# ORANGE COUNTY WATER AUTHORITY
## A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
## (A DEVELOPMENT STAGE ENTERPRISE)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

AND THE PERIOD JANUARY 1,1988 (INCEPTION) TO DECEMBER 31, 2012

WITH INDEPENDENT AUDITORS' REPORT

**ORANGE COUNTY WATER AUTHORITY**
**A Component Unit of the County**
**of Orange, New York**
**(A Development Stage Enterprise)**

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Orange County Water Authority

We have audited the accompanying statements of net assets of the Orange County Water Authority (Authority), a component unit of the County of Orange, New York (A Development Stage Enterprise) as of December 31, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended and for the period from January 1, 1988 (inception) to December 31, 2012. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011 and the changes in its net assets and cash flows for the years then ended and for the period from January 1, 1988 (inception) to December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 6 to the financial statements, the Authority is dependent on the County of Orange, New York for working capital loans. A significant reduction in the level of this support, if it were to occur, may have an effect on the Authority's continued activities. Further, the development of the water supply and distribution system has been suspended. If the development of the water supply and distribution system were to be abandoned, capitalized engineering costs of $15,922,671 would be expensed.

Nugent & Haeussler, P.C.

March 6, 2013



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ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF NET ASSETS
DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| ASSETS | | |
| Cash | $ 36,682 | $ 90,346 |
| State and Federal Aid Receivable | 277,921 | 65,209 |
| Prepaid Expenses | 3,001 | 3,228 |
| Capital Assets: | | |
| Engineering and Design Costs in Progress | 15,922,671 | 15,922,671 |
| Office Equipment, Net of Accumulated Depreciation | 4,422 | 3,607 |
| TOTAL ASSETS | 16,244,697 | 16,085,061 |
| LIABILITIES | | |
| Accounts Payable and Accrued Liabilities | 74,056 | 54,436 |
| Due to County of Orange | 28,298,123 | 27,887,773 |
| TOTAL LIABILITIES | 28,372,179 | 27,942,209 |
| NET ASSETS (DEFICIT) | | |
| Invested in Capital Assets | 15,927,093 | 15,926,278 |
| Deficit Accumulated during the Development Stage | (28,054,575) | (27,783,426) |
| TOTAL NET ASSETS (DEFICIT) | $ (12,127,482) | $ (11,857,148) |

See notes to financial statements.

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED 2012 AND 2011 AND FROM JANUARY 1, 1988 (INCEPTION) TO DECEMBER 31, 2012

| | Years Ended December 31, 2012 | Years Ended December 31, 2011 | From January 1, 1988 (Inception) to December 31, 2012 |
|---|---|---|---|
| OPERATING REVENUES | $ 607 | $ 1,479 | $ 108,228 |
| OPERATING EXPENSES | | | |
| Legal | - | - | 570,964 |
| Accounting and Financial Advisor | 11,650 | 11,200 | 321,288 |
| Consultants | - | - | 112,884 |
| Administrative Offices | | | |
| Salary & Fringe Benefits | 77,473 | 72,221 | 4,194,486 |
| Recruitment | - | - | 21,223 |
| Relocation | - | - | 12,800 |
| Pension Plan | 6,884 | 6,662 | 482,724 |
| Water Supply Studies | 275,106 | 408,225 | 4,337,431 |
| Bond Feasability | - | - | 224,980 |
| Board | 758 | 950 | 11,641 |
| Education | 104,804 | 85,834 | 1,121,922 |
| Rent | - | - | 475,770 |
| Insurance | 7,987 | 8,441 | 347,678 |
| Depreciation | 1,257 | 3,136 | 201,564 |
| Office | 7,061 | 7,566 | 480,386 |
| Other | 39 | 7 | 70,305 |
| TOTAL OPERATING EXPENSES | 493,019 | 604,242 | 12,988,046 |
| OPERATING LOSS | (492,412) | (602,763) | (12,879,818) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest Earnings | 5 | 49 | 31,720 |
| Grants | 222,073 | 144,909 | 687,910 |
| Other | - | - | 38,404 |
| Loss on Sale of Equipment | - | - | (5,698) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 222,078 | 144,958 | 752,336 |
| DECREASE IN NET ASSETS | (270,334) | (457,805) | (12,127,482) |
| NET ASSETS (DEFICIT) - BEGINNING OF PERIOD | (11,857,148) | (11,399,343) | - |
| NET ASSETS (DEFICIT) - END OF PERIOD | $ (12,127,482) | $ (11,857,148) | $ (12,127,482) |

See notes to financial statements.

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Years Ended December 31, 2012 | Years Ended December 31, 2011 | From January 1, 1988 (Inception) to December 31, 2012 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from Customers | $ 607 | $ 1,479 | $ 108,228 |
| Payments of Professional Fees | (11,650) | (11,200) | (1,005,136) |
| Payments of Salaries and Benefits to Employees | (83,340) | (73,702) | (4,698,008) |
| Payments to Suppliers | (376,925) | (509,990) | (7,012,283) |
| NET CASH USED IN OPERATING ACTIVITIES | (471,308) | (593,413) | (12,607,199) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | |
| Advances from the County of Orange | 410,350 | 509,000 | 12,375,452 |
| Receipts from Granting Agencies | 9,360 | 120,418 | 344,988 |
| Receipts from Industrial Development Agency | - | - | 65,000 |
| NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES | 419,710 | 629,418 | 12,785,440 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Advances from the County of Orange | - | - | 15,922,671 |
| Engineering and Design Costs in Progress | - | - | (15,922,671) |
| Purchase of Office Equipment | (2,071) | (1,958) | (205,985) |
| Other | - | - | 38,404 |
| Loss on Sale of Equipment | - | - | (5,698) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (2,071) | (1,958) | (173,279) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest Earnings | 5 | 49 | 31,720 |
| NET INCREASE (DECREASE) IN CASH | (53,664) | 34,096 | 36,682 |
| CASH - BEGINNING OF PERIOD | 90,346 | 56,250 | - |
| CASH - END OF PERIOD | $ 36,682 | $ 90,346 | $ 36,682 |

See notes to financial statements.

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Years Ended December 31, | | From January 1, 1988 (Inception) to December 31, |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | | |
| Operating Loss | $ (492,412) | $ (602,763) | $ (12,879,818) |
| Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities: | | | |
| Depreciation | 1,257 | 3,136 | 201,564 |
| Changes in Assets and Liabilities: | | | |
| Prepaid Payroll Taxes | - | 808 | - |
| Prepaid Insurance | 227 | 556 | (3,001) |
| Accounts Payable and Accrued Liabilities | 19,620 | 4,850 | 74,056 |
| Total Adjustments | 21,104 | 9,350 | 272,619 |
| NET CASH USED IN OPERATING ACTIVITIES | $ (471,308) | $ (593,413) | $ (12,607,199) |

See notes to financial statements.

## NOTE 1. ORGANIZATION AND REPORTING ENTITY.

### A. Organization and Purpose

The Orange County Water Authority (Authority) was created as a public benefit corporation by virtue of the provisions of Section 1199, Title 8-E of the Public Authorities Law. The Authority was created to administer the planning, design, construction and operation of a water supply and distribution system for the residents of the County of Orange, New York (County).

Management, the Board of Directors for the Authority consists of seven members who are appointed by the County Executive of the County and serve as volunteers without compensation.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments and the Uniform System of Accounts as prescribed by the State of New York. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Authority's more significant accounting principles.

### B. Financial Reporting Entity

The Authority has been identified as a component unit of the County, in accordance with criteria set forth in GASB Statement No. 14. These criteria include assessment of legal standing, fiscal dependency and financial accountability.

### C. Tax Status

As a public benefit corporation of the State of New York, the Authority is exempt from federal, state and local income taxes.

### D. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is March 6, 2013.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

### A. Basis of Accounting

The accounts of the Authority are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### B. Development Stage Activities

The Authority has been in the development stage since its formation. It is primarily engaged in identifying sources of water and developing a long range plan to ensure the County's water self-sufficiency in the future.

## NOTE. 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (Continued)

### C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

### D. Deposit Risk Disclosure

#### Cash

Cash consists of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of three months or less.

The Authority's deposit and investment policies are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York Public Authorities Law. Authority monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The Authority is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its political subdivisions, and accordingly, the Authority's policy provides for no credit risk on investments.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipal and school district subdivisions.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Authority's name. The Authority's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2012.

The Authority was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate risk or credit risk.

### E. Engineering and Design Costs in Progress

Engineering and design costs represent costs incurred to date in connection with the planning and design of a water supply and distribution system, the development of which is currently suspended.

### F. Office Equipment

Office equipment is stated at cost and is depreciated using the straight-line method based on an estimated useful life of ten years for equipment and five years for computer equipment.

## NOTE 3. CAPITAL ASSETS.

Changes in the capital assets of the Authority were as follows:

| | Balance January 1, 2012 | Net Changes | Balance December 31, 2012 |
|---|---|---|---|
| Capital Assets, being Depreciated – Office Equipment | $ 196,438 | $ 2,072 | $ 198,510 |
| Less: Accumulated Depreciation | (192,831) | (1,257) | 194,088 |
| Total Capital Assets, being Depreciated, Net | $ 3,607 | $ 815 | $ 4,422 |

## NOTE 4. PENSION PLAN.

The Authority has a Simplified Employee Pension ("SEP") which covers all employees. The Authority's policy is to fund all contributions as they accrue. The contribution rate is 15% of an employee's eligible wages. SEP contributions were $6,884 and $482,724 for the year ended December 31, 2012 and the period from January 1, 1988 (inception) to December 31, 2012, respectively.

## NOTE 5. NET ASSETS.

The components of net assets are detailed below:

*Invested in Capital Assets* - the component of net assets that reports the difference between capital assets less the accumulated depreciation.

*Deficit Accumulated During the Development Stage* - the difference between the assets and liabilities that is not reported in the invested in capital assets.

## NOTE 6. COMMITMENTS AND CONTINGENCIES.

### A. Contingencies

The development of the water supply and distribution system was suspended while the Authority continues to identify sources of water within the County and develops a long-range strategic plan to ensure the County's water self-sufficiency. If the water supply and distribution system were to be abandoned, capitalized engineering and design costs in progress of $15,922,671 would be expensed.

## NOTE 6. COMMITMENTS AND CONTINGENCIES. (Continued)

### B. Risk Management

The Authority purchases various insurance coverage's to reduce its exposure to loss. The Authority maintains a general liability insurance policy with coverage up to $1 million in the aggregate, with a self-insured retention level of $5,000 per occurrence. The Authority maintains a liability policy for board members with coverage up to $1 million. The Authority purchases conventional workers' compensation insurance with coverage at statutory limits for employees. The Authority also purchases conventional medical insurance coverage for employees. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

### C. Financing

The Authority has not received any capital contributions. Start-up costs for the Authority, including the funding of annual administrative and program costs, are being provided by the County. The advances from the County are non-interest bearing and have no specified repayment date.

### D. Lease Commitments

Beginning in 2007, the Authority relocated its operations into a County provided space with no required annual rental payments. Cumulative rent expense from inception to date is $475,770.

## NOTE 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management has decided to omit the Management Discussion and Analysis because the Authority is still in the development stage. The Management Discussion and Analysis is generally provided to report the results of operations in comparison to the previous year. After the development stage period has ended and normal operations begin, then the Management Discussion and Analysis will be included as part of the financial statements.