

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

BASIC FINANCIAL STATEMENTS

For Years Ended December 31, 2010 and 2009

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 8
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12 - 24
Supplemental Section:	
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

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

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, 2010 and 2009, 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, 2010 and 2009, 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 February 9, 2011 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 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 P.C.

February 9, 2011

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

Management's Discussion and Analysis (MD&A)

December 31, 2010

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, 2010. 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 new watermain with its own forces. In 2010 approximately 24,000 linear feet of new watermain was installed by Authority crews under contract with the Town of Palmyra in the Johnson Floodman Improvement Project, providing water service to approximately 50 homes in southern portions of the Town.

Several long range plans were realized in 2010. The Town of Arcadia Water District #11 Water Project was substantially completed, adding 39,600 feet of watermain, 150 prospective customers, and a booster pump station that can also be utilized as a backup pump for supplying the Village of Lyons. The Red Creek Road/Waters Road Project in the Town of Wolcott was completed, adding 28,550 feet of distribution network, providing the infrastructure for western suppliers to provide redundancy east to the Butler Water Storage tank for backup supply to the communities in the eastern service areas.

Other distribution improvements included installation of a booster pump station at the base of the Marion tank, complete with SCADA improvements for monitoring, and the installation of pressure control valves on Jeffery Road and Route 21 at the South Main Intersection. Additionally, the Macedon water tank SCADA system was updated. The Authority installed 83 new water services in its service area while 88 new services were installed along with Huron #5 and Arcadia #11 water districts.

The Authority continued to work on the distribution system maintenance program. This included flushing 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 made plans to continue its water storage maintenance program by budgeting to repaint the Walworth water tank in 2011. Additional system monitoring included the continuation of the Authority's cross connection back flow prevention program.

Advancements in the Authority's GIS project in 2010 included the purchase of a handheld GPS unit, a desktop GIS workstation, a laptop computer for field use and additional GIS software; the scanning of the Authority's curb box records; and the implementation of the GIS database. GPS locations of system components including hydrants, valves and curb boxes were obtained in 2010 for new water districts and portions of the existing distribution systems in the Towns of Walworth, Palmyra and Macedon. As the Authority crews prepared the system for GPS locating, they also performed leak detection activities.

The Village of Fairhaven sanitary sewer project (Cayuga County Sewer District #2) continued with installation of over one hundred new connections and extension of gravity sewers to within a few hundred feet of Fairhaven State Park; the increase in flow to the Red Creek Area Regional Waste Water Treatment Plant is measurable. Cayuga County Water & Sewer Authority continues to seek funding and utilize existing grants to further expand the system.

The Authority made a submission to the NYSDEC to modify the Authority’s existing Water Supply Permit to cover all supply areas, targeting communities with which the Authority has lease/management agreements. Each new individual water district subject to full SEQR review will be covered under the agreement with the DEC without the need for further Public Water Supply Permits.

The Southeast Quadrant Water Study was completed, funded by grants from the Local Government Efficiency Program, Small Cities and matching funds from the Wayne County IDA. The participants, WCWSA, the IDA, the Villages of Clyde, Newark, Lyons and Waterloo, and the Towns of Lyons, Galen, Savannah, Butler and Rose, were given a final presentation of the report in December.

Significant projects that are being considered for construction in 2011 include:

- Marion Northwest Quadrant Phase IV Water District – this project would provide water service to approximately 50 homes
- Sewers on the west side of Little Sodus Bay in Cayuga County would provide flows to the Regional Plant
- Huron Water District #6 – east side of Sodus Bay including Leroy Island – this project will provide water service to approximately 390 homes
- Huron/ Wolcott Joint Port Bay water project– this project will provide water service to approximately 290 homes
- Blind Sodus Bay sewer project – this project will provide sewer service to approximately 110 properties

Summary of Operations and Changes in Net Assets

	<u>Water</u> <u>Activity</u>	<u>Sewer</u> <u>Activity</u>	<u>2010</u> <u>Total</u>	<u>2009</u> <u>Total</u>
Operating Revenues	\$ 4,961,276	\$ 205,203	\$ 5,166,479	\$ 6,752,078
Operating Expenses	4,706,113	447,202	5,153,315	6,777,340
Operating Income (Loss)	\$ 255,163	\$ (241,999)	\$ 13,164	\$ (25,262)
Non-Operating Revenues	78,490	-	78,490	40,292
Non-Operating Expenses	(54,533)	(18,085)	(72,618)	(75,402)
Income Before Capital Contributions	\$ 279,120	\$ (260,084)	\$ 19,036	\$ (60,372)
Capital Contributions -				
NYS grant	20,053	-	20,053	8,039
NYS Department of Correctional Services	-	764,264	764,264	777,368
Increase (Decrease) in Net Assets	\$ 299,173	\$ 504,180	\$ 803,353	\$ 725,035

The increase of Net Assets in 2010 is explained in the following Operating Revenue and Operating Expense summaries.

Operating Revenues

The Authority's operating revenue decreased by \$1,585,599 in 2010 (23%). This decrease in revenues was due to the decrease of EPA grant-driven construction projects (directly related to EPA expenses).

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 decreased by \$1,624,025 in 2010 (24%) This decrease was due to the decrease of EPA grant-driven construction projects (directly related to EPA revenues)

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

<u>Water</u>		<u>Sewer</u>	
<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
9067	8900	64	64
Increase : 167		Increase: 0	

Non-Operating Revenues

The Authority reported an increase of non-operating revenues totaling \$38,198 (95%) which was a result of the sale of equipment, state grants, and contributions towards the South East Quadrant Study by participating Towns.

Net Assets

Net assets are an indication of financial strength. The WCWSA net assets increased by \$803,353. The following is a summary of the Authority's net assets as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<u>ASSETS:</u>		
Current Assets	\$ 4,277,096	\$ 3,975,604
Restricted Assets	384,519	406,952
Fixed Assets	12,606,272	13,068,600
Total Assets	\$ 17,267,887	\$ 17,451,156
<u>LIABILITIES:</u>		
Current Liabilities	\$ 295,110	\$ 1,197,707
Noncurrent Liabilities	1,321,355	1,405,380
Total Liabilities	\$ 1,616,465	\$ 2,603,087
<u>NET ASSETS:</u>		
Investment in General Fixed Assets, Net of Related Debt	\$ 11,594,756	\$ 11,240,338
Restricted - Capital Reserve	1,494,645	1,188,017
Unrestricted	2,562,021	2,419,714
Total Net Assets	\$ 15,651,422	\$ 14,848,069

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 2010, 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 2010 was \$750,000. 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 2010 year, the WCWSA had invested \$12,606,272 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>2010</u>	<u>2009</u>
Land	\$ 251,071	\$ 251,071
Completed facilities	15,757,574	15,711,337
Equipment	1,244,637	1,299,190
<u>Less: Accumulated Depreciation</u>	<u>(4,647,010)</u>	<u>(4,192,998)</u>
Total	<u>\$ 12,606,272</u>	<u>\$ 13,068,600</u>

Long -Term Obligations

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

1. **Water & Sewer System Revenue Bonds Series 2001** - This \$1,630,000 bond was secured in 2001 with a twenty (20) year maturity. The bond matures in 2021 and has an unpaid principle balance of \$1,105,000 as of December 31, 2010.
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 second 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.
- d. As of December 31, 2010, the remaining term on this bond is 15 years with an unpaid balance of \$300,000.

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 revenues in 2011 will be consistent with those of 2010. The Authority expects to initiate construction on the Joint Port Bay Water Improvement project in the Towns of Wolcott and Huron, a project that will take Authority crews a full construction season to complete. In addition, the Town of Huron is anticipating construction of Huron Water District #6 which should be substantially completed in 2011 with the potential for approximately 400 future water service connections.

The Authority is committed to its leak detection program and plans to pursue this agenda with the same attention given to it in 2010. 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 historical levels.

Wastewater Operations

The Red Creek Area Regional Wastewater Treatment Facility has now been operating for over 4 years. The Village of Red Creek continued to evaluate prospects for another phase of sanitary sewers in 2010 and the Village of Fairhaven continued to increase flows to the Regional Facility in 2010. Additional phases in both Villages are anticipated in the future depending on availability of funding for these projects.

The Four Bay Sanitary Sewer Feasibility Study completed in 2007 will continue to be utilized as a reference document for the bay communities as interest builds and as funding sources become available to assist with implementation of capital projects as outlined in the study. As flows increase to the Regional Plant from the Villages of Red Creek and Fairhaven and from the bay communities, the Authority's wastewater operations and financial standings will strengthen in this area.

There was considerable talk of closing the Butler Correctional Facility in the eastern part of the county, but nothing has been finalized as of the end of the year. Closing has the potential of adverse effects on both water and wastewater revenue.

Effective as of January 1, 2011 the Authority has 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, 2010 and 2009

<u>ASSETS:</u>	<u>2010</u>	<u>2009</u>
<u>Current Assets -</u>		
Cash and cash equivalents	\$ 3,072,994	\$ 2,759,962
Accounts receivable (net of allowance)	856,093	834,329
Materials and supplies inventory	324,921	357,288
Prepaid items	23,088	24,025
Total Current Assets	\$ 4,277,096	\$ 3,975,604
<u>Restricted Assets -</u>		
Restricted cash-revenue bond covenant accounts held by trustee	\$ 265,512	\$ 278,928
Deferred charges	119,007	128,024
Total Restricted Assets	\$ 384,519	\$ 406,952
<u>Fixed Assets -</u>		
Land, facilities, equipment and WIP	\$ 17,253,282	\$ 17,261,598
Accumulated depreciation	(4,647,010)	(4,192,998)
Total Fixed Assets, Net	\$ 12,606,272	\$ 13,068,600
TOTAL ASSETS	\$ 17,267,887	\$ 17,451,156
 <u>LIABILITIES AND NET ASSETS:</u>		
<u>Current Liabilities -</u>		
Accounts payable	\$ 181,633	\$ 308,472
Accrued liabilities	18,477	49,235
Current portion of debt	95,000	840,000
Total Current Liabilities	\$ 295,110	\$ 1,197,707
<u>Noncurrent Liabilities -</u>		
Revenue bonds payable (net of unamortized discounts)	\$ 1,021,035	\$ 1,095,220
EFC loan liability	280,000	300,000
OPEB liability	20,320	10,160
Total Noncurrent Liabilities	\$ 1,321,355	\$ 1,405,380
<u>Net Assets -</u>		
Investment in general fixed assets net of related debt		
Water Fund	\$ 3,645,795	\$ 3,836,520
Sewer Fund	7,948,961	7,403,818
Restricted - capital reserve	1,494,645	1,188,017
Unrestricted net assets		
Water Fund	2,676,712	2,493,446
Sewer Fund	(114,691)	(73,732)
Total Net Assets	\$ 15,651,422	\$ 14,848,069
TOTAL LIABILITIES AND NET ASSETS	\$ 17,267,887	\$ 17,451,156

(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, 2010 and 2009

<u>OPERATING REVENUES:</u>	<u>2010</u>	<u>2009</u>
Water sales	\$ 3,424,859	\$ 3,333,330
Sewer sales	203,184	186,785
Penalty on water and sewer sales	44,654	47,124
Service and connection fees	178,647	153,991
Construction revenue	1,048,239	1,620,465
EPA - construction revenue	90,633	1,365,976
Other operating income	176,263	44,407
TOTAL OPERATING REVENUES	<u>\$ 5,166,479</u>	<u>\$ 6,752,078</u>
<u>OPERATING EXPENSES:</u>		
Water supply	\$ 1,692,549	\$ 1,692,214
Sewer disposal	4,699	5,892
Personnel services and benefits	1,247,426	1,172,208
Insurance	63,805	67,318
Professional services	96,232	61,164
Building/vehicle repair and maintenance	46,401	44,168
Electricity	97,589	74,860
Water and sewer tests and chemicals	13,189	14,377
Water line and sewer parts and supplies	1,184,881	3,008,037
Bond issuance amortization costs	9,832	9,832
Administration and office expense	83,499	86,360
Depreciation	613,213	540,910
TOTAL OPERATING EXPENSES	<u>\$ 5,153,315</u>	<u>\$ 6,777,340</u>
OPERATING INCOME (LOSS)	<u>\$ 13,164</u>	<u>\$ (25,262)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Interest earnings	\$ 12,256	\$ 12,074
Interest expense	(72,618)	(75,402)
Rental income	16,735	16,248
Gain on sale of equipment	49,499	11,970
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ 5,872</u>	<u>\$ (35,110)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 19,036</u>	<u>\$ (60,372)</u>
<u>CAPITAL CONTRIBUTIONS:</u>		
NYS grant	\$ 20,053	\$ 8,039
NYS Department of Correctional Services	764,264	777,368
TOTAL CAPITAL CONTRIBUTIONS	<u>\$ 784,317</u>	<u>\$ 785,407</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 803,353</u>	<u>\$ 725,035</u>
NET ASSETS - BEGINNING OF YEAR	<u>14,848,069</u>	<u>14,123,034</u>
NET ASSETS - END OF YEAR	<u>\$ 15,651,422</u>	<u>\$ 14,848,069</u>

(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, 2010 and 2009

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	<u>2 0 1 0</u>	<u>2 0 0 9</u>
Received from providing services	\$ 5,057,049	\$ 6,883,430
Payments to suppliers	(3,373,401)	(5,205,174)
Payments to employees	(1,267,087)	(1,143,831)
Net Cash Provided (Used) by Operating Activities	\$ 416,561	\$ 534,425
<u>CASH FLOWS FROM CAPITAL AND</u>		
<u>RELATED FINANCING ACTIVITIES:</u>		
Principal payments on debt	\$ (840,000)	\$ (754,223)
Interest expense	(76,533)	(79,126)
Acquisition and construction of capital assets	(150,994)	(209,242)
Proceeds from sale of assets (net)	49,608	11,979
Capital contribution	871,983	798,981
Net Cash Provided By (Used In) Capital and Related Financing Activities	\$ (145,936)	\$ (231,631)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Rental income	\$ 16,735	\$ 16,248
Interest income	12,256	12,074
Net Cash Provided By Investing Activities	\$ 28,991	\$ 28,322
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 299,616	\$ 331,116
Cash and Cash Equivalents - Beginning of Year	3,038,890	2,707,774
Cash and Cash Equivalents - End of Year	\$ 3,338,506	\$ 3,038,890
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO</u>		
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ 13,164	\$ (25,262)
Adjustments to reconcile changes in net assets to cash Provided by Activities -		
Depreciation	613,213	540,910
Bond issuance amortization costs	9,832	9,832
Changes in assets and liabilities -		
Accounts receivable	(109,430)	131,352
Materials and supplies inventory	32,367	(201,465)
Prepayment and other current assets	937	6,052
Accounts payable, accrued payroll and benefits	(143,522)	73,006
Net Cash Provided by Operating Activities	\$ 416,561	\$ 534,425

(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, 2010 and 2009

(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 9,067 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 300 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 80,000 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.

(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, 2010, 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 \$(40,959) which decreased the overall unrestricted net asset deficit to \$(114,691). However, the total sewer net assets are a positive \$7,834,270.

(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.

	<u>2010</u>	<u>2009</u>
Uncollateralized	\$ -	\$ -
Collateralized within Trust department or agent	2,578,021	2,353,431
Total	<u>\$ 2,578,021</u>	<u>\$ 2,353,431</u>

2. Accounts Receivable

The balance of accounts receivable for 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Water Rents	\$ 622,282	\$ 616,257
Sewer Rents	19,860	16,780
Project Receivables	200,738	197,403
EPA Receivable	12,667	50,946
EFC Receivable	-	12,952
Miscellaneous	546	304
Less: Allowance	-	(60,313)
Total	<u>\$ 856,093</u>	<u>\$ 834,329</u>

(Note 3) (Continued)

3. Fixed Assets

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

	<u>Balance at</u> <u>1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/2010</u>
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)
Total	\$ 13,068,600	\$ (462,219)	\$ (109)	\$ 12,606,272

	<u>Balance at</u> <u>1/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/2009</u>
Land	\$ 251,071	\$ -	\$ -	\$ 251,071
Completed facilities	15,634,124	77,213	-	15,711,337
Equipment	1,224,832	132,029	(57,671)	1,299,190
Less: Accumulated Depreciation	(3,709,750)	(540,919)	57,671	(4,192,998)
Total	\$ 13,400,277	\$ (331,677)	\$ -	\$ 13,068,600

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. Revenue Bond Payable

The Authority issued revenue bonds where the Authority pledges income derived from the acquisition and construction of assets to pay debt service. During 2001, \$1,630,000 of revenue bonds were issued to finance various construction projects. The bonds were issued with an interest rate of 4.25%-5.00%. Revenue bonds outstanding as of December 31, 2010 net of the related unamortized bond discount are \$1,105,000 and have a final maturity date of March 15, 2021.

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, 2010 amounted to \$1,096,035 and have a final maturity date of October 1, 2025.

3. Change in Long-Term Debt

	<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
Total	\$ 2,255,160	\$ 10,160	\$ 840,000	\$ 1,425,320	\$ 95,000	\$ 1,330,320

* 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.

	<u>1/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2009</u>	<u>Less Current Portion</u>	<u>Non-Current Portion</u>
Bonds	\$ 1,245,000	\$ -	\$ 70,000	\$ 1,175,000	\$ 70,000 *	\$ 1,105,000
EFC Revenue	1,754,223	-	684,223	1,070,000	770,000	300,000
OPEB Liability	-	10,160	-	10,160	- **	10,160
Total	\$ 2,999,223	\$ 10,160	\$ 754,223	\$ 2,255,160	\$ 840,000	\$ 1,415,160

* The financial statements net the \$9,780 discount against the \$1,175,000 bond.

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

(Note 3) (Continued)

4. **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>
2011	\$ 75,000	\$ 52,316	\$ 20,000	\$ 6,395	\$ 95,000	\$ 58,711
2012	80,000	48,875	20,000	6,068	100,000	54,943
2013	85,000	45,163	20,000	5,726	105,000	50,889
2014	90,000	41,000	20,000	5,372	110,000	46,372
2015	95,000	36,375	20,000	5,002	115,000	41,377
2016-20	550,000	103,750	100,000	15,645	650,000	119,395
2021-25	130,000	3,250	100,000	7,359	230,000	10,609
Total	\$ 1,105,000	\$ 330,729	\$ 300,000	\$ 51,567	\$ 1,405,000	\$ 382,296

(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>
2010	\$ 83,891
2009	\$ 61,919
2008	\$ 67,243

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 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.

a. Medical, Dental, and Vision Benefit Provisions

Full-time employees who retire after 25 or more years of continuous service with the Authority or a municipality joining the Authority, and who are retiring in accordance with the NYS Retirement System eligibility requirements, may elect to continue to be covered by the health insurance plan(s) offered to current employees. If the employee elects to continue coverage under the Authority's plan, the Authority will pay up to \$250 per month toward the premium for the former employee and spouse, provided that the retired employee pays the balance of the premium due by the first day of the month of coverage. If the former employee fails to pay his or her share of the premium when due, the Authority reserves the right to cancel the coverage without notice. Once the retired employee is no longer covered by the Authority's coverage, or the retired employee does not pay his or her share of the premium when due, then the retired employee's right to this benefit shall terminate and may only be reinstated by action of the Board of the Authority, in its sole discretion. This benefit shall also terminate upon the death of the retired employee, when the retired employee is no longer eligible for coverage under the terms of the Authority's health insurance plan, or when the retired employee becomes eligible for other coverage.

(Note 4) (Continued)

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:

Annual required contribution	\$	10,160
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)	\$	10,160
Contributions made		-
Increase in net OPEB obligation	\$	10,160
Net OPEB obligation - beginning of year		10,160
Net OPEB obligation - end of year	\$	20,320

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 2010 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$ 10,160	0.00%	\$ 10,160
12/31/2010	\$ 10,160	0.00%	\$ 10,160

Funded Status and Funding Progress.

As of December 31, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$304,796, and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability of \$304,796. The covered payroll (annual payroll of active employees covered by the plan) was \$905,650, and the ratio of the UAAL to the covered payroll was 33.65%.

(Note 4) (Continued)

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.

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) / (2)	(4) Unfunded Accrued Liability (UAAL) (2) - (1)	(5) Active Members Covered Payroll	(6) UAAL 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%

In the December 31, 2009 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, 2010 was twenty-eight 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.

(Note 6) (Continued)

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, 2009 indicates that the Plan is fully funded.

- 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>2010</u>	<u>2009</u>
Water	\$ 4,431,638	\$ 4,674,065
Sewer	8,174,634	8,394,535
TOTAL INVESTMENT IN CAPITAL ASSETS	<u>\$ 12,606,272</u>	<u>\$ 13,068,600</u>
<u>WATER:</u>	<u>2010</u>	<u>2009</u>
Capital Assets, Net	\$ 4,431,638	\$ 4,674,073
<u>Add:</u>		
Unamortized bond issuance costs	\$ 44,680	\$ 48,742
Discount on bonds payable	8,965	9,780
Restricted cash	265,512	278,925
Total Additions	<u>\$ 319,157</u>	<u>\$ 337,447</u>
<u>Deduct:</u>		
Short-term portion of bonds payable	\$ 75,000	\$ 70,000
Long-term portion of bonds payable	1,030,000	1,105,000
Total Deducts	<u>\$ 1,105,000</u>	<u>\$ 1,175,000</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 3,645,795</u>	<u>\$ 3,836,520</u>

(Note 7) (Continued)

<u>SEWER:</u>	<u>2010</u>	<u>2009</u>
Capital Assets, Net	\$ 8,174,634	\$ 8,394,536
<u>Add:</u>		
Unamortized bond issuance costs	\$ 74,327	\$ 79,282
Total Additions	\$ 74,327	\$ 79,282
<u>Deduct:</u>		
Short-term portion of bonds payable	20,000	770,000
EFC loan	280,000	300,000
Total Deducts	\$ 300,000	\$ 1,070,000
Investment in Capital Assets, Net of Related Debt	\$ 7,948,961	\$ 7,403,818

- B. **Capital Reserve** – In 2004, the Authority authorized the establishment of a capital reserve for repair and/or replacement of facilities. During the year \$6,628 in interest was earned. The balance in the reserve at December 31, 2010 and 2009 is \$1,494,645 and \$1,188,017, 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, 2010

	<u>Water</u> <u>Activity</u>	<u>Sewer</u> <u>Activity</u>	<u>2 0 1 0</u> <u>Total</u>
<u>OPERATING REVENUES:</u>			
Water sales	\$ 3,424,859	\$ -	\$ 3,424,859
Sewer sales	-	203,184	203,184
Penalty on water and sewer sales	44,635	19	44,654
Service and connection fees	176,647	2,000	178,647
Construction revenue	1,048,239	-	1,048,239
EPA-construction revenue	90,633	-	90,633
Miscellaneous income	176,263	-	176,263
TOTAL OPERATING REVENUES	<u>\$ 4,961,276</u>	<u>\$ 205,203</u>	<u>\$ 5,166,479</u>
<u>OPERATING EXPENSES:</u>			
Water supply	\$ 1,692,549	\$ -	\$ 1,692,549
Sewer disposal	-	4,699	4,699
Personnel services and benefits	1,140,536	106,890	1,247,426
Insurance	54,305	9,500	63,805
Professional services	94,771	1,461	96,232
Building/vehicle repair and maintenance	38,538	7,863	46,401
Electricity	41,667	55,922	97,589
Water and sewer tests and chemicals	11,306	1,883	13,189
Water line and sewer parts and supplies	1,165,570	19,311	1,184,881
Bond issuance amortization costs	4,877	4,955	9,832
Administration and office expense	79,303	4,196	83,499
Depreciation	382,691	230,522	613,213
TOTAL OPERATING EXPENSES	<u>\$ 4,706,113</u>	<u>\$ 447,202</u>	<u>\$ 5,153,315</u>
OPERATING INCOME (LOSS)	<u>\$ 255,163</u>	<u>\$ (241,999)</u>	<u>\$ 13,164</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Interest earnings	\$ 12,256	\$ -	\$ 12,256
Interest expense	(54,533)	(18,085)	(72,618)
Rental income	16,735	-	16,735
Gain on sale of equipment	49,499	-	49,499
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ 23,957</u>	<u>\$ (18,085)</u>	<u>\$ 5,872</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>\$ 279,120</u>	<u>\$ (260,084)</u>	<u>\$ 19,036</u>
<u>CAPITAL CONTRIBUTIONS:</u>			
NYS grant	\$ 20,053	\$ -	\$ 20,053
NYS Department of Correctional Services	-	764,264	764,264
TOTAL CAPITAL CONTRIBUTIONS	<u>\$ 20,053</u>	<u>\$ 764,264</u>	<u>\$ 784,317</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 299,173</u>	<u>\$ 504,180</u>	<u>\$ 803,353</u>
NET ASSETS - BEGINNING OF YEAR	<u>7,517,979</u>	<u>7,330,090</u>	<u>14,848,069</u>
NET ASSETS - END OF YEAR	<u>\$ 7,817,152</u>	<u>\$ 7,834,270</u>	<u>\$ 15,651,422</u>

WAYNE COUNTY WATER AND SEWER AUTHORITY

WAYNE COUNTY, NEW YORK

Schedule of Investments

For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating	\$ 2,997,911	\$ 2,106,970
Restricted	265,512	278,925
Total Investments	<u><u>\$ 3,263,423</u></u>	<u><u>\$ 2,385,895</u></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, 2010, and have issued our report thereon dated February 9, 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 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 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 February 9, 2011.

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.

Raymond F. Wager, CPA P.C.

February 9, 2011