

CAYUGA COUNTY WATER AND
SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Financial Statements and
Management's Discussion and Analysis
December 31, 2010 and 2009
(With Independent Auditors' Report Thereon)

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)

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INDEPENDENT AUDITORS' REPORT

The Members of the Board
Cayuga County Water and Sewer Authority:

We have audited the accompanying statements of net assets of Cayuga County Water and Sewer Authority (the Authority), a component unit of Cayuga County, New York, as of December 31, 2010 and 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 6 to the financial statements, the Authority restated its 2009 financial statements in order to properly reflect the obligation for a serial bond that was assumed from the Village of Port Byron in prior years.

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2011, 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.

The management's discussion and analysis on pages 3 through 5 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 express no opinion on it.

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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 13, 2011

CAYUGA COUNTY WATER AND SEWER AUTHORITY

(A Component Unit of Cayuga County, New York)

Management's Discussion and Analysis

December 31, 2010 and 2009

Our discussion and analysis of Cayuga County Water and Sewer Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2010 as compared to 2009. This document should be read in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

The Authority's net assets increased \$2,060,767 during 2010 as a result of this year's activity, principally grant income received.

The assets of the Authority exceeded its liabilities by \$7,292,175 (net assets) at December 31, 2010.

A bond anticipation note (BAN) (RRN, Revenue Refunding Note) was renewed for \$2,500,000 during 2010 to finance a sewer construction project.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The statements of net assets and the statements of revenue, expenses and changes in net assets provide information about the activities of the Authority similar to for-profit businesses.

REPORTING THE AUTHORITY AS A WHOLE

The Statements of Net Assets and Statements of Revenue, Expenses and Changes in Net Assets

Our analysis of the Authority as a whole begins on page 6. The statements of net assets and the statements of revenue, expenses and changes in net assets report information about the Authority as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The above-mentioned statements report the Authority's net assets and changes therein. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure its financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's property tax base and the condition of the Authority's water lines to assess its overall health. In the statements of net assets and statements of revenue, expenses and changes in net assets, the Authority's only activities relate to business-type activities which include all of the Authority's operations including water services provided and the construction of a new sewer system. Water and sewer charges finance the operating activities and federal grants and loans finance the construction activities.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Management's Discussion and Analysis, Continued

Schedule of Net Assets

	<u>2010</u>	(As Restated) <u>2009</u>
Current assets	\$ 2,708,013	1,482,514
Capital assets	8,379,231	6,634,543
Construction in progress	<u>1,982,138</u>	<u>2,076,437</u>
Total assets	<u>13,069,382</u>	<u>10,193,494</u>
Current liabilities	3,261,518	2,183,682
Long-term liabilities	<u>2,515,689</u>	<u>2,778,404</u>
Total liabilities	<u>5,777,207</u>	<u>4,962,086</u>
Invested in capital assets, transferred from County	731,294	731,294
Restricted	<u>6,560,881</u>	<u>4,500,114</u>
Total net assets	<u>\$ 7,292,175</u>	<u>5,231,408</u>

At December 31, 2010 and 2009, the Authority is able to report positive balances in both categories of net assets.

Schedule of Changes in Net Assets

	<u>2010</u>	(As Restated) <u>2009</u>
Operating revenues	\$ 1,055,993	939,018
Operating expenses	<u>1,077,807</u>	<u>897,881</u>
Income (loss) from operations	(21,814)	41,137
Other income	<u>2,082,581</u>	<u>1,270,857</u>
Net income	2,060,767	1,311,994
Net assets at beginning of year	<u>5,231,408</u>	<u>3,919,414</u>
Net assets at end of year	<u>\$ 7,292,175</u>	<u>5,231,408</u>

Financial Analysis

Significant highlights in the Authority's statements of net assets as of December 31, 2010 as compared to 2009 are as follows:

- Cash and equivalents increased by \$513,339 from 2009 primarily as a result of timing differences in the receipt and usage of grant funds related to the Authority's ongoing sewer project.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Management's Discussion and Analysis, Continued

Financial Analysis, Continued

- Accounts receivable at December 31, 2010 totaled \$187,053, consisting of \$143,548 in 4th quarter water and sewer billings.
- Grants receivable increased \$677,966 from 2009 primarily as a result of timing differences in the receipt and usage of grant funds related to the Authority's ongoing sewer construction project.
- Net capital assets increased by \$1,650,389 from 2009 primarily as a result of \$1,983,666 in construction in process relating to Phases 1B and 1C-E of the sewer project being incurred, net of \$337,006 in related depreciation expense.
- Current liabilities increased by \$1,077,836 from 2009 primarily as a result of a BAN being renewed in March 2010 in the amount of \$2,500,000.
- During 2010, the Authority restated its 2009 financial statements in order to properly record a serial bond that was assumed from the Village of Port Byron in prior years. The effect of the restatement was a \$202,000 reduction in retained earnings as of January 1, 2009 and an \$8,000 increase in net income for the year ended December 31, 2009.
- Accounts payable at December 31, 2010 totaled \$277,924 primarily as a result of construction invoices.

Significant highlights in the Authority's statements of revenue, expenses and changes in net assets for the year ended December 31, 2010 as compared to 2009 are as follows:

- Operating revenues increased \$116,975 as a result of more accurate water meter readings, an increase in wholesale water demand, an increase in the number of sewer customers and the sewer services provided to them. Water purchases increased \$57,111 as a result of increased demand.
- Depreciation expense increased by \$91,921 as a result of depreciation being charged on Phase 1B of County Sewer District 2 which was placed in service in 2010.
- Payroll and related expenses increased by \$21,687, primarily as a result of the hiring of additional employees in 2010.
- The provision for uncollectible accounts decreased by \$60,000 in 2010 as a result of the Authority's new ability to re-levy uncollected accounts on the Cayuga County property tax roll.
- Income from operations decreased by \$62,951 as a result of an increase in depreciation expense, legal expenses, operations and maintenance expenses, utilities expense, insurance expense and the addition of a new employee.

Contacting the Authority's financial management

This financial report is designed to provide our citizens, taxpayers, customers, creditors, and other users with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Cayuga County Water and Sewer Authority at 7413 County House Road, Auburn, New York 13021.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Statements of Net Assets
December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	(As restated) <u>2009</u>
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 214,890	169,029
Restricted	<u>709,465</u>	<u>241,987</u>
Total cash and equivalents	924,355	411,016
Accounts receivable, net	187,053	163,029
Grants receivable	1,582,610	904,614
Prepaid expenses and other assets	<u>13,995</u>	<u>3,855</u>
Total current assets	<u>2,708,013</u>	<u>1,482,514</u>
Capital assets:		
Capital assets, net of depreciation	8,379,231	6,634,543
Construction in progress	<u>1,982,138</u>	<u>2,076,437</u>
Net capital assets	<u>10,361,369</u>	<u>8,710,980</u>
Total assets	<u>\$ 13,069,382</u>	<u>10,193,494</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	277,924	139,762
Retainage payable	171,273	109,211
Accrued expenses	49,607	65,162
Short-term notes payable	2,500,000	1,608,000
Current portion of long-term debt	<u>262,714</u>	<u>261,547</u>
Total current liabilities	3,261,518	2,183,682
Long-term debt, excluding current portion	<u>2,515,689</u>	<u>2,778,404</u>
Total liabilities	<u>5,777,207</u>	<u>4,962,086</u>
<u>Net Assets</u>		
Investment in water line	731,294	731,294
Restricted	<u>6,560,881</u>	<u>4,500,114</u>
Total net assets	<u>7,292,175</u>	<u>5,231,408</u>
Total liabilities and net assets	<u>\$ 13,069,382</u>	<u>10,193,494</u>

See accompanying notes to financial statements.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

	<u>2010</u>	(As restated) <u>2009</u>
Operating revenues	\$ 1,055,993	<u>939,018</u>
Operating expenses:		
Water purchases	418,013	360,902
Depreciation	337,006	245,085
Payroll, payroll taxes and benefits	144,757	123,070
Provision for uncollectible accounts	-	60,000
Operations and maintenance	53,173	24,826
Office expense	16,694	17,084
Utilities	20,228	15,479
Wheeling fee	15,000	15,000
Legal and accounting	46,247	14,761
Insurance	10,944	6,885
Telephone	5,981	3,975
Other expenses	<u>9,764</u>	<u>10,814</u>
Total operating expenses	<u>1,077,807</u>	<u>897,881</u>
Income (loss) from operations	<u>(21,814)</u>	<u>41,137</u>
Other income (expense):		
Government grants - construction	1,974,446	1,284,265
Ad valorem taxes	153,492	133,784
Other income	66,482	4,616
Interest expense	<u>(111,839)</u>	<u>(151,808)</u>
Total other income	<u>2,082,581</u>	<u>1,270,857</u>
Net income	<u>2,060,767</u>	<u>1,311,994</u>
Net assets at beginning of year, as previously reported	5,231,408	4,121,414
Prior period adjustment	-	<u>(202,000)</u>
Net assets at beginning of year, as restated	<u>5,231,408</u>	<u>3,919,414</u>
Net assets at end of year	<u>\$ 7,292,175</u>	<u>5,231,408</u>

See accompanying notes to financial statements.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Statements of Cash Flows
Years ended December 31, 2010 and 2009

	<u>2010</u>	(As restated) <u>2009</u>
Cash flows from operating activities:		
Receipts from customers	\$ 1,031,969	854,324
Cash payments to suppliers for goods and services	(619,964)	(480,740)
Cash payments to employees for services	<u>(143,613)</u>	<u>(114,364)</u>
Net cash provided by operating activities	<u>268,392</u>	<u>259,220</u>
Cash flows from capital and related financing activities:		
Net proceeds on short-term notes payable	937,000	(537,000)
Proceeds from long-term debt	-	509,000
Principal payments on long-term debt	(261,548)	(255,389)
Interest payments	(128,538)	(137,238)
Acquisition of capital assets	(1,773,391)	(2,068,521)
Government grants	1,316,450	1,099,992
Ad valorem taxes collected	<u>153,492</u>	<u>133,784</u>
Net cash provided by (used in) capital and related financing activities	<u>243,465</u>	<u>(1,255,372)</u>
Cash flows from investing activities - interest received on investments	<u>1,482</u>	<u>4,616</u>
Net increase (decrease) in cash and equivalents	513,339	(991,536)
Cash and equivalents at beginning of year	<u>411,016</u>	<u>1,402,552</u>
Cash and equivalents at end of year	<u>\$ 924,355</u>	<u>411,016</u>

See accompanying notes to financial statements.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Statements of Cash Flows, Continued

	<u>2010</u>	(As restated) <u>2009</u>
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	\$ (21,814)	41,137
Adjustment to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	337,006	245,085
Changes in:		
Accounts receivable, net	(24,024)	(24,694)
Prepaid expenses and other assets	(10,140)	3,928
Accounts payable	(13,780)	(6,942)
Accrued payroll	1,144	706
Net cash provided by operating activities	\$ 268,392	259,220

See accompanying notes to financial statements.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)

Notes to Financial Statements

December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) 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.

(b) 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.

(c) 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash and Equivalents

The Authority's investment policies are governed by State statutes. 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.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Cash and Equivalents, Continued

The Authority maintained its cash in a commercial bank in upstate New York. Total bank cash balances were \$927,935 and \$467,619 at December 31, 2010 and 2009, respectively. The cash is secured by both FDIC insurance and \$803,312 and \$807,006 in collateral at December 31, 2010 and 2009, respectively.

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

Restricted cash represents funds restricted for a capital project.

(e) Accounts Receivable

Accounts receivable represents amounts due from customers for current and delinquent water sales, including penalties, unpaid bill charges, collection fees and shut-off charges. Water 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 receiving their bill. Any current charges in arrears are subject to a penalty of 10%, and those customers receive an unpaid bill notice. If balances remain unpaid for two full quarters, shut-off procedures commence.

Management provides for probable uncollectible accounts through a provision for uncollectible accounts and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. At December 31, 2010 and 2009, a reserve for uncollectible accounts was recorded by management in the amount of \$60,000.

(f) Capital Assets

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated equipment. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (5 to 30 years) using the straight-line method. Improvements are capitalized, while expenditures 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 changes 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.

CAYUGA COUNTY WATER AND SEWER AUTHORITY

(A Component Unit of Cayuga County, New York)

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Subsequent Events

The Authority has evaluated events after December 31, 2010, and through May 13, 2011, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(h) 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.

(2) Capital Assets

The Authority's capital asset activity as of and for the year ended December 31, 2010 is summarized as follows:

	Balance <u>1/1/2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2010</u>
Capital assets, being depreciated:				
Water lines	\$ 8,110,369	2,077,965	-	10,188,334
Machinery and equipment	<u>39,966</u>	<u>3,729</u>	<u>-</u>	<u>43,695</u>
Total capital assets being depreciated	<u>8,150,335</u>	<u>2,081,694</u>	<u>-</u>	<u>10,232,029</u>
Less accumulated depreciation:				
Water lines	(1,508,699)	(333,888)	-	(1,842,587)
Machinery and equipment	<u>(7,093)</u>	<u>(3,118)</u>	<u>-</u>	<u>(10,211)</u>
Total accumulated depreciation	<u>(1,515,792)</u>	<u>(337,006)</u>	<u>-</u>	<u>(1,852,798)</u>
Total being depreciated, net	6,634,543	1,744,688	-	8,379,231
Capital assets, not being depreciated - construction in progress	<u>2,076,437</u>	<u>1,983,666</u>	<u>(2,077,965)</u>	<u>1,982,138</u>
Capital assets, net	<u>\$ 8,710,980</u>	<u>3,728,354</u>	<u>(2,077,965)</u>	<u>10,361,369</u>

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Notes to Financial Statements, Continued

(2) Capital Assets, Continued

	Balance <u>1/1/2009</u>	Increases	Decreases	Balance <u>12/31/2009</u>
Capital assets, being depreciated:				
Water lines	\$ 4,764,996	3,345,373	-	8,110,369
Machinery and equipment	<u>20,420</u>	<u>19,546</u>	<u>-</u>	<u>39,966</u>
Total capital assets being depreciated	<u>4,785,416</u>	<u>3,364,919</u>	<u>-</u>	<u>8,150,335</u>
Less accumulated depreciation:				
Water lines	(1,265,839)	(242,860)	-	(1,508,699)
Machinery and equipment	<u>(4,868)</u>	<u>(2,225)</u>	<u>-</u>	<u>(7,093)</u>
Total accumulated depreciation	<u>(1,270,707)</u>	<u>(245,085)</u>	<u>-</u>	<u>(1,515,792)</u>
Total being depreciated, net	3,514,709	3,119,834	-	6,634,543
Capital assets, not being depreciated - construction in progress	<u>3,282,113</u>	<u>2,134,675</u>	<u>(3,340,351)</u>	<u>2,076,437</u>
Capital assets, net	<u>\$ 6,796,822</u>	<u>5,254,509</u>	<u>(3,340,351)</u>	<u>8,710,980</u>

(3) Short-Term Notes Payable

Short-term notes payable consisted of the following as of and for the years ended December 31, 2010 and 2009:

	Balance <u>1/1/2010</u>	Issued	Redeemed	Balance <u>12/31/2010</u>
Bond anticipation note (BAN)	\$ 1,563,000	2,500,000	(1,563,000)	2,500,000
Note payable to County	<u>45,000</u>	<u>-</u>	<u>(45,000)</u>	<u>-</u>
	<u>\$ 1,608,000</u>	<u>2,500,000</u>	<u>(1,608,000)</u>	<u>2,500,000</u>

	Balance <u>1/1/2009</u>	Issued	Redeemed	Balance <u>12/31/2009</u>
BAN	\$ 2,100,000	1,563,000	(2,100,000)	1,563,000
Note payable to County	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
	<u>\$ 2,145,000</u>	<u>1,563,000</u>	<u>(2,100,000)</u>	<u>1,608,000</u>

CAYUGA COUNTY WATER AND SEWER AUTHORITY

(A Component Unit of Cayuga County, New York)

Notes to Financial Statements, Continued

(3) Short-Term Notes Payable, Continued

The BAN matures annually and was renewed in April 2010 in the amount of \$2,500,000 with interest at 1.43%. The proceeds have been used to finance construction on a sewer project in anticipation of federal grants and long-term financing.

During April 2011, the BAN was renewed in the amount of \$4,040,000 with interest at 1.154% for \$2,000,000 of the note and 1.35% for the remaining \$2,040,000 portion of the note.

The Authority also had a short-term note to the County in the amount of \$45,000. The note was non-interest bearing and was forgiven by the County in 2010. Accordingly, the amount of debt forgiveness is included in other income in the accompanying statement of revenue, expenses and changes in net assets.

(4) Long-Term Debt

Long-term debt consisted of the following as of and for the years ended December 31, 2010 and 2009:

	Balance <u>1/1/2010</u>	<u>Issued</u>	<u>Redeemed</u>	Balance <u>12/31/2010</u>	Due Within One Year
Note payable - NYSEFC (1)	\$ 1,710,000	-	(205,000)	1,505,000	205,000
United States Department of Agriculture Rural Development Agency (RDA) Bonds Payable (2)	504,000	-	(6,000)	498,000	6,000
RDA Bonds Payable (3)	320,000	-	(4,000)	316,000	4,000
RDA Bonds Payable (4)	235,666	-	(3,339)	232,327	3,506
RDA Bonds Payable (5)	194,000	-	(8,000)	186,000	9,000
Note Payable - TDS Telecom (TDS) (6)	<u>76,285</u>	<u>-</u>	<u>(35,209)</u>	<u>41,076</u>	<u>35,208</u>
	<u>\$ 3,039,951</u>	<u>-</u>	<u>(261,548)</u>	<u>2,778,403</u>	<u>262,714</u>

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Notes to Financial Statements, Continued

(4) Long-Term Debt, Continued

	<u>Balance</u> <u>1/1/2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>12/31/2009</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Note payable - NYSEFC (1)	\$ 1,910,000	-	(200,000)	1,710,000	205,000
RDA Bonds Payable (2)	-	509,000	(5,000)	504,000	6,000
RDA Bonds Payable (3)	324,000	-	(4,000)	320,000	4,000
RDA Bonds Payable (4)	238,847	-	(3,181)	235,666	3,339
RDA Bonds Payable (5)	202,000	-	(8,000)	194,000	8,000
Note Payable - TDS (6)	<u>111,493</u>	<u>-</u>	<u>(35,208)</u>	<u>76,285</u>	<u>35,208</u>
	<u>\$ 2,786,340</u>	<u>509,000</u>	<u>(255,389)</u>	<u>3,039,951</u>	<u>261,547</u>

- (1) Note payable to the New York State Environmental Facilities Corporation (EFC) bearing interest at 3.93% to 4.86% and requiring annual principal and semi-annual interest installments through April 2017. The proceeds were used to construct a water line. The obligation was assumed by the Authority per an agreement dated March 3, 1999 (note 5).
- (2) \$509,000 bonds payable to the RDA bearing interest at 4.5% and requiring annual principal and semi-annual interest payments through April 2047. The proceeds were used for a sewer construction project.
- (3) \$328,000 bonds payable to the RDA bearing interest at 4.375% and requiring annual principal and semi-annual interest payments through April 2045. The proceeds were used for a sewer construction project.
- (4) \$255,000 bonds payable to the RDA bearing interest at 4.75% and requiring annual principal and interest payments through April 2040. The proceeds were used for a water construction project.
- (5) \$320,000 bonds payable to RDA bearing interest at 5.5% and requiring annual principal and semi-annual interest payments through November 2030. The obligation was assumed by the Authority from the Village of Port Byron upon completion of a water construction project (note 6).
- (6) \$390,000 note payable to TDS bearing interest at 0% and requiring monthly installments of \$2,934 through February 2012. The proceeds were used to construct a water line.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Notes to Financial Statements, Continued

(4) Long-Term Debt, Continued

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 262,714	125,109	387,823
2012	238,549	114,905	353,454
2013	232,864	104,382	337,246
2014	240,057	93,467	333,524
2015	245,259	82,039	327,298
2016 - 2020	581,699	278,785	860,484
2021 - 2025	159,499	221,869	381,368
2026 - 2030	192,174	180,281	372,455
2031 - 2035	179,239	136,471	315,710
2036 - 2040	224,349	92,100	316,449
2041 - 2045	195,000	37,233	232,233
2046	<u>27,000</u>	<u>608</u>	<u>27,608</u>
	<u>\$2,778,403</u>	<u>1,467,249</u>	<u>4,245,652</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. This subsidy was approximately 32% for the last payment in October 2010. Future interest subsidies are not guaranteed.

(5) Net Assets

Per an agreement with the County dated March 3, 1999, and revised July 9, 2002, all future operating revenues are committed to the repayment of serial bonds issued by the County for the purpose of constructing certain water lines used by the Authority. The water line net assets represent the fund equity transfer from the County to transfer the net value of the water line to the Authority. The restricted net assets represent the restriction stated above for the payment on debt, which would be lifted when the debt is retired.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Notes to Financial Statements, Continued

(6) Restatement

The Authority recorded a prior period adjustment in the amount of \$202,000 as of January 1, 2009 and restated the 2009 financial statements in order to properly reflect the obligation for a serial bond that was assumed from the Village of Port Byron in prior years upon the completion of a construction project. The 2009 financial statements reflect the \$202,000 reduction in beginning net assets and an \$8,000 increase in net income reflecting the adjustment for the 2009 principal payment on the bonds (previously recorded as lease expense).

(7) Commitments and Contingencies

Construction Commitments - During 2006, the Authority started a major sewer construction project which is estimated to cost approximately \$16 million. To date, approximately \$7.2 million has been completed. The project is to be financed with approximately \$14.2 million in government grants and \$2 million in long-term financing.

Grant Contingencies - The Authority has received grants which are subject to audit by agencies of the State and federal governments. Such audits may result in disallowances and a request for a return of funds. Management believes disallowances, if any, will not have a material effect on the financial position of the Authority.

TOSKI, SCHAEFER & CO., P.C.
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE, INCLUDING
COMPLIANCE WITH INVESTMENT GUIDELINES, AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Members of the Board
Cayuga County Water and Sewer Authority:

We have audited the financial statements of Cayuga County Water and Sewer Authority (the Authority) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 13, 2011. 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

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 of 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 a 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 would not necessarily identify all deficiencies in internal control 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (finding 11-01) that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining assurance about whether Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including compliance with investment guidelines for public authorities and the Authority's investment policy, 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 Authority in a separate letter dated May 13, 2011.

This report is intended solely for the information and use of the management, Members of the Board, and others within Cayuga County Water and Sewer Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 13, 2011

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INDEPENDENT AUDITORS' 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:

We have audited the compliance of Cayuga County Water and Sewer Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2010. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 in 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 of the Authority's compliance with those requirements.

In our opinion, Cayuga County Water and Sewer Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Cayuga County Water and Sewer Authority is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

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.

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 13, 2011

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Schedule of Expenditures of Federal Awards
Year ended December 31, 2010

	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture - Water and Waste Disposal Systems for Rural Communities	10.760	\$1,596,639
U.S. Environmental Protection Agency - Surveys - Studies - Investigations and Special Purpose Grants	66.606	<u>386,592</u>
Total expenditures of federal awards		<u>\$1,983,231</u>

See accompanying note to schedule of expenditures of federal awards.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Note to Schedule of Expenditures of Federal Awards
December 31, 2010

(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.

CAYUGA COUNTY WATER AND SEWER AUTHORITY
 (A Component Unit of Cayuga County, New York)
 Schedule of Findings and Questioned Costs
 Year ended December 31, 2010

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
1. Material weakness(ies) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Significant deficiency(ies) identified not considered to be material weakness(es)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> None reported
3. Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Federal Awards:

Internal control over major programs:	
4. Material weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported
6. Type of auditors' report issued on compliance for major programs:	Unqualified
7. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8. The Authority's major program audited was:	
<u>Name of Federal Program</u>	<u>CFDA Number</u>
Water and Waste Disposal Systems for Rural Communities	10.760
9. Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
10. Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)
Schedule of Findings and Questioned Costs, Continued

Part II - FINANCIAL STATEMENT FINDINGS SECTION

11-01 Accuracy of Accounting Records

Condition - In order to facilitate the preparation of accurate financial statements and for management to make appropriate financial decisions, accounting records must be accurately prepared. As part of our audit of the financial statements of the Authority for the year ended December 31, 2010, we recorded 22 adjusting journal entries with a gross value of \$7,243,945.

Recommendation - In order to improve internal control over financial reporting and to provide management with accurate internal financial statements, we recommend that accounting personnel analyze significant general ledger accounts on a monthly or quarterly basis. Any differences should be investigated promptly and appropriate journal entries recorded. Additionally, we recommend appropriate accruals be posted on a monthly basis to properly reflect revenues earned and expenses incurred, regardless of when the actual timing of receipt occurs.

Part III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No reportable findings

CAYUGA COUNTY WATER AND SEWER AUTHORITY
(A Component Unit of Cayuga County, New York)

Status of Prior Audit Findings
Year ended December 31, 2010

Finding 10-01 - In 2009, we recorded 21 adjusting journal entries with a gross value of \$7,566,604. We recommended that management analyze significant accounts on a monthly basis and record all proper adjustments.

Status - During 2010, 22 adjusting journal entries were recorded with a gross value of \$7,243,945.

Finding 10-02 - In 2009, we noted the Authority did not have accurate billing procedures in place and the water billing was not current. Additionally, we noted the water billing was generated through a separate, non-integrated billing software. We recommended that management reconcile all accounts receivable and consider integrating the billing software with the general ledger software.

Status - During 2010, we noted the water billing was current and billing procedures appeared to be improving. The billing software has not yet been integrated with the general ledger software.