

*WAYNE COUNTY WATER AND SEWER AUTHORITY  
WAYNE COUNTY, NEW YORK*

*BASIC FINANCIAL STATEMENTS*

*For Years Ended December 31, 2011 and 2010*

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 8
<b>Basic Financial Statements:</b>	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
<b>Notes to the Basic Financial Statements</b>	12 - 24
<b>Supplemental Section:</b>	
Combining Schedule of Revenues, Expenses and Changes in Net Assets	25
Schedule of Investments	26
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	27 - 28

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**INDEPENDENT AUDITORS' REPORT**

To the Board Members  
Wayne County Water and Sewer Authority  
Wayne County, New York

We have audited the accompanying financial statements of the Wayne County Water and Sewer Authority (the Authority), Wayne County, New York as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the Authority as of December 31, 2011 and 2010, and respective changes in financial position, and its cash flows for the years 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 March 8, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplemental combining schedule and schedule of investments are presented for purpose of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Raymond F. Wager, CPA, PC*

March 8, 2012

**Wayne County Water & Sewer Authority  
Wayne County, New York**

**Management's Discussion and Analysis (MD&A)**

**December 31, 2011**

**Introduction**

Our discussion and analysis of the Wayne County Water and Sewer Authority, Wayne County, New York's (Authority) financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2011. It should be read in conjunction with the basic financial statements to enhance understanding of the Authority's financial performance, which immediately follows this section.

**Activities and Accomplishments**

As in past years the Authority continued with the construction of a new watermain with its own forces. In 2011 approximately 50,000 linear feet of new watermain was installed by Authority crews under contract with the Town of Wolcott in the Huron/Wolcott Joint Port Bay water project providing water service availability to approximately 290 homes on the west side of Port Bay.

Other distribution improvements included substantial completion by a private contractor of Huron Water District #6 on the east side of Sodus Bay including Leroy Island, providing water service availability to approximately 390 homes, and the upgrading of a pump station along with other improvements to supply the Village of Lyons with all its water needs.

The Authority installed 88 new water services in its service area.

The Authority continued to work on the distribution system maintenance program. This included flushing of dead end watermains, maintenance and painting of fire hydrants, exercising of main line and gate valves throughout the system, and continuation of the residential water meter replacement program in the Towns of Marion and Palmyra and other portions of the overall service area. An auto flushing program was continued to enhance water quality in some areas of the system. The Authority also repainted the Walworth water tank and upgraded the SCADA monitoring system to a hosted internet-based system. Additional system monitoring included the continuation of the Authority's cross connection back flow prevention program.

The Authority completed the first full year of operation of the Village of Palmyra water and sewer systems under contract with the Village. The Authority's existing Water Supply Permit was successfully modified to cover all supply areas such that each new individual water district subject to full SEQR review will be covered by the permit without the need for further Public Water Supply Permits.

Advancements in the Authority's GIS project in 2011 included further implementation of the GIS geodatabase and collecting more GPS locations of system components including hydrants, valves and curb boxes in the new water districts and the eastern area of the county. As the Authority crews prepared the system for GPS locating, they also performed leak detection activities.

The Village of Fair Haven sanitary sewer project (Cayuga County Sewer District #2) continued with installation of approximately 40 new connections; flows to the Red Creek Area Regional Waste Water Treatment Plant continue to increase. Cayuga County Water & Sewer Authority completed engineering planning and design and went to bid on three new phases of the project with construction envisioned for 2012.

The Village of Wolcott made resolution to abandon their wastewater treatment plant and connect to the Authority's Red Creek Area Regional Waste Water Treatment Plant and is expected to proceed in 2012 with the planning and design of the collection system and equalization facilities for that project, with construction of these improvements anticipated to begin in late 2012 or early 2013.

Significant projects that are being considered for construction or implementation in 2012 include:

- Marion Extension #2 to Water District #1 – this project would provide water service to approximately 50 homes
- Sewer service to several hundred customers in three geographic locations around the Village of Fair Haven will provide additional flows to the Regional Plant
- The Authority and towns in the northern corridor of Wayne County will apply for an implementation grant to study the long-term water supply needs in that area with the idea of constructing a regional water storage facility and evaluating other shared resources and management alternatives
- Huron Water District #6 on the east side of Sodus Bay including Leroy Island – this project will be completed and begin to provide water service to approximately 390 homes
- Huron/ Wolcott Joint Port Bay water project– restoration on this project will be completed
- Blind Sodus Bay and Port Bay sewer projects – focus will continue on advancing these projects

## Summary of Operations and Changes in Net Assets

	<u>Water</u> <u>Activity</u>	<u>Sewer</u> <u>Activity</u>	<u>2011</u> <u>Total</u>	<u>2010</u> <u>Total</u>
Operating Revenues	\$ 4,948,882	\$ 324,995	\$ 5,273,877	\$ 5,166,479
Operating Expenses	<u>4,608,764</u>	<u>547,464</u>	<u>5,156,228</u>	<u>5,153,315</u>
<b>Operating Income (Loss)</b>	<b>\$ 340,118</b>	<b>\$ (222,469)</b>	<b>\$ 117,649</b>	<b>\$ 13,164</b>
Non-Operating Revenues	30,206	-	30,206	78,490
Non-Operating Expenses	<u>(53,066)</u>	<u>(7,063)</u>	<u>(60,129)</u>	<u>(72,618)</u>
<b>Income Before Capital Contributions</b>	<b>\$ 317,258</b>	<b>\$ (229,532)</b>	<b>\$ 87,726</b>	<b>\$ 19,036</b>
Capital Contributions -				
NYS grant	2,222	-	2,222	20,053
NYS Department of Correctional Services	<u>-</u>	<u>-</u>	<u>-</u>	<u>764,264</u>
<b>Increase (Decrease) in Net Assets</b>	<b><u>\$ 319,480</u></b>	<b><u>\$ (229,532)</u></b>	<b><u>\$ 89,948</u></b>	<b><u>\$ 803,353</u></b>

The increase of Net Assets in 2011 is explained in the following Operating Revenue and Operating Expense summaries.

### Operating Revenues

The Authority's operating revenue increased by \$107,398 in 2011 (2%). This increase in revenues was due to a contract the Authority entered into with the Village of Palmyra to oversee the water and sewer operations within the Village.

### Operating Expenses

The Authority has an Administrative Department and an Operations Department. These departments perform work for both the water and sewer departments. All direct costs are applied directly to water or sewer. All indirect costs (those costs attributable to both water and sewer) are applied as per an amount set at budget planning.

The Authority's operating expenses increased by \$2,913 in 2011.

The total number of active customers serviced during the past two years is as follows:

<u>Water</u>		<u>Sewer</u>	
<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
9155	9067	64	64
<b>Increase : 88</b>		<b>Increase: 0</b>	

### Non-Operating Revenues

The Authority reported a decrease of non-operating revenues totaling \$48,284 due to less revenue generated from the sale of assets than the previous year.

## Net Assets

Net assets are an indication of financial strength. The WCWSA net assets increased by \$89,948. The following is a summary of the Authority's net assets as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS:</u></b>		
Current Assets	\$ 4,335,625	\$ 4,277,096
Restricted Assets	225,593	384,519
Fixed Assets	12,605,249	12,606,272
<b>Total Assets</b>	<b><u>\$ 17,166,467</u></b>	<b><u>\$ 17,267,887</u></b>
<b><u>LIABILITIES:</u></b>		
Current Liabilities	\$ 306,095	\$ 295,110
Noncurrent Liabilities	1,119,002	1,321,355
<b>Total Liabilities</b>	<b><u>\$ 1,425,097</u></b>	<b><u>\$ 1,616,465</u></b>
<b><u>NET ASSETS:</u></b>		
Investment in General Fixed Assets, Net of Related Debt	\$ 11,638,995	\$ 11,594,756
Restricted - Capital Reserve	1,800,577	1,494,645
Unrestricted	2,301,798	2,562,021
<b>Total Net Assets</b>	<b><u>\$ 15,741,370</u></b>	<b><u>\$ 15,651,422</u></b>

The net assets includes the value of the Authority's investment in infrastructure, and funds for ongoing repairs/replacement and/or additions to infrastructure.

## WCWSA Rates and Charges

The Authority sets its rates annually in concurrence with the adoption of its annual operating budget. For 2011, an increase of .05 cents per thousand gallons was implemented within the western service area of the Authority. This service area includes approximately 80% of the customer base. In addition, rate increases were implemented to the two largest wholesale customers (the Villages of Macedon and Lyons).

The projected budgeted construction revenue for 2011 was \$700,000. The Authority exceeded this number due to the aforementioned capital projects.

## Financial Statements

The WCWSA is a public benefit corporation functioning under legislation passed by the State of New York; its volunteer Board members are appointed by the Wayne County Board of Supervisors. The WCWSA functions much like a municipality with competitive bidding laws and financial safeguards required.

The accompanying basic financial statements of the Authority have been prepared in conformity with generally accepted accounting principles ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB"), which is the primary standard setting body for establishing governmental accounting and financial reporting principles. Effective December 31, 2004, the Authority adopted GASB Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments as amended by GASB Statements No. 37 and 38. The Authority is engaged only in business-type activities as defined in GASB Statement No. 34.

Revenues and expenses are recorded under the accrual method of accounting.



## Capital Assets

By the end of the 2011 year, the WCWSA had invested \$12,605,249 in a broad range of capital assets, including land, work in progress, completed facilities, and machinery and equipment. The change in capital assets, including the accumulated depreciation, is reflected below:

	<u>2011</u>	<u>2010</u>
Land	\$ 251,071	\$ 251,071
Completed facilities	16,220,310	15,757,574
Equipment	1,358,027	1,244,637
Less: Accumulated Depreciation	<u>(5,224,159)</u>	<u>(4,647,010)</u>
<b>Total</b>	<b><u>\$ 12,605,249</u></b>	<b><u>\$ 12,606,272</u></b>

## Long -Term Obligations

The Authority's long-term obligations are as follows:

1. **Water & Sewer System Revenue Bonds Refunded** - This \$920,000 bond was secured in 2011 with a ten (10) year maturity. The bond matures in 2021 and has an unpaid principle balance of \$920,000 as of December 31, 2011.
2. **State Revolving Fund Loan** - The Authority entered into two loan agreements with New York State Environmental Facilities Corporation (EFC) to provide short-term financing for the Red Creek Area Regional Wastewater Treatment Facility. The significant terms of the loan agreements are as follows:
  - a. The Authority is allowed periodic draw downs with a maximum principal sum of \$1,750,000 on the loan dated September 30, 2004
  - b. During April 2006, the Authority entered into a loan in which the Authority is allowed periodic draw downs with a maximum principal sum of \$2,119,338.
  - c. The final maturity date of the loans was September 30, 2007; however, the loan balances were refinanced through a Revenue Bond during the 2006 year and rolled into a \$4,000,000 bond.

It should be noted that with the recent bond refunding in 2011, the Authority's bond rating was updated to a Moody's Underlying Rating of A1.

## Future Factors

### Water Operations

The Authority will continue to pursue water main construction contracts with communities within its service areas as a source of revenue. It is anticipated that the net revenues in 2012 will be consistent with those of past years. The Authority expects to initiate construction on the Marion Extension #2 to Water District #1 Water Improvement project in the Town of Marion. In addition, the Authority is anticipating construction of one or two other small water main replacement projects.

The Authority is committed to its leak detection program and plans to pursue this agenda with the same attention given to it in 2011. The more aggressive leak detection program plan begun in 2009 has reduced the overall percentage of unaccounted-for water greatly bringing unaccounted-for water volumes back below historic levels.

### Sewer Operations

The Red Creek Area Regional Wastewater Treatment Facility has now been operating for over 5 years. The Village of Red Creek continued to evaluate prospects for another phase of sanitary sewers in 2011 and the Village of Fair Haven continued to increase flows to the Regional Facility in 2011. Additional phases in the Village of Red Creek are anticipated in the future depending on availability of funding for these types of projects. The Village of Fair Haven (Cayuga County Sewer District #2) is continuing with construction of three new phases, which should significantly add to existing waste water flows in 2012 and 2013.

The Village of Wolcott made a resolution to abandon their wastewater treatment plant and connect to the Authority's Red Creek Area Regional Waste Water Treatment Plant, and is expected to proceed in 2012 with the planning and design of the collection system and equalization facility for that project, with construction of these improvements anticipated to begin in late 2012 or early 2013. The Authority will expect to see flows in 2013, and anticipates a positive revenue stream as a result.

Effective January 1, 2011, the Authority signed a two year contract with the Village of Palmyra for the Authority to operate and maintain the Village's water and wastewater facilities. As part of this agreement, the Authority has hired on two new plant operators and has incorporated an administrative fee that will help bolster Authority revenues in 2011 and 2012.

### **Requests for Information**

This financial report is designed to provide a general overview of the Wayne County Water & Sewer Authority, Wayne County, New York's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Martin Aman, Executive Director, Wayne County Water & Sewer Authority, 3377 Daansen Road, Walworth, N.Y. 14568.

**WAYNE COUNTY WATER AND SEWER AUTHORITY**  
**WAYNE COUNTY, NEW YORK**

**Statement of Net Assets**

**December 31, 2011 and 2010**

<b><u>ASSETS:</u></b>	<b><u>2 0 1 1</u></b>	<b><u>2 0 1 0</u></b>
<b><u>Current Assets -</u></b>		
Cash and cash equivalents	\$ 3,256,852	\$ 3,072,994
Accounts receivable (net of allowance)	811,607	856,093
Materials and supplies inventory	193,399	324,921
Prepaid items	73,767	23,088
<b>Total Current Assets</b>	<b><u>\$ 4,335,625</u></b>	<b><u>\$ 4,277,096</u></b>
<b><u>Restricted Assets -</u></b>		
Restricted cash-revenue bond covenant accounts held by trustee	\$ 26,100	\$ 265,512
Deferred charges	199,493	119,007
<b>Total Restricted Assets</b>	<b><u>\$ 225,593</u></b>	<b><u>\$ 384,519</u></b>
<b><u>Fixed Assets -</u></b>		
Land, facilities, equipment and WIP	\$ 17,829,408	\$ 17,253,282
Accumulated depreciation	(5,224,159)	(4,647,010)
<b>Total Fixed Assets, Net</b>	<b><u>\$ 12,605,249</u></b>	<b><u>\$ 12,606,272</u></b>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 17,166,467</u></u></b>	<b><u><u>\$ 17,267,887</u></u></b>
 <b><u>LIABILITIES AND NET ASSETS:</u></b>		
<b><u>Current Liabilities -</u></b>		
Accounts payable	\$ 178,717	\$ 181,633
Accrued liabilities	21,563	18,477
Current portion of debt	105,815	95,000
<b>Total Current Liabilities</b>	<b><u>\$ 306,095</u></b>	<b><u>\$ 295,110</u></b>
<b><u>Noncurrent Liabilities -</u></b>		
Revenue bonds payable (net of unamortized discounts)	\$ 826,035	\$ 1,021,035
EFC loan liability	260,000	280,000
OPEB liability	32,967	20,320
<b>Total Noncurrent Liabilities</b>	<b><u>\$ 1,119,002</u></b>	<b><u>\$ 1,321,355</u></b>
<b><u>Net Assets -</u></b>		
Investment in general fixed assets net of related debt		
Water Fund	\$ 3,903,716	\$ 3,645,795
Sewer Fund	7,735,279	7,948,961
Restricted - capital reserve	1,800,577	1,494,645
Unrestricted net assets		
Water Fund	2,432,348	2,676,712
Sewer Fund	(130,550)	(114,691)
<b>Total Net Assets</b>	<b><u>\$ 15,741,370</u></b>	<b><u>\$ 15,651,422</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 17,166,467</u></u></b>	<b><u><u>\$ 17,267,887</u></u></b>

(The accompanying notes are an integral part of these financial statements)

**WAYNE COUNTY WATER AND SEWER AUTHORITY**  
**WAYNE COUNTY, NEW YORK**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For Years Ended December 31, 2011 and 2010**

<b><u>OPERATING REVENUES:</u></b>	<b><u>2 0 1 1</u></b>	<b><u>2 0 1 0</u></b>
Water sales	\$ 3,691,299	\$ 3,424,859
Sewer sales	324,571	203,184
Penalty on water and sewer sales	50,005	44,654
Service and connection fees	226,339	178,647
Construction revenue	934,788	1,048,239
EPA - construction revenue	15,876	90,633
Other operating income	30,999	176,263
<b>TOTAL OPERATING REVENUES</b>	<b><u>\$ 5,273,877</u></b>	<b><u>\$ 5,166,479</u></b>
<b><u>OPERATING EXPENSES:</u></b>		
Water supply	\$ 1,825,492	\$ 1,692,549
Sewer disposal	5,231	4,699
Personnel services and benefits	1,454,105	1,247,426
Insurance	64,279	63,805
Professional services	80,836	96,232
Building/vehicle repair and maintenance	55,919	46,401
Electricity	82,766	97,589
Water and sewer tests and chemicals	15,943	13,189
Water line and sewer parts and supplies	852,828	1,184,881
Bond issuance amortization costs	19,777	9,832
Administration and office expense	95,431	83,499
Depreciation	603,621	613,213
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 5,156,228</u></b>	<b><u>\$ 5,153,315</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>\$ 117,649</u></b>	<b><u>\$ 13,164</u></b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>		
Interest earnings	\$ 10,567	\$ 12,256
Interest expense	(60,129)	(72,618)
Rental income	17,237	16,735
Gain on sale of equipment	2,402	49,499
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b><u>\$ (29,923)</u></b>	<b><u>\$ 5,872</u></b>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<b><u>\$ 87,726</u></b>	<b><u>\$ 19,036</u></b>
<b><u>CAPITAL CONTRIBUTIONS:</u></b>		
NYS grant	\$ 2,222	\$ 20,053
NYS Department of Correctional Services	-	764,264
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b><u>\$ 2,222</u></b>	<b><u>\$ 784,317</u></b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b><u>\$ 89,948</u></b>	<b><u>\$ 803,353</u></b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b><u>15,651,422</u></b>	<b><u>14,848,069</u></b>
<b>NET ASSETS - END OF YEAR</b>	<b><u>\$ 15,741,370</u></b>	<b><u>\$ 15,651,422</u></b>

(The accompanying notes are an integral part of these financial statements)

**WAYNE COUNTY WATER AND SEWER AUTHORITY**  
**WAYNE COUNTY, NEW YORK**

**Statement of Cash Flows**

**For Years Ended December 31, 2011 and 2010**

<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>	<b><u>2 0 1 1</u></b>	<b><u>2 0 1 0</u></b>
Received from providing services	\$ 5,318,363	\$ 5,057,049
Payments to suppliers	(3,080,469)	(3,373,401)
Payments to employees	(1,438,372)	(1,267,087)
<b>Net Cash Provided (Used ) by Operating Activities</b>	<b><u>\$ 799,522</u></b>	<b><u>\$ 416,561</u></b>
<b><u>CASH FLOWS FROM CAPITAL AND</u></b>		
<b><u>RELATED FINANCING ACTIVITIES:</u></b>		
Principal payments on debt	\$ (205,000)	\$ (840,000)
Interest expense	(60,129)	(76,533)
Bond issuance costs	(19,777)	-
Acquisition and construction of capital assets	(602,598)	(150,994)
Proceeds from sale of assets (net)	2,402	49,608
Capital contribution	2,222	871,983
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<b><u>\$ (882,880)</u></b>	<b><u>\$ (145,936)</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Rental income	\$ 17,237	\$ 16,735
Interest income	10,567	12,256
<b>Net Cash Provided By Investing Activities</b>	<b><u>\$ 27,804</u></b>	<b><u>\$ 28,991</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (55,554)</b>	<b>\$ 299,616</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>3,338,506</b>	<b>3,038,890</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b><u>\$ 3,282,952</u></b>	<b><u>\$ 3,338,506</u></b>
<b><u>RECONCILIATION OF CHANGE IN NET ASSETS TO</u></b>		
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES:</u></b>		
Changes in net assets	\$ 117,649	\$ 13,164
<b>Adjustments to reconcile changes in net assets to cash Provided by Activities -</b>		
Depreciation	603,621	613,213
Bond issuance amortization costs	19,777	9,832
<b>Changes in assets and liabilities -</b>		
Accounts receivable	44,486	(109,430)
Materials and supplies inventory	131,522	32,367
Prepayment and other current assets	(130,350)	937
Accounts payable, accrued payroll and benefits	12,817	(143,522)
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 799,522</u></b>	<b><u>\$ 416,561</u></b>

(The accompanying notes are an integral part of these financial statements)

**WAYNE COUNTY WATER AND SEWER AUTHORITY  
WAYNE COUNTY, NEW YORK**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2011 and 2010**

**(Note 1) Summary of Significant Accounting Policies:**

The financial statements of the Wayne County Water and Sewer Authority, Wayne County, New York, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. The Reporting Entity**

The Wayne County Water and Sewer Authority, Wayne County, New York (the Authority) is a public benefit corporation, created by special state legislation, Chapter 685 of the Laws of 1987 (NYS Public Authorities Laws 199-aa et seq.) and became operational in the spring of 1988 upon the appointment of the nine initial members of the Authority by the Wayne County Board of Supervisors. The Authority has the powers necessary to plan, finance, operate and manage water systems in Wayne County. The Authority provides a structure for planning and implementing improvement in the availability, reliability, and quality of public water supplies in Wayne County.

The Authority has approximately 9,155 water service accounts supplying water within the Towns of Macedon, Walworth, Palmyra, Marion, Arcadia, Lyons, Butler, Huron, Sodus and Wolcott. The Authority also supplies the Hamlet of Marion, Village of Macedon (wholesale only) and Village of Lyons (wholesale only). The average yearly consumption of water from all sections of the Authority's service area encompasses nearly 800 million gallons. The Authority is responsible for the operation and maintenance of over 325 miles of transmission and distribution mains, seven (7) water storage tanks (totaling 8.5 million gallons), and five (5) pumping stations within its overall service area.

During the early years of operation, the Authority was primarily a "Water Authority" with wastewater collection, treatment and disposal representing only about 1.5% of operating revenues. Now, the Authority operates a 500,000 GPD Regional Wastewater Treatment Facility and a related collection system that includes approximately 9,000 linear feet of gravity sewer, 20,000 feet of force main and three pump stations. This regional treatment facility replaced a 30,000 GPD treatment facility in September 2006. This system currently collects and treats approximately 90,000 GPD of wastewater, with the majority of the flows coming from the Butler Correctional Facility, Cayuga County Sewer District #2, Village of Red Creek, and Red Creek Central Schools. The New York State Department of Corrections contributed to the cost of building the regional facility, which replaced their aging and costly Correctional Facility treatment plant. The new regional facility is designed to accept future flows from the Village of Fairhaven, the Village of Red Creek, and other eastern Wayne County communities.

Effective January 1, 2011, the Authority signed a two year contract with the Village of Palmyra for the Authority to operate and maintain the Village's water and wastewater facilities.

(Note 1) (Continued)

The Authority also operates a series of small collection systems in western and eastern Wayne County which include three pump stations and approximately six miles of gravity sewer mains and related appurtenances. Collected wastewater from these systems is conveyed to existing wastewater treatment facilities owned by other municipalities and the Authority is billed on a total flow basis per thousand gallons treated. The Authority also operates and maintains portions of Cayuga County Sewer District #2 under contract with Cayuga County Water and Sewer Authority.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

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

Revenues and expenses are recorded under the accrual method of accounting.

**C. Cash Management**

The Authority has adopted investment guidelines which conform with Sections 2735 and 2925 of the New York State Public Authorities Law. These guidelines establish the permissible investments and procedures for obtaining pledged collateral for investments which exceed FDIC insurance coverage.

**D. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Authority considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**E. Materials and Supplies Inventories**

Materials and supplies are stated at cost, determined on the first-in, first-out method, which approximates market.

**F. Accounts Receivable**

Accounts receivable consist of fees for services for sewer and water charges due from individuals and other governments and project and grant receivables. Accounts receivable are carried on the balance sheet at net realizable value. Generally accepted accounting principles requires the allowance method be used to recognize bad debts, however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

(Note 1) (Continued)

**G. Restricted Assets**

**1. Revenue Bond Covenant Accounts**

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "debt service reserve fund" account is used to report resources set aside to subsidize potential deficiencies from the Authority's operation that could adversely affect debt service payments. The "New Construction Fund" account is used to report those proceeds of revenue bond issuance that are restricted for use in construction. The "Bond Fund Principle and Interest" accounts are used to segregate resources accumulated for debt service payments over the life of the bond. These funds are held by a trustee and are currently invested in money market accounts.

**2. Deferred Charges**

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**H. Capital Assets**

Capital assets, including distribution and collection systems, are stated at cost. Depreciation is provided using the straight-line method over the following estimated useful life:

Facilities	20-40 Years
Transmission and Equipment	5-40 Years

Improvements, renewals and significant repairs that do not extend the life of the asset are expensed as incurred. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation are written off and any unrelated gains or losses are recorded.

**I. Non-Current Liabilities**

Long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using an amortization schedule consistent with the bond payment schedule. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**J. Revenue Recognition**

Revenues from water and sewer sales are recognized at the time of service delivery based on actual or estimated water meter readings and actual sewer units. Construction revenues are recognized at the time an expenditures is incurred for the project.



(Note 1) (Continued)

**K. Contributed Capital**

Contributed capital represent amounts that developers, customers and governments have contributed for betterments or additions to capital assets. These contributions are received in cash or in the form of non-cash contributions of capital items and are recorded at fair value on the date of donation.

**L. Net Assets**

**Investment in Capital Assets, Net of Related Debt** – Represents capital assets purchased with available funds and grants.

**Restricted Net Assets** – Represents funds restricted for future capital development.

**Unrestricted Net Assets** – Represents monies available for the future operations of the Authority.

**M. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates. Actual results could differ from those estimates.

**N. Taxes**

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales taxes.

**O. New Pronouncements**

The Authority has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At December 31, 2011, the Authority implemented the following new statements issued by GASB:

- GASB Statement 51, *Accounting and Financial Reporting for intangible Assets*. This Statement addresses accounting and financial reporting standards for intangible assets. There was no current effect on the financial statements as a result of implementing this Statement.
- GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure regarding derivative instruments entered into by state and local governments. There was no current effect on the financial statements as a result of implementing this Statement.

(Note 2) **Stewardship, Compliance, Accountability:**

A. **Deficit Unrestricted Net Assets**

The Sewer Activity as indicated on the financial statements resulted in a decrease in unrestricted net assets of \$(15,859) which decreased the overall unrestricted net asset deficit to \$(130,550). However, the total sewer net assets are a positive \$7,604,729.

(Note 3) **Detail Notes on All Funds and Account Groups:**

A. **Assets**

1. **Cash and Investments**

The Authority's investment policies are governed by state statutes. In addition, the Authority has its own written investment policy. The Authority's monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit, which are not subject to investment risk relating to changing interest rates. Permissible investments include obligations of the U.S. treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities.

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity. The revenue bond covenant account reported under restricted assets has been included as cash and cash equivalents in accordance with this definition. The Combined Statement of Cash Flows uses the indirect method of reporting cash flows.

	<b><u>2011</u></b>	<b><u>2010</u></b>
Uncollateralized	\$ -	\$ -
Collateralized within Trust department or agent	2,428,500	2,578,021
<b>Total</b>	<b><u>\$ 2,428,500</u></b>	<b><u>\$ 2,578,021</u></b>

2. **Accounts Receivable**

The balance of accounts receivable for 2011 and 2010 is as follows:

	<b><u>2011</u></b>	<b><u>2010</u></b>
Water Rents	\$ 670,863	\$ 622,282
Sewer Rents	50,639	19,860
Project Receivables	89,361	200,738
EPA Receivable	-	12,667
Miscellaneous	744	546
<b>Total</b>	<b><u>\$ 811,607</u></b>	<b><u>\$ 856,093</u></b>

(Note 3) (Continued)

3. **Fixed Assets**

The following is a summary of fixed assets for the Authority at December 31:

	<b>Balance at</b> <b><u>1/1/2011</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Balance at</b> <b><u>12/31/2011</u></b>
Land	\$ 251,071	\$ -	\$ -	\$ 251,071
Completed facilities	15,757,574	462,736	-	16,220,310
Equipment	1,244,637	140,159	(26,769)	1,358,027
Less: Accumulated Depreciation	(4,647,010)	(603,467)	26,318	(5,224,159)
<b>Total</b>	<b><u>\$ 12,606,272</u></b>	<b><u>\$ (572)</u></b>	<b><u>\$ (451)</u></b>	<b><u>\$ 12,605,249</u></b>

	<b>Balance at</b> <b><u>1/1/2010</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Balance at</b> <b><u>12/31/2010</u></b>
Land	\$ 251,071	\$ -	\$ -	\$ 251,071
Completed facilities	15,711,337	46,237	-	15,757,574
Equipment	1,299,190	104,757	(159,310)	1,244,637
Less: Accumulated Depreciation	(4,192,998)	(613,213)	159,201	(4,647,010)
<b>Total</b>	<b><u>\$ 13,068,600</u></b>	<b><u>\$ (462,219)</u></b>	<b><u>\$ (109)</u></b>	<b><u>\$ 12,606,272</u></b>

B. **Long-Term Debt**

1. **State Revolving Fund Loan**

The Authority entered into two loan agreements with the New York State Environmental Facilities Corporation (EFC) to provide short-term financing for the Red Creek Area Regional Wastewater Treatment Facility. The significant terms of the loan agreement are as follows:

- a. The Authority is allowed periodic draw downs with a maximum principal sum of \$1,750,000 on the loan dated September 30, 2004.
- b. During April 2006, the Authority entered into a second loan in which the Authority is allowed periodic draw downs with a maximum principal sum of \$2,199,338.
- c. The final maturity date of the loans was September 30, 2007, however, the loan balance was refinanced through a Revenue Bond during the 2006 year.

(Note 3) (Continued)

2. **Bond Payable**

On November 17, 2011, the Authority issued \$920,000 in general obligation bonds with an average interest rate of 3.06% to advance refund \$1,030,000 of outstanding serial bonds with an average interest rate of 4.99%. The net proceeds of \$894,422 (after payment of \$102,128 in underwriting fees, insurance and other issuance costs) along with cash provided by the Authority were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the Authority's financial statements. The economic gain (loss on the transaction (the difference between the present value of the debt service payments on the old and new debt) is approximately \$19,392

3. **EFC Revenue Bond Payable**

In June 2006, \$4,000,000 of EFC revenue bonds were issued to finance the Red Creek Area Regional Wastewater Treatment Facility construction project and refinance the original loans of \$1,750,000 from 2005 and the \$2,199,388 issued April 2006. The bonds were issued with an interest rate of 3.60%-4.75%. Revenue bonds outstanding as of December 31, 2011 amounted to \$280,000 and have a final maturity date of October 1, 2025.

4. **Change in Long-Term Debt**

	<u>1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2011</u>	<u>Less Current Portion</u>	<u>Non-Current Portion</u>
Bonds	\$ 1,105,000	\$ -	\$ 185,000	\$ 920,000	\$ 85,000 *	\$ 835,000
EFC Revenue	300,000	-	20,000	280,000	20,000	260,000
OPEB Liability	20,320	12,647	-	32,967	- **	32,967
<b>Total</b>	<b>\$ 1,425,320</b>	<b>\$ 12,647</b>	<b>\$ 205,000</b>	<b>\$ 1,232,967</b>	<b>\$ 105,000</b>	<b>\$ 1,127,967</b>

\* The financial statements net the \$8,150 discount against the \$920,000 bond.

\*\* The Authority applied excess funds against the current year principal payments.

	<u>1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2010</u>	<u>Less Current Portion</u>	<u>Non-Current Portion</u>
Bonds	\$ 1,175,000	\$ -	\$ 70,000	\$ 1,105,000	\$ 75,000 *	\$ 1,030,000
EFC Revenue	1,070,000	-	770,000	300,000	20,000	280,000
OPEB Liability	10,160	10,160	-	20,320	- **	20,320
<b>Total</b>	<b>\$ 2,255,160</b>	<b>\$ 10,160</b>	<b>\$ 840,000</b>	<b>\$ 1,425,320</b>	<b>\$ 95,000</b>	<b>\$ 1,330,320</b>

\* The financial statements net the \$8,965 discount against the \$1,105,000 bond.

\*\* The Authority applied excess funds against the current year principal payments.

(Note 3) (Continued)

**5. Estimated Debt Service Requirements**

Revenue bond estimated debt service requirements to maturity are as follows:

<u>Year</u>	<u>2001 Revenue Bond</u>		<u>2006 EFC Revenue Bond</u>		<u>Total Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 85,000	\$ 16,430	\$ 20,000	\$ 12,396	\$ 105,000	\$ 28,826
2013	85,000	18,325	20,000	11,602	105,000	29,927
2014	85,000	16,625	20,000	10,796	105,000	27,421
2015	90,000	14,875	20,000	9,974	110,000	24,849
2016	90,000	13,075	20,000	9,140	110,000	22,215
2017-21	485,000	33,412	100,000	32,540	585,000	65,952
2022-25	-	-	80,000	9,445	80,000	9,445
<b>Total</b>	<b>\$ 920,000</b>	<b>\$ 112,742</b>	<b>\$ 280,000</b>	<b>\$ 95,893</b>	<b>\$ 1,200,000</b>	<b>\$ 208,635</b>

(Note 4)

**Other Notes:**

**A. Employee Pension and Other Benefit Plans**

**1. Pension Plan**

*Plan Description*

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

*Funding Policy*

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary up until 10 years of service when the contribution requirement is eliminated. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

(Note 4) (Continued)

The Authority is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	<u>ERS</u>
2011	\$ 131,450
2010	\$ 83,891
2009	\$ 61,919

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

**2. Other Postemployment Benefits**

*Plan Description*

In addition to providing the pension benefits described in Note 4, the Authority provides post-employment medical and prescription drug benefits (OPEB) for retirees, spouses, and their covered dependents through the Authority's Postemployment Health Care Benefits Program (Plan). The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority. The Plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan.

*Funding Policy*

The Authority currently pays for health care benefits on a pay-as-you-go basis. Once New York State Law allows for the establishment of a trust to fund to invest assets necessary to pay for the accumulated liability, the Authority will study the establishment of such a trust. These financial statements assume that pay-as-you-go funding will continue.

*Annual OPEB Cost and Net OPEB Obligation*

The Authority's annual other postemployment (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Authority's net OPEB obligation by governmental activities:

(Note 4) (Continued)

Annual required contribution	\$ 12,647
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>\$ 12,647</u>
Contributions made	-
Increase in net OPEB obligation	<u>\$ 12,647</u>
Net OPEB obligation - beginning of year	<u>20,320</u>
<b>Net OPEB obligation - end of year</b>	<b><u><u>\$ 32,967</u></u></b>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year end 2011 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2009	\$ 10,160	0.00%	\$ 10,160
12/31/2010	\$ 10,160	0.00%	\$ 10,160
12/31/2011	\$ 12,647	0.00%	\$ 12,647

*Funded Status and Funding Progress.*

As of December 31, 2011, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$329,667, and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability of \$329,667. The covered payroll (annual payroll of active employees covered by the plan) was \$1,049,627, and the ratio of the UAAL to the covered payroll was 31.41%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(Note 4) (Continued)

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) / (2)	Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Active Members Covered Payroll	As a Percentage of Covered Payroll (4) / (5)
2009	\$ -	\$ 304,796	0.00%	\$ 304,796	\$ 872,119	34.95%
2010	\$ -	\$ 304,796	0.00%	\$ 304,796	\$ 905,650	33.65%
2011	\$ -	\$ 329,667	0.00%	\$ 329,667	\$ 1,049,627	31.41%

In the December 31, 2011 actuarial valuation, the Authority has elected to use the alternative measurement method as permitted by GASB #45. The discount rate used was 4%. Because the plan is unfunded, reference to the general assets was considered in the selection of the four percent rate. The remaining amortization period at December 31, 2011 was twenty-seven years.

(Note 5) **Related Party Transactions:**

The Authority enters into contracts and other agreements with towns and villages whose supervisor or mayor may sit on the Authority's Board.

(Note 6) **Commitments and Contingencies:**

- A. The Authority is a member of the Wayne County Workers' Compensation Self-Insurance Plan (the Plan). Current membership of the Plan includes 35 participants from various municipal entities. The Plan is administered by Wayne County and utilizes a third party administrator who is responsible for processing claims, estimating liabilities and providing actuarial services. The Plan participants are charged an annual assessment which is allocated in light of comparative experience and relative exposure based on the estimated total liability of the participating members actuarially computed each year.

The Plan purchases, on an annual basis, stop-loss insurance coverage to limit exposure for claims paid.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The most recent financial information available for the year ended December 31, 2010 indicates that the Plan is fully funded.



(Note 6) (Continued)

- B. Management is not aware of any pending litigation as of the date of this report.
- C. The Governor has proposed closing all or portions of the Butler Correctional Facility which is a high volume customer for both the water and sewer operations. Due to the uncertainty surrounding the closing of the facility the financial impact cannot be determined as of the balance sheet date.

(Note 7) Capital Assets:

- A. Investment in capital assets, net of related debt - is summarized as follows:

<u>INVESTMENT IN CAPITAL ASSETS:</u>	<u>2011</u>	<u>2010</u>
Water	\$ 4,659,342	\$ 4,431,638
Sewer	7,945,907	8,174,634
<b>TOTAL INVESTMENT IN CAPITAL ASSETS</b>	<b>\$ 12,605,249</b>	<b>\$ 12,606,272</b>

<u>WATER:</u>	<u>2011</u>	<u>2010</u>
<b>Capital Assets, Net</b>	<b>\$ 4,659,342</b>	<b>\$ 4,431,638</b>
<u>Add:</u>		
Unamortized bond issuance costs	\$ 130,124	\$ 44,680
Discount on bonds payable	8,150	8,965
Restricted cash	26,100	265,512
<b>Total Additions</b>	<b>\$ 164,374</b>	<b>\$ 319,157</b>
<u>Deduct:</u>		
Short-term portion of bonds payable	\$ 85,000	\$ 75,000
Long-term portion of bonds payable	835,000	1,030,000
<b>Total Deducts</b>	<b>\$ 920,000</b>	<b>\$ 1,105,000</b>
<b>Investment in Capital Assets, Net of Related Debt</b>	<b>\$ 3,903,716</b>	<b>\$ 3,645,795</b>

<u>SEWER:</u>	<u>2011</u>	<u>2010</u>
<b>Capital Assets, Net</b>	<b>\$ 7,945,907</b>	<b>\$ 8,174,634</b>
<u>Add:</u>		
Unamortized bond issuance costs	\$ 69,372	\$ 74,327
<b>Total Additions</b>	<b>\$ 69,372</b>	<b>\$ 74,327</b>
<u>Deduct:</u>		
Short-term portion of bonds payable	\$ 20,000	\$ 20,000
EFC loan	260,000	280,000
<b>Total Deducts</b>	<b>\$ 280,000</b>	<b>\$ 300,000</b>
<b>Investment in Capital Assets, Net of Related Debt</b>	<b>\$ 7,735,279</b>	<b>\$ 7,948,961</b>

- B. **Capital Reserve** – In 2004, the Authority authorized the establishment of a capital reserve for repair and/or replacement of facilities. During the year \$5,932 in interest was earned. The balance in the reserve at December 31, 2011 and 2010 is \$1,800,577 and \$1,494,645, respectively.

**(Note 8)      Lease Revenues:**

The Authority entered into an agreement with Bell Atlantic Mobile of Rochester d/b/a Verizon Wireless to lease space on the existing water tower and certain ground space at 6296 Shaker Tract Road, North Rose, New York 14516. The initial agreement requires a base rent of \$14,400 and the annual rental for each lease year during the initial term or any extension shall be equal to 103% of the annual rental payable with respect to the immediately preceding lease year. The initial term of the lease ended December 31, 2009 which has been extended based on the terms of the lease which provides four automatic extensions of five year terms.

**WAYNE COUNTY WATER AND SEWER AUTHORITY**  
**WAYNE COUNTY, NEW YORK**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**For Year Ended December 31, 2011**

	<b>Water</b>	<b>Sewer</b>	<b>2 0 1 1</b>
	<b>Activity</b>	<b>Activity</b>	<b>Total</b>
<b><u>OPERATING REVENUES:</u></b>			
Water sales	\$ 3,691,299	\$ -	\$ 3,691,299
Sewer sales	-	324,571	324,571
Penalty on water and sewer sales	49,581	424	50,005
Service and connection fees	226,339	-	226,339
Construction revenue	934,788	-	934,788
EPA-construction revenue	15,876	-	15,876
Miscellaneous income	30,999	-	30,999
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 4,948,882</b>	<b>\$ 324,995</b>	<b>\$ 5,273,877</b>
<b><u>OPERATING EXPENSES:</u></b>			
Water supply	\$ 1,825,492	\$ -	\$ 1,825,492
Sewer disposal	-	5,231	5,231
Personnel services and benefits	1,253,611	200,494	1,454,105
Insurance	50,301	13,978	64,279
Professional services	79,307	1,529	80,836
Building/vehicle repair and maintenance	45,633	10,286	55,919
Electricity	36,124	46,642	82,766
Water and sewer tests and chemicals	13,794	2,149	15,943
Water line and sewer parts and supplies	828,750	24,078	852,828
Bond issuance amortization costs	14,822	4,955	19,777
Administration and office expense	89,211	6,220	95,431
Depreciation	371,719	231,902	603,621
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,608,764</b>	<b>\$ 547,464</b>	<b>\$ 5,156,228</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 340,118</b>	<b>\$ (222,469)</b>	<b>\$ 117,649</b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>			
Interest earnings	\$ 10,567	\$ -	\$ 10,567
Interest expense	(53,066)	(7,063)	(60,129)
Rental income	17,237	-	17,237
Gain on sale of equipment	2,402	-	2,402
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$ (22,860)</b>	<b>\$ (7,063)</b>	<b>\$ (29,923)</b>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<b>\$ 317,258</b>	<b>\$ (229,532)</b>	<b>\$ 87,726</b>
<b><u>CAPITAL CONTRIBUTIONS:</u></b>			
NYS grant	\$ 2,222	\$ -	\$ 2,222
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>\$ 2,222</b>	<b>\$ -</b>	<b>\$ 2,222</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 319,480</b>	<b>\$ (229,532)</b>	<b>\$ 89,948</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>7,817,152</b>	<b>7,834,270</b>	<b>15,651,422</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 8,136,632</b>	<b>\$ 7,604,738</b>	<b>\$ 15,741,370</b>

WAYNE COUNTY WATER AND SEWER AUTHORITY

WAYNE COUNTY, NEW YORK

Schedule of Investments

For Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating	\$ 2,845,832	\$ 2,997,911
Restricted	26,100	265,512
<b>Total Investments</b>	<u>\$ 2,871,932</u>	<u>\$ 3,263,423</u>

**Raymond F. Wager, CPA, P.C.**  
**Certified Public Accountants**

**Shareholders:**

**Raymond F. Wager, CPA**  
**Thomas J. Lauffer, CPA**  
**Thomas C. Zuber, CPA**

Members of  
American Institute of  
Certified Public Accountants  
and  
New York State Society of  
Certified Public Accountants

**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***

To the Board Members  
Wayne County Water and Sewer Authority  
Wayne County, New York

We have audited the financial statements of the Wayne County Water and Sewer Authority, Wayne County, New York as of and for the year ended December 31, 2011, and have issued our report thereon dated March 8, 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**

The management of the Wayne County Water and Sewer Authority, Wayne County, New York is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Wayne County Water and Sewer Authority, Wayne County, New York'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.

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 deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

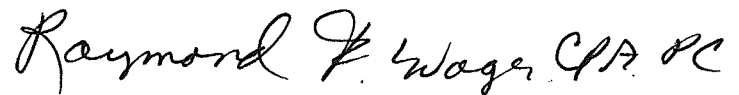
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Wayne County Water and Sewer Authority, Wayne County, New York'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 matters that we reported to the management of the Wayne County Water and Sewer Authority, Wayne County, New York in a separate letter dated March 8, 2012.

This report is intended solely for the information and use of the audit committee, management, the Board and Federal Awarding Agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Raymond F. Wager, CPA, PC in black ink.

March 8, 2012