

*SARATOGA COUNTY WATER AUTHORITY*  
*(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)*

*FINANCIAL STATEMENTS*

*DECEMBER 31, 2013 AND 2012*

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**

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*DECEMBER 31, 2013 AND 2012*

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## **INDEPENDENT AUDITOR'S REPORT**

To the Saratoga County Water Authority  
Governing Board  
Gansevoort, New York

### **Report on the Financial Statements**

We have audited the accompanying statement of net position of the Saratoga County Water Authority (the "Authority") (a component unit of Saratoga County, New York), as of December 31, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

### **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 audit 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 Authority'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 financial position of the Saratoga County Water Authority as of December 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 5 and the schedule of funding progress on page 22 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 supplemental 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 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, 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 the 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.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
March 27, 2014

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
*MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)*  
*DECEMBER 31, 2013 AND 2012*

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## **Introduction**

The accompanying Management Discussion and Analysis of the Saratoga County Water Authority's (the "Authority") financial performance has been prepared to provide an overview of the Authority's financial activities for the years ended December 31, 2013 and 2012. This discussion and analysis is only an introduction and should be read in conjunction with the Authority's financial statements, which immediately follow this section.

## **Organization**

The Authority is a corporate governmental agency as defined by the Saratoga County Water Authority Act, Title 8-F of Article 5 of the New York State Public Authorities Law created by an act of the New York Legislature in 1990. The Authority is governed by a governing board of seven members, appointed by the chairperson of the Board of Supervisors of Saratoga County.

The Authority is charged with providing water services for the public benefit. The Authority is empowered to borrow money and issue notes, bonds or obligations in order to pay the costs of water projects or projects for corporate purposes.

The Authority issued revenue bonds to construct the Saratoga County Water Treatment and Transmission Facilities System (the "System"). The System will provide safe, reliable and affordable drinking water to residents of Saratoga County by drawing water from the upper Hudson River in the Town of Moreau, treating the water using a membrane filtration system and then transmitting the finished water along an approximately 28 mile line to municipal/commercial users. The primary funding for the Authority will be from the users of the System.

## **Financial Highlights**

The water treatment plant was substantially complete on January 28, 2010 with the finished water transmission main being substantially completed in 2009. Two additional segments of transmission main were constructed by others and dedicated over to the Authority. One segment was constructed by NYSDOT as part of the Round Lake Bypass Project (NYS Project ID 1807.01.301). The second segment was constructed by the Towns of Malta and Stillwater as the LFTC Site Roadways project. The Authority obtained New York State Department of Health approval to go into operation, and began serving customers on February 22, 2010. The 5 million gallon tank in Luther Forest Technology Campus was completed and placed into service on October 13, 2010.

The Authority began serving the Wilton Water & Sewer Authority in February 2010, the Clifton Park Water Authority in June 2010, the Town of Ballston in September 2010, and Global Foundries in the Luther Forest Technology Campus in October, 2010. The Village of Stillwater began taking water on January 5, 2012. The Authority began providing water to the Town of Moreau in 2014 and anticipates providing a connection and service to the Towns of Greenfield and Stillwater in 2015.

The Authority will publish its Annual Drinking Water Quality Report by May 1, 2014 as required by state and federal regulations. The total water produced in 2013 and 2012 was 1,447 million gallons and 1,411 million gallons, respectively.

## **Analysis of the Authority's Financial Position**

The Authority's net position decreased by \$3.2 in 2013, to \$25.8 million. The decline in net position is primarily due to 2013 depreciation expense. The Authority's net position decreased by \$4.6 million in 2012, to \$29.0 million.

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
DECEMBER 31, 2013 AND 2012

**Analysis of the Authority's Financial Position (Continued)**

**CONDENSED STATEMENT OF NET POSITION**

	<b><u>2013</u></b>		<b><u>2013</u></b>		<b><u>2012</u></b>		<b><u>2012</u></b>		<b><u>2011</u></b>		<b><u>2011</u></b>
	<b>Total</b>		<b>%</b>		<b>Total</b>		<b>%</b>		<b>Total</b>		<b>%</b>
<b>ASSETS</b>											
Current Assets	\$ 1,837,705		2.4	\$ 1,899,939		2.4	\$ 1,791,254		2.1		
Restricted Assets	2,982,756		3.9	3,208,835		4.0	3,383,433		4.1		
Property, Plant, and Equipment, Net	72,502,122		93.6	74,795,820		93.5	77,278,087		92.5		
Other Assets	107,754		.1	107,754		.1	1,077,477		1.3		
Total Assets	<u>\$ 77,430,337</u>		<u>100.0</u>	<u>\$ 80,012,348</u>		<u>100.0</u>	<u>\$ 83,530,251</u>		<u>100.0</u>		
<b>LIABILITIES AND NET POSITION</b>											
Current Liabilities	\$ 2,016,103		2.6	\$ 1,893,885		2.4	\$ 2,078,071		2.4		
Long-Term Liabilities	49,576,638		64.0	49,069,745		61.3	47,804,574		57.2		
Total Liabilities	51,592,741		66.6	50,963,630		63.7	49,882,645		59.6		
Net Position	<u>25,837,596</u>		<u>33.4</u>	<u>29,048,718</u>		<u>36.3</u>	<u>33,647,606</u>		<u>40.4</u>		
Total Liabilities and Net Position	<u>\$ 77,430,337</u>		<u>100.0</u>	<u>\$ 80,012,348</u>		<u>100.0</u>	<u>\$ 83,530,251</u>		<u>100.0</u>		

**CONDENSED STATEMENT OF NET POSITION**

	<b><u>2013</u></b>		<b><u>2013</u></b>		<b><u>2012</u></b>		<b><u>2012</u></b>		<b><u>2011</u></b>		<b><u>2011</u></b>
	<b>Total</b>		<b>%</b>		<b>Total</b>		<b>%</b>		<b>Total</b>		<b>%</b>
Operating Revenue	\$ 3,477,371		99.1	\$ 3,139,975		98.3	\$ 2,845,633		96.7		
Non-Operating Revenue	31,980		.9	54,225		1.7	97,558		3.3		
Total Revenues	<u>3,509,351</u>		<u>100.0</u>	<u>3,194,200</u>		<u>100.0</u>	<u>2,943,191</u>		<u>100.0</u>		
Depreciation and Amortization Expense	2,567,154		73.2	2,564,248		80.3	2,553,635		86.8		
Other Operating Expense	1,900,135		54.2	3,031,264		94.9	2,088,870		71.0		
Non-Operating Expense	2,253,184		64.1	2,197,576		68.8	2,149,840		73.0		
Total Expenses	<u>6,720,473</u>		<u>191.5</u>	<u>7,793,088</u>		<u>244.0</u>	<u>6,792,345</u>		<u>230.8</u>		
Change in Net Position	<u>\$ (3,211,122)</u>		<u>(91.5)</u>	<u>\$ (4,598,888)</u>		<u>(144.0)</u>	<u>\$ (3,849,154)</u>		<u>(130.8)</u>		

### **Debt Administration**

During 2008 the Authority issued \$45,000,000 Water System Revenue Bonds with a final maturity in 2048 and bearing interest at rates ranging from 3% to 5%.

### **Capital Improvements**

The Authority is in the design phase for the construction of a wastewater outfall project that is estimated to cost \$1,500,000 which will be funded by a grant of \$500,000 and a 7 year loan of \$1,000,000 from the Saratoga County Industrial Development Agency.

The Authority is also in the design phase for process treatment upgrades at the water treatment plant at an estimated project cost of \$4,000,000 - \$6,000,000 million. The Authority expects to issue revenue bonds in 2014 to finance this project.

To provide for the design and construction management of these anticipated projects the Authority has entered into contracts with a local engineering firm in an amount not to exceed \$706,400.

### **Economic Factors**

The Authority entered into a Service Agreement with the County whereby the Authority agrees to operate and maintain the Water System in accordance with good engineering and business practices for an essential public utility. Under the Service Agreement, the County is obligated to pay a service fee to the Authority on a quarterly basis so long as any Bonds remain outstanding and the Authority is meeting its performance obligations under the Service Agreement to build and operate the Water System. The amount of the service fee will be equal to the amount budgeted by the Authority to be due for operating costs and debt service in the period commencing on the day following that service fee payment date and concluding on the next ensuing service fee payment date, less the amount of cash held by the Authority or Trustee as of the 35<sup>th</sup> day before the service fee payment date in the Revenue Fund, Operating Fund, and the Bond Redemption and Accumulated Surplus Fund that is expected to be available during the covered period for the payment of debt service and operating costs. The Authority is obligated to repay the County for any and all amounts paid by the County as a service fee, with interest at the rate of 4% per annum, but only to the extent that the annual revenues of the Authority from the operation of the System for any fiscal year exceed the total of operating costs, debt service, required deposits, and amounts the Authority reasonably considers will be needed to pay for maintenance and repairs in the next fiscal year. The County is required to pay the Authority the service fee commencing on the date of issuance of the Series 2008 Bonds and on each quarterly service fee payment date thereafter.

In 2013, the Authority requested two service fee payments totaling \$890,000. In 2012, the Authority requested two service fee payments totaling \$1,656,000. The Authority has budgeted for a \$900,000 service fee payment from the County in 2014.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with an overview of the Authority's financial resources and to demonstrate the Authority's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact the Authority's Treasurer at Saratoga County Water Authority, 260 Butler Road, Gansevoort, New York 12831.

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**

STATEMENTS OF NET POSITION  
DECEMBER 31, 2013 AND 2012

**Assets**

	<b><u>2013</u></b>	<b><u>2012</u></b>
Current Assets		
Cash	\$ 1,063,380	\$ 1,147,167
Accounts Receivable, Net	579,759	564,067
Grants Receivable	171,485	171,485
Prepaid Expenses	<u>23,081</u>	<u>17,220</u>
Total Current Assets	<u>1,837,705</u>	<u>1,899,939</u>
Restricted Assets		
Cash and Cash Equivalents with Fiscal Agent	401,287	578,863
Accrued Interest	9,263	9,263
Investments with Fiscal Agent	<u>2,572,206</u>	<u>2,620,709</u>
	<u>2,982,756</u>	<u>3,208,835</u>
Capital Assets, Net	<u>72,502,122</u>	<u>74,795,820</u>
Long-Term Accounts Receivable, Net	<u>107,754</u>	<u>107,754</u>
Total Assets	<u>\$ 77,430,337</u>	<u>\$ 80,012,348</u>

**Liabilities, Deferred Inflows and Net Position**

Current Liabilities		
Accounts Payable	\$ 311,876	\$ 204,717
Construction Contracts in Litigation	486,462	486,462
Accrued Compensated Absences	16,494	14,968
Accrued Interest Payable	696,271	702,738
Current Installment of Revenue Bonds	<u>505,000</u>	<u>485,000</u>
Total Current Liabilities	<u>2,016,103</u>	<u>1,893,885</u>
Long-Term Liabilities		
Due to Saratoga County	6,700,190	5,707,254
Revenue Bonds, Less Current Installment	42,640,000	43,145,000
Accrued Postemployment Benefits	<u>65,353</u>	<u>38,571</u>
Total Long-Term Liabilities	<u>49,405,543</u>	<u>48,890,825</u>
Total Liabilities	<u>51,421,646</u>	<u>50,784,710</u>
Deferred Inflows of Resources		
Premium on Bonds, Net	<u>171,095</u>	<u>178,920</u>
Commitments and Contingencies		
Net Position	25,634,152	27,435,025
Net Investment in Capital Assets	2,982,756	3,208,835
Restricted	<u>(2,779,312)</u>	<u>(1,595,142)</u>
Unrestricted (Deficit)	<u>25,837,596</u>	<u>29,048,718</u>
Total Net Position	<u>\$ 77,430,337</u>	<u>\$ 80,012,348</u>
Total Liabilities, Deferred Inflows and Net Position		

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
*STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION*  
*FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012*

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	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 3,408,811	\$ 3,112,426
User Fees	<u>68,560</u>	<u>27,549</u>
Miscellaneous	<u>3,477,371</u>	<u>3,139,975</u>
Operating Expenses		
Salaries and Wages	479,955	478,394
Employee Benefits	229,895	212,777
Bad Debts	-	1,127,037
Chemicals	186,740	231,495
Contracted Management and Professional Services	214,250	206,057
Depreciation and Amortization, Net	2,567,154	2,564,248
Insurance	75,861	68,067
Legal	102,489	104,422
Other Supplies and Materials	87,595	100,602
Utilities	345,066	260,870
Water System Maintenance	63,777	38,134
Water Treatment and Distribution	<u>114,507</u>	<u>203,409</u>
	<u>4,467,289</u>	<u>5,595,512</u>
Operating Loss	<u>(989,918)</u>	<u>(2,455,537)</u>
Nonoperating Revenues (Expenses)		
Interest Income	31,980	27,484
Interest Expense	(2,204,681)	(2,197,576)
Unrealized Gain (Loss) on Investments	<u>(48,503)</u>	<u>26,741</u>
Total Nonoperating Expenses	<u>(2,221,204)</u>	<u>(2,143,351)</u>
Change in Net Position	(3,211,122)	(4,598,888)
Net Position, Beginning of Year (as Restated)	<u>29,048,718</u>	<u>33,647,606</u>
Net Position, Ending of Year	<u>\$ 25,837,596</u>	<u>\$ 29,048,718</u>

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows Provided by Operating Activities:		
Received from Customers	\$ 3,410,153	\$ 2,871,400
Paid to Suppliers and Vendors	(1,031,701)	(1,436,143)
Paid to Employees, Including Benefits	(687,403)	(459,045)
	<u>1,691,049</u>	<u>976,212</u>
Cash Flows Provided by Investing Activities		
Change in Restricted Cash, Cash Equivalents, and Investments	177,576	210,602
Interest Received	31,980	18,161
	<u>209,556</u>	<u>228,763</u>
Cash Flows Used in Capital and Related Financing Activities:		
Interest Paid	(2,108,212)	(2,122,652)
Payments of Revenue Bond Principal	(485,000)	(470,000)
Acquisition of Capital Assets	(281,180)	(248,518)
Construction Grants	-	40,280
	<u>(2,874,392)</u>	<u>(2,800,890)</u>
Cash Flows Provided by Noncapital and Related Financing Activities:		
Receipt of Service Fee from Saratoga County	<u>890,000</u>	<u>1,656,000</u>
Net Increase (Decrease) in Cash	(83,787)	60,085
Cash, Beginning of Year	<u>1,147,167</u>	<u>1,087,082</u>
Cash, End of Year	<u>\$ 1,063,380</u>	<u>\$ 1,147,167</u>
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities		
Operating Loss	\$ (989,918)	\$ (2,455,537)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation and Amortization, Net	2,567,154	2,564,248
Provision for Bad Debts	-	1,127,037
(Increase) Decrease in		
Accounts Receivable	(15,692)	25,339
Prepaid Expenses	(5,861)	22,440
Long-term Accounts Receivable	-	(293,914)
Increase (Decrease) in		
Accounts Payable and Accrued Liabilities	108,584	(35,962)
Accrued Postemployment Benefits	<u>26,782</u>	<u>22,561</u>
	<u>\$ 1,691,049</u>	<u>\$ 976,212</u>

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

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**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

The Saratoga County Water Authority (the Authority) was created during 1990 as a public benefit corporation under New York State Public Authorities Law, Title 8-F of Article 5. The Authority is a component unit of Saratoga County New York (the County). The Authority is charged with providing water services for public benefit. A governing board of seven members, appointed by the chairperson of the Board of Supervisors of Saratoga County, governs the Authority.

The Authority began operations during February 2010 with the substantial completion of the Saratoga County Water Treatment and Transmission Facilities System (the System). The System is designated to provide safe, reliable, and affordable drinking water to the residents of Saratoga County.

*Basis of Accounting*

The Authority's financial statements are prepared using the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net position. Net position is segregated into restricted and unrestricted components, as follows:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances.
- *Restricted net position* has constraints placed on use by the Authority's Revenue Bond.
- *Unrestricted net position* consists of assets and liabilities that do not meet the definition of net investment in capital assets, net of related debt or restricted net position.

Revenues are recognized when earned, and expenses are recognized when incurred. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing water services. The principal operating revenues of the Authority are charges to customers for user services. Operating expenses include the costs associated with providing those user services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*DECEMBER 31, 2013 AND 2012*

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**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

*Cash, Cash Equivalents, and Investments*

Cash and cash equivalents consist of cash deposits and other short-term investments with original maturities of three months or less.

Statutes authorize the Authority to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Unrestricted cash deposits with financial institutions are either covered by federal depository insurance or collateralized by securities held by the pledging bank's trust department in the Authority's name, or U.S. Government and/or federal agency securities held by the Trustee. Restricted cash equivalents and investments are held in the Authority's name by their custodial agent and; therefore, not subject to custodial risk. The Authority's restricted cash equivalents are considered investments for cash flow statement purposes.

*Accounts Receivable*

Accounts receivable are carried at original invoice less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines if an allowance for doubtful accounts is needed by identifying troubled accounts and by using historical experience applied to an aging of accounts as well as regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. Management has provided for an allowance of \$1,426,985 and \$1,254,249 at December 31, 2013 and 2012, respectively, relating to the receivable from the Luther Forest Economic Development Corporation.

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*DECEMBER 31, 2013 AND 2012*

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**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Capital Assets, Net*

Capital assets, are recorded at cost, except for contributed property and equipment, which is recorded at fair value or the contributor's net book value if fair value is not readily ascertainable. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. The Authority uses a capitalization threshold of \$5,000 to analyze expenses for capitalization. When equipment is retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation, and any resultant gain or loss is credited or charged to operations.

Interest expense incurred during construction of assets are capitalized. Constructed assets financed with the proceeds of tax-exempt debt (if those funds are extremely restricted to finance the acquisitions of the assets or used to service the related debt) include capitalized interest to the extent that interest cost over the asset construction period exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings.

Depreciation is provided for in amounts to prorate the cost of depreciable assets to operations over their estimated useful lives, using the straight-line method. The estimated useful lives established to determine depreciation for vehicles, machinery, and equipment vary from three to twenty years. Buildings and building improvements are depreciated over thirty years. Land improvements are depreciated over twenty years. Infrastructure is depreciated over forty years.

The Authority evaluated prominent events or changes in circumstances affecting property and equipment to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2013 and 2012.

*Premium on Bonds, Net*

The Authority issued the \$45,000,000 2008 Water System Revenue Bonds at an original issue premium of \$213,895. The premium is amortized over the life of the bonds using the effective interest method.

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2013 AND 2012

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**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Accrued Compensated Absences*

All full-time employees meeting certain conditions are provided with vacation, sick pay, and certain other leave credits based on the terms of employment. Accumulated unpaid vacation and compensatory time are accrued when incurred. Sick pay and other leave credits do not vest with the employees and are expensed when paid.

*Tax Status*

The Authority is exempt from federal income taxes under Internal Revenue Service Code Section 115.

*Reclassification*

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net position.

*Subsequent Events*

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position through March 27, 2014, the date the financial statements were available to be issued. No such events or transactions were identified, other than disclosed in Note 9, Capital Improvements.

**2. RESTRICTED ASSETS**

In accordance with the terms of the Authority's bond indenture, the use of certain Authority assets is restricted for specific purposes as summarized below.

	<u><b>2013</b></u>	<u><b>2012</b></u>
Construction Fund	\$ 349,672	\$ 558,125
Debt Service Reserve Fund	2,623,810	2,641,436
Other	<u>11</u>	<u>11</u>
Total Assets Held with Fiscal Agent	2,973,493	3,199,572
Accrued Interest	<u>9,263</u>	<u>9,263</u>
Total Restricted Assets	<u><u>\$ 2,982,756</u></u>	<u><u>\$ 3,208,835</u></u>

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2013 AND 2012

**2. RESTRICTED ASSETS (CONTINUED)**

As of December 31, 2013, the Authority had the following investments and maturities:

<b>Investment Maturities (In Years)</b>					
	<b>Cost</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>
Money Market Fund	\$ 401,287	\$ 401,287	\$ 401,287	\$ -	\$ -
Federal Home Loan Bank Bond	1,293,968	1,301,963	-	1,301,963	-
Federal Home Loan Bank Term Note	1,300,000	1,270,243	-	-	1,270,243
Total	<u>\$ 2,995,255</u>	<u>\$ 2,973,493</u>	<u>\$ 401,287</u>	<u>\$ 1,301,963</u>	<u>\$ 1,270,243</u>

a. *Credit Risk*

The Authority's investment policy limits investments to time deposit accounts, certificates of deposit, obligations of the United States of America, obligations guaranteed by the United States of America, obligations of the State of New York, obligations of certain municipalities, school districts, or other district corporations, obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies that are authorized by State statutes, certifications of participations, and investments with the Federal Home Loan Bank. The underlying investments of the money market fund consist exclusively of short-term U.S. Treasury securities. As of December 31, 2013, the money market fund had a credit rating of AAA-m and AAA-mf from Standard & Poor's and Moody's, respectively. The Authority's investments in the Federal Home Loan Bank and Federal Home Loan Bank Term Note (FHLB securities) received a credit rating of AA+ from Standard & Poor's as of December 31, 2013.

b. *Custodial Credit Risk*

Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held either by (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name. All of the Authority's investments are held under their name with the custodian.

c. *Interest Rate Risk*

The fair value of the Authority's fixed maturity investments fluctuate in response to changes in market interest rates. Fair values of interest rate-sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, the liquidity of the instrument and other general market conditions. Investments in FHLB are being held as restricted assets in accordance with the Authority's bond indentures. The Authority plans to hold its investments to maturity, which minimizes the occurrence of loss on investments.

**SARATOGA COUNTY WATER AUTHORITY**  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2013 AND 2012

**2. RESTRICTED ASSETS (CONTINUED)**

d. *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the Authority's investment in single issues. As of December 31, 2013, the Authority's investments are composed of money market funds with underlying investments of short-term U.S. Treasury securities (14%) and fixed income securities from the Federal Home Loan Bank (86%). Management of the Authority monitors the credit ratings associated with their underlying investments.

**3. CAPITAL ASSETS, NET**

A summary of the Authority's capital assets, net, is as follows:

	<b>December 31,</b>			<b>December 31,</b>
	<b>2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>2013</b>
Land and Easement	\$ 1,062,680	\$ 17,729	\$ -	\$ 1,080,409
Land Improvements	1,778,774	183,195	-	1,961,969
Buildings and Improvements	9,305,404	-	-	9,305,404
Infrastructure	60,336,887	80,357	-	60,417,244
Machinery and Equipment	9,294,722	-	-	9,294,722
Vehicles	148,334	-	-	148,334
Office Equipment and Furniture	76,953	-	-	76,953
	<u>82,003,754</u>	<u>281,281</u>	<u>-</u>	<u>82,285,035</u>
Less Accumulated Depreciation	<u>7,207,934</u>	<u>2,574,979</u>	<u>-</u>	<u>9,782,913</u>
Capital Assets, Net	<u>\$ 74,795,820</u>	<u>\$ (2,293,698)</u>	<u>\$ -</u>	<u>\$ 72,502,122</u>

	<b>December 31,</b>			<b>December 31,</b>
	<b>2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>2012</b>
Land and Easement	\$ 1,012,680	\$ 50,000	\$ -	\$ 1,062,680
Land Improvements	1,762,331	16,443	-	1,778,774
Buildings and Improvements	9,299,355	6,049	-	9,305,404
Infrastructure	60,333,196	3,691	-	60,336,887
Machinery and Equipment	9,280,911	13,811	-	9,294,722
Vehicles	148,334	-	-	148,334
Office Equipment and Furniture	76,953	-	-	76,953
	<u>81,913,760</u>	<u>89,994</u>	<u>-</u>	<u>82,003,754</u>
Less Accumulated Depreciation	<u>4,635,673</u>	<u>2,572,261</u>	<u>-</u>	<u>7,207,934</u>
Capital Assets, Net	<u>\$ 77,278,087</u>	<u>\$ (2,482,267)</u>	<u>\$ -</u>	<u>\$ 74,795,820</u>

Depreciation expense totaled \$2,574,979 and \$2,572,261 for the years ended December 31, 2013 and 2012, respectively.

**SARATOGA COUNTY WATER AUTHORITY**  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2013 AND 2012

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**4. DUE TO SARATOGA COUNTY**

*Saratoga County Service Agreement*

On September 1, 2008, the Authority entered into a Service Agreement (Agreement) with the County. The Agreement requires the Authority to construct, operate and maintain the Saratoga County Water System. In turn, the Agreement requires the County to pay a service fee, if needed, to the Authority based on the Authority's annual budget. The Authority is to repay the County for any and all amounts paid by the County as a service fee plus interest at 4%. The County made service fee payments of \$890,000 and \$1,656,000 during the years ended December 31, 2013 and 2012, respectively. The Agreement will terminate in 2048, with the maturity of the Authority's revenue bond.

	<u>2013</u>	<u>2012</u>
Project Costs Incurred by the County (2003 to 2007), non-interest bearing	\$ 3,246,587	\$ 3,246,587
Cash Advance, June 2007, Interest at 4%	250,000	250,000
Accrued Interest on June 2007 Cash Advance	55,288	55,288
Service Fee, 2011, Interest at 4%	421,328	421,328
Accrued Interest on Service Fee - 2011	25,280	25,280
Service Fee, 2012, Interest at 4%	1,656,000	1,656,000
Accrued Interest on Service Fee - 2012	52,771	52,771
Service Fee, 2013, Interest at 4%	890,000	-
Accrued Interest on Service Fee - 2013	102,936	-
	<u>\$ 6,700,190</u>	<u>\$ 5,707,254</u>

Although these liabilities are due on demand, it is the intent of the County and the Authority to have these amounts paid over a period of time, after the Authority has commenced significant operations. As such, these liabilities have been reported as long-term liabilities in these financial statements.

**5. REVENUE BONDS**

The 2008 Water System Revenue Bonds were originally issued at \$45,000,000 to finance costs incurred in connection with the construction of Saratoga County Waste Treatment and Transmission Facilities System. Interest is payable semi-annually on March 1 and September 1, at interest rates ranging from 3% to 5%. Principal payments range from \$445,000 to \$2,470,000, and are payable annually on September 1. The bonds are secured by future operating revenues of the Authority and mature September 1, 2048.

**SARATOGA COUNTY WATER AUTHORITY**  
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2013 AND 2012

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**5. REVENUE BONDS (CONTINUED)**

A summary of bond transactions is a follows:

	<b>December 31, 2012</b>	<b>Additions</b>	<b>Payments/ Amortization</b>	<b>December 31, 2013</b>
Bond Payable	\$ 43,630,000	\$ -	\$ 485,000	\$ 43,145,000
Bond Premium	<u>178,920</u>	<u>-</u>	<u>7,825</u>	<u>171,095</u>
	<u>\$ 43,808,920</u>	<u>\$ -</u>	<u>\$ 492,825</u>	<u>\$ 43,316,095</u>

	<b>December 31, 2011</b>	<b>Additions</b>	<b>Payments/ Amortization</b>	<b>December 31, 2012</b>
Bond Payable	\$ 44,100,000	\$ -	\$ 470,000	\$ 43,630,000
Bond Premium	<u>186,934</u>	<u>-</u>	<u>8,014</u>	<u>178,920</u>
	<u>\$ 44,286,934</u>	<u>\$ -</u>	<u>\$ 478,014</u>	<u>\$ 43,808,920</u>

Future maturities of bonds payable and the related interest amounts are as follows:

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2014	\$ 505,000	\$ 2,088,813	\$ 2,593,813
2015	525,000	2,068,613	2,593,613
2016	550,000	2,042,363	2,592,363
2017	580,000	2,014,863	2,594,863
2018	605,000	1,985,863	2,590,863
2019 through 2023	3,510,000	9,450,244	12,960,244
2024 through 2028	4,355,000	8,608,225	12,963,225
2029 through 2033	5,465,000	7,497,813	12,962,813
2034 through 2038	6,970,000	5,989,063	12,959,063
2039 through 2043	8,855,000	4,107,275	12,962,275
2044 through 2048	<u>11,225,000</u>	<u>1,738,500</u>	<u>12,963,500</u>
	<u>\$ 43,145,000</u>	<u>\$ 47,591,635</u>	<u>\$ 90,736,635</u>

**SARATOGA COUNTY WATER AUTHORITY**  
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*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
 DECEMBER 31, 2013 AND 2012

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**6. NET INVESTMENT IN CAPITAL ASSETS**

Net investment in capital assets consists of the following:

	<u>2013</u>	<u>2012</u>
Capital Assets, Net	\$ 72,502,122	\$ 74,795,820
Revenue Bonds	(43,145,000)	(43,630,000)
Premium on Bonds, Net	(171,095)	(178,920)
Due to Saratoga County - Non Service Fee Balance	<u>(3,551,875)</u>	<u>(3,551,875)</u>
	<u>\$ 25,634,152</u>	<u>\$ 27,435,025</u>

**7. NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM**

The Authority participates in the New York State and Local Employees' Retirement System (System). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

The System is noncontributory except for (a) employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, and (b) employees who join after January 1, 2010, will contribute 3% of their salary for their entire career. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions.

The required contributions to the System for the current year and two preceding years were:

2013	\$	91,171
2012	\$	68,026
2011	\$	124,903

The Authority's contributions made to the System were equal to 100% of the contributions required for each year.

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2013 AND 2012

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**8. ACCRUED POSTEMPLOYMENT BENEFITS**

*Plan Description* - The Authority provides health insurance coverage for certain employees and their spouses. The plan provides for continuation of medical insurance benefits for eligible retirees who reach age 65 and have 20 years of service.

*Funding Policy* - The Authority's benefits are provided through fully insured plans that are sponsored by a regional health insurance group. The Authority pays eighty percent of the retirees' medical benefits at retirement. Upon the death of a retiree, the surviving spouse may continue coverage in the health insurance plan by making a contribution of 25%. Currently, the Authority's cost of its postemployment benefits program is unfunded. As of December 31, 2013 and 2012, there are no retirees.

*Accrual OPEB Cost and Net OPEB Obligation* - The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount of premiums actually paid and changes in the Authority's net OPEB obligation:

	<u>2013</u>	<u>2012</u>
Annual required contribution and OPEB expense cost	\$ 26,782	\$ 22,561
Net OPEB obligation, beginning of year	<u>38,571</u>	<u>16,010</u>
Net OPEB obligation, end of year	<u>\$ 65,353</u>	<u>\$ 38,571</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal years ended December 31, 2013 and 2012 was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2013	\$ 26,782	0.00%	\$ 65,353
December 31, 2012	\$ 22,561	0.00%	38,571

**SARATOGA COUNTY WATER AUTHORITY**  
**(A COMPONENT UNIT OF SARATOGA COUNTY, NEW YORK)**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*DECEMBER 31, 2013 AND 2012*

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**8. ACCRUED POSTEMPLOYMENT BENEFITS (CONTINUED)**

*Funded Status and Funding Progress.* As of February 3, 2012, the most actuarial valuation date, the actuarial accrued liability for benefits was \$537,842 and \$470,883 at December 31, 2013 and 2012, respectfully, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations, and new estimates are made about the future. The schedule of funding progress presented as required supplemental information at the end of this note, presents whether the actuarial value of plan assets is relative to the actuarial accrued liabilities for benefits.

*Marital Status* - 80% of employees are assumed married, with males spouses assumed to be three years older than female spouse.

*Mortality* - Life expectancies were based on RP 2000 combined mortality tables for males and females.

*Termination and Retirement Incidence* - Retirement rates for eligible employees 55 years old to 100% for employees who are 65 or older. Termination rates for reasons other than death or retirement range from 2.63% for employees who are 35 years old to 1.36% for employees who are 50 years old.

*Healthcare Cost Trend Rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 8% initially, increased to 9% in the next year, and then reduced to an ultimate rate of 5% after four years was used. The dental trend rate used was 4%.

*Health Insurance Premiums* - 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Payroll Growth Rate* - No salary increases were assumed since benefits are not based on compensation.

Based on the historical and expected returns of the Authority's short-term investment portfolio, a discount rate of 4% was used. A percentage unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized on an open basis. The remaining amortization period at December 31, 2013, was twenty-seven years.

## 9. COMMITMENTS AND CONTINGENCIES

### Water Supply Contracts

The Authority has entered into water service agreements with eight separate customers: Clifton Park Water Authority, Town of Ballston, Town of Malta, Town of Moreau, Wilton Water and Sewer Authority, Village of Stillwater, Luther Forest Technology Economic Development Corporation and Global Foundries Us, Inc. Terms of said agreements are for the provision of water services as described by the individual agreements. The terms of each of the agreements are for ten (10) years subject to various conditions and qualifying events. Seventy-eight and seventy-one percent of the Authority's operating revenue in 2013 and 2012, respectively, was comprised of user fees received by the Authority related to two of the water service agreements.

In October 2013 the Town of Ballston stopped taking water as a result of high levels of disinfection byproducts in their water. In November 2013, the Clifton Park Water Authority also stopped taking water seemingly for the same reason. SCWA is in the process of making improvements to its system to ensure that such disinfection byproducts will not prove to be an issue in the future.

### Litigation

The Authority is involved in various lawsuits relating to the construction of the water plant and transmission line, including contractual claims and property condemnation. The Authority intends to defend all these claims vigorously. A summary of the more significant unrecorded claims is as follows:

- A real damage claim was filed by property owners alleging damages to the septic system in the amount of \$18,000,000. By a letter dated January 2011, a settlement offer in the amount of approximately \$428,000 has been presented to the Authority. A motion to dismiss the claim was granted by the Supreme Court. The Plaintiff's appeal is currently pending. No adjustment has been made to the financial statements for this claim or settlement offer.
- A real property dispute/damage claim was filed by property owners alleging that the Authority constructed the water line on their property as opposed to property which the Authority obtained through easements granted by adjacent property owners. These property owners also have alleged that they are suffering property damages as a result of the proximity of the water line to their property but have not quantified these damages. Although settlement has been discussed, no progress has been made to date.

**9. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Litigation (Continued)

The Authority is also involved in other suits and claims (possible actions) arising from a variety of sources. It is the opinion of management and counsel that the liabilities that may arise from such possible actions would not result in losses that would materially affect the financial position of the Authority or the results of its operations.

*Environmental Risks*

Certain facilities are subject to federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Authority expect such compliance to have, any material effect upon the capital expenditures or financial condition of the Authority. The Authority believes that its current practices and procedures for control and disposition of regulated wastes comply with applicable federal, state and local requirements.

*Capital Improvements*

The Authority is in the design phase for the construction of a wastewater outfall project that is estimated to cost \$1,500,000 which will be funded by a grant of \$500,000 and a 7 year loan of \$1,000,000 from the Saratoga Development Industrial Development Agency.

The Authority is also in the design phase for process treatments upgrades at the water treatment plant at an estimated project cost of \$4,000,000 - \$6,000,000 million. The Authority expects to issue revenue bonds in 2014 to finance this project.

To provide for the design and construction management of these anticipated projects the Authority has entered into contracts with a local engineering firm in an amount not to exceed \$706,400.

**10. RESTATEMENT OF NET POSITION**

Government Accounting Standards Board Statement No. 65 "Items Previously Reported as Assets and Liabilities" requires that debt issuance costs be recognized as an expense in the period incurred. As a result, Net Position at December 31, 2012 and 2011 was reduced by \$672,266 and \$702,435, respectively, representing net bond issuance costs.

**SARATOGA COUNTY WATER AUTHORITY**  
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*SCHEDULE OF FUNDING PROGRESS*  
*DECEMBER 31, 2013 AND 2012*

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**Schedule of Funding Progress for the Retiree Health Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll c</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c</b>
December 31, 2013	\$ -	\$ 537,842	\$ 537,842	0.00%	\$ 316,886	170%
December 31, 2012	-	470,883	470,883	0.00%	277,886	169%
December 31, 2011	-	350,767	350,767	0.00%	238,886	147%

**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***

Authority Governing Board  
Saratoga County Water Authority  
Ganesvoort, 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 statement of net position of the Saratoga County Water Authority (Authority), as of December 31, 2013, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 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.

*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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **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 results 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
March 27, 2014

