

FINANCIAL STATEMENTS

**CAYUGA COUNTY WATER AND
SEWER AUTHORITY**

DECEMBER 31, 2011

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

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 December 31, 2011, and the related statements of net assets, revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Cayuga County Water and Sewer Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 of Cayuga County Water and Sewer Authority. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Testa, Marshall & Perazzo LLP

September 10, 2012
Syracuse, New York

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

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

FINANCIAL HIGHLIGHTS

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the Authority include the Statement of Net Assets, the Statement of Revenue, Expenses and Change in Net Assets, the Statement of Cash Flows, and related notes to the financial statements for the year ended December 31, 2011.

(Continued)

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

The Statement of Net Assets provides 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 assets. The Statement of Revenues, Expenses and Change in Net Assets, or income statement, shows the Authority's net assets 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 Statement of Cash Flows provides 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, 2010 (as restated) and December 31, 2011. The information contained in this analysis should be used by the reader in conjunction with the information contained in the Authority's audited financial statements and the notes to those financial statements, all of which follow this narrative.

The Authority's financial statements are prepared on the accrual basis of accounting promulgated by the Governmental Accounting Standards Board ("GASB"). The Authority is a single-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. The assets of the Authority exceeded its liabilities at the close of its most recent fiscal year by \$8,894,593 (net assets). Of this amount, \$6,261,983 (unrestricted net assets) may be used to meet the Authority's ongoing obligations.

Summary of Operations and Change in Net Assets

	2011	(as restated) 2010
OPERATING REVENUES:		
Charges for services	\$1,148,599	\$1,120,988
Federal loan proceeds	381,656	296,324
Federal programs	<u>189,376</u>	<u>2,356,173</u>
Total operating revenues	<u>\$1,719,631</u>	<u>\$3,773,485</u>

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

Summary of Operations and Change in Net Assets (Cont'd)

	2011	(as restated) 2010
OPERATING EXPENSES:		
Water and sewer	\$ 412,948	\$ 441,534
Program expenses	39,062	-
Employee benefits	146,883	144,757
Administrative	32,387	16,694
Legal and accounting	49,476	46,247
Insurance	19,935	10,944
Telephone	4,993	5,981
Utilities	16,724	20,228
Other	8,386	9,764
Depreciation	<u>345,120</u>	<u>337,006</u>
Total operating expenses	<u>1,076,364</u>	<u>1,033,155</u>
OPERATING INCOME	<u>643,717</u>	<u>2,740,330</u>
OTHER INCOME (EXPENSE):		
Property taxes	163,846	153,492
Intergovernmental	20,139	-
Interest income	2,333	1,487
Interest subsidy	13,990	-
Interest expense	(120,728)	(111,839)
Other income	165,220	-
Other expense	<u>(8,802)</u>	<u>-</u>
Total other income	<u>235,998</u>	<u>43,140</u>
CHANGE IN NET ASSETS	<u>\$ 879,715</u>	<u>\$2,783,470</u>

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

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

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

Interest income was slightly higher due to interim funding for Cayuga County Sewer District 2 earning modest interest while construction was delayed in 2011. Interest expense was slightly higher due to the initial interest payments being made on the re-financing of the capital debt associated with Phases 1 and 1A of Cayuga County Sewer District 2, coupled with an increase in Interest subsidy income in 2011 due to the fact it had been reported in 2010 as a reduction of interest expense. Other income increased significantly due to the reduction of the Port Byron Tank Debt liability, as there is no liability to the Authority per the agreement and the Allowance for Doubtful accounts being reduced. Other expense increased due to a reclassification of the expense category. All these factors, but primarily the reduction of long-term liabilities and the allowance for doubtful accounts, contributed to an increase in other income from 2010 of \$192,858.

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

Financial Position Summary

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

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

Financial Position Summary (Cont'd)

	2011	(as restated) 2010
Current assets:		
Cash and cash equivalents	\$ 392,487	\$ 222,308
Accounts receivable	215,031	187,052
Loans receivable	987,000	-
Grants receivable	-	1,582,610
Prepaid expenses and other assets	<u>22,465</u>	<u>13,995</u>
Total current assets	<u>1,616,983</u>	<u>2,005,966</u>
Noncurrent assets:		
Restricted cash and cash equivalents	5,604,680	702,048
Loans receivable	677,980	678,050
Capital assets, net	<u>10,644,070</u>	<u>10,361,369</u>
Total noncurrent assets	<u>16,926,730</u>	<u>11,741,467</u>
TOTAL	<u>\$18,543,713</u>	<u>\$13,747,432</u>
Current liabilities:		
Accounts payable	\$ 125,724	\$ 350,328
Retainage payable	-	54,216
Accrued expenses	44,154	49,607
Notes payable, current	3,979,271	2,750,330
Bonds payable, current	<u>12,680</u>	<u>12,384</u>
Total current liabilities	<u>4,161,829</u>	<u>3,216,865</u>
Noncurrent liabilities:		
Notes payable	5,199,150	2,109,746
Bonds payable	<u>288,141</u>	<u>405,943</u>
Total noncurrent liabilities	<u>5,487,291</u>	<u>2,515,689</u>
Total liabilities	<u>9,649,120</u>	<u>5,732,554</u>
Net assets:		
Investment in capital assets, net of related debt	1,236,828	5,268,966
Restricted	1,395,782	1,628,967
Unrestricted	<u>6,261,983</u>	<u>1,116,946</u>
Total net assets	<u>8,894,593</u>	<u>8,041,878</u>
TOTAL	<u>\$18,543,713</u>	<u>\$13,747,432</u>

(Continued)

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

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

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

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

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

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

CCWSA Rates and Charges

The Authority reviews its rates 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 2011. No change in rates was made from FY2010 to FY2011 and no change in rates is anticipated for FY2012.

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, 2011**

Summary of Operating Revenues

	2011 Actual	2011 Budget
Charges for services	\$ 1,148,599	\$ 1,092,000
Federal loan proceeds	381,656	-
Federal programs	<u>189,376</u>	<u>-</u>
Total operating revenues	<u>\$ 1,719,631</u>	<u>\$ 1,092,000</u>

The Authority does not budget for loan and program revenues associated with the sewer project. The project budget is maintained and monitored by the USDA and the Authority's financial consultant. This contributed to the Authority being \$571,032 over budget. Water consumption was higher than expected in 2011, while the number of households expected to hook to the sewer system was lower than expected. The Authority was involved in the renovation of the pavilion building at Emerson Park which produced revenue that was not budgeted. These factors, but primarily loan and program revenues, contributed to the Authority being over budget for total operating revenues by \$627,631.

Summary of Operating Expenses

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

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

Water and sewer operating expenses, employee benefits, administrative expenses and telephone were under budget by \$73,789 due to preventative maintenance being performed, requiring less time and materials for repairs and emergencies. Professional fees (legal and accounting) and insurance were under budget by \$5,571 due to an over-estimation of the increase in insurance cost. Utilities were over budget by \$6,724 due to an under-estimation of the cost of electrical service in the sewer district.

(Continued)

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

The Authority's revenues and expenses are budgeted annually and tracked quarterly. Operating income was \$307,717 over budget for 2011 due to the Authority not including program and loan revenues and expenses and depreciation in their Operating Budget. Excluding these categories, the Authority's operating income was \$120,867 over budget, primarily due to operating expenses being under budget.

Summary of Other Revenue (Expense)

	2011 Actual	2011 Budget
Property taxes	\$ 163,846	\$ 154,000
Intergovernmental	20,139	-
Interest income	2,333	1,000
Interest subsidy	13,990	-
Interest expense	(120,728)	(125,000)
Other income	165,220	-
Other expense	<u>(8,802)</u>	<u>(366,000)</u>
	<u>\$ 235,998</u>	<u>\$ (336,000)</u>

Other income was significantly over budget, due to a reduction in long-term liabilities and the allowance for doubtful accounts. The Authority does not budget for the Cayuga County Budget Allocation. The Authority has not historically received support from the Cayuga County budget and when they have, the funds have been appropriated for specific purposes, apart from day to day operating costs. Interest income was slightly over budget, due to interim financing for Cayuga County Sewer District 2 earning modest interest in the Authority's accounts while construction was delayed. The Authority does not budget for the receipt of interest subsidies, as they are not guaranteed. Other expense was under budget due to the Authority budgeting for principal payments on long-term liabilities while these payments are not contained in the statement of revenues and expenses. These factors, but primarily other income and expense, contributed to total other income being \$571,998 over budget.

DEBT ADMINISTRATION

As of December 31, 2011, the Authority has outstanding long-term debt totaling \$5,839,242, of which \$351,951 is due within one year. Included in this total is \$3,359,588 in market rate financing for the payment of interim costs incurred due to the construction of Cayuga County Sewer District 2.

In April 2011, the Authority issued a Revenue Refunding Note (RRN) in the amount of \$4,040,000. In March 2012, the Authority paid the principal and interest due as projected.

(Continued)

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

Obligations under Capital Lease

The Authority entered into an agreement with Cayuga County, dated March 3, 1999 and revised June 26, 2002, in which Cayuga County agreed to finance, and the Authority agreed to construct and pay for, certain improvements within Cayuga County. Improvements constructed under this agreement are owned by Cayuga County but leased to the Authority. The Authority operates these leased facilities with all the responsibilities of ownership. There remains \$1,300,000 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.

Cayuga County Sewer District 2 Project

In 2005, the Cayuga County Sewer District 2 was formed by the Cayuga County Legislature to satisfy a Department of Environmental Conservation Consent Decree with the Village of Fair Haven to protect Little Sodus Bay and Lake Ontario. The Village of Fair Haven was mandated to make changes to the way the sewage was handled. The Village and the Town of Sterling continue to work cooperatively with this Authority to construct the sewer system to its completion. This project is a multi-phase, multi-funded sewer project to satisfy the sewer requirements and mandates of the DEC, EPA and Department of Health, in addition to funding agency requirements. The sewage is collected via gravity and low-pressure lines and transported directly to the Red Creek Wastewater Treatment Plant, owned and operated by Wayne County Water and Sewer Authority. As of this date, Contract 1, 2, 3, 4 and Contract 5 have been successfully completed. Contract 6 and 7 are approximately 80% complete. Three pump stations are currently operational, with a fourth installation nearing completion. Approximately seventy percent of the infrastructure construction is complete, engineering design is complete for the final phased contract and the entire project is expected to be in service by the end of 2013.

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

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.

(Concluded)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 392,487
Accounts receivable	215,031
Loans receivable	987,000
Prepaid expenses and other assets	22,465
Total current assets	<u>1,616,983</u>

NONCURRENT ASSETS:

Restricted cash and cash equivalents	5,604,680
Loans receivable	677,980
Capital assets, net	10,644,070
Total noncurrent assets	<u>16,926,730</u>

TOTAL	<u>\$ 18,543,713</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 125,724
Accrued expenses	44,154
Notes payable, current	3,979,271
Bonds payable, current	12,680
Total current liabilities	<u>4,161,829</u>

NONCURRENT LIABILITIES:

Notes payable	5,199,150
Bonds payable	288,141
Total noncurrent liabilities	<u>5,487,291</u>
Total liabilities	<u>9,649,120</u>

NET ASSETS:

Investment in capital assets, net of related debt	1,236,828
Restricted	1,395,782
Unrestricted	6,261,983
Total net assets	<u>8,894,593</u>

TOTAL	<u>\$ 18,543,713</u>
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See Notes to Financial Statements

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES:

Charges for services	\$ 1,148,599
Federal loan proceeds	381,656
Federal programs	189,376
Total operating revenues	1,719,631

OPERATING EXPENSES:

Water and Sewer	412,948
Program expenses	39,062
Employee benefits	146,883
Administrative	32,387
Legal and accounting	49,476
Insurance	19,935
Telephone	4,993
Utilities	16,724
Other	8,386
Depreciation	345,120
Total operating expenses	1,075,914

OPERATING INCOME	643,717
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OTHER INCOME (EXPENSE):

Property taxes	163,846
Intergovernmental	20,139
Interest income	2,333
Interest subsidy	13,990
Interest expense	(120,728)
Other income	165,220
Other expense	(8,802)
Total other income, net	235,998

CHANGE IN NET ASSETS	879,715
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NET ASSETS - JANUARY 1, 2011, as restated (See Note 2)	8,014,878
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NET ASSETS - DECEMBER 31, 2011	\$ 8,894,593
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See Notes to Financial Statements

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 1,120,621
Receipts from federal loans and programs	1,166,713
Cash payments to suppliers of goods and services	(877,651)
Cash payments for employees and benefits	(145,887)
Net cash provided by operating activities	<u>1,263,796</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from short term debt	4,040,000
Principal payments on short term debt	(2,900,000)
Proceeds from long term debt	4,223,751
Principal payments on long term debt	(1,162,912)
Interest payments on debt	(106,738)
Proceeds from other income	320,264
Proceeds from other government	20,139
Acquisition of capital assets	(627,821)
Net cash provided by capital and related financing activities	<u>3,806,683</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>2,333</u>
Net cash provided by investing activities	<u>2,333</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,072,812
CASH AND CASH EQUIVALENTS - JANUARY 1, 2011	<u>924,355</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2011	<u><u>\$ 5,997,167</u></u>

(Continued)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

RECONCILIATION OF INCOME FROM OPERATIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Income from operations	\$ 643,717
Adjustment to reconcile income from operations to net cash provided by operating activities:	
Depreciation	345,120
Changes in:	
Accounts receivable	(27,978)
Loans receivable	595,681
Prepaid expenses and other assets	(8,470)
Accounts payable	(278,821)
Accrued expenses	(5,453)
Total adjustments	<u>620,079</u>
Net cash provided by operating activities	<u>\$ 1,263,796</u>

See Notes to Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Presentation

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

GASB is the accepted standard setting body for establishing generally accepted accounting principles for state and local governmental entities. Governments are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements.

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)

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

Cash and Cash Equivalents

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

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

Restricted cash and cash equivalents represent funds restricted for a capital project.

Accounts Receivable

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

Loans Receivable

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

(Continued)

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 (5 to 30 years). Improvements are capitalized, while expenses for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of revenue, expenses and change in net assets. Costs related to the construction of infrastructure are categorized in construction in progress until the project is completed. At that time, these costs are then categorized in the appropriate asset category.

Equity Classifications

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

- Invested in capital assets, net of related debt - represents the net amount invested in capital assets (original cost, net of accumulated depreciation, and capital-related debt).
- Restricted - net assets with constraints placed on use either by (1) external groups such as creditors (i.e. through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted - all other net assets that do not meet the definition of "restricted" are 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 September 10, 2012, which is the date the financial statements were available to be issued.

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

2. RESTATEMENT

Retainage payable was overstated by \$117,057 and accounts payable was understated by \$72,404 with a net overstatement of \$44,653 in expense at December 31, 2010. Grants receivable and grants revenue were also understated by \$678,050 at December 31, 2010. An adjustment was made to increase the net asset balance at January 1, 2011 in the amount of \$722,703.

Balance Previously Reported January 1, 2011	\$ 7,292,175
Effect of Restatement	<u>722,703</u>
Balance Restated at January 1, 2011	<u>\$ 8,014,878</u>

3. CASH AND CASH EQUIVALENTS

The Authority maintains its principal banking relationships with Manufacturers and Traders Trust Company (M&T Bank) and Key Bank. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, unlimited insurance coverage is provided for all non interest-bearing accounts through December 31, 2012. The \$250,000 insurance established by the FDIC remains for all interest-bearing accounts. At December 31, 2011 the carrying amount of the Authority's deposits with financial institutions was approximately \$6,000,000. Of this amount, approximately \$2,640,000 represents money market accounts, and \$3,360,000 represents cash of which \$2,815,000 is maintained by the NYS Environmental Facilities Corporation (NYSEFC) and committed to the Authority.

Cash balances maintained at Key Bank are secured by approximately \$1,320,000 in collateral. The Authority had funds at M&T Bank in excess of FDIC limits by \$1,105,000 at December 31, 2011. These funds were uncollateralized.

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

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

(Continued)

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

3. CASH AND CASH EQUIVALENTS (CONT'D)

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

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

4. CAPITAL ASSETS

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

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

(Continued)

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

5. 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 April 2011, the Authority's bond anticipation note (BAN) was renewed in the form of a revenue refunding note (RRN) for an amount of \$4,040,000 with interest of 1.154% for \$2,000,000 of the note and 1.35% for the remaining \$2,040,000 portion of the note. Total principal repayments of \$400,000 were made during the year. State law requires that notes issued for general purposes be converted to long-term financing within five years after the original issue date.

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

6. LONG-TERM DEBT

Long-term debt consists of notes payable to the New York State Environmental Facilities Corporation ("NYSEFC"), bonds payable to United States Department of Agriculture Rural Development Agency ("RDA") and notes payable to TDS Telecom ("TDS"). The interest rates on long-term debt range from 0.51% to 5.5% with maturity dates through 2041.

Long-term liability activity for the year ended:

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

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 \$72,000.

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

6. LONG-TERM DEBT (CONT'D)

The following is a summary of maturing debt service requirements of long-term debt:

December 31, Year Ending	Principal	Interest	Total
2012	351,951	82,987	434,938
2013	344,017	78,837	422,854
2014	3,431,054	73,816	3,504,870
2015	258,259	62,862	321,121
2016	263,471	56,398	319,869
2017-2021	412,930	208,164	621,094
2022-2026	168,070	155,762	323,832
2027-2031	177,178	121,007	298,185
2032-2036	203,849	78,167	282,016
2037-2041	<u>222,463</u>	<u>25,991</u>	<u>254,454</u>
Total	<u>5,839,242</u>	<u>943,991</u>	<u>6,783,233</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 2011 interest subsidy totaled \$13,990. Future interest subsidies are not guaranteed.

7. NET ASSETS

Pursuant to an agreement with Cayuga 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 assets, in the amount of \$1,395,782, represent the restriction stated above for the payment on debt and debt service, which will be lifted when the debt is retired.

8. OPERATING LEASE

The Authority leases office space through July 2012; payments are made quarterly in accordance with the lease agreement. Rental expense in 2011 amounted to \$13,565. Future minimum lease payments, assuming no change in current terms, are \$5,950 for the year ending December 31, 2012.

(Continued)

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

9. CONSTRUCTION COMMITMENT

As of December 31, 2011, the Authority was committed to approximately \$3,000,000 for a major sewer construction project.

10. RECLASSIFICATION

Certain capital asset accounts reflected in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

11. SUBSEQUENT EVENTS

On March 27, 2012, the Authority renewed its short-term financing (RRN) in the amount of \$2,500,000 with interest at 2%. The new RRN has a maturity date of March 26, 2013. In addition, the Authority entered into four long-term financing agreements with the Rural Development Agency (RDA) on March 29, 2012 totaling \$987,000. These agreements mature in April 2049 and carry interest at 3.99%. Proceeds will be used to fund the Authority's sewer construction project.



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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 the financial statements of Cayuga County Water and Sewer Authority (the "Authority"), a component unit of the County of Cayuga, New York, as of and for the year ended December 31, 2011 and have issued our report thereon dated September 10, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control 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, detected, and corrected on a timely basis. We consider the deficiencies described as findings 11-01 through 11-04 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as findings 11-05 through 11-08 in the accompanying schedule of findings and questioned costs to significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Authority in a separate letter dated September 10, 2012.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Authority's management and board of directors and is not intended to be and should not be used by anyone other than these specified parties.



September 10, 2012
Syracuse, New York



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Cayuga County Water and Sewer Authority's (the "Authority"), a component unit of County of Cayuga, New York, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2011. The Authority's major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in item 11-10 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding allowable costs/cost principles that are applicable to the major program, Water and Waste Disposal Systems for Rural Communities (10.760). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-09.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance 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, 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-09 and 11-10 to be material weaknesses.

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.

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. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Authority's management and board of directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Testa Marshall & Puzos, LLP". The signature is written in a cursive, flowing style.

September 10, 2012
Syracuse, New York

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Direct Programs:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 189,376
ARRA - Water and Waste Disposal Systems for Rural Communities	10.760	<u>381,656</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 571,032</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, 2011

1. BASIS OF PRESENTATION

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

2. EXPENDITURES OF FEDERAL REVENUE

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

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part I - Summary of Auditor's Results

- The Independent Auditor's Report on the Basic Financial Statements expressed an unqualified opinion.
 - Material weaknesses in internal control were disclosed during the audit of the financial statements as items 11-01 through 11-04, as required to be reported in accordance with *Government Auditing Standards*.
 - Significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements as items 11-05 through 11-08, as required to be reported in accordance with *Government Auditing Standards*.
 - No instances of noncompliance material to the basic financial statements were disclosed during the audit.
- The Independent Auditor's Report on Compliance with Requirements Applicable to Major Federal Award Programs expressed a qualified opinion and the audit disclosed findings which are required to be reported under Section 510(a) of OMB Circular A-133.
 - Material noncompliance with requirements applicable to the major federal program was identified as item 11-10, as required to be reported in accordance with OMB Circular A-133.
 - Material weaknesses in internal control over compliance with requirements applicable to major federal award programs were identified as items 11-09 and 11-10, as required to be reported in accordance with OMB Circular A-133.
 - Other instances of noncompliance with requirements applicable to major federal programs was identified as item 11-09.
- All federal dollars are expended under one federal program. Accordingly there was no dollar threshold used to determine Type A programs.
- The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133 for the year ended December 31, 2011.
- The major federal program for the Authority for the year ended December 31, 2011 was:

CFDA Number

Program Title

U.S. Department of Agriculture

10.760

Water and Waste Disposal Systems for Rural Communities
(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings

Reference Number: 11-01

Criteria:

Adequate controls over financial records and financial statement preparation in a manner consistent with U.S. Generally Accepted Accounting Principles (“U.S. GAAP”).

Condition/Cause:

The Authority does not have accounting personnel with the expertise to prepare financial statements and records in accordance with accounting principles generally accepted in the United States of America.

Effect:

As a result, audit entries were necessary to correct balances from being materially misstated. Such entries netted to the following:

- Increase in grants receivable of \$1,664,980.
- Increase in long-term debt of \$2,707,383.
- Decrease in net assets of \$289,064.
- Decrease in grant revenue of \$209,089.
- Increase in other income of \$165,220.

Recommendation:

We recommend the Authority establish and follow procedures and protocols to ensure accurate and complete financial reporting consistent with U.S. GAAP. Proper training and guidance should be implemented and outcomes monitored for all accounting personnel. Further, the Board of Directors should ensure training of existing staff, and charge such individuals with the task of implementing proper controls and procedures.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 11-01 (Cont'd)

Management's Response:

The Cayuga County Water Sewer Authority (the "Authority") believes that professional training with management commitment and monitoring, through an on-going relationship between the Authority's CPA, professional advisors and staff is critical to the financial integrity of the Authority and its future financial reporting and disclosure. The Authority will continue to support professional training resources and instruction to develop the skills, experience and abilities of our staff, while working with both management and professional advisors to provide for adequate control and oversight of the Authority's financials, in a manner necessary to align our records in consistency with U.S. Generally Accepted Accounting Principles. The Authority will continue to develop written approved controls, procedures and segregation of incompatible duties to the greatest degree possible with the staff, as budgeted, for the Authority's daily administration. Communications with the Authority's audit team and staff are critical in order to prevent problems from either re-occurring or deepening as the fiscal year moves forward, making compliance or reconciliation even more intensive and burdensome later in the calendar and fiscal year.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 11-02

Criteria:

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

Condition/Cause:

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

- With respect to cash receipts and cash disbursements processes, the same staff member prepares and makes deposits; posts all journal entries to the general ledger, without subsequent review; maintains the Williamson Law Books software; prepares and mails all check disbursements; and is responsible for reconciling cash. This same individual maintains blank check stock.
- The same staff member reviews employee timesheets; supplies information to the payroll processing company; receives payroll reports; and distributes employee paychecks. There is no formal review and approval process over the processing of payroll.
- The same staff member is responsible for initiating the purchase of property and equipment; recording capital assets transactions; maintaining access to and custody of property equipment; and editing the property and equipment master file. This same individual also computes the estimated useful life of all assets.
- There is insufficient segregation of duties in the notes payable and long-term debt area. The same staff member records the cash and related debt liabilities as well as the periodic principal and interest payments and expense in the general ledger. These activities are not reviewed for accuracy.

Effect:

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

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number 11-02 (Cont'd)

Recommendation:

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

Management's Response:

Given the size of the organization and the small number of employees, the Authority has observed internal control procedures that do not formally segregate the duties of the office staff. Although employees do not always perform the same functions, segregation of duties, including access to both the physical assets and the related accounting records need assignment to key personnel whenever possible. The Authority will formalize the segregation of duties, assigning responsibility for incompatible accounting functions to separate employees and institute a formal review of these functions.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number 11-02 (Cont'd)

Management's Response (Cont'd):

Cash receipts are currently reviewed weekly by office staff and monthly by the Director of Operations, the Treasurer and the Board of Directors. Cash disbursements are currently reviewed monthly by the office staff, the Treasurer, the Director of Operations, the Authority's financial advisor and the Board of Directors. Subsequent to the review of cash disbursements, the Director of Operations and the Chairman of the Board of Directors review and sign each check. All cash accounts are reviewed monthly by office staff and certain cash accounts are reviewed by the Authority's financial advisor. Certain project related cash accounts are managed by M&T Bank as trustee for the Authority. Cash receipts and disbursements from these accounts undergo the same level of review as all other accounts with an added level of formal requisition requests by the Authority, followed by review and disbursement by the trustee. The cash accounts are reconciled monthly and cash account balances are reviewed monthly by the Treasurer and reported to the Board of Directors. All cash transfers are reviewed and signed by the Director of Operations and reported monthly to the Board of Directors. The Authority will document in writing the control procedures already in place, isolate and segregate any incompatible accounting functions and include the initials of the employees performing the functions and management at each level of oversight. The wages, salaries and employee benefits of the Authority's employees are reviewed and authorized by the Personnel Committee and the Board of Directors. Bi-weekly payroll reports are reviewed by the office staff. The Director of Operations or Treasurer periodically reviews payroll reports and all payroll disbursements are reviewed monthly by the Board of Directors for consistency. The Authority will formalize the review process and require the initials of the employees performing the functions and management at each level of oversight.

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

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

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 11-03

Criteria:

Internal controls should be implemented and followed to safeguard cash and customer information.

Condition/Cause:

Customer receivables are not reconciled on a regular basis and when reconciled supporting documentation is neither maintained nor reviewed. In addition, significant cash receipts were kept on site in an unsecured location. In addition, employees often stamp customer bills at locations outside the office.

Effect:

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

Recommendation:

We recommend that cash receipts be opened and controlled by a person independent of the employee responsible for the accounts receivable subsidiary ledger. The daily list of receipts should then be forwarded to the staff member responsible for posting to customer's accounts.

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

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number 11-03 (Cont'd)

Management's Response:

The Authority is working to develop, document, and implement a formal process, for reconciling customer receivables daily, weekly, monthly, quarterly and annually as necessary. Accounts receivable will be reconciled to the general ledger each time a customer account is modified via charges levied, payment received or adjustments to account balances. Customer accounts and records will continue to be maintained by the office staff and reviewed periodically by the Director of Operations. Electronic data will continue to be entered into and maintained by metering software, billing software, accounting software and several summary spreadsheets. Documentation will be ready available, reviewed and maintained and all sources will be reconciled daily, weekly, monthly or quarterly. Customer records will continue to be maintained in electronic files and the aforementioned software, as well as hard-copies containing documentation of charges levied and payments received. These files will continue to contain records of the Authority's communications with customers and pertinent customer information, such as owner-tenant agreements, payment arrangements and property detail. The Authority will document in writing the control procedures already in place, isolate and segregate any incompatible accounting functions and include the initials of the employees performing the functions and management at each level of oversight.

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

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 11-04

Criteria:

New York State General Municipal Law, Section 10 paragraph 3, states that all public deposits in excess of the amount insured under the provisions of the Federal Deposit Insurance Act, shall be secured by the bank or trust company, together with interest, if any, and costs arising from the collection of such deposit upon default of the bank or trust company. The agreement with the bank or trust company shall include all provisions deemed necessary and sufficient to secure in a satisfactory manner the local government's interest in the collateral.

Condition/Cause:

At December 31, 2011, management of the Authority did not reconcile and retain proof of proper collateralization of cash equivalents totaling approximately \$1,105,000.

Effect:

There is an increased risk cash equivalents may go uncollateralized and the Authority may not be in compliance with New York State General Municipal Law, Section 10.

Recommendation:

We recommend the Authority review New York State General Municipal Law and develop policies and procedures that ensure they adhere to all requirements as they relate to deposits in excess of the amount insured under the provisions of the Federal Deposit Insurance Act.

Management's Response:

M&T is one on the Primary Conduits for Municipalities, NYS, and Gov-Agencies in providing Trustee and Collateralization services. The money market balances are themselves collateralized by underlying securities (in this case, U.S. Government Securities) that are managed by the Fund Managers.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part II - Financial Statement Findings (Cont'd)

Reference Number: 11-05

Criteria:

Adequate internal controls over financial reporting of capital assets.

Condition/Cause:

The Authority does not maintain a formalized useful life policy. While IRS tables are used as a baseline, having a formal and specific policy for asset service life will ensure consistency from year-to-year. Instances were also noted in which the Authority did not adhere to its established capitalization policy.

Effect:

Calculation of depreciation is inconsistent within asset classes leading to inconsistency in the accounting records. In addition, capital assets may go unrecorded, and expenses may be capitalized in error.

Recommendation:

We recommend the Authority adhere to its existing capitalization policy and create a specific policy for asset service life. In doing so, the Authority should compare remaining book life of capital assets to the estimated actual remaining life of the assets. If there is a material difference, consideration should be given to changing the remaining useful life. This should result in a more accurate reflection of the actual depreciation occurring and, thus, more accurate financial statements.

Management's Response:

The Authority does not have a formalized useful life policy. The Authority's Capitalization Policy can be amended to include useful life guidelines. The Authority did not fail to adhere to its own Capitalization Policy. The instance noted refers to a piece of equipment purchased and capitalized prior to the institution of the policy. The equipment was booked as a fixed asset in FY2009. The Capitalization Policy was instituted in FY2010.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Part III - Federal Award Findings and Questioned Costs

Reference Number: 11-06

Criteria:

Application controls should be adequately designed and implemented to ensure the Quickbooks and Williamson Law Books softwares are protected from unauthorized use.

Condition/Cause:

Access to Quickbooks is through shared username and password. Access to Williamson Law Books is unrestricted to users on the Authority's network.

Effect:

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

Recommendation:

As multiple users have access to the Company's Quickbooks data files, we recommend the Authority take steps to protect this data from unauthorized use. Such steps may include establishing separate, unique user log-in information and restricting access to various users. We also recommend the Authority password protect the Williamson Law Books software and establish unique login information for each user.

Management's Response:

Given the size of the organization and the small number of employees, the Authority has observed internal control procedures that do not formally segregate the duties of the office staff. To function with a small staff, the Authority has granted access to all employees to various accounting functions. Current procedures will be modified to protect company software from unauthorized use. Full access to QuickBooks has been limited to the Authority's bookkeeper and protected by password. Access to Williamson Law Books cannot be restricted other than tracking which employee has logged in. The Authority will assign usernames and passwords to each employee and work with Williamson Law Books to determine if a higher level of security is available.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-07

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 shall obtain and implement a formal risk assessment tool from a similar entity and revise it to meet its own internal needs or establish its own formal risk assessment tool. Either the Board of Directors or appointed management will need to assume this responsibility. This Internal Control Assessment will be conducted in conjunction with the annual organizational meeting each January.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-08

Criteria:

Pursuant to Section 2800 of Public Authorities Law, public authorities are required to file an annual report and audit report within 90 days of the end of the fiscal year.

Condition/Cause:

The Authority failed to file their annual report and audit report within 90 days of the fiscal year end.

Effect:

The Public Authorities Budget Office could recommend the suspension or dismissal of officers or directors of the Authority.

Recommendation:

We recommend that the Authority file the annual report and audit report in accordance with Section 2800 of Public Authorities Law.

Management's Response:

The annual audit is a significant burden and a stressful task on the Authority and its staff. With the additional A-133 audit requirements on the use of Federal Loan and Grant ARRA Funds, an A-133 Audit may also be necessary for fiscal years 2012 and 2013. The Authority took pro-active measures in engaging its FY2011 audit team in a timely manner and even in scheduling and carrying-out our pre-audit meetings, communications and conferences in order to facilitate a timely start-up for FY2011. The Authority will likely face continuing challenges annually over the next of years. It is critical that the Authority staff and the audit team work together throughout the year, developing a relationship of cooperation and trust, ensuring compliance efforts are being executed to align the Authority's records in consistency with U.S. Generally Accepted Accounting Principles for future examination. As it is absolutely necessary for the Authority to provide the County with approved audited year-end numbers for the operations of the Authority, we must work together throughout the year to be certain as we reach year-end that the Authority will have the complete financials and those records necessary for the audit team in accordance with Section 2800 of Public Authorities Law.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-09

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

U.S. Department of Agriculture - Water and Waste Disposal Systems for Rural Communities
- 10.760

Criteria:

Internal controls should ensure that the Schedule of Expenditures of Federal Awards is prepared in accordance with the Compliance Supplement of the Office of Management and Budget's (OMB) Circular A-133 and that the amount reported on Schedule of Expenditures of Federal Awards can be traced to the accounting records that support audited financial statements.

Condition/Cause:

The Schedule of Expenditures of Federal Awards was not prepared by the Authority. American Recovery and Reinvestment Act expenditures were not properly identified for presentation on the Schedule of Expenditures of Federal Awards. The reconciliation of expenditures of Federal Awards was not updated timely or agreed to the accounting records.

Cause:

The Authority lacked adequate knowledge of OMB Circular A-133 to ensure proper preparation of the Schedule of Expenditures of Federal Awards. Also accounting personnel and the Authority's fiscal advisor kept separate records that tracked project financial activity. This information was not reconciled regularly.

Effect:

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

Questioned Costs:

None.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-09 (Cont'd)

Recommendation:

Procedures should be implemented to ensure accurate reporting of the Schedule of Expenditures of Federal Awards in accordance with OMB A-133.

Management's Response:

As to the reconciliation of Expenditures of Federal Awards, it is agreed that it must be tied to and timely reconciled with the Authority's accounting records. Within ARRA Phase 2 and Phase 4 project obligations, both currently and proceeding forward, these federal funds are segregated and reported by both phase, grant and loan activity. Regular communications between the Authority and its auditors should ensure future readiness concerning applicable OMB Circular A-133 requirements. Applicable compliance by the Authority has been completed and continues in accordance with OMB Circular A-133 regulations provided by USDA and the "ARRA Regulations Handbook". The Authority's financial advisor's tracking of all Federal Expenditures is mandatory, for all co-funding reporting, due diligence, and compliance. Going forward each expenditure will be identified by its corresponding CFDA number and will be reconciled for proper fiscal year cutoff. All reporting completed by the external financial advisor, with both cost and project documentation provided by the Authority, is tracked and reported, with copies of co-funding reporting and requisitions to the Authority on monthly construction activities.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-10

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

U.S. Department of Agriculture - Water and Waste Disposal Systems for Rural Communities
- 10.760

Criteria:

The Compliance Supplement of the Office of Management and Budget's (OMB) Circular A-133 requires that direct charges to Federal awards are for allowable costs. It also requires that for performance and special reports, data should be accumulated and summarized in accordance with the required or stated criteria and methodology. The Federal funding agency requires that all project funds are expended only for eligible items included in the project budget of the letter of conditions or as amended by the Federal funding agency.

Condition/Cause:

The following deficiencies were noted:

- Project funds were expended for items not included in the project budget.
- Project funds were expended in excess of eligible items included in the project budget.
- Documentation supporting the approved budget by award was not retained.
- Expended project funds were either not reconciled or not reconciled timely to the approved project budget.
- Modifications were made to the approved project budget without being amended in accordance with Federal funding agency requirements.

Cause:

The Authority has not established policies and procedures that would ensure only those expenses incurred for allowable costs per the project award document are charged to the project and that project funds expended be reconciled in a timely manner to the project budget approved by the Federal funding agency.

Effect:

Project funds were expended for ineligible items.

Questioned Costs:

\$84,282.

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-10 (Cont'd)

Recommendation:

The Authority should establish policies and procedures to ensure project funds are expended in accordance with approved project award documentation and those project funds expended should be reconciled to the project budget to ensure required amendments are obtained prior to project funds being expended for ineligible items.

Management's Response:

Both the Bonding and FA-Coordination expenditures were finalized with all Phase-02 Cost Documentation on to Phase-02 USDA Form E and Tabulation Sheets for the Pre-construction meeting of 01/23/2012. Preliminary costs were finalized, submitted to USDA for review and due diligence in reviewing all of these costs from 2009-2012 has been completed between USDA, CCWSA, and its FA-Coordinator. A Subsequent Administrative Resolution was requested by USDA, adopted by the CCWSA B.O.D.'s and the Administrative USDA Budget and these agreements required revisions as approved by the Board of Directors. The Primary purpose of the 4/1/2011 \$4.040m Financing was the Construction of the Phase-02 & 04 Phases. Also, please note EFC STMRF was not available to the Authority at this time, and the Authority as documented had incurred costs since the summer of 2009. The EFC STMRF is "currently" providing the Interim Financing for Phases 02 & 04 - USDA Future Bonds at this time, for those eligible costs under the CWSRF program. We have worked through the EFC CWSRF program in receiving financing approval for these invoices in question, and after due diligence, review by EFC Finance Analyst these invoices as discussed have been approved and reimbursed (See attached All Cost Doc, Data Base Sampling). Under the terms of the Professional Services Agreement, certain services (I.E.: O.S. Preparation) are provided through professional associate relations with the current FA-Consultant, and they are charged to the Authority without any mark-up or cost increase. Again: we have worked through the EFC CWSRF program in receiving financing approval for these invoices in question, and after due diligence review by EFC Finance Analyst these invoices as discussed have been approved and reimbursed (See attached All Cost Doc, Data Base Sampling).

As for the \$13,300.00 invoice of 04/01/2011 from Bond Counsel, the primary focus of construction and financing for this period of 04/01/2011 – 03/27/2012 was Phase-02. Therefore this invoice was charged appropriately to Phase-02.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: 11-10 (Cont'd)

Management's Response (Cont'd)

The \$4,953.91 invoice No. 1957, a pass-thru expense for the preparation of the 04/01/2011 O.S. was for the same period of Financing as Item No. 3 above. And the Primary Focus of Construction and Financing for this period of 4/1/2011 – 3/27/2012 was Phase-02. Therefore this invoice was charged appropriately to Phase-02.

The \$750.00 invoice No. 1033047 was for M&T, the Authority's trustee. This was properly charged to Phase-02, as again the primary focus of construction and financing for this period of 04/01/2011 – 03/27/2012 was Phase-02.

The \$121.64 Post Standard invoice in question was approved under USDA review as a Preliminary Post Construction Phase, keeping in mind for USDA S.D. II is all one project. The only reason it was divided up into phases was to provide reasonable financing Loan/Grant milestones. Please be advised, the invoice in question was approved under review by USDA for the S.D. II Project as a reasonable expense, paid under the Grant LOC, and this portion of the project is now closed and is into long term financing.

Prior review of Preliminary Cost Documentation, Tabulation Sheets and Draft Forms were offered to the USDA on this ARRA Reporting for Phases 02 and 04. Due to time and staffing allowances, those reports and the advance review of Preliminary Cost Documentation by the USDA was respectfully declined. Expenditures are monitored by Award, however, and over time, these Preliminary Project Budgets, now several years old, have been modified through the Professional Service Agreements negotiated by the Authority and approved by USDA. All capital expenditures, including all preliminary project expenditures are processed on the Authority's Accounts Payable Report monthly, before the Board of Directors, for approval prior to payment. All budget amendments are finalized through either an Administrative Resolution, Engineering Amendment, or a Contract Change Order in accordance with USDA Rules and Regulations. These Form E Budgets are modified by and were approved through the process herein described, for Administrative, Technical and Construction, upon review of the Pre-Construction Form E and all Preliminary Cost Documentation by the USDA.

The Authority Asserts the numbers Audit Team representatives are using were Preliminary Budget Numbers (Preliminary Estimates Only), Pre-Bid, Pre-Construction and not approved until the Preconstruction meeting held early in 2012. The Project Budget was finalized to reflect the actual Preliminary Expenditures incurred, Estimates going forward, and As-Bid Results. See Revised (3/29/12) Pre-Con Budget, in Accordance with USDA Administration, Executed by the Treasurer & Project Engineer for the Authority.

(Continued)

**CAYUGA COUNTY WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Reference Number: Prior Year 11-01

Status:

See current year finding 11-01.