

FINANCIAL STATEMENTS

**CAYUGA COUNTY WATER AND
SEWER AUTHORITY**

DECEMBER 31, 2013 AND 2012

CAYUGA COUNTY WATER AND SEWER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

The Members of the Board of Directors
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, 2013 and 2012, 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, 2013 and 2012, 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

Required Supplementary Information

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 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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 21, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Other Reporting Required by New York State Public Authorities Law

In accordance with New York State Public Authorities Law, we have also issued our report dated March 21, 2014, on our consideration of the Authority's compliance with Section 2925(3)(f) of the New York State ("NYS") Public Authorities Law. The purpose of that report is to describe anything that came to our attention that caused us to believe the Authority failed to comply with the Authority's Investment Guidelines, the NYS Comptroller's Investment Guidelines and Section 2925 of the NYS Public Authorities Law (collectively, the "Investment Guidelines").

March 21, 2014
Syracuse, New York

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

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, 2013 and December 31, 2012. The information herein is presented in conjunction with additional information contained in the financial statements.

FINANCIAL HIGHLIGHTS - 2013

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, 85,842 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 \$183,928 during 2013, primarily due to a decrease in federal assistance related to the inactivity of construction of 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 \$13,379,410 (net position) at December 31, 2013. Of this amount, \$2,691,613 (unrestricted net position) may be used to meet the Authority's ongoing obligations.

In 2013, a Revenue Refunding Note ("RRN") was renewed in the amount of \$775,000 at 1.47% 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 2012 RRN and provided the ability to continue financing the ongoing construction.

FINANCIAL HIGHLIGHTS – 2012

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.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

FINANCIAL HIGHLIGHTS – 2012 (Cont'd)

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.

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, 2013 and 2012.

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, 2013 and 2012. 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 \$13,379,410 (net position). Of this amount, \$2,691,613 (unrestricted net position) may be used to meet the Authority's ongoing obligations.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Summary of Operations and Change in Net Position 2013 - 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Charges for services	\$ 1,229,586	\$ 1,161,083
OPERATING EXPENSES:		
Water and sewer	\$ 548,024	\$ 453,372
Program expenses	45,558	20,306
Employee benefits	163,680	156,542
Administrative	45,983	32,732
Legal and accounting	6,653	50,427
Insurance	9,062	11,025
Telephone	6,296	4,972
Utilities	36,201	17,788
Depreciation	<u>521,168</u>	<u>415,944</u>
Total operating expenses	<u>1,382,625</u>	<u>1,163,108</u>
OPERATING LOSS	<u>(153,039)</u>	<u>(2,025)</u>
OTHER INCOME (EXPENSE):		
Federal assistance	184,154	4,146,315
Property taxes	196,422	202,923
Intergovernmental assistance	50,000	50,000
Interest income	1,627	2,107
Interest subsidy	22,134	23,148
Interest expense	(132,406)	(118,305)
Other income	68,780	52,919
Other expense	<u>(53,744)</u>	<u>(56,193)</u>
Total other income	<u>336,967</u>	<u>4,302,914</u>
CHANGES IN NET POSITION	<u>\$ 183,928</u>	<u>\$ 4,300,889</u>

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Summary of Operations and Change in Net Position 2013 – 2012 (Cont'd)

Charges for services in 2013 were higher than in 2012 due to an increase in the number of customers using the sewer system. Water and sewer operating expenses were higher in 2013, primarily due to the cost of sewage treatment and operations increasing as the number of customers using the sewer system increases. Program expenses increased in 2013 due to Cayuga County Sewer District 2 nearing completion. Employee benefits increased in 2013 due to an increase in employee compensation. Administrative expenses increased in 2013 due to an increase in Administrative Trustee Fees related to Cayuga County Sewer District 2 capital debt, engineering fees paid to Conestoga Rovers & Associates and a general increase in administrative costs. Legal & accounting fees were substantially lower in 2013 due to the inactivity and eventual dissolution of the Inter-Municipal Task Force. Insurance expense was lower in 2013 due to the Authority changing insurance carriers. Utilities expense is higher in 2013 due to the increase in operational grinder pumps in the Cayuga County Sewer District 2. Depreciation expense increased in 2013 due to the capitalization of a portion of Phase 2 of Cayuga County Sewer District 2. Federal assistance was significantly lower in 2013 due to few construction contracts for Cayuga County Sewer District 2 being in progress throughout 2013.

Property tax income decreased in 2013 due to the Water District 1-2 capital debt being paid in full. Interest expense increased in 2013 due to the closing of the loan related to Phase 2 of Cayuga County Sewer District 2. All these factors, but primarily a significant decrease in federal assistance due to the inactivity of sewer construction, contributed to an increase in net position of \$183,928 between 2013 and 2012.

Summary of Operations and Change in Net Position 2012 - 2011

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.

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.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Financial Position Summary - 2013

Net position is an indication of the Authority's financial strength. The Authority's net position as of December 31, 2013 is \$13,379,410. A summary of the Authority's financial position is shown below.

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 637,801	\$ 514,462
Accounts receivable	178,948	214,818
Loans receivable	1,164,000	2,183,000
Grants receivable	-	311,502
Prepaid expenses and other assets	<u>12,287</u>	<u>10,217</u>
Total current assets	<u>1,993,036</u>	<u>3,233,999</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,844,175	2,351,463
Capital assets, net	<u>16,323,994</u>	<u>15,688,313</u>
Total noncurrent assets	<u>18,168,169</u>	<u>18,039,776</u>
Total assets	<u>20,161,205</u>	<u>21,273,775</u>
Current liabilities:		
Accounts payable	82,810	111,721
Retainage payable	65,100	162,760
Accrued expenses	16,920	16,920
Short-term notes payable	775,000	1,250,000
Notes payable, current	2,178,688	328,497
Bonds payable, current	<u>49,057</u>	<u>29,864</u>
Total current liabilities	<u>3,167,575</u>	<u>1,899,762</u>
Noncurrent liabilities:		
Notes payable	1,450,000	4,950,254
Bonds payable	<u>2,164,220</u>	<u>1,228,277</u>
Total noncurrent liabilities	<u>3,614,220</u>	<u>6,178,531</u>
Total liabilities	<u>6,781,795</u>	<u>8,078,293</u>
Net position:		
Net investment in capital assets	9,761,029	7,964,421
Restricted	926,768	1,159,820
Unrestricted	<u>2,691,613</u>	<u>4,071,241</u>
Total net position	<u>\$ 13,379,410</u>	<u>\$ 13,195,482</u>

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Financial Position Summary 2013 (Cont'd)

Unrestricted cash and cash equivalents increased in 2013 due to a decrease in Accounts receivable and an increase in revenue from water and sewer operations. Loans receivable and grants receivable decreased in 2013 due to the lack construction activity for Cayuga County Sewer District 2. Prepaid expenses increased slightly in 2013 due to the addition of certain communications expenses in conjunction with the timing of payment. These factors, but primarily the decrease in loans and grants receivable, contributed to a decrease in current assets in 2013 of \$1,240,963.

Restricted cash and cash equivalents decreased due to the inactivity of construction during the year. Capital assets increased due to the completion of a significant amount of construction on Phase 2 of Cayuga County Sewer District 2. These factors contributed to a net increase in noncurrent assets in 2013 of \$128,393.

Due to all the factors stated above, the Authority's total assets decreased \$1,112,570.

Accounts payable decreased in 2013 due to the timing of invoices and payments. Retainage payable decreased due to the inactivity of sewer construction. In addition, short-term notes payable decreased by \$475,000 in 2013 from the prior year. A larger portion of future maturities due on long-term debt are due in 2014 vs. 2013 thus a decrease in non-current liabilities. Total liabilities decreased \$1,296,498, primarily due to the reduction of obligations used to finance sewer construction and a reduction in the short-term notes payable from \$1,250,000 at December 31, 2012 to \$775,000 at December 31, 2013.

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.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Financial Position Summary - 2012 (Cont'd)

	<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
Short-term notes payable	1,250,000	2,500,000
Notes payable, current	328,497	1,479,271
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 investments 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, 2013 AND 2012**

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.

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 2013 and 2012. Water rates increased in 2013 due to an increase in the cost of water supplied by the City of Auburn, the Authority's primary supplier. Sewer rates were lowered in 2013 according to the rate schedule outlined by the District Formation Report of Cayuga County Sewer District 2. The Authority has restructured the cost basis used to determine the water rate in 2014 due to a thorough examination of the costs of supplying water. The Authority anticipates a decrease to the operations & maintenance cost of Sewer District 2 in 2014 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, 2013 AND 2012**

Budgetary Comparison - 2013

Summary of Operating Revenues

	<u>2013 Actual</u>	<u>2013 Budget</u>
Charges for services	\$ 1,229,586	\$ 1,130,800

Wholesale water revenue was higher than expected in 2013, with an increase in the consumption of the Town of Springport, offset by a decrease in consumption by most other wholesale customers. The administrative income portion of charges for services was much higher than anticipated, due to unanticipated water access 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 \$98,786.

Summary of Operating Expenses

	<u>2013 Actual</u>	<u>2013 Budget</u>
Water and Sewer	\$ 548,024	\$ 444,800
Program expenses	45,558	-
Employee benefits	163,680	149,700
Administrative	45,983	18,700
Legal and accounting	6,653	90,500
Insurance	9,062	16,300
Telephone	6,296	5,500
Utilities	36,201	21,000
Depreciation	<u>521,168</u>	<u>-</u>
Total operating expenses	<u>\$ 1,382,625</u>	<u>\$ 746,500</u>

Water and sewer operating expenses were over budget \$103,224 due to the unanticipated amount of treatment cost for Cayuga County Sewer District 2 and the cost of water to supply the volume necessary for the Town of Springport. The Authority does not budget for program expenses incurred through the sewer project. The project budget is maintained and monitored by the United States Department of Agriculture ("USDA") and the Authority's financial consultant. Employee benefits were over budget \$13,980 due to part-time wage employees working more hours than anticipated and employee benefits available to full-time employees being used. Administrative expenses were \$27,283 over budget due to Insurance Premiums, Trustee Fees and Annual Debt Service Fees totaling \$13,835 being included in Administrative Expense and Budgeted under Insurance and Non-operating Expenditures, respectively. Also included in Administrative Expense is \$3,800 in Special Project Expenses to be paid with Non-operating Revenue. Various Expenses totaling approximately \$9,000, includes \$5,659 paid to the Village of Fair Haven for the repair of a water main damaged by construction and \$1,791 in Bank Service Charges, were unexpected costs and were not budgeted. Professional fees (legal and accounting) were under budget \$83,847 due to the inactivity of the Inter-municipal Task Force. The Authority had previously engaged special counsel in regards to the Task Force.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Summary of Operating Expenses (Cont’d)

Utilities were over budget by \$15,201 due to more sewer customers hooking-up to the system than expected and an increase in utilities for the Town of Brutus. The Authority’s revenues and expenses are budgeted annually and tracked quarterly. The Authority does not budget for depreciation, a non-cash expense.

Budgetary Comparison – 2013 (Cont’d)

Summary of Other Revenue (Expense)

	<u>2013 Actual</u>	<u>2013 Budget</u>
Federal assistance	\$ 184,154	\$ -
Property taxes	196,422	195,000
Intergovernmental assistance	50,000	-
Interest income	1,627	330
Interest subsidy	22,134	-
Interest expense	(132,406)	(88,700)
Other income	68,780	-
Other expense	<u>(53,744)</u>	<u>(55,756)</u>
	<u>\$ 336,967</u>	<u>\$ 50,874</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 a reassessment of the number of EDUs being charged. The Authority does not budget for intergovernmental assistance. 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 \$43,706 due to the exclusion of interest paid on interim financing for the sewer project from the 2013 Budget.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

Budgetary Comparison - 2012

Summary of Operating Revenues

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

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, 2013 AND 2012**

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.

DEBT ADMINISTRATION

As of December 31, 2013, the Authority has outstanding long-term debt totaling \$6,616,965, of which \$3,002,745 is due within one year. Included in this total is \$1,938,688 in market rate financing for the payment of interim costs incurred due to the construction of Cayuga County Sewer District 2.

In March 2013, the Authority issued a Revenue Refunding Note (RRN) in the amount of \$775,000 to fund the interim costs of constructing Cayuga County Sewer District 2. At December 31, 2013 \$775,000 was outstanding under this note.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2013 AND 2012**

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 \$880,000 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, Contracts 1 through 6 are complete. Contract 7 is substantially completed. Contract 8, the final contract is approximately 95% complete. Four pump stations are currently operational. Approximately one hundred percent of the infrastructure construction is complete. Engineering design is complete and the final contract was awarded in January 2013. All properties within the District Formation Report are serviceable and property owners are invited to connect to the public sewer system. The entire project is expected to be completed by the end of 2014.

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, 2013 AND 2012**

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, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 637,801	\$ 514,462
Accounts receivable	178,948	214,818
Loans receivable	1,164,000	2,183,000
Grants receivable	-	311,502
Prepaid expenses and other assets	12,287	10,217
Total current assets	1,993,036	3,233,999
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	1,844,175	2,351,463
Capital assets, net	16,323,994	15,688,313
Total noncurrent assets	18,168,169	18,039,776
Total assets	20,161,205	21,273,775
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	82,810	111,721
Retainage payable	65,100	162,760
Accrued expenses	16,920	16,920
Short-term notes payable	775,000	1,250,000
Notes payable, current portion	2,178,688	328,497
Bonds payable, current portion	49,057	29,864
Total current liabilities	3,167,575	1,899,762
NONCURRENT LIABILITIES:		
Notes payable, net of current portion	1,450,000	4,950,254
Bonds payable, net of current portion	2,164,220	1,228,277
Total noncurrent liabilities	3,614,220	6,178,531
Total liabilities	6,781,795	8,078,293
NET POSITION		
Net investment in capital assets	9,761,029	7,964,421
Restricted	926,768	1,159,820
Unrestricted	2,691,613	4,071,241
Total net position	\$ 13,379,410	\$ 13,195,482

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, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Charges for services	\$ 1,229,586	\$ 1,161,083
OPERATING EXPENSES:		
Water and Sewer	548,024	453,372
Program expenses	45,558	20,306
Employee benefits	163,680	156,542
Administrative	45,983	32,732
Legal and accounting	6,653	50,427
Insurance	9,062	11,025
Telephone	6,296	4,972
Utilities	36,201	17,788
Depreciation	521,168	415,944
Total operating expenses	1,382,625	1,163,108
OPERATING LOSS	(153,039)	(2,025)
OTHER INCOME (EXPENSE):		
Federal assistance	184,154	4,146,315
Property taxes	196,422	202,923
Intergovernmental assistance	50,000	50,000
Interest income	1,627	2,107
Interest subsidy	22,134	23,148
Interest expense	(132,406)	(118,305)
Other income	68,780	52,919
Other expense	(53,744)	(56,193)
Total other income, net	336,967	4,302,914
CHANGES IN NET POSITION	183,928	4,300,889
NET POSITION - BEGINNING OF YEAR	13,195,482	8,894,593
NET POSITION - END OF YEAR	\$ 13,379,410	\$ 13,195,482

See Notes to Financial Statements

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 1,265,456	\$ 1,161,296
Cash payments to suppliers of goods and services	(163,680)	(161,291)
Cash payments for employees and benefits	(826,418)	(452,102)
Net cash provided by operating activities	275,358	547,903
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from federal loans and programs	1,514,656	3,316,793
Proceeds from short-term notes payable	775,000	2,500,000
Principal payments on short-term notes payable	(1,250,000)	(4,890,000)
Proceeds from long-term debt	1,003,000	987,000
Principal payments on long-term debt	(1,697,927)	(289,350)
Interest payments on debt	(110,272)	(117,642)
Proceeds from other income	211,458	225,412
Proceeds from intergovernmental assistance	50,000	50,000
Acquisition of capital assets	(1,156,849)	(5,463,465)
Net cash utilized in capital and related financing activities	(660,934)	(3,681,252)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	1,627	2,107
Net cash provided by investing activities	1,627	2,107
NET DECREASE IN CASH AND CASH EQUIVALENTS	(383,949)	(3,131,242)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,865,925	5,997,167
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,481,976	\$ 2,865,925
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	\$ 637,801	\$ 514,462
Restricted cash and cash equivalents	1,844,175	2,351,463
	\$ 2,481,976	\$ 2,865,925

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (153,039)	\$ (2,025)
Adjustment to reconcile operating loss to net cash provided by operating activities:		
Depreciation	521,168	415,944
Changes in:		
Accounts receivable	35,870	213
Prepaid expenses and other assets	(2,070)	12,248
Accounts payable	(28,911)	(14,003)
Retainage payable	(97,660)	162,760
Accrued expenses	-	(27,234)
Total adjustments	<u>428,397</u>	<u>549,928</u>
Net cash provided by operating activities	<u>\$ 275,358</u>	<u>\$ 547,903</u>

See Notes to Financial Statements

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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” or “the primary government”).

The Authority is governed by a board consisting of nine members which are appointed by the County Legislature. Because the County appoints a voting majority of the Authority’s governing body and a financial benefit/burden relationship exists between the Authority and the County, the Authority is presented as a discretely presented component unit of the County.

Basis of Presentation and Measurement Focus

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for governments as prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles, 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.

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, 2013 AND 2012**

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

Cash and Cash Equivalents

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 relevy any uncollected balances. Accordingly, all receivables are considered fully collectible for the years ending December 31, 2013 and 2012.

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.

Grants Receivable

Grants receivable represent amounts due from third party grantors for use on the Authority's sewer construction project.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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. When applicable, 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 as depreciable assets.

Equity Classifications

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

- Net investment 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 position 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 - remaining net position that does not meet the definition of net investment in capital assets or restricted net position and thus 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 21, 2014, which is the date the financial statements were available to be issued.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

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. 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.

The Authority maintains its principal banking relationships with Manufacturers and Traders Trust Company (M&T Bank) and Key Bank. There is a \$250,000 insurance limit, by financial institution, established by the FDIC for all interest-bearing and non-interest-bearing accounts.

At December 31, 2013, the carrying amount of the Authority's deposits with financial institutions was approximately \$2,495,000. Of this amount, approximately \$1,442,000 represents money market accounts and \$1,053,000 represents cash 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 represented money market accounts, and \$850,000 represented cash.

At December 31, 2013, cash balances maintained at Key Bank are secured by approximately \$3,178,000 of collateral. At December 31, 2012, cash balances maintained at Key Bank were secured by approximately \$3,395,000 in collateral.

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

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

3. CAPITAL ASSETS

The Authority's capital asset activity as of and for the year ended December 31, 2013 is summarized as follows:

	Balance at January 1, 2013	Increases	Decreases	Balance at December 31, 2013
Capital assets, being depreciated:				
Water and sewer lines	\$ 12,120,762	\$ 3,432,770	\$ -	\$ 15,553,532
Machinery and equipment	<u>65,498</u>	<u>15,510</u>	<u>-</u>	<u>81,008</u>
Total capital assets being depreciated	<u>12,186,260</u>	<u>3,448,280</u>	<u>-</u>	<u>15,634,540</u>
Less accumulated depreciation:				
Water and sewer lines	(2,597,071)	(509,186)	-	(3,106,257)
Machinery and equipment	<u>(16,791)</u>	<u>(11,982)</u>	<u>-</u>	<u>(28,773)</u>
Total accumulated depreciation	<u>(2,613,862)</u>	<u>(521,168)</u>	<u>-</u>	<u>(3,135,030)</u>
 Total being depreciated, net	 9,572,398	 2,927,112	 -	 12,499,510
Capital assets, not being depreciated:				
Construction in progress	<u>6,115,915</u>	<u>1,141,339</u>	<u>(3,432,770)</u>	<u>3,824,484</u>
 Capital assets, net	 <u>\$ 15,688,313</u>	 <u>\$ 4,068,451</u>	 <u>\$ (3,432,770)</u>	 <u>\$ 16,323,994</u>

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

3. CAPITAL ASSETS (CONT'D)

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>

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 2013, the Authority's revenue refunding note (RRN) was renewed for an amount of \$775,000 with interest of 1.47%.

	Balance at January 1, 2013	Increases	Decreases	Balance at December 31, 2013
2012 Revenue refunding note (RRN)	\$ 1,250,000	\$ -	\$ (1,250,000)	\$ -
2013 Revenue refunding note (RRN)	<u>-</u>	<u>775,000</u>	<u>-</u>	<u>775,000</u>
	<u>\$ 1,250,000</u>	<u>\$ 775,000</u>	<u>\$ (1,250,000)</u>	<u>\$ 775,000</u>

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

	Balance at		Balance at	
	January 1, 2012	Increases	Decreases	December 31, 2012
2011 Revenue refunding note (RRN)	\$ 3,640,000	\$ -	\$ (3,640,000)	\$ -
2012 Revenue refunding note (RRN)	-	2,500,000	(1,250,000)	1,250,000
	<u>\$ 3,640,000</u>	<u>\$ 2,500,000</u>	<u>\$ 4,890,000</u>	<u>\$ 1,250,000</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 2050.

Long-term liability activity for the year ended:

	Balance at		Balance at		Amount due within one year
	January 1, 2013	Increases	Decreases	December 31, 2013	
Note payable - NYSEFC: 2017	\$ 1,090,000	\$ -	\$ (210,000)	\$ 880,000	\$ 215,000
Note payable - NYSEFC: 2014	3,349,588	-	(1,410,900)	1,938,688	1,938,688
Note payable - NYSEFC: 2041	839,163	-	(29,163)	810,000	25,000
RDA Bonds Payable: 2040	225,141	-	(3,864)	221,277	4,057
RDA Bonds Payable: 2019	63,000	-	(9,000)	54,000	9,000
RDA Bonds Payable: 2049	354,000	-	(6,000)	348,000	6,000
RDA Bonds Payable: 2049	104,000	-	(2,000)	102,000	2,000
RDA Bonds Payable: 2049	350,000	-	(6,000)	344,000	6,000
RDA Bonds Payable: 2049	162,000	-	(3,000)	159,000	3,000
RDA Bonds Payable: 2050	-	1,003,000	(18,000)	985,000	19,000
	<u>\$ 6,536,892</u>	<u>\$ 1,003,000</u>	<u>\$ (1,697,927)</u>	<u>\$ 5,841,965</u>	<u>\$ 2,227,745</u>

	Balance at		Balance at		Amount due within one year
	January 1, 2012	Increases	Decreases	December 31, 2012	
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>

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

5. LONG-TERM DEBT (CONT'D)

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

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,227,745	\$ 107,881	\$ 2,335,626
2015	295,259	101,654	396,913
2016	301,471	94,418	395,889
2017	297,694	86,349	384,043
2018	77,928	81,133	159,061
2019-2023	395,580	350,088	745,668
2024-2028	392,449	289,797	682,246
2029-2033	448,489	226,654	675,143
2034-2038	504,379	152,458	656,837
2039-2043	444,971	72,049	517,020
2044-2048	346,000	29,042	375,042
2049-2050	<u>110,000</u>	<u>1,778</u>	<u>111,778</u>
Total	<u>\$ 5,481,965</u>	<u>\$ 1,593,301</u>	<u>\$ 7,435,266</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 2013 and 2012 interest subsidies totaled \$22,134 and \$23,148, respectively. Future interest subsidies are not guaranteed.

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 \$54,000.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

6. NET POSITION

Pursuant to an agreement (“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 \$926,768 and \$1,159,820 at December 31, 2013 and 2012, respectively, represents the restriction stated above for the payment of debt and debt service, which will be lifted when the debt is retired.

7. OPERATING LEASE

The Authority leases office space through July 2014; payments are made quarterly in accordance with the lease agreement. Rental expense amounted to \$12,502 and \$12,077 in 2013 and 2012, respectively. Future minimum lease payments, assuming no change in current terms, are \$6,375, and due in 2014.

8. CONSTRUCTION COMMITMENT

As of December 31, 2013, the Authority was committed to approximately \$81,000 for a major sewer construction project.

9. TRANSACTIONS WITH PRIMARY GOVERNMENT

Pursuant to the agreement with the primary government dated March 3, 1999, and revised June 26, 2002, the primary government is the guarantor of the NYSEFC note payable maturing in 2017 with an amount due at December 31, 2013 and 2012 of \$880,000 and \$1,090,000, respectively.

The Authority received income from the primary government included on the Statements of Revenues, Expenses and Changes in Net Position as intergovernmental assistance in the amount of \$50,000 for the years ending December 31, 2013 and 2012.

10. RECLASSIFICATION

Certain amounts reported at December 31, 2012 have been reclassified to reflect information and assumptions existing at December 31, 2013. Notes payable, current portion was decreased and short-term notes payable was increased by \$1,250,000 at December 31, 2012. This reclassification had no effect on net position or change in net position as originally reported.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

11. NEW PRONOUNCEMENTS

As of January 1, 2013, the Authority adopted the provision of GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity by requiring that a financial benefit or burden relationship also be present between the primary government and the potential component unit. 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 provision of GASB Statement 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 GASB Statement 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.

As of January 1, 2013, the Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting for items previously classified as assets and liabilities consistent with the definitions in GASB Concepts Statement No. 4. The implementation of this guidance did not have a significant effect on the Authority's financial statements.

On January 1, 2013, the Authority implemented GASB Statement No. 66, *Technical Corrections - 2012 - An Amendment of GASB Statements No. 10 and No. 62*. This statement clarifies and improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54 and GASB Statement No. 62. The implementation of this guidance did not have a significant effect on the Authority's financial statements.

(Concluded)



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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 of Directors
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 the Cayuga County Water and Sewer Authority (the "Authority"), a component unit of the County of Cayuga, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 21, 2014.

Internal Control Over Financial Reporting

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

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 a deficiency we consider to be a significant deficiency.

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 13-01 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 deficiency described in the accompanying schedule of findings and questioned costs as 13-02 to be a significant deficiency.

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

The 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.

March 21, 2014
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 of Directors
Cayuga County Water and Sewer Authority
Auburn, New York

Report on Compliance for Each Major Federal Program

We have audited the Cayuga County Water and Sewer Authority's (the "Authority"), a component unit of the 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 year ended December 31, 2013. 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 the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted 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 the 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 - 10.781

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with compliance requirement for Reporting regarding the Water and Waste Program Cluster - 10.781 as described in finding 13-03. 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 - 10.781

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 the Water and Waste Program Cluster - 10.781 for the year ended December 31, 2013.

Other Matters

The Cayuga County Water and Sewer Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 a certain deficiency in internal control over compliance that we consider to be a material weakness and a deficiency we consider to be a significant deficiency.

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 13-03 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 13-04 to be a significant deficiency.

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.

March 21, 2014
Syracuse, New York

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

<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:		
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	\$ <u>1,192,871</u>
Total federal expenditures		\$ <u>1,192,871</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, 2013

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal grant activity of Cayuga County Water and Sewer Authority (the “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.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Part I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no		
Significant deficiencies identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported		
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no		

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no		
Significant deficiencies identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported		
Type of auditor’s report issued on compliance for major programs:	Qualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no		

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Grantor/Program Title</u>
10.781	U.S. Department of Agriculture - Water and Waste Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Part II - Financial Statement Findings

Reference Number: 13-01

Criteria:

The financial statements are required to, in all material respects, represent the respective financial position of the Authority at year end. Internal controls should provide adequate assurance that transactions are recorded in accordance with accounting principles generally accepted in the United States of America.

Condition/Cause:

Current controls did not detect material misstatements in the calculation of construction in progress associated with Sewer District II, Phase 2, and of property tax income accruals at and for the year ended December 31, 2013.

Effect:

The following material adjustments were necessary to properly state the financial statements:

- Increase construction in progress and decrease water and sewer lines (depreciable assets) by approximately \$568,000, and decrease accumulated depreciation and depreciation expense by approximately \$17,000; and
- Decrease accounts receivable and property tax income by approximately \$196,000.

Recommendation:

The Authority should establish internal controls to ensure proper recording of all transactions in accordance with accounting principles generally accepted in the United States of America.

Management's Response:

The management of the Authority is aware of staffing limitations which result in the need for a stronger internal control system. As part of reconciling these variances during the performance of the audit, the staff of the Authority has created the means by which to appropriately track and record the capitalization of Sewer District II. The Authority will establish review processes to ensure the proper capitalization of depreciable assets and property tax income accruals.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 13-02

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 continues the process of implementing formal risk assessment tools obtained from similar entities and is revising them to meet its own internal needs and establish its own formal risk assessment tool. The Board of Directors and management have assumed this responsibility. An Internal Control Assessment is conducted in conjunction with the annual organizational meeting each January.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Part III - Federal Award Findings and Questioned Costs

Reference Number: 13-03

Federal Grantor/Program Title/CFDA:

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

Program Year(s):

2013

Criteria:

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, 2013. Misstatements were the result of failing to properly account for ARRA funds received and expended to date.

Effect:

Cumulative expenses to date per the quarterly recipient reports were materially understated by approximately \$195,000 for the year ending December 31, 2013. 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 understatement of the quarterly 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, 2013**

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

Reference Number: 13-03 (Cont'd)

Management's Response:

The Authority is required to submit quarterly reports disclosing total funds received and spent on projects and activities. The Authority staff reviews its quarterly submittal with its Financial Advisor and the staff of USDA Rural Development. Management will continue to review current internal controls and identify weaknesses as recommended by the auditors. Currently, the federal government has opened the on-line reporting system to all entities for the correction of misstatements. The Authority will utilize this opportunity to correctly disclose total funds received and spent on project and activities to date.

Reference Number: 13-04

Federal Grantor/Program Title/CFDA:

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

Program Year(s):

2013

Criteria:

Internal controls should ensure that the Schedule of Expenditures of Federal Awards (the "SEFA") is prepared in accordance with OMB Circular A-133. Amounts reported on the SEFA should reflect all expenditures for the year ended December 31, 2013 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 Catalog of Federal Domestic Assistance numbers ("CFDA number").

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Reference Number: 13-04 (Cont'd)

Condition/Cause:

Current controls did not allow for the detection of misstatements in the preparation of the SEFA and identification of the proper CFDA number to federal expenditures.

Effect:

The SEFA was not prepared in accordance with OMB Circular A-133. At December 31, 2013, the SEFA was understated for immaterial expenditures incurred but not yet claimed for reimbursement. The Authority did not assign the proper CFDA number to federal expenditures.

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 staff reviews its federal expenditures with its Financial Advisor and the staff of USDA Rural Development. The Authority's Audit Committee and Board of Directors will continue to assess and implement procedures to ensure accurate reporting of the SEFA in accordance with OMB Circular A-133. The Authority staff will review OMB Circular A-133 and continue to coordinate with its Financial Advisor and USDA Rural Development staff.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Reference Number 12-05

Status: See current year finding 13-03.

Reference Number 12-06

Status: See current year finding 13-04.

Reference Number 12-07

Status: Management has taken corrective action.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH SECTION 2925(3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cayuga County Water and Sewer Authority (the "Authority") a component unit of the County of Cayuga, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 21, 2014.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the Authority's Investment Guidelines, The New York State ("NYS") Comptroller's Investment Guidelines and Section 2925 of the NYS Public Authorities Law (collectively, the "Investment Guidelines"), which is the responsibility of the Authority's management, insofar as they relate to the financial accounting knowledge of noncompliance with such Investment Guidelines.

This report is intended solely for the information and use of management, the Board of Directors, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these parties.

March 21, 2014
Syracuse, New York