circular A-133.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part III - Federal Award Findings and Questioned Costs (Cont'd)

Reference Number: 12-06 (Cont'd)

Questioned Costs:

None.

Recommendation:

Procedures should be implemented to ensure accurate reporting of the SEFA in accordance with OMB Circular A-133. These procedures should include performing a reconciliation of federal expenditures by CFDA number and reviewing all federal expenditures to ensure proper cutoff. Management should ensure all expenditures have been assigned an accurate CFDA number.

Management's Response:

The Authority will assess and implement procedures to ensure accurate reporting of the SEFA in accordance with OMB Circular A-133. The procedures will include performing a reconciliation of federal expenditures by CFDA number and reviewing all federal expenditures to ensure proper cutoff. Management will ensure all expenditures have been assigned an accurate CFDA number.

Reference Number: 12-07

Federal Grantor/Pass-through Grantor/Program Title/CFDA:

U.S. Department of Agriculture - Water and Waste Program Cluster - 10.760, 10.781

Program Year(s):

2012

Criteria:

The Compliance Supplement of the Office of Management and Budget's Circular A-133 ("OMB Circular A-133") requires that direct charges to Federal awards be for allowable costs. In addition, the Federal funding agency requires that all project funds are expended only for eligible items included in the project budget as detailed in the letter of conditions or as amended by the Federal funding agency.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part III - Federal Award Findings and Questioned Costs (Cont'd)

Reference Number: 12-07 (Cont'd)

Condition/Cause:

The Authority lacks an adequate review process to properly identify and segregate allowable expenditures from nonallowable expenditures by project phase.

Effect:

The Authority could erroneously include unallowable expenditures on the Schedule of Expenditures of Federal Award.

Questioned Costs:

None.

Recommendation:

We recommend the Authority establish policies and procedures that require the identification and segregation of allowable and nonallowable expenditures prior to submitting requests for reimbursement. Expenditures should be deemed allowable in accordance with OMB Circular A-133, as well as letters of conditions as issued by the Federal funding agency.

Management's Response:

Management will review the current conditions and procedures to ensure proper identification and segregation of allowable and nonallowable expenditures prior to submitting requests for reimbursement. Allowable expenditures will be determined by management and in accordance with letters of condition of the funding agency. All questionable expenditures will be approved or disapproved by management and representation of the appropriate funding agency. Nonallowable charges will be paid by other funds as deemed necessary.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Part IV- Status of Prior Year Federal Award Findings and Questioned Costs

Reference Number 11-09

Status: See current year finding 12-06.

Reference Number 11-10

Status: See current year finding 12-07.