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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

AND THE PERIOD JANUARY 1, 1988 (INCEPTION) TO DECEMBER 31, 2014

WITH INDEPENDENT AUDITORS' REPORT

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Orange County Water Authority

We have audited the accompanying financial statements of the governmental activities of the Orange County Water Authority (Authority), a component unit of the County of Orange, New York (A Development Stage Enterprise), as of and for the years ended December 31, 2014 and 2013, and for the period January 1, 1988 (inception) to December 31, 2014, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Orange County Water Authority (Authority), a component unit of the County of Orange, New York (A Development Stage Enterprise), as of December 31, 2014 and 2013, 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.

MEMBERS: NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS • AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Other Matters

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

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

Nugent + Haeussler, P.C.

February 13, 2015

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash	$ 557,885	$ 64,565
State and Federal Aid Receivable	29,733	418,510
Prepaid Expenses	3,140	3,130
Capital Assets:		
Engineering and Design Costs	15,922,671	15,922,671
Office Equipment, Net of Accumulated Depreciation	1,188	2,805
TOTAL ASSETS	16,514,617	16,411,681
LIABILITIES		
Accounts Payable and Accrued Liabilities	29,187	66,652
Due to County of Orange	29,154,123	28,916,123
TOTAL LIABILITIES	29,183,310	28,982,775
NET POSITION		
Investment in Capital Assets	15,923,859	15,925,476
Deficit Accumulated during the Development Stage	(28,592,552)	(28,496,570)
TOTAL NET POSITION	$ (12,668,693)	$ (12,571,094)

See notes to financial statements.

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED 2014 AND 2013 AND FROM JANUARY 1, 1988 (INCEPTION) TO DECEMBER 31, 2014

	Years Ended December 31,		From January 1, 1988 (Inception) to December 31,
	2014	2013	2014
OPERATING REVENUES	$ 700	$ 775	$ 109,703
OPERATING EXPENSES			
Legal	-	-	570,964
Accounting and Financial Advisor	12,100	11,500	344,888
Consultants	-	-	112,884
Administrative Offices			
Salary & Fringe Benefits	82,331	79,520	4,356,337
Recruitment	-	-	21,223
Relocation	-	-	12,800
Pension Plan	7,251	7,039	497,014
Water Supply Studies	283,846	374,492	4,995,769
Bond Feasability	-	-	224,980
Board	496	762	12,899
Education	119,554	106,380	1,347,856
Rent	-	-	475,770
Insurance	8,428	8,273	364,379
Depreciation	1,617	1,617	204,798
Office	2,687	9,165	492,238
Other	247	59	70,611
TOTAL OPERATING EXPENSES	518,557	598,807	14,105,410
OPERATING LOSS	(517,857)	(598,032)	(13,995,707)
NON-OPERATING REVENUES (EXPENSES)			
Interest Earnings	35	-	31,755
Grants	420,223	154,420	1,262,553
Other	-	-	38,404
Loss on Sale of Equipment	-	-	(5,698)
TOTAL NON-OPERATING REVENUES (EXPENSES)	420,258	154,420	1,327,014
DECREASE IN NET POSITION	(97,599)	(443,612)	(12,668,693)
NET POSITION - BEGINNING OF PERIOD	(12,571,094)	(12,127,482)	-
NET POSITION - END OF PERIOD	$ (12,668,693)	$ (12,571,094)	$ (12,668,693)

See notes to financial statements.

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 2014 AND 2013 AND FROM JANUARY 1, 1988 (INCEPTION) TO DECEMBER 31, 2014

	Years Ended December 31,		From January 1, 1988 (Inception) to December 31,
	2014	2013	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	$ 700	$ 775	$ 109,703
Payments of Professional Fees	(12,100)	(11,500)	(1,028,736)
Payments of Salaries and Benefits to Employees	(86,588)	(84,091)	(4,868,687)
Payments to Suppliers	(455,727)	(509,132)	(7,977,142)
NET CASH USED IN OPERATING ACTIVITIES	(553,715)	(603,948)	(13,764,862)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Advances from the County of Orange	238,000	618,000	13,231,452
Receipts from Granting Agencies	809,000	13,831	1,167,819
Receipts from Industrial Development Agency	-	-	65,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	1,047,000	631,831	14,464,271
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Advances from the County of Orange	-	-	15,922,671
Engineering and Design Costs	-	-	(15,922,671)
Purchase of Office Equipment	-	-	(205,985)
Other	-	-	38,404
Loss on Sale of Equipment	-	-	(5,698)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	(173,279)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earnings	35	-	31,755
NET INCREASE (DECREASE) IN CASH	493,320	27,883	557,885
CASH - BEGINNING OF PERIOD	64,565	36,682	-
CASH - END OF PERIOD	$ 557,885	$ 64,565	$ 557,885

See notes to financial statements.

ORANGE COUNTY WATER AUTHORITY
A COMPONENT UNIT OF THE COUNTY OF ORANGE, NEW YORK
(A DEVELOPMENT STAGE ENTERPRISE)
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED 2014 AND 2013 AND FROM JANUARY 1, 1988 (INCEPTION) TO DECEMBER 31, 2014

	Years Ended December 31,		From January 1, 1988 (Inception) to December 31,
	2014	2013	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating Loss	$ (517,857)	$ (598,032)	$ (13,995,707)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:			
Depreciation	1,617	1,617	204,798
Changes in Assets and Liabilities:			
Prepaid Insurance	(10)	(129)	(3,140)
Accounts Payable and Accrued Liabilities	(37,465)	(7,404)	29,187
Total Adjustments	(35,858)	(5,916)	230,845
NET CASH USED IN OPERATING ACTIVITIES	$ (553,715)	$ (603,948)	$ (13,764,862)

See notes to financial statements.

NOTE 1. ORGANIZATION AND REPORTING ENTITY.

A. Organization and Purpose

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

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

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

B. Financial Reporting Entity

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

C. Tax Status

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

D. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is February 13, 2015.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

A. Basis of Accounting

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

B. Development Stage Activities

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

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

C. Use of Estimates

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

D. Deposit Risk Disclosure

Cash

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

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

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

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Authority's name. The Authority's aggregate bank balances were not covered by depository insurance and were exposed to custodial credit risk at December 31, 2014.

The Authority maintains deposits in excess of federally insured limits. This risk is managed by maintaining all deposits in high quality financial institutions.

E. Engineering and Design Costs

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

F. Office Equipment

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

NOTE 3. CAPITAL ASSETS.

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

	Balance January 1, 2014	Net Changes	Balance December 31, 2014
Capital Assets, being Depreciated - Office Equipment	$ 198,510	$ -	$ 198,510
Less: Accumulated Depreciation	(195,705)	(1,617)	(197,322)
Total Capital Assets, being Depreciated, Net	$ 2,805	$ (1,617)	$ 1,188

NOTE 4. PENSION PLAN.

The Authority has a Simplified Employee Pension ("SEP") which covers all employees. The Authority's policy is to fund all contributions as they accrue. The contribution rate is 15% of an employee's eligible wages. SEP contributions were $7,251 and $7,039 for the years ended December 31, 2014 and 2013, respectively. Contributions made were $497,014, for the period from January 1, 1988 (inception) to December 31, 2014.

NOTE 5. NET POSITION.

The components of net position are detailed below:

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

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

NOTE 6. COMMITMENTS AND CONTINGENCIES.

A. Contingencies

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

NOTE 6. COMMITMENTS AND CONTINGENCIES. (Continued)

B. Risk Management

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

C. Financing

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

D. Lease Commitments

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

NOTE 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

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