

AUDITED  
FINANCIAL STATEMENTS

**LIVINGSTON COUNTY WATER AND SEWER  
AUTHORITY**

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DECEMBER 31, 2012

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**

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**SECTION A  
FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the Board Members of  
Livingston County Water and Sewer Authority

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements the Livingston County Water and Sewer Authority (the Authority), a component unit of Livingston County, New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 1-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedules, as listed on the table of contents as items B1 and B2, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Freed Maxick CPAs, P.C.*

Batavia, New York  
March 22, 2013

# Management Discussion and Analysis Livingston County Water & Sewer Authority Fiscal Year ended December 31, 2012

This section of the Livingston County Water & Sewer Authority ('Authority') annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2012. Please read it in conjunction with the Authority's audited financial statements, and required supplemental information, which immediately follow this section.

## **Introduction**

The Livingston County Water & Sewer Authority ('Authority') is a public benefit corporation formed in 1995, created by legislation passed by the State of New York. Livingston County's Board of Supervisors appoint the volunteer members who comprise the Authority Board. The N.Y.S. Authority Budget Office provides oversight of operations and practices. The Authority also is required to meet the requirements of Federal, State, and County water pollution control and safe drinking water laws.

The Authority functions with required fair bidding laws, prevailing wage rates and financial safeguards. It is required to report as an *Enterprise Fund* similar to private business. Financial statements are prepared on an accrual basis in accordance with Generally Accepted Accounting Principals (GAAP) put forth by the Government Accounting Standards Board (GASB). Within these principles, revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. The Authority is self-supporting and does not receive Federal, State or County funds for operating expenses or issuance of debt.

The Authority leases its employees from Livingston County. Employee related services, such as payroll, and personnel, etc. are provided by Livingston County. Payroll and health care costs are reimbursed to the County, monthly. The County bills the Authority annually for a share of the other related indirect expenses. The Authority has a staff of 11 employees: 4 are administrative and 7 are water and sewer operations staff. Professional and outside operational services are used to supplement the staff as needed.

## **Financial Highlights**

- Net Position decreased from 2011 by \$563,700, resulting in total 2012 net position of \$25,145,500.
- Total outstanding debt increased \$290,000 from \$4,625,900 in 2011 to \$4,916,000 in 2012.
- Construction work-in-progress is less than 2011 by \$2,366,000 with a total of \$779,000 for 2012.
- In 2012 Water rates increased \$4 per year, per unit, and Sewer Debt rates increased \$4 per year per unit in the Lakeville service area in 2012

## **Financial Statements**

There are two financial statements from which financial highlights are discussed in this report:

- Statement of Net Position (*Figure A-1*)
- Changes in Net Position from Operating Results (*Figure A-2*)

The Statement of Net Position provides information about the nature and amounts of what the Authority owns (assets) and owes (liabilities). The difference between the assets and liabilities is reported as net position.

Over time, increases or decreases in net assets are an indicator of whether the Authority's financial position is improving or deteriorating, respectively.

To assess the Authority's overall health, you need to consider additional factors that are not reflected on financial statements such as changes in the Authority's management, employee turnover, customer fees, debt balances, and the condition of the Authority's infrastructure and other facilities.

**Figure A-1**

**Statement of Net Position**  
(in thousands of dollars)

	2012	2011	2010
* Current and other assets	\$ 4,069	\$ 3,580	\$ 3,204
Capital assets, net	26,274	27,041	27,411
Total assets	\$ 30,343	\$ 30,621	\$ 30,615
Long-term liabilities	\$ 4,806	\$ 4,551	\$ 3,677
Other liabilities	391	361	371
* Total Liabilities	\$ 5,197	\$ 4,912	\$ 4,048
* Net investment in capital assets	\$ 21,358	\$ 22,415	\$ 23,662
Restricted for:			
Capital repairs	11	11	11
Unrestricted	3,777	3,283	2,894
Total net assets	\$ 25,146	\$ 25,709	\$ 26,567
Total liabilities and net assets	\$ 30,343	\$ 30,621	\$ 30,615

"Current and other assets" reflect the value of all cash accounts, accounts receivable, inventory and prepaid expenses. These funds are the total customer payments & other operating deposits less the Authority's operating & repair expense payments. The balance was higher by \$489,000 in 2012 for a couple of reasons: additional Restricted Cash of \$312,000 was added when the Authority finalized (closed) the sewer bond taken out in 2009 to satisfy DEC Consent Order infrastructure requirements, & the 2012 Operating Expenses were \$248,000 less than in 2011. The 2011 balance was \$311,700 higher than 2010 because there were more repair projects funded from this area.

"Total Liabilities" shows the total funds the Authority borrowed to improve infrastructure less debt payments. In 2011 and 2012, many of the NYS DEC Consent ordered projects connected with the Lakeville Sewer Plant were in progress & paid for by a NYS EFC loan. The amount borrowed for this in 2011 was \$925,900 & in 2012 was \$406,800, bringing the total amount borrowed to \$1,332,700. There was also \$62,000 borrowed related to the Groveland Station Water Project still in progress during 2011. There were some principal payments made on existing debt totaling \$111,400 in 2011 & \$106,725 in 2012. So, the total debt increased in 2011 by \$987,900 & \$290,000 in 2012. There is a more detailed discussion of debt under the caption of "Outstanding Debt".

Net Position change as a result of operating activities over a period of 1 year (Revenues earned and Expenditures made). The following Changes in Net Position from Operating Results report provides a summary of the Authority's operations for the years ended December 31, 2012, 2011 and 2010.

	Sewer			Water		
	2012	2011	2010	2012	2011	2010
<b>Operating revenue:</b>						
Service fees	\$ 1,635	\$ 1,633	\$ 1,628	\$ 1,317	\$ 1,108	\$ 1,080
Permit fees	15	7	18	36	33	35
Other income	(3)	5	9	3	8	4
Total operating revenues	\$ 1,647	\$ 1,645	\$ 1,655	\$ 1,356	\$ 1,149	\$ 1,119
<b>Operating Expenses:</b>						
Wages & Fringes (Contracted Employees)	\$ 555	\$ 574	\$ 582	\$ 401	\$ 367	\$ 394
Professional Services	67	142	80	52	62	60
Utilities	177	204	231	85	94	99
Outside Services	141	105	53	76	98	83
Vehicle Expenses	11	20	15	16	17	14
Purchased Water and Sewer	46	50	43	395	202	202
Equipment/Bldg Maintenance	66	85	78	47	52	62
Other Expenses	44	47	52	44	41	39
Depreciation	1,295	1,299	1,287	203	510	508
Total operating expenses	\$ 2,402	\$ 2,526	\$ 2,421	\$ 1,319	\$ 1,443	\$ 1,461
Total Operating income/loss	\$ (755)	\$ (881)	\$ (766)	\$ 37	\$ (294)	\$ (342)
<b>Non-Operating Revenue (Expenses)</b>						
Interest income	\$ 3	\$ 5	\$ 4	\$ 27	\$ 30	\$ 84
Grant revenue	-	4	1	114	214	-
Gain on sale of assets	1	-	-	1	6	-
Interest expense	-	(59)	(71)	(77)	-	-
Total non-operating revenue/expenses	\$ 4	\$ (43)	\$ (66)	\$ 66	\$ 250	\$ 84
Income(Loss) before capital contributions	\$ (751)	\$ (924)	\$ (832)	\$ 102	\$ (44)	\$ (258)
Capital Contributions	55	111	55	29	-	5
Increase/decrease in Net Position	\$ (696)	\$ (813)	\$ (777)	\$ 131	\$ (44)	\$ (253)
				<b>Water &amp; Sewer</b>		
				2012	2011	2010
Net Position-beginning of year				\$ 25,709	\$ 26,566	\$ 27,596
Net Position-end of year				\$ 25,146	\$ 25,709	\$ 26,566

*Figure A-3*

**Sources of Revenues**  
*Fiscal Year 2012*

	<u>Sewer</u>	<u>Water</u>
Customer Fees	47%	43%
Customer Debt Fees	8%	1%
Permits & Other	0%	1%
<b>Total</b>	<b>55%</b>	<b>45%</b>

*Figure A-4*

**Operating Expenses for**  
*Fiscal Year 2012*

	<u>Sewer</u>	<u>Water</u>
Depreciation	35%	5%
Wages & Fringes	15%	11%
Utilities	5%	2%
Equip/Bldg Maint	2%	1%
Purchased Sewer/Water	2%	10%
Outside Services	4%	2%
Other & Professional Serv	3%	3%
<b>Total</b>	<b>66%</b>	<b>34%</b>

*Changes in Net Position from Operating Results (Figure A-2)* shows a decrease in Net Position in 2011 of \$857,000 & 2012 shows a decrease of \$563,000. These decreases were due mostly to depreciation expense. Key elements of the business-type activities are as follows:

**Revenue**

Operating Revenue is income earned by the Authority from normal operations.

Total operating revenue for 2012 increased over 2011 by \$209,000 or 7%  
Total operating revenue for 2011 increased over 2010 by \$19,000 or 1%.

In 2010, sewer retail rate increased by \$24 per unit, per year and water retail rates increased \$4 per unit per year. In 2011, water/sewer service rates were not changed. In 2012 water retail rates increased \$4 per unit, per year & the sewer debt rate was also increased by the same amount accounting for approximately \$30,000. Another increase of approximately \$28,000 in 2012 is due to the incremental nature of the Village of Livonia O&M Contract. In 2011 this contract required the Village of Livonia to pay 40% of the costs of their water system. In 2012 this percentage increased to 60% & in 2013 reimbursement will be 80%. The remainder of the 2012 increase in revenue is mostly due to changing the accounting treatment of the Village of Caledonia wholesale purchase of water.

The total number of active customer units served at the end of each year is as follows:

*Figure A-5*

**Customer units**

	<u>Sewer</u>			<u>Water</u>		
	2012	2011	2010	2012	2011	2010
Number of Units	4,075	4,079	4,047	3,941	3,931	3,910
Increase over previous year	(4)	32	29	10	21	3

New customers (units) were not as high in 2010, 2011, & 2012 as in past years, possibly as a result of the economic unease related to the housing/banking industry.

**Expenses**

Operating Expenses reflect the costs incurred by the Authority during the execution of normal operating procedures. These normal operational costs include: personnel, professional services, utilities, vehicle, equipment, building, permit, supply, and depreciation on fixed assets.

Operating expenses, not including depreciation expense, decreased in 2012 by \$62,619 or 3%  
Operating expenses, not including depreciation expense, increased in 2011 by \$72,500 or 3.5%

In 2010 & 2011, there was a general salary increase of 1.25%. Also in 2011, one of the maintenance crew retired & was not replaced. The net change in 2011 due to this activity was a savings in wages of \$27,500. In 2012, one of the sewer operators retired & was not replaced. The net change in 2012 due to this activity was a savings in wages of \$37,000. In 2012 the CSEA contract began negotiations for 2012 thru 2013. There wasn't any general salary increase, but there may be a retroactive expense once the negotiations are completed.

Overtime occurs as a result of customer service calls made after regular working hours and various operational reasons: low water reads at tanks, main line water breaks, lost primes on pumps, water shut-offs due to fire, high sewer level in wet-wells, and SCADA communication losses. Overtime fluctuates dependent on need. In 2011 there was a decrease in overtime while in 2012 the amount remained the same.

The largest area of Personnel cost increase over the past few years always has been in the area of Health Care. In 2011 Health Care increased by \$4,600 & in 2012 there was an increase of \$14,000. However, the largest increase in personnel costs in 2012 was Retirement with an increase over 2011 of \$37,800. In comparison, Retirement increased \$4,500 from 2010 to 2011.

Professional Services includes legal, engineering, accounting services, computer services and insurance. The largest impact in 2011 was an increase in engineering fees increasing over 2010 by \$66,600. This increase was directly due to costs related to the DEC Consent Order requirements for which the following had to be designed:

Bio-Tower	\$47,500
Final clarifier	9,900
Engineer Reporting	4,600
Wet weather plan	1,400

In 2012 professional services decreased from 2011 by \$84,700.

Utility expenses include electricity, heating fuel, and telephone. These costs fluctuate as a result of many factors including rainfall amounts, temperatures, water use, sewer discharge, infiltration, and water loss. In 2011 there was a decrease of \$31,400 mostly due to a rate decrease in the Authority's contract electric rate. In 2012 Utility expenses once again decreased due to infiltration repairs on sewer mains, water main repairs, a motor replacement program & drier weather in 2012 compared to 2011.

Outside Services includes work that the Authority has contracts for, such as: water/sewer operator services, laboratory services, sludge hauling, lawn mowing, uniform service, refuse collection, office cleaning, building rent, and government services. These services increased \$67,000 in 2011. This increase was mainly due to the cost of the agreement the Authority signed with the Town of Geneseo for providing water system operation and maintenance services for the newly leased area of the Town of Groveland. These services fluctuate along with the various planned work programs for asset management. In 2012 there was an increase in this expense line by only \$4,000. The contract with the Town of Geneseo expired in February 2012, so no more operation & maintenance payments are made to them & now LCWSA staff operate & maintain that service area. However, there was an increase of \$4,000 due to paying for 1 month of the Town of Geneseo contract & other work that was performed in 2012 such as generator repair \$22,000, customer installation/repair \$23,000, & fire hydrant replacement \$23,000.

Purchased water is the cost at which the Authority buys water to sell to its customers. These costs can decrease as a result of lower customer consumption and leak repairs executed on the water mains. Water purchase decreased in 2010 by \$12,000. There were some water leaks found and repaired in the water mains. In 2011 the lost water was at 27% while at the end of 2012, this water loss has been lowered to 15%. Water Purchase increase in 2012 mostly due to the change in accounting treatment of the wholesale water provided to the Village of Caledonia.

Purchased sewer is the cost of having sewage treated at sewer plants not owned by the Authority. Purchased sewer increased in 2011 by \$7,000 due to an increase in sewer treatment costs in the Mt Morris service area. In 2012 there was a \$4,000 decrease.

Equipment/Building Maintenance includes large equipment repair (sewer cleaner, backhoe, etc), building maintenance, small equipment purchases, equipment maintenance and lease contracts, customer installation supplies, and chemicals/biologicals. This cost area decreased in 2010 by \$31,000 and decreased \$3,000 in 2011, then a further decrease of \$24,000 in 2012. This is another expense area that fluctuates with the scheduled preventative maintenance of the asset management work program & also because of unexpected emergencies (ie. Electrical service brownouts can cause pumps to fail which then have to be repaired).

Other expenses include permits, fees, inspections, chemicals, safety supplies, postage, office supplies, advertising, travel/training, safety supplies, easements, and judgements/claims. There was an increase in training in 2010 due to operator training requirements & remained unchanged in 2012.

Operating Expense, including depreciation expense, increased 2% in 2011 & decreased 6% in 2012.

Depreciation expense is the largest contributing factor that results in the decrease of the Authority's net assets.

Depreciation Expense is calculated as the cost of fixed assets such as pipeline, buildings, tanks, vehicles, etc., allocated to each year of its estimated useful life (ie. pipeline life is 50 years). As repair projects are completed and equipment purchased, they become part of the Capital Assets & begin to be depreciated. Depreciation increased \$14,000 in 2011 & decreased \$311,000 in 2012. In 2011 there were \$159,000 in completed projects added to fixed assets & \$2,300,000 added in 2012. The largest of the 2012 project completed was the Groveland Station Water Project in the amount of \$1,970,000.

Interest income reflects the interest earned on bank accounts and also on accounts receivable. The accounts receivable interest is from an agreement made in 2007 for supplemental water supply infrastructure reimbursement with the Village of Geneseo.

Grant Revenue received in 2011 was for a NYS DWSRF grant related to the Groveland Station Water Project in the amount of \$214,000 & another \$113,800 in 2012. In 2011, \$4,000 received as part of a NYSEDA grant for drive replacement in the intermediate pump-station at the Lakeville sewer plant.

Gain/Loss on sale of assets is the amount of profit or loss made on the disposal/sale of an asset. This gain or loss on a sale is calculated as follows:  $Sold\ Amount + Accumulated\ Depreciation - Cost\ Amount = Gain/Loss\ on\ asset$ . In 2012, 1 truck was replaced.

Interest expense is interest the Authority pays on debt. In August 2009 a Revenue Anticipation Note was converted to permanent financing in the amount of \$2,921,000 with a subsidized rate not to exceed 4.27%. The subsidized rate has been around 2.14%. In May 2012, EFC revolving fund loan was finalized into a Bond with a \$1,323,000 Bond. This debt was issued to meet the NYS DEC Consent Order requirements that were completed in 2011.

Overall, the Authority's operating activities resulted in decreasing its net position by \$857,000 in 2011 and again by \$563,000 in 2012.

### Business Type Activities - Revenues & Expenses

Figure A-7

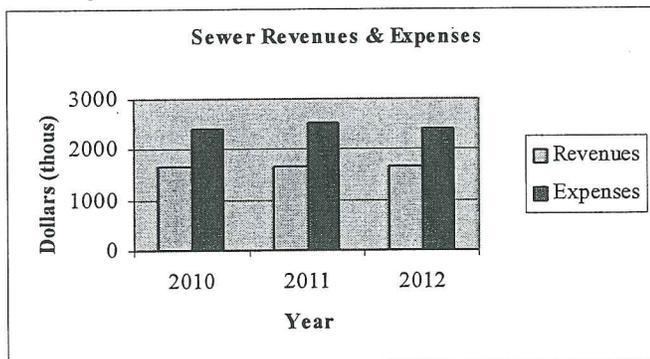
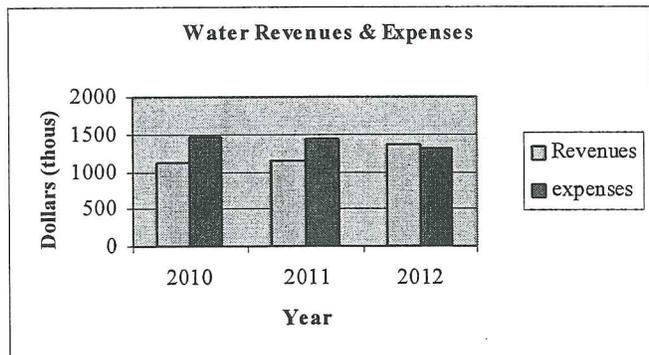


Figure A-8



## Capital Assets

Capital assets include Land, Buildings, Machinery & Equipment, Water Distribution Systems, Sewer Collection Systems and Work In Progress.

*Figure A-10*

**Capital Assets Net of Depreciation**  
(in thousands of dollars)

	2012	2011	2010
Land	\$ 148	\$ 148	\$ 148
Buildings	3,647	3,563	3,689
Machinery & Equipment	1,027	981	1,048
Water Distribution Systems	6,864	4,926	5,386
Sewer Collection Systems	13,810	14,278	15,304
Construction Work In Progress	778	3,145	1,836
Total	\$ 26,274	\$ 27,041	\$ 27,411

Capital assets decreased in 2011& 2012 because the amount of the depreciation expense was higher than the total of new assets added.

Expenses related to work on assets worth \$10,000 or more are recorded in Construction Work In Progress. The balance in this account reflects the expenditure balance of construction projects that were not completed by the end of the year. When projects are completed, the project cost is transferred to the appropriate Capital Asset category (ie. water distribution systems). In 2011 Work In Progress increased \$1,309,000 and \$159,000 were transferred to assets. In 2012 Work In Progress decreased \$2,367,000 and \$3,060,000 were transferred to assets.

Some of the Work In Progress activity included the following:

In 2008, construction of the Groveland Station water project began and was completed in 2012. This project replaces an outdated spring-fed water system that was contributed to the Authority in 2007. This project is currently funded by a New York State Environmental Facilities (NYS EFC) 0% construction loan (\$964,150), a Small Cities Grant awarded to Livingston County (\$600,000) and a NYS EFC grant (\$327,950).

In 2007, the Authority was served with a Consent Order by the NYS Department of Environmental Conservation (DEC). This order was for violation of the Lakeville Sewer Plant SPEDES Permit. There are capital improvements to be completed at the Lakeville Sewer Plant as a result of this Order. To fund these improvements, the Authority obtained two EFC Sewer Construction Loans. One is for \$1,671,000 at 0% interest and the other is for \$1,671,000 at 2%. In 2010 projects were started at the plant to facilitate compliance with the order. As of the end of 2012, the balance borrowed was \$1,323,000. These loan funds were finalized as a bond in May 2012, with a 3.74% subsidized rate

Aside from the major projects for which funding was needed, there were capital improvements made that were funded from the Operating Reserve. At the end of 2012 the outstanding budgets on these projects was \$734,000.

## Outstanding Debt

*Figure A-10*

**Outstanding Debt**  
(in thousands of dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Sewer</u>			
NYS EFC Sewer bond	2,705	2,780	2,851
NYS EFC Sewer bond (consent order)	1,323	926	
Livingston County - South Cove	-	-	8
<u>Water</u>			
System revenue note with NYS EFC	888	920	890
Total Debt	4,916	4,626	3,749

In 2011 outstanding debt increased by \$877,000 as expenditures were made on the Groveland Station Water Project & NYS DEC Consent Order improvements made at the Lakeville Sewer Plant. In 2012 there was a further increase in the Lakeville Plant improvements resulting in a further debt increase of \$290,000.

In 1999, the South Cove water system was constructed with funds obtained from an interest free loan from Livingston County. This loan was paid off in 2011.

## Relevy

Relevy is a term used to designate an amount that is added to property taxes by the County as a result of unpaid balances from other than property taxes by its residents.

In 2002, New York State approved legislation allowing the Authority the ability to relevy any unpaid balances from the water & sewer billing. These balances are transferred to the Livingston County Real Property Tax office to add to the respective property tax bill. The Livingston County Treasurer then reimburses the Authority for the total of the relevy by May of each year.

## Lease Areas

The Authority leases several water/sewer service areas. The value of these leased areas is not carried within the capital asset totals because the balance sheet reflects only assets that the Authority owns. The Authority is responsible for repair and improvements upon these leased areas. When an improvement is made, the value of the improvement/repair is added to capital assets. Thus, the depreciated amount from capital assets does not represent all infrastructures the Authority is responsible to maintain. Water/Sewer infrastructure leases generally have a term of 40 years.

## Authority Rates and Charges

The Authority has seven (7) water service areas and, four (4) sewer service areas. Rates vary according to the cost of providing service for each area. Annually, each service area is budgeted for as a separate cost center to determine what the respective rate should be. Rates are set in concurrence with the adoption of the Authority's annual operating budget along with a related public hearing.

When the Authority has to borrow funds to complete a capital improvement project, the related debt payment is added as a debt charge to customer's accounts within the service area of the improvement. This charge is also determined annually and set according to trustee indenture requirements in concurrence with the adoption of the Authority's operating budget, in the same manner as with the other rates.

## **Economic/Environmental Factors That May Affect the Authority**

There are several unknown factors that may affect the Authority and encompass changes in existing federal, state and/or local legislation including additional responsibilities for new environmental or drinking standards. Additionally, the Authority invests funds not required for immediate disbursement as permitted by statute and the Authority's investment policy. The Authority's investment revenue has been affected by declines in short-term interest rates in prior years.

Annually, during budget preparation, Authority staff attempt to estimate the number of new hookups that will occur in each area. Growth in existing service areas can absorb inflationary expenses that result in higher rates to customers. Future population growth and economic availability for growth is always speculative and hinges upon many unknown economic and environmental factors. Growth has slowed in the last few years.

There is always a possibility for natural disasters creating emergency requirements to keep our systems operating. In February 2009, the Authority entered into the New York Mutual Aid and Assistance Agreement for membership into the Water and Wastewater Agency Response Network (WARN). This is a network of water and wastewater agencies helping each other respond to and recover from emergency events.

## **Future Factors**

The Groveland Station water system project was completed in 2012.

The NYS DEC Consent Order that was served to the Authority in 2007 has been completed. The Authority has worked closely with NYSDEC & their engineers in planning capital projects to provide better treatment of waste. It is expected that these projects, will resolve SPEDES permit discharge issues, testing after completion will need to be done to confirm this. In February 2011, the NYS DEC issued a satisfactory comprehensive inspection report for the Lakeville Sewer Plant with an understanding that further work will be done. The debt related to this work was finalized in May 2012 in the amount of \$1,323,000. The projects will be completed early in 2013.

In February 2013, NYS DEC issued a new permit for the Lakeville Sewer Plant. This permit contained many requirements that could have substantial financial impacts to the customers. Also in February, LCWSA sent comments related to the new requirements to NYS DEC. LCWSA looks forward to negotiating with the NYS DEC to ensure common understanding of the new permit requirements. It is premature to assume an outcome at this point in time.

In 2010, the Authority began billing the Village of Livonia a pro-rata share of the water service expenses. The pro-rata share is increased each year by 20% until 100% is reached. In 2011, the pro-rata share was 40%. In 2013, the pro-rata share is 80%. Each 20% increases O&M Revenue projection approximately \$17,000.

Water/Sewer rates were not increased for 2013.

A new Building Maintenance position was filled in 2013.

In 2012 the CSEA contract began negotiations for 2012 thru 2014. While 2012 didn't reflect a general salary increase, there may be a retroactive payroll expense once negotiations are completed. It is unknown when this will be done.

A water supply agreement is anticipated to be signed with the NYS Department of Corrections related to their facilities in Groveland.

## **Requests for Information**

The financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact Judith Travis, Financial Manager, LCWSA, P.O. Box 396, Lakeville, N.Y., 14480; or call 585-346-3523.

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31,**

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,257,826	\$ 2,069,663
Accounts receivable	827,049	783,737
Current portion of capital contributions receivable	28,470	74,064
Inventory	28,166	11,656
Prepaid expenses	51,118	50,986
Funds held for others	30,822	27,641
Total current assets	3,223,451	3,017,747
<b>NONCURRENT ASSETS:</b>		
Restricted cash	322,893	11,039
Capital contributions receivable, net of current portion	522,784	551,253
Capital assets, net	26,273,875	27,041,367
Total noncurrent assets	27,119,552	27,603,659
Total assets	30,343,003	30,621,406
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	135,913	174,827
Current portion of loans payable	141,725	75,000
Other current liabilities	114,696	83,663
Funds held for others	30,822	27,641
Total current liabilities	423,156	361,131
<b>NONCURRENT LIABILITIES:</b>		
System revenue note payable	-	1,845,935
Loans payable, net of current portion	4,774,267	2,705,000
Total other noncurrent liabilities	4,774,267	4,550,935
Total liabilities	5,197,423	4,912,066
<b>NET POSITION:</b>		
Net investment in capital assets	21,357,883	22,415,432
Restricted	11,046	11,039
Unrestricted	3,776,651	3,282,869
Total net position	\$ 25,145,580	\$ 25,709,340

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES:</b>		
Service fees	\$ 2,951,289	\$ 2,740,444
Permit fees	50,995	39,897
Capital development/repair	2	7
Other income	931	13,808
Total operating revenues	<u>3,003,217</u>	<u>2,794,156</u>
<b>OPERATING EXPENSES:</b>		
Administrative	473,736	464,086
Treatment	893,339	896,400
Transmission/collection	855,067	799,037
Depreciation	1,498,716	1,810,163
Total operating expenses	<u>3,720,858</u>	<u>3,969,686</u>
Operating loss	<u>(717,641)</u>	<u>(1,175,530)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	31,217	34,332
Grant revenue	113,780	218,670
Interest expense	(76,577)	(59,333)
Gain on sale of assets	1,713	13,602
Total nonoperating revenues	<u>70,133</u>	<u>207,271</u>
Loss before capital contributions	<u>(647,508)</u>	<u>(968,259)</u>
<b>CAPITAL CONTRIBUTIONS:</b>		
Governments	<u>83,748</u>	<u>111,262</u>
Change in net position	(563,760)	(856,997)
Net position - beginning of year	<u>25,709,340</u>	<u>26,566,337</u>
Net position - end of year	<u>\$ 25,145,580</u>	<u>\$ 25,709,340</u>

See notes to financial statements

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from service fees	\$ 2,907,977	\$ 2,692,330
Cash received from permit fees	50,995	39,897
Cash payments for goods and services	(1,322,271)	(1,182,272)
Cash payments to Livingston County for contracted employees	(932,658)	(984,679)
Other operating receipts	933	13,815
Net cash provided by operating activities	704,976	579,091
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(731,224)	(1,440,494)
Proceeds from the sale of capital assets	1,713	13,602
Capital contributions	157,811	92,320
Proceeds from system revenue note payable	58,469	987,974
Repayments of system revenue note payable	(41,725)	(31,725)
Proceeds from loans payable	348,313	-
Repayments of loans payable	(75,000)	(79,651)
Interest paid on capital debt	(68,313)	(60,872)
Grants received for capital related items	113,780	218,670
Net cash used by capital and related financing activities	(236,176)	(300,176)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest income	31,217	34,332
Net cash provided by investing activities	31,217	34,332
Net increase in cash and cash equivalents	500,017	313,247
Cash and cash equivalents - beginning of year	2,080,702	1,767,455
Cash and cash equivalents - end of year	\$ 2,580,719	\$ 2,080,702
<b>RECONCILIATION OF OPERATING LOSS TO</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (717,641)	\$ (1,175,530)
Adjustments to reconcile operating loss		
to net cash provided by operating activities:		
Depreciation	1,498,716	1,810,163
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(43,312)	(48,114)
Inventories	(16,510)	(2,289)
Prepaid expenses	(132)	7,786
Increase (decrease) in:		
Accounts payable	(38,914)	31,526
Other current and accrued liabilities	22,769	(44,451)
Net cash provided by operating activities	\$ 704,976	\$ 579,091
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITY:</b>		
Capital assets received directly from developers and governments	\$ 28,000	\$ -

See notes to financial statements.

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND REPORTING ENTITY**

The Livingston County Water and Sewer Authority (the Authority) is a public benefit corporation organized under the Public Authorities Law of the State of New York. The Authority was created to finance, construct, operate and maintain water and sewage facilities for the benefit of the residents of the County of Livingston, New York (the County).

The Authority was created by special New York State legislation on July 26, 1995 and commenced operations with the appointment of its officers on August 23, 1995 and September 13, 1995.

Members of the Authority's governing board are appointed by the County's Board of Supervisors; however, the Board of Supervisors exercises no oversight responsibility for management of the Authority, or accountability for fiscal matters. The County is not liable for any Authority indebtedness. The Authority is considered a discretely presented component unit of the County and is included as such within the County's basic financial statements.

The financial statements presented herein do not include agencies that have been formed under applicable state laws, or separate and distinct units of government apart from the Livingston County Water and Sewer Authority.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

The financial statements of the Livingston County Water and Sewer Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Authority is engaged only in business-type activities as defined in GASB Statement No. 34. In compliance with GASB Statement No. 20, the Authority applies all applicable GASB pronouncements, as well as, Financial Accounting Standards Board's (FASB) Accounting Standards Codification unless these standards conflict with or contradict GASB pronouncements.

The financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the cash is received or paid. Nonexchange transactions in which the Authority gives or receives value without directly receiving or giving equal value in exchange include grants and donations. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Authority distinguishes operating revenues and expenses from nonoperating items in its financial statements. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Authority's principal on-going operations. The principal operating revenue of the Authority's funds are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. CASH AND CASH EQUIVALENTS**

The Authority's cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value. In addition, cash with fiscal agent consists of cash that is held by New York State Environmental Facilities Corporation on the Authority's behalf.

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond sales can only be used for the stated purpose of the borrowing and therefore any remaining proceeds are restricted. Also, certain assets were restricted to fund development and repairs associated with specific service areas.

**B. ACCOUNTS RECEIVABLE**

Accounts receivable consist of fees for services for sewer and water charges due from individuals and other governments. Management considers the receivables fully collectible because the Authority has the ability to levy to the respective municipalities' tax rolls where the water and sewer customers reside.

**C. CAPITAL CONTRIBUTIONS RECEIVABLE**

Capital contributions receivable represents contractual agreements with the Village of Livonia and Village of Geneseo for capital improvements to system infrastructure in the respective water and sewer districts. In addition, interest is charged by the Authority for amounts expended during project completion at rates equivalent to borrowings incurred by the Authority during that time and are recorded as interest income in the accompanying statements of revenue, expenses and changes in net assets.

**D. INVENTORY**

Inventory of meters and supplies is stated at the lower of cost or market determined on the first-in, first-out method.

**E. PREPAID EXPENSES**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

**F. CAPITAL ASSETS**

Capital assets are recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements is expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

Capitalization thresholds (the dollar value at or above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Authority are as follows:

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Machinery and equipment	\$10,000	straight-line	5-10 years
Buildings	10,000	straight-line	20-40 years
Water distribution system	10,000	straight-line	30-50 years
Sewer collection system	10,000	straight-line	20-50 years

**G. 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.

**H. CAPITAL CONTRIBUTIONS**

Capital contributions 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.

**I. NET POSITION**

GASB requires the classification of net assets into three components, as defined below:

Net Investment in Capital Assets - consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position - consists of net positions with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position - all other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**J. INSURANCE**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, personal injury liability, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Settled claims from these risks have not yet exceeded commercial insurance coverage for the past three fiscal years.

**K. INCOME 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.

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

L. BUDGET

Under the New York State Public Authorities Law, the Authority board must approve and issue a budget on an annual basis representing the Authority's objectives and priorities for the year.

N. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flows, the Authority considers cash to be all unrestricted and restricted cash accounts including demand accounts and certificates of deposit with an original maturity of generally three months or less, as well as, cash with fiscal agent.

P. NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net assets applicable to future periods) and deferred inflows of resources (acquisition of net assets applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The Authority adopted the provisions of the statement in 2012 on a retroactive basis by renaming certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the Authority's financial statements.

Additionally, during the year ended December 31, 2012, the Authority completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012. GASB Statements No. 57, 60, 62 and 64 have been adopted, as applicable for the year ended December 31, 2012 and did not have a material impact on the Authority's financial position or results from operations.

The GASB has issued the following new statements:

- Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, which will be effective for the year ending December 31, 2013;
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the year ending December 31, 2013;
- Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and 62*, which will be effective for the year ending December 31, 2013;
- Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, which will be effective for the year ending December 31, 2014; and

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which will be effective for the year ending December 31, 2015.

The Authority is currently studying these statements and plans on adoption of these policies as deemed appropriate.

**Q. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2011 financing agreements to conform with current year presentation.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The Authority's investment policies are governed by State statutes. In addition, the Authority has its own written investment policy. Authority monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Authority is authorized to use interest bearing demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of the State of New York and its localities.

Collateral is required for demand deposits and certificates of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

**Investment and Deposit Policy**

The Authority implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Authority follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Authority's Treasurer.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

The Authority's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Authority's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Authority's investment and deposit policy, all deposits of the Authority including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits. The Authority restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by New York State and its localities.

**NOTE 4 - RESTRICTED CASH AND NET POSITION**

The Authority's cash and net position are restricted for the following purposes as of December 31:

	<u>2012</u>	<u>2011</u>
Capital development and repairs	\$ 11,046	\$ 11,039
Deposit with EFC	219,097	-
SLGS Debt Reserve	<u>92,750</u>	<u>-</u>
	<u>\$ 322,893</u>	<u>\$ 11,039</u>

Restricted funds are established to fund development and repairs associated with specific service areas. In addition, amounts received but unspent from the issuance of a bond anticipation note (BAN) or a revenue anticipation note (RAN) are reported as restricted until such time as the BAN or RAN expires.

**NOTE 5 - ACCOUNTS RECEIVABLE**

The Authority's accounts receivable as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Water and sewer service fees	\$ 561,172	\$ 555,597
Due from local governments	261,743	223,801
Financing interest	<u>4,134</u>	<u>4,339</u>
	<u>\$ 827,046</u>	<u>\$ 783,737</u>

**NOTE 6 - CAPITAL CONTRIBUTIONS RECEIVABLE**

Capital contributions receivable at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Village of Geneseo	\$ 551,254	\$ 578,477
Village of Livonia	<u>-</u>	<u>46,840</u>
	<u>\$ 551,254</u>	<u>\$ 625,317</u>

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the Authority for the year ended December 31, 2012 was as follows:

	Balance <u>01/01/12</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/12</u>
Capital assets, not being depreciated:				
Land	\$ 147,985	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>3,144,667</u>	<u>681,538</u>	<u>3,047,579</u>	<u>778,626</u>
Total capital assets, not being depreciated	\$ <u>3,292,652</u>	\$ <u>681,538</u>	\$ <u>3,047,579</u>	\$ <u>926,611</u>
Capital assets, being depreciated:				
Buildings	\$ 4,876,928	\$ 220,978	\$ -	\$ 5,097,906
Water distribution system	7,420,870	2,116,404	-	9,537,274
Sewer collection system	19,586,057	595,254	-	20,181,311
Machinery and equipment	<u>2,086,312</u>	<u>172,321</u>	<u>36,657</u>	<u>2,221,976</u>
Total capital assets, being depreciated	<u>33,970,167</u>	<u>3,104,957</u>	<u>36,657</u>	<u>37,038,467</u>
Less accumulated depreciation:				
Buildings	1,314,311	136,960	-	1,451,271
Water distribution system	2,494,513	179,050	-	2,673,563
Sewer collection system	5,307,997	1,063,109	-	6,371,106
Machinery and equipment	<u>1,104,631</u>	<u>119,597</u>	<u>28,965</u>	<u>1,195,263</u>
Total accumulated depreciation	<u>10,221,452</u>	<u>1,498,716</u>	<u>28,965</u>	<u>11,691,203</u>
Total capital assets being depreciated, net	<u>23,748,715</u>	<u>1,606,241</u>	<u>7,692</u>	<u>25,347,264</u>
Total capital assets, net	\$ <u>27,041,367</u>	\$ <u>2,287,779</u>	\$ <u>3,055,271</u>	\$ <u>26,273,875</u>

Capital asset activity for the Authority for the year ended December 31, 2011 was as follows:

	Balance <u>01/01/11</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/11</u>
Capital assets, not being depreciated:				
Land	\$ 147,985	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>1,836,167</u>	<u>1,467,874</u>	<u>159,374</u>	<u>3,144,667</u>
Total capital assets, not-being depreciated	\$ <u>1,984,152</u>	\$ <u>1,467,874</u>	\$ <u>159,374</u>	\$ <u>3,292,652</u>
Capital assets, being depreciated:				
Buildings	\$ 4,869,678	\$ 7,250	\$ -	\$ 4,876,928
Water distribution system	7,390,929	29,941	-	7,420,870
Sewer collection system	19,553,910	32,147	-	19,586,057
Machinery and equipment	<u>2,070,083</u>	<u>82,377</u>	<u>66,148</u>	<u>2,086,312</u>
Total capital assets, being depreciated	<u>33,884,600</u>	<u>151,715</u>	<u>66,148</u>	<u>33,970,167</u>

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - CAPITAL ASSETS (Continued)**

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>
Less accumulated depreciation:				
Buildings	1,180,345	133,966	-	1,314,311
Water distribution system	2,005,161	489,352	-	2,494,513
Sewer collection system	4,250,067	1,057,930	-	5,307,997
Machinery and equipment	<u>1,022,143</u>	<u>128,915</u>	<u>46,427</u>	<u>1,104,631</u>
Total accumulated depreciation	<u>8,457,716</u>	<u>1,810,163</u>	<u>46,427</u>	<u>10,221,452</u>
Total capital assets being depreciated, net	<u>25,426,884</u>	<u>(1,658,448)</u>	<u>19,721</u>	<u>23,748,715</u>
Total capital assets, net	<u>\$ 27,411,036</u>	<u>\$ (190,574)</u>	<u>\$ 179,095</u>	<u>\$ 27,041,367</u>

**NOTE 8 - FINANCING ARRANGEMENTS**

On September 30, 2009 the Authority issued a Clean Water Facility Bond Anticipation Note (BAN) with the NYS Environmental Facilities Corporation to borrow up to a maximum of \$1,670,960 to fund the cost of various sewer projects. The note has an interest rate of 1.02% per annum, matured on September 30, 2012 and was collateralized by future revenues. At December 31, 2012 and 2011, the Authority had not made any draw downs on the note.

The Authority had the following construction period loans and debt outstanding as of December 31, 2012:

	<u>Balance</u> <u>01/01/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due Within</u> <u>One Year</u>
On August 27, 2009, the Authority issued a \$2,921,000 Sewer Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of various water and sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$2,780,000	\$ -	\$ 75,000	\$2,705,000	\$ 75,000
On February 7, 2011 the Authority issued a \$951,750 Drinking Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of the Groveland Station water project. The note has an interest rate of 0% and will mature in 2040.	920,025	-	31,725	888,300	31,725

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - FINANCING ARRANGEMENTS (Continued)**

	<u>Balance</u> <u>01/01/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due Within</u> <u>One Year</u>
On September 30, 2009 the Authority authorized a bond anticipation note (BAN) not to exceed \$1,670,960 with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The BAN is non-interest bearing and matured on September 30, 2012.	925,910	58,469	984,379	-	-
On May 1, 2012, the Authority issued a \$1,322,692 clean water installment bond with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The bond has an interest rate of 3.74% and will mature on May 1, 2042	-	<u>1,322,692</u>	-	<u>1,322,692</u>	<u>35,000</u>
	<u>\$4,625,935</u>	<u>\$1,381,161</u>	<u>\$1,091,104</u>	<u>\$4,915,992</u>	<u>\$ 141,725</u>

The Authority had the following construction period loans outstanding as of December 31, 2011:

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
On August 27, 2009, the Authority issued a \$2,921,000 Clean Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$2,851,000	\$ -	\$ 71,000	2,780,000	\$ 75,000
On February 7, 2011 the Authority issued a \$951,750 Drinking Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of the Groveland Station water project. The note has an interest rate of 0% and will mature in 2040.	889,686	62,064	31,725	920,025	-

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - FINANCING ARRANGEMENTS (Continued)**

	Balance 01/01/11	Additions	Payments	Balance 12/31/11	Due Within One Year
On September 30, 2009 the Authority authorized a bond anticipation note (BAN) not to exceed \$1,670,960 with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The BAN is non-interest bearing and will mature on September 30, 2012.	-	925,910	-	925,910	-
The South Cover Water System was constructed with monies loaned from the County. The loan is non-interest bearing and the annual principal payment is \$1,680 (\$240/unit/year).	<u>8,651</u>	<u>-</u>	<u>8,651</u>	<u>-</u>	<u>-</u>
	<u>\$3,749,337</u>	<u>\$ 987,974</u>	<u>\$ 111,376</u>	<u>\$4,625,935</u>	<u>\$ 75,000</u>

Future scheduled principal and interest payments on long-term debt are as follows at December 31:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 141,725	\$ 156,397
2014	144,417	153,064
2015	146,725	149,670
2016	146,725	146,010
2017	146,725	142,281
2018-2022	768,625	650,204
2023-2027	828,625	531,963
2028-2032	903,625	392,191
2033-2037	983,625	231,893
2038-2042	<u>705,175</u>	<u>62,332</u>
	<u>\$ 4,915,992</u>	<u>\$ 2,616,005</u>

In 2008, the Authority entered into a Trust Indenture under which debt is issued. The Trust Indenture pledges all revenues and other income collected by the Authority for payment of principal and interest on the bonds. The Trust Indenture also generally requires establishment of a certain trust funds, for which M&T Bank acts as a trustee, into which funds are to be deposited. The Authority is required by this document to maintain on deposit amounts sufficient to cover the annual debt service (as defined in the Trust Indenture) of its bonds. The Authority covenants in its indenture that it will establish water and sewer rates sufficient to cover the sum of (1) 105% times debt service, (2) operating revenues exceed operating expenses as defined by the covenant, and (3) any additional amounts required to restore the debt service reserve fund to the debt service reserve requirement. As of December 31, 2012 and 2011, there were no covenant violations with any outstanding debt issues for the Authority. The Authority includes in their customer billings an amount designated for debt service. The intention by the Board, related to the use of these revenues, is to satisfy debt service requirements.

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - FUNDS HELD FOR OTHERS**

At December 31, the Authority maintained funds for other unrelated governments related to capital projects and collections for customers billed by the Authority, as follows:

	<u>2012</u>	<u>2011</u>
Compact of towns (flood gates)	\$ 21,881	\$ 21,824
Collections	<u>8,941</u>	<u>5,817</u>
	<u>\$ 30,822</u>	<u>\$ 27,641</u>

**NOTE 10 - CAPITAL CONTRIBUTIONS**

Contributed capital represents amounts contributed by outside entities, and governments or through federal or state agents. In 2012, \$ 83,748 was contributed from governments for capital developments. In 2011, \$111,262 was contributed from governments and developments

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

A. COMMITMENTS

The Authority has an agreement with the County to share the services of the County's employees. Therefore, the Authority makes monthly payments to the County for all payroll and related employee expenses. The total amount recognized in 2012 and 2011 was \$956,327 and \$941,528, respectively.

B. CONTINGENCIES

The Authority is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have a material adverse effect on the financial condition of the Authority.

C. DEC SPEDES PERMIT

In February 2013, the NYS DEC issued a new permit for the Lakeville Sewer Plant. This permit contained many requirements that could have substantial financial impacts to the customers. Also, in February 2013, the Authority sent comments related to the new requirements to the NYS DEC. The Authority looks forward to negotiating with the NYS DEC to ensure there is a common understanding of the new requirements.

D. CONSTRUCTION COMMITMENTS

As of December 31, 2012 and 2011 the Authority had approximately \$1,250,000 and \$1,400,000, respectively, committed to complete the various capital projects.

**SECTION B**  
**SUPPLEMENTAL INFORMATION**

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY  
(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)  
COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31,

	2012			2011		
	Sewer	Water	Total	Sewer	Water	Total
<b>OPERATING REVENUES</b>						
Service fees	\$ 1,634,661	\$ 1,316,628	\$ 2,951,289	\$ 1,632,465	\$ 1,107,979	\$ 2,740,444
Permit fees	15,190	35,805	50,995	7,114	32,783	39,897
Capital development/repair	-	2	2	-	7	7
Other income	(2,471)	3,402	931	5,321	8,487	13,808
Total operating revenues	<u>1,647,380</u>	<u>1,355,837</u>	<u>3,003,217</u>	<u>1,644,900</u>	<u>1,149,256</u>	<u>2,794,156</u>
<b>OPERATING EXPENSES:</b>						
Administrative	249,044	224,692	473,736	244,338	219,748	464,086
Treatment	405,008	488,331	893,339	564,119	332,281	896,400
Transmission/collection	451,403	403,664	855,067	418,268	380,769	799,037
Depreciation	1,295,404	203,312	1,498,716	1,299,698	510,465	1,810,163
Total operating expenses	<u>2,400,859</u>	<u>1,319,999</u>	<u>3,720,858</u>	<u>2,526,423</u>	<u>1,443,263</u>	<u>3,969,686</u>
Operating loss	<u>(753,479)</u>	<u>35,838</u>	<u>(717,641)</u>	<u>(881,523)</u>	<u>(294,007)</u>	<u>(1,175,530)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Interest income	3,463	27,754	31,217	4,715	29,617	34,332
Grant revenue	-	113,780	113,780	4,500	214,170	218,670
Gain on sale of assets	872	841	1,713	7,209	6,393	13,602
Interest expense	-	(76,577)	(76,577)	(59,333)	-	(59,333)
Total nonoperating revenues (expenses)	<u>4,335</u>	<u>65,798</u>	<u>70,133</u>	<u>(42,909)</u>	<u>250,180</u>	<u>207,271</u>
Income (loss) before capital contributions	<u>(749,144)</u>	<u>101,636</u>	<u>(647,508)</u>	<u>(924,432)</u>	<u>(43,827)</u>	<u>(968,259)</u>
<b>CAPITAL CONTRIBUTIONS:</b>						
Governments	55,022	28,726	83,748	111,262	-	111,262
Change in net position	<u>(694,122)</u>	<u>130,362</u>	<u>(563,760)</u>	<u>(813,170)</u>	<u>(43,827)</u>	<u>(856,997)</u>
Net position - beginning of year			<u>25,709,340</u>			<u>26,566,337</u>
Net position - end of year			<u>\$ 25,145,580</u>			<u>\$ 25,709,340</u>



**SECTION C**  
**COMPLIANCE AND INTERNAL CONTROLS**



**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**

**INDEPENDENT AUDITOR'S REPORT**

To the Board Members of  
Livingston County Water and Sewer Authority:

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Livingston County Water and Sewer Authority (the Authority), a component unit of Livingston County, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 22, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Authority's internal controls over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable 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, 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Freed Maxick CPAs, P.C.*

Batavia, New York  
March 22, 2013