

**AUDITED
BASIC FINANCIAL STATEMENTS**

**LIVINGSTON COUNTY WATER AND SEWER
AUTHORITY
(A COMPONENT UNIT OF LIVINGSTON
COUNTY)**

DECEMBER 31, 2013

**LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A COMPONENT UNIT OF LIVINGSTON COUNTY)**

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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 of 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, 2013 and 2012, 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 but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly we express no such opinion. 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, 2013 and 2012, 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.

Supplementary 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 19, 2014 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 19, 2014

Management Discussion and Analysis
Livingston County Water & Sewer Authority
Fiscal Year ended December 31, 2013

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, 2013. 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, who provide oversight of the operations & practices of the Authority. 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 12 employees: 4 are administrative and 8 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 2012 by \$445,000, resulting in total 2013 net position of \$24,701,000.
- Total outstanding debt decreased \$141,733 from \$4,916,000 in 2012 to \$4,774,267 in 2013.
- Construction work-in-progress is more than 2012 by \$80,850 with a total of \$859,476 for 2013.
- In 2013 Water and Sewer rates were not increased/decreased.

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)

	2013	2012	2011
* Current and other assets	\$ 4,110	\$ 4,069	\$ 3,580
Capital assets, net	25,648	26,274	27,041
Total assets	<u>\$ 29,758</u>	<u>\$ 30,343</u>	<u>\$ 30,621</u>
Long-term liabilities	\$ 4,630	\$ 4,774	\$ 4,551
Other liabilities	427	423	361
* Total Liabilities	<u>\$ 5,057</u>	<u>\$ 5,197</u>	<u>\$ 4,912</u>
* Net investment in capital assets	\$ 20,874	\$ 21,358	\$ 22,415
Restricted for:			
Capital repairs	11	11	11
Unrestricted	3,816	3,777	3,283
Total net assets	<u>\$ 24,701</u>	<u>\$ 25,146</u>	<u>\$ 25,709</u>
Total liabilities and net assets	<u>\$ 29,758</u>	<u>\$ 30,343</u>	<u>\$ 30,621</u>

"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 in 2013 compared to 2012 by \$41,000 due to a decrease in capital repair expenditures. The balance was higher by \$489,000 in 2012 from 2011 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.

"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. In 2013 debt decreased by \$141,700. There is a more detailed discussion of debt under the caption of "*Outstanding Debt*".

Net Position changes 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, 2013, 2012 and 2011.

Figure A-2

Changes in Net Position from Operating Results*(in thousands of dollars)*

	Sewer			Water		
	2013	2012	2011	2013	2012	2011
Operating revenue:						
Service fees	\$ 1,615	\$ 1,635	\$ 1,633	\$ 1,328	\$ 1,317	\$ 1,108
Permit fees	12	15	7	23	36	33
Other income	8	(3)	5	2	3	8
Total operating revenues	\$ 1,635	\$ 1,647	\$ 1,645	\$ 1,353	\$ 1,356	\$ 1,149
Operating Expenses:						
Wages & Fringes (Contracted Employees)	\$ 571	\$ 555	\$ 574	\$ 412	\$ 401	\$ 367
Professional Services	135	67	142	50	52	62
Utilities	167	177	204	99	85	94
Equipment/Bldg Expense	187	222	205	135	140	161
Vehicle Expenses	14	11	20	13	16	17
Purchased Water and Sewer	66	46	50	417	395	203
Other Expenses	41	27	32	28	29	29
Depreciation	831	1,295	1,299	225	203	510
Total operating expenses	\$ 2,012	\$ 2,400	\$ 2,526	\$ 1,379	\$ 1,320	\$ 1,443
Total Operating income/loss	\$ (378)	\$ (746)	\$ (881)	\$ (26)	\$ 30	\$ (294)
Non-Operating Revenue (Expenses)						
Interest income	\$ 3	\$ 3	\$ 5	\$ 26	\$ 27	\$ 30
Grant revenue	-	-	4	-	114	214
Gain on sale of assets	0	1	-	-	1	6
Interest expense	(70)	(77)	(59)	-	-	-
Total non-operating revenue/expenses	\$ (67)	\$ (73)	\$ (43)	\$ 26	\$ 142	\$ 250
Income(Loss) before capital contributions	\$ (445)	\$ (819)	\$ (924)	\$ 0	\$ 172	\$ (44)
Capital Contributions	0	55	111	0	29	-
Increase/decrease in Net Position	\$ (445)	\$ (764)	\$ (813)	\$ 0	\$ 201	\$ (44)
				Water & Sewer		
				2013	2012	2011
Net Position-beginning of year				\$ 25,146	\$ 25,709	\$ 26,566
Net Position-end of year				\$ 24,701	\$ 25,146	\$ 25,709

Changes in Net Assets from Operating Results (Figure A-2) shows a decrease in Net Position in 2012 by \$563,000 & 2013 shows a decrease of \$445,000. These decreases were due mostly to depreciation expense.

Key elements of the operating activities are as follows:

Revenue

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

Total operating revenue for 2013 decreased from 2012 by \$15,000

Total operating revenue for 2012 increased over 2011 by \$209,000

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 2012 this percentage was 60% & in 2013 reimbursement is 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.

In 2013 water/sewer rates remained at 2012 levels. The loss in revenue was due mainly to some business closings & lower permit sales for both water & sewer.

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

<i>Figure A-5</i>	Customer units						
	Sewer			Water			
	2013	2012	2011	2013	2012	2011	
Number of Units	4,072	4,075	4,079	3,955	3,941	3,931	
Increase/decrease over previous year	(3)	(4)	32	14	10	21	

New customers (units) were not as high in 2011, 2012, & 2013 as in past years, possibly as a result of the continuing economic unease related to the housing/banking industry. The above chart effectively illustrates the loss especially in the area of sewer units because of the way a commercial customer is charged for each sewer unit: a sewer unit = 18,000 gallons of water; so a business that is a heavy water user could be the equivalent of 5 units.

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, equipment & building supplies/repair, vehicle supplies/repair, safety supplies, permits & inspections, wholesale water/sewer purchase, and depreciation on fixed assets.

Operating expenses, not including depreciation expense, increased in 2013 by \$113,000

Operating expenses, not including depreciation expense, increased in 2012 by \$62,000

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 2013 the CSEA contract was negotiated with salary increases of 1.5% in 2013, then 2% for 2014 thru 2016. Also, a building maintenance person was hired. The net change in wages for 2013 was an increase of \$12,700.

Overtime occurs in three categories: Call out, Scheduled, and Unscheduled. After hour “call out” occurs as a result of emergency operations & customer needs. Examples of call outs are: frozen meters, sewer backups, equipment failure, etc. Scheduled overtime occurs due to the need for operations to be covered at the Authority’s 2 sewer plants 7 days per week. When plant operators take scheduled time off on the weekends, another operator has to work. Unscheduled overtime occurs when work has to be completed after the scheduled workday. Overtime fluctuates dependent on need. In 2012 the amount remained unchanged, then in 2013 there was a \$5,000 reduction.

The largest area of Personnel cost increase over the past few years has always been in the area of Health Care. In 2012 there was an increase of \$14,000 & in 2013 there was a further increase of \$10,000.

Professional Services includes legal, engineering, accounting services, computer services and insurance. In 2012 professional services decreased from 2011 by \$84,700. In 2011 there were costs directly related to DEC Consent Order requirements for the Lakeville WWTP which were met that same year.

In 2013, the Lakeville WWTP received the draft SPDES permit from the NYS DEC. The new effluent discharge limits within the draft permit would require major costly upgrades to the current plant configuration. The LCWSA undertook a formalized negotiation process under the guidance of an administrative law judge with the NYSDEC to work out issues with the draft permit. The related professional service costs totaled approximately \$60,000 in 2013.

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 2012 Utility expenses decreased due to infiltration repairs on sewer mains, water main repairs, a motor replacement program & drier weather in 2012 compared to 2011. In 2013 utility costs increased approximately \$4,000 mainly due colder weather than in 2012.

Equipment and Building Expenses are costs directly related to maintaining the buildings & infrastructure thru repairs & preventative maintenance schedules. These costs include equipment maintenance & repair (sewer cleaner, backhoe, etc.), building maintenance, small equipment purchases, lease contracts, customer installation supplies, & chemicals/biologicals. In 2012 there was an increase in this expense line by only \$4,000. An operation & maintenance contract with the Town of Geneseo expired in February 2012, so no more operation & maintenance payments were made to them & now LCWSA staff operate & maintain that service area. In 2013 this expense category experienced a decrease of \$39,000 from 2012. These costs fluctuate according to the respective year's maintenance program. For instance, generator maintenance (@\$22,000/yr) is performed every other year.

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. Alternatively, these costs can increase due to large water leaks within the system or higher customer consumption. In 2011 the lost water was at 27% while at the end of 2012, it was lowered to 15% and 18.6% in 2013. Water Purchase increased in 2012 mostly due to the change in accounting treatment of the wholesale water provided to the Village of Caledonia. In 2013 there was an increase of \$22,000 mostly due to system waterline break leaks in the Avon service area.

Purchased sewer is the cost of having sewage treated at sewer plants not owned by the Authority. In 2012 there was a \$4,000 decrease from 2011. In 2013 this cost increased by \$20,000 directly due to the increase in wholesale treatment rates charged to the Authority by the Village of Avon.

Other expenses include permits, fees, postage, office supplies, advertising, travel/training, safety supplies, easements, and judgements/claims.

Operating Expense, including depreciation expense, increased 2% in 2011 & decreased 6% in 2012 & decreased 10% in 2013.

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

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 fixed assets & begin to be depreciated. Depreciation increased \$14,000 in 2011 & decreased \$311,000 in 2012 & decreased \$442,000 in 2013. In 2011 there were \$159,000 in completed projects added to fixed assets & \$2,300,000 added in 2012 & \$312,000 added in 2013. 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 NYSERDA grant for drive replacement in the intermediate pump-station at the Lakeville sewer plant. No grant revenue was received in 2013.

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, an 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, then by \$445,000 in 2013.

Business Type Activities - Revenues & Expenses

Figure A-7

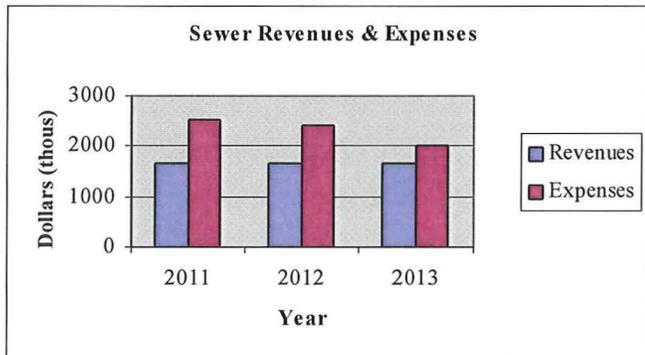
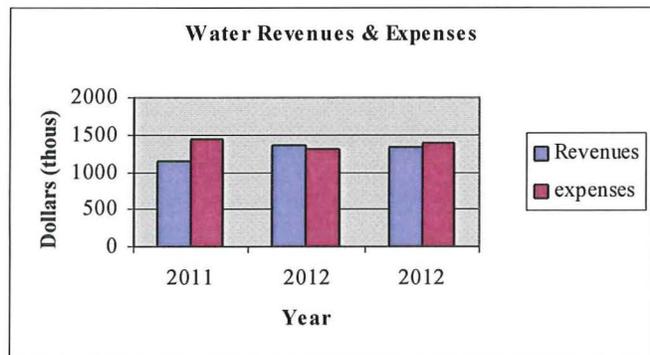


Figure A-8



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)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 148	\$ 148	\$ 148
Buildings	3,556	3,647	3,563
Machinery & Equipment	994	1,027	981
Water Distribution Systems	6,728	6,864	4,926
Sewer Collection Systems	13,363	13,810	14,278
Construction Work In Progress	859	778	3,145
Total	\$ 25,648	\$ 26,274	\$ 27,041

Capital assets decreased in 2011 & 2012 & 2013 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 fixed assets. In 2013 Work In Progress increased \$81,000 and \$325,000 was transferred to fixed 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 replaced an outdated spring-fed water system that was contributed to the Authority in 2007. This project was 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. Capital improvements were 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 \$4,028,000. These loan funds were finalized as a bond in May 2012, with a 3.74% subsidized rate. The overall total debt balance related to the NYSDEC Consent order is currently \$3,918,000.

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 \$865,000.

Outstanding Debt

Figure A-10

Outstanding Debt			
(in thousands of dollars)			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Sewer</u>			
NYS EFC Sewer bond (consent order)	2,630	2,705	2,780
NYS EFC Sewer bond (consent order)	1,288	1,323	
<u>Water</u>			
System revenue note with NYS EFC	857	888	920
Total Debt	4,775	4,916	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 2013, debt decreased \$141,000.

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 relevel 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 relevel 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 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 remained slow in the last few years & has not kept up with the rise in expenses.

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.

The Authority signed a municipal agreement with the Livingston County Highway Dept. for shared services related to machinery, tools, equipment & services.

Future Factors

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, thereby resolving SPEDES permit discharge issues. 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 totaled \$4,028,000. The projects were completed early in 2013. A SPEDES permit covers a period of 5 years.

In February 2013, NYS DEC issued a draft permit for comment for the Lakeville Sewer Plant. To achieve the effluent discharge limits published in the draft permit, the plant would require major costly upgrades. The LCWSA undertook a formalized negotiation process under the guidance of an administrative law judge with the NYSDEC to work out issues with the draft permit. The new draft permit will be issued in March 2014 for comment. The Permit will contain a chemical & biological monitoring program that will run for two years and one year respectively. The resulting conclusions of the monitoring program will provide the basis of the permit effluent discharge limits. The outcome may still require upgrades to the Lakeville Sewer Plant depending on the monitoring program results. The monitoring program analysis will be completed in 2015 for the biological monitoring & the chemical monitoring analysis will be completed by 2016. Part of this program was also a re-rating of the plant capacity from 1,270,000 to 950,000 gallons per day.

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%. In 2014, the pro-rata share is 100%. Each 20% increases O&M Revenue projection approximately \$17,000.

Sewer rates were increased \$4 per unit per year in most service areas for 2014.

CSEA contract negotiations for 2013 thru 2016 were completed. There will be a 2% increase in wages from 2014 thru 2016.

A water supply agreement is anticipated to be signed with the NYS Department of Corrections related to their facilities in Groveland. This agreement will result in a capital project to build infrastructure to meet the agreed upon conditions for which the NYS DOC will be providing funding.

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,

	<u>2013</u>	<u>2012</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,405,514	\$ 2,257,826
Accounts receivable	823,756	827,049
Current portion of capital contributions receivable	29,772	28,470
Inventory	14,899	28,166
Prepaid expenses	55,571	51,118
Funds held for others	28,390	30,822
Total current assets	<u>3,357,902</u>	<u>3,223,451</u>
NONCURRENT ASSETS:		
Restricted cash	259,471	322,893
Capital contributions receivable, net of current portion	493,011	522,784
Capital assets, net	<u>25,648,345</u>	<u>26,273,875</u>
Total noncurrent assets	<u>26,400,827</u>	<u>27,119,552</u>
 Total assets	 <u>29,758,729</u>	 <u>30,343,003</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	126,553	135,913
Current portion of loans payable	144,417	141,725
Other current liabilities	128,108	114,696
Funds held for others	28,390	30,822
Total current liabilities	<u>427,468</u>	<u>423,156</u>
NONCURRENT LIABILITIES:		
Loans payable, net of current portion	<u>4,629,850</u>	<u>4,774,267</u>
Total other noncurrent liabilities	<u>4,629,850</u>	<u>4,774,267</u>
 Total liabilities	 <u>5,057,318</u>	 <u>5,197,423</u>
NET POSITION:		
Net investment in capital assets	20,874,078	21,357,883
Restricted	11,052	11,046
Unrestricted	<u>3,816,281</u>	<u>3,776,651</u>
 Total net position	 <u>\$ 24,701,411</u>	 <u>\$ 25,145,580</u>

See notes to financial statements

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,

	2013	2012
OPERATING REVENUES:		
Service fees	\$ 2,943,290	\$ 2,951,289
Permit fees	34,193	50,995
Capital development/repair	4	2
Other income	10,550	931
Total operating revenues	2,988,037	3,003,217
OPERATING EXPENSES:		
Administrative	551,604	473,736
Treatment	941,562	893,339
Transmission/collection	841,688	855,067
Depreciation	1,055,852	1,498,716
Total operating expenses	3,390,706	3,720,858
Operating loss	(402,669)	(717,641)
NONOPERATING REVENUES (EXPENSES):		
Interest income	28,375	31,217
Grant revenue	-	113,780
Interest expense	(69,875)	(76,577)
Gain on sale of assets	-	1,713
Total nonoperating revenues (expenses)	(41,500)	70,133
Loss before capital contributions	(444,169)	(647,508)
CAPITAL CONTRIBUTIONS:		
Governments	-	83,748
Change in net position	(444,169)	(563,760)
Net position - beginning	25,145,580	25,709,340
Net position - ending	\$ 24,701,411	\$ 25,145,580

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,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees	\$ 2,946,583	\$ 2,907,977
Cash received from permit fees	34,193	50,995
Cash payments for goods and services	(1,352,086)	(1,322,271)
Cash payments to Livingston County for contracted employees	(959,652)	(932,658)
Other operating receipts	10,554	933
Net cash provided by operating activities	679,592	704,976
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(430,322)	(731,224)
Proceeds from the sale of capital assets	-	1,713
Capital contributions	28,471	157,811
Proceeds from system revenue note payable	-	58,469
Repayments of system revenue note payable	(31,725)	(41,725)
Proceeds from loans payable	-	348,313
Repayments of loans payable	(110,000)	(75,000)
Interest paid on capital debt	(80,125)	(68,313)
Grants received for capital related items	-	113,780
Net cash used by capital and related financing activities	(623,701)	(236,176)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	28,375	31,217
Net cash provided by investing activities	28,375	31,217
Net increase in cash and cash equivalents	84,266	500,017
Cash and cash equivalents - beginning	2,580,719	2,080,702
Cash and cash equivalents - ending	\$ 2,664,985	\$ 2,580,719
RECONCILIATION OF OPERATING LOSS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (402,669)	\$ (717,641)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,055,852	1,498,716
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	3,293	(43,312)
Inventories	13,267	(16,510)
Prepaid expenses	(4,453)	(132)
Increase (decrease) in:		
Accounts payable	(9,360)	(38,914)
Other current and accrued liabilities	23,662	22,769
Net cash provided by operating activities	\$ 679,592	\$ 704,976
NONCASH CAPITAL AND RELATED FINANCING ACTIVITY:		
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. 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 relevy 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 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 position.

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 "net investment in capital assets".

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

During the year ended December 31, 2013, the Authority completed the process of evaluating the impact that will result from adopting GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and 62*, effective for the year ending December 31, 2013. GASB Statements No. 61, 65, and 66 have been adopted, as applicable, for the year ended December 31, 2013, 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. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, which will be effective for the year ending December 31, 2014;
- 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.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which will be effective for the year ending December 31, 2014;
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014; and
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which should be applied simultaneously with the provisions of Statement No. 68.

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

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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.

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.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - RESTRICTED CASH

The Authority's cash is restricted for the following purposes as of December 31:

	<u>2013</u>	<u>2012</u>
Capital development and repairs	\$ 11,052	\$ 11,046
Deposit with EFC	155,669	219,097
SLGS Debt Reserve	<u>92,750</u>	<u>92,750</u>
	<u>\$ 259,471</u>	<u>\$ 322,893</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>2013</u>	<u>2012</u>
Water and sewer service fees	\$ 568,049	\$ 561,172
Due from local governments	251,786	261,743
Financing interest	<u>3,921</u>	<u>4,134</u>
	<u>\$ 823,756</u>	<u>\$ 827,049</u>

NOTE 6 - CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Village of Geneseo	<u>\$ 522,783</u>	<u>\$ 551,254</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the Authority for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/13</u>
Capital assets, not being depreciated:				
Land	\$ 147,985	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>778,626</u>	<u>405,787</u>	<u>324,937</u>	<u>859,476</u>
Total capital assets, not being depreciated	<u>\$ 926,611</u>	<u>\$ 405,787</u>	<u>\$ 324,937</u>	<u>\$ 1,007,461</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS (Continued)

	Balance <u>01/01/13</u>	Additions	Deletions	Balance <u>12/31/13</u>
Capital assets, being depreciated:				
Buildings	\$ 5,097,906	\$ 50,268	\$ -	\$ 5,148,174
Water distribution system	9,537,274	46,041	-	9,583,315
Sewer collection system	20,181,311	136,035	-	20,317,346
Machinery and equipment	<u>2,221,976</u>	<u>117,128</u>	<u>-</u>	<u>2,339,104</u>
 Total capital assets, being depreciated	 <u>37,038,467</u>	 <u>349,472</u>	 <u>-</u>	 <u>37,387,939</u>
Less accumulated depreciation:				
Buildings	1,451,271	141,387	-	1,592,658
Water distribution system	2,673,563	182,128	-	2,855,691
Sewer collection system	6,371,106	582,960	-	6,954,066
Machinery and equipment	<u>1,195,263</u>	<u>149,377</u>	<u>-</u>	<u>1,344,640</u>
 Total accumulated depreciation	 <u>11,691,203</u>	 <u>1,055,852</u>	 <u>-</u>	 <u>12,747,055</u>
 Total capital assets being depreciated, net	 <u>25,347,264</u>	 <u>(706,380)</u>	 <u>-</u>	 <u>24,640,884</u>
 Total capital assets, net	 <u>\$ 26,273,875</u>	 <u>\$ (300,593)</u>	 <u>\$ 324,937</u>	 <u>\$ 25,648,345</u>

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

	Balance <u>01/01/12</u>	Additions	Deletions	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>304,579</u>	<u>778,626</u>
 Total capital assets, not-being depreciated	 <u>\$ 3,292,652</u>	 <u>\$ 681,538</u>	 <u>\$ 304,579</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>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>01/01/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/12</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>

NOTE 8 - FINANCING ARRANGEMENTS

The Authority had the following construction period loans and debt outstanding as of December 31, 2013:

	<u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/13</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.	\$2,705,000	\$ -	\$ 75,000	\$2,630,000	\$ 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.	888,300	-	31,725	856,575	31,725
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>-</u>	<u>35,000</u>	<u>1,287,692</u>	<u>37,692</u>
	<u>\$4,915,992</u>	<u>\$ -</u>	<u>\$ 141,725</u>	<u>\$4,774,267</u>	<u>\$ 144,417</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

The Authority had the following construction period loans 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 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.	\$2,780,000	\$ -	\$ 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
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 was non-interest bearing and will mature 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>-</u>	<u>1,322,692</u>	<u>-</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>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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

	<u>Principal</u>	<u>Interest</u>
2014	\$ 144,417	\$ 153,064
2015	146,725	149,670
2016	146,725	146,010
2017	146,725	142,281
2018	151,725	138,468
2019-2023	778,625	628,376
2024-2028	843,625	505,459
2029-2033	918,625	362,156
2034-2038	1,003,625	196,769
2039-2042	<u>493,450</u>	<u>37,355</u>
	<u>\$ 4,774,267</u>	<u>\$ 2,459,607</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, 2013 and 2012, 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.

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>2013</u>	<u>2012</u>
Compact of towns (flood gates)	\$ 21,923	\$ 21,881
Collections	<u>6,467</u>	<u>8,941</u>
	<u>\$ 28,390</u>	<u>\$ 30,822</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. There were no contributions from governments for capital developments in 2013.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

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 2013 and 2012 was \$983,314 and \$956,327, 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 draft permit for comment for the Lakeville Sewer Plant. To achieve the effluent discharge limits published in the draft permit, the plant would require major costly upgrades. The LCWSA undertook a formalized negotiation process under the guidance of an administrative law judge with the NYSDEC to work out issues with the draft permit. The new draft permit will be issued in March 2014 for comment.

The permit will contain a chemical and biological monitoring program that will run for two years and one year respectively. The resulting conclusions of the monitoring program will provide the basis of the permit effluent discharge limits. The outcome may still require upgrades to the Lakeville Sewer Plan depending on the monitoring program results. The monitoring program analysis will be completed in 2015 for the biological monitoring and the chemical monitoring analysis will be completed by 2016.

Part of this program was also a re-rating of the plant capacity from 1,270,000 to 950,000 gallons per day.

D. CONSTRUCTION COMMITMENTS

As of December 31, 2013 and 2012 the Authority had approximately \$200,000 and \$1,250,000, 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,

	2013			2012		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING REVENUES:						
Service fees	\$ 1,615,353	\$ 1,327,937	\$ 2,943,290	\$ 1,634,661	\$ 1,316,628	\$ 2,951,289
Permit fees	11,408	22,785	34,193	15,190	35,805	50,995
Capital development/repair	-	4	4	-	2	2
Other income	8,046	2,504	10,550	(2,471)	3,402	931
Total operating revenues	<u>1,634,807</u>	<u>1,353,230</u>	<u>2,988,037</u>	<u>1,647,380</u>	<u>1,355,837</u>	<u>3,003,217</u>
OPERATING EXPENSES:						
Administrative	306,297	245,307	551,604	249,044	224,692	473,736
Treatment	452,265	489,297	941,562	405,008	488,331	893,339
Transmission/collection	422,324	419,364	841,688	451,403	403,664	855,067
Depreciation	831,011	224,841	1,055,852	1,295,404	203,312	1,498,716
Total operating expenses	<u>2,011,897</u>	<u>1,378,809</u>	<u>3,390,706</u>	<u>2,400,859</u>	<u>1,319,999</u>	<u>3,720,858</u>
Operating income (loss)	<u>(377,090)</u>	<u>(25,579)</u>	<u>(402,669)</u>	<u>(753,479)</u>	<u>35,838</u>	<u>(717,641)</u>
NONOPERATING REVENUES (EXPENSES):						
Interest income	2,469	25,906	28,375	3,463	27,754	31,217
Grant revenue	-	-	-	-	113,780	113,780
Gain on sale of assets	-	-	-	872	841	1,713
Interest expense	(69,875)	-	(69,875)	(76,577)	-	(76,577)
Total nonoperating revenues (expenses)	<u>(67,406)</u>	<u>25,906</u>	<u>(41,500)</u>	<u>(72,242)</u>	<u>142,375</u>	<u>70,133</u>
Income (loss) before capital contributions	<u>(444,496)</u>	<u>327</u>	<u>(444,169)</u>	<u>(825,721)</u>	<u>178,213</u>	<u>(647,508)</u>
CAPITAL CONTRIBUTIONS:						
Governments	-	-	-	55,022	28,726	83,748
Change in net position	<u>(444,496)</u>	<u>327</u>	<u>(444,169)</u>	<u>(770,699)</u>	<u>206,939</u>	<u>(563,760)</u>
Net position - beginning			<u>25,145,580</u>			<u>25,709,340</u>
Net position - ending			<u>\$ 24,701,411</u>			<u>\$ 25,145,580</u>

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

	2013			2012		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING EXPENSES:						
Administrative:						
Contracted employees	\$ 164,361	\$ 159,168	\$ 323,529	\$ 157,555	\$ 151,630	\$ 309,185
Professional services	101,578	47,694	149,272	54,288	46,964	101,252
Payments to other governments	11,315	10,955	22,270	11,786	11,358	23,144
Travel and training	580	562	1,142	467	443	910
Equipment and building maintenance	2,059	2,893	4,952	3,763	3,678	7,441
Utilities	743	1,046	1,789	1,428	1,033	2,461
Outside services	14,641	3,889	18,530	11,978	822	12,800
Other	11,020	19,100	30,120	7,779	8,764	16,543
Total administrative	<u>306,297</u>	<u>245,307</u>	<u>551,604</u>	<u>249,044</u>	<u>224,692</u>	<u>473,736</u>
Treatment:						
Contracted employees	219,449	68,145	287,594	221,498	80,596	302,094
Purchased water/sewer	65,899	416,905	482,804	45,487	395,918	441,405
Utilities	57,988	-	57,988	57,525	-	57,525
Outside services	50,263	-	50,263	48,899	9,782	58,681
Equipment and building maintenance	10,442	-	10,442	12,141	14	12,155
Professional services	32,837	2,502	35,339	8,235	-	8,235
Small equipment purchases	8,983	-	8,983	1,053	-	1,053
Permits, fees and inspections	2,584	1,635	4,219	3,027	1,940	4,967
Travel and training	806	-	806	1,387	81	1,468
Other	3,014	110	3,124	5,756	-	5,756
Total treatment	<u>452,265</u>	<u>489,297</u>	<u>941,562</u>	<u>405,008</u>	<u>488,331</u>	<u>893,339</u>
Transmission/collection:						
Contracted employees	187,234	184,957	372,191	175,805	169,243	345,048
Utilities	107,659	97,839	205,498	117,960	83,807	201,767
Equipment and building maintenance	43,093	41,290	84,383	49,603	43,477	93,080
Vehicle expense	13,907	13,491	27,398	10,597	16,087	26,684
Outside services	40,704	67,350	108,054	80,496	65,018	145,514
Professional services	954	-	954	4,223	5,097	9,320
Small equipment purchases	2,375	2,720	5,095	5,459	5,167	10,626
Permits, fees and inspections	271	2,263	2,534	177	2,800	2,977
Travel and training	14,184	433	14,617	552	907	1,459
Other	11,943	9,021	20,964	6,531	12,061	18,592
Total transmission/collection	<u>422,324</u>	<u>419,364</u>	<u>841,688</u>	<u>451,403</u>	<u>403,664</u>	<u>855,067</u>
Depreciation	<u>831,011</u>	<u>224,841</u>	<u>1,055,852</u>	<u>1,295,404</u>	<u>203,312</u>	<u>1,498,716</u>
Total operating expenses	<u>\$ 2,011,897</u>	<u>\$ 1,378,809</u>	<u>\$ 3,390,706</u>	<u>\$ 2,400,859</u>	<u>\$ 1,319,999</u>	<u>\$ 3,720,858</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 Livingston County Water and Sewer Authority (the Authority), as of and for the year ended December 31, 2013, 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 19, 2014.

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 control. Accordingly, we do not express an opinion on 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 the Authority's financial statements are free from 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 19, 2014



INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors of the
Livingston County Water and Sewer Authority

We have examined Livingston County Water and Sewer Authority's (the Authority) compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") for the year ended December 31, 2013. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2013.

This report is intended solely for the information and use of the Board of Directors, management and others within the Authority and the New York State Authorities Budget Office, and is not intended to be and should not be used by anyone other than these specified parties.

Freed Maxick CPAs, P.C.

Batavia, New York
March 19, 2014