

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the
County of Livingston, New York)

Financial Statements
December 31, 2014 and 2013
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

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INDEPENDENT AUDITOR'S REPORT

March 25, 2015

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

We have audited the accompanying financial statements of the business-type activities of Livingston County Water and Sewer Authority (the Authority), a New York Public Benefit Corporation, which is a discretely presented component unit of Livingston County, New York, as of and for the year ended December 31, 2014, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the 2014 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, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Prior Period Financial Statements

The financial statements of the Authority as of December 31, 2013, were audited by other auditors whose report dated March 19, 2014, expressed an unmodified opinion on those statements.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 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.

Report on 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 supplementary schedules on pages 22-23, 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 relate 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 25, 2015 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.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2014 AND 2013

INTRODUCTION

The Livingston County Water and Sewer Authority (the Authority) is a public benefit corporation formed in 1995, created by legislation passed by the State of New York. Livingston County's (the County) 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 of authorities. The Authority also is required to meet the requirements of Federal, State, and County water pollution control and safe drinking water laws, thereby helping to protect the health of citizens, improving drinking water quality, and protecting the environment.

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 the accrual basis in accordance with Generally Accepted Accounting Principles set 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 appropriations for operating expenses or issuance of debt.

The Authority leases its employees from the County. Employee related services, such as payroll, personnel, etc. are provided by the County. The County then bills the Authority annually for a share of the related indirect expenses. Payroll and health care costs are reimbursed monthly. The Authority has a staff of 12 leased employees: four are administrative and eight are for water and sewer operations. Professional services are used to supplement the staff as needed.

The discussion and analysis of the Authority's financial performance provides highlights of the Authority's major activities that had an effect on the operations of the Authority for the fiscal year ended December 2014 with comparative data for 2013 and 2012. This report should be used and considered in conjunction with the 2014 audited financial statements, which follows this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These two statements report the Authority's net position and changes in them from one year to the next. The Authority's net position, the difference between assets and liabilities, is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other factors, such as changes in the Authority's operating revenue and the fluctuation of the Authority's expenses, to assess the overall health of the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Financial Highlights

- Net Position decreased from 2013 by \$442,758, resulting in total 2014 net position of \$24,258,653.
- 2014 Operating Revenues increased over 2013 by \$43,204, or 1.5%.
- 2014 Operating Expenses increased over 2013 by \$49,933, or 1.5%.

The remainder of this report contains a series of financial information and tables disclosing the basis for the above financial highlights and the operations of the Authority.

NOTES TO FINANCIAL STATEMENTS

The financial statements also include notes that explain the information in the financial statements. They are essential to a full understanding of the data provided in the financial statements.

STATEMENT OF NET POSITION

The condensed Statement of Net Position that follows provides information about the nature and amounts of resources (assets) and the obligations to the Authority's creditors (liabilities). The difference between the assets and liabilities is reported as net position. The following is a summary of the Authority's net position as of December 31 (in thousands):

Table 1 - Summary Statement of Net Position (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current and other assets	\$ 4,296	\$ 4,110	\$ 4,069
Capital assets, net	<u>24,925</u>	<u>25,648</u>	<u>26,274</u>
Total assets	<u>29,221</u>	<u>29,758</u>	<u>30,343</u>
Liabilities:			
Current liabilities	479	427	423
Long-term liabilities	<u>4,483</u>	<u>4,630</u>	<u>4,774</u>
Total liabilities	<u>4,962</u>	<u>5,057</u>	<u>5,197</u>
Net Position:			
Net investment in capital assets	20,295	20,874	21,358
Restricted	258	259	11
Unrestricted	<u>3,706</u>	<u>3,568</u>	<u>3,777</u>
Total net position	<u>\$ 24,259</u>	<u>\$ 24,701</u>	<u>\$ 25,146</u>

Current and other assets reflect the value of all cash accounts, accounts receivable, inventory, capital contribution receivables, prepaid expenses and funds held for others. These funds are the total customer payments and other operating deposits less the Authority's operating and repair expense payments. The balance of current and other assets increased approximately \$186,000 from 2014 to 2013. This increase is due to an increase in cash of approximately \$220,000 offset by a decrease in capital contributions of approximately \$30,000. The balance was higher in 2013 compare to 2012 by approximately \$41,000 due to a decrease in capital repair expenditures.

STATEMENT OF NET POSITION (Continued)

Total liabilities show the total funds the Authority borrowed to improve infrastructure either with debt or other current year payables. The decrease in total liabilities of approximately \$95,000 from 2013 to 2014 is the result of annual debt payments of approximately \$144,000 offset by an increase in accounts payable of approximately \$43,000. This increase in accounts payable is related to large expenses paid at year end as well as an increase in the number of items that were accrued for. The decrease from 2013 to 2012 of approximately \$140,000 is due to annual debt payments.

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION

Net Position changes as a result of operating activities over a period of one year (revenues earned and expenses incurred). The following Statement of Activities and Change in Net Position provides information on the Authority's operations for the years ended December 31, 2014, 2013 and 2012.

Table 2 - Statement of Activities and Change in Net Position (in thousands)

	Sewer			Water		
	2014	2013	2012	2014	2013	2012
Operating revenue:						
Service fees	\$ 1,577	\$ 1,586	\$ 1,635	\$ 1,373	\$ 1,320	\$ 1,328
Permit fees	13	11	15	27	23	23
Other income	40	48	(3)	2	-	2
Total operating revenues	1,630	1,645	1,647	1,402	1,343	1,353
Operating expenses						
Wages and fringes	616	571	555	429	412	401
Professional services	89	135	67	53	50	52
Utilities	184	167	177	105	99	85
Equipment/building expense	45	71	222	56	58	140
Vehicle expenses	15	14	11	15	13	16
Purchased water and sewer	83	66	46	436	417	395
Outside services	219	123	-	87	88	-
Depreciation	726	831	1,295	237	225	203
Other	24	20	27	22	31	29
Total operating expenses	2,001	1,998	2,400	1,440	1,393	1,321
Total operating income (loss)	(371)	(353)	(753)	(38)	(50)	32
Non-operating revenue (expense):						
Interest income	1	2	3	24	26	27
Interest expense	(79)	(70)	(77)	-	-	-
Grant revenue	36	-	-	-	-	114
Grant expense	(21)	-	-	-	-	-
Gain on sale of assets	3	-	1	2	-	1
Total non-operating rev (exp)	(60)	(68)	(73)	26	26	142
Income (loss) before capital contributions	(431)	(421)	(826)	(12)	(24)	174
Capital contributions	-	-	55	-	-	29
Change in net position	\$ (431)	\$ (421)	\$ (771)	\$ (12)	\$ (24)	\$ 203

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION (Continued)

The Summary Statement of Activities and Change in Net Position (Table 2) shows a decrease in Net Position in 2014 of \$443,000 and a decrease in 2013 of \$444,000. Activity remained consistent from 2013 to 2014. Operating revenue is income earned by the Authority from normal operations. Total operating revenue decreased \$43,000 from 2013 to 2014, or approximately 1%, while from 2012 to 2013 operating revenue decreased \$12,000 from 2012 to 2013.

Operating expense reflects the expenses incurred by the Authority during the execution of normal operating procedures. These normal operations costs include: personnel, professional, utilities, vehicle, equipment, building, permit, supply, and depreciation on fixed assets. The Authority has Administrative, Treatment and Transmission/Collection Departments. All of the leased employees perform work for both the water and sewer areas. All direct costs are applied directly to the applicable water/sewer service area. All indirect costs (costs applicable to both water and sewer, such as administrative salaries) are applied according to the number of service units within each service area. Operating expenses increased \$48,000, or approximately 1%. In the current year wages and fringes increased approximately \$62,000. This was due to two additional employees being hired to replace employee retirements. Professional services decreased approximately \$79,000 as a result of SPEDES permit work performed in 2013. Outside services increased \$95,000 in 2014 compared to 2013. Increased sewer line-taps and site repairs related to flooding that occurred in May of 2014 were responsible for this increase.

LEASE AREAS

The Authority leases several water/sewer service areas. The value of these leased areas is not carried within the capital asset total 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.

FUTURE FACTORS

Sewer Rates were increased \$16 per unit per year in most service areas for 2015.

Water rates were increased \$4 per unit per year in most service areas for 2015.

CSEA contract negotiations for 2012-2016 were completed. There will be a 2% increase in wages from 2015 thru 2016.

Sewage Treatment Plant Permit Requirements

Lakeville Sewage Treatment Plant - In February 2013, NYSDEC issued a draft SPDES permit for comment for the Lakeville Sewage Treatment Plant. The draft permit contained effluent treatment requirements that the current upgraded plant could not meet. 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 Permit was issued May 1, 2014. The permit contained a two-year chemical monitoring program of the Conesus Creek. The results of the monitoring will provide the basis of final effluent limits for ammonia. The permit also contained a Biological monitoring program of Conesus Creek for one year. The results of that program found no statistical difference between the up and down stream of the sewage treatment plant discharge and have been submitted to the NYSDEC for review and comment.

FUTURE FACTORS (Continued)

Sewage Treatment Plant Permit Requirements (Continued)

The Groveland Station Sewage treatment plant - The SPDES permit will be up for renewal in 2015 as it expires March 31, 2016. At this time we do not anticipate any changes to the permit.

Total Maximum Daily Load(TMDL) Study - Both of the LCWSA Sewage treatment plants will be affected by the completion of the NYSDEC TMDL study of the Genesee River Basin. Likely, the study result will be the need to add phosphorus treatment to both plants. At this time the NYSDEC has not officially begun the TMDL process for the Genesee River Basin.

Climate Change - In anticipation of more frequent extreme rain storms, the LCWSA is working on additional programs to deal with infiltration and inflow into the sewage collections systems. The programs are targeted to try to avoid overflow of raw sewage into the environment. The LCWSA in 2015 will be flow monitoring manholes in strategic areas of the collection system to determine where Programs such as video taping and repairing of sewer mains, smoke testing, and internally plumbing inspection programs should be targeted. If success with these programs cannot correct the inflow problems the LCWSA will be considering engineering solutions such as storage of sewage during peaking events. The costs of these solutions are very high, and would require the LCWSA to borrow money and raise rates to complete them.

Development / Growth

The LCWSA continues to negotiate with the State Comptroller's Office (OCS) and Department of Corrections and Community Supervision (DOCCS) to provide a water supply to the Groveland prison. The contract would provide funding to construct a water system necessary from the LCWSA Hemlock supply to the prison. A potential increase in customers of about 120 could result from the project.

REQUESTS FOR INFORMATION

This 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 the Financial Manager, LCWSA, P.O. Box 396, Lakeville, N.Y., 14480; or call 585-346-3523.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,626,302	\$ 2,405,514
Accounts receivable	818,291	823,756
Current portion of capital contributions receivable	31,135	29,772
Inventory	9,591	14,899
Prepaid expenses	61,091	55,571
Funds held for others	<u>30,123</u>	<u>28,390</u>
Total current assets	<u>3,576,533</u>	<u>3,357,902</u>
NONCURRENT ASSETS:		
Restricted cash	103,806	103,802
Funds held by trustee	153,919	155,669
Capital contributions receivable, net of current portion	461,876	493,011
Capital assets, net	<u>24,925,264</u>	<u>25,648,345</u>
Total noncurrent assets	<u>25,644,865</u>	<u>26,400,827</u>
Total assets	<u>29,221,398</u>	<u>29,758,729</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	169,023	126,553
Current portion of loans payable	146,725	144,417
Other current liabilities	133,749	128,108
Funds held for others	<u>30,123</u>	<u>28,390</u>
Total current liabilities	<u>479,620</u>	<u>427,468</u>
NONCURRENT LIABILITIES:		
Loans payable, net of current portion	<u>4,483,125</u>	<u>4,629,850</u>
Total noncurrent liabilities	<u>4,483,125</u>	<u>4,629,850</u>
Total liabilities	<u>4,962,745</u>	<u>5,057,318</u>
NET POSITION		
Net investment in capital assets	20,295,414	20,874,078
Restricted	257,725	259,471
Unrestricted	<u>3,705,514</u>	<u>3,567,862</u>
Total net position	<u>\$ 24,258,653</u>	<u>\$ 24,701,411</u>

The accompanying notes are an integral part of these statements.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE:		
Service fees	\$ 2,949,958	\$ 2,905,505
Permit fees	38,987	34,193
Other income	<u>42,296</u>	<u>48,339</u>
Total operating revenue	<u>3,031,241</u>	<u>2,988,037</u>
OPERATING EXPENSES:		
Administrative	529,991	557,879
Treatment	951,035	941,447
Transmission/collection	996,243	835,459
Depreciation	<u>963,370</u>	<u>1,055,921</u>
Total operating expenses	<u>3,440,639</u>	<u>3,390,706</u>
Total operating loss	<u>(409,398)</u>	<u>(402,669)</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest revenue	24,956	28,375
Interest expense	(78,657)	(69,875)
Gain on sale of assets	5,209	-
Grant revenue	36,060	-
Grant expense	<u>(20,928)</u>	<u>-</u>
Total non-operating revenue (expense)	<u>(33,360)</u>	<u>(41,500)</u>
CHANGE IN NET POSITION	(442,758)	(444,169)
NET POSITION - beginning of year	<u>24,701,411</u>	<u>25,145,580</u>
NET POSITION - end of year	<u>\$ 24,258,653</u>	<u>\$ 24,701,411</u>

The accompanying notes are an integral part of these statements.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenues -		
Receipts from service fees	\$ 2,955,423	\$ 2,946,583
Receipts from permit fees	38,987	34,193
Other operating receipts	42,296	10,554
Expenses -		
Payments to vendors and suppliers for goods and services	(1,390,433)	(1,352,086)
Payments to Livingston County for contracted employees	<u>(1,039,136)</u>	<u>(959,652)</u>
Net cash flow from operating activities	<u>607,137</u>	<u>679,592</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(246,329)	(430,322)
Proceeds from sale of capital assets	11,249	-
Cash received for capital contributions	29,772	28,471
Grants received for capital assets	36,060	-
Repayments on grants	(20,928)	-
Change in funds held with trustee	1,750	63,428
Repayments of bond payable	(144,417)	(141,725)
Interest on capital debt	<u>(78,458)</u>	<u>(80,125)</u>
Net cash flow from capital and related financing activities	<u>(411,301)</u>	<u>(560,273)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	<u>24,956</u>	<u>28,375</u>
Net cash flow from investing activities	<u>24,956</u>	<u>28,375</u>
CHANGE IN CASH AND CASH EQUIVALENTS	220,792	147,694
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,509,316</u>	<u>2,361,622</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,730,108</u>	<u>\$ 2,509,316</u>
CLASSIFIED AS:		
Cash and cash equivalents	\$ 2,626,302	\$ 2,405,514
Restricted cash and cash equivalents	<u>103,806</u>	<u>103,802</u>
Total cash and cash equivalents	<u>\$ 2,730,108</u>	<u>\$ 2,509,316</u>

(Continued)

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Continued)

	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating loss	\$ (409,398)	\$ (402,669)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	963,370	1,055,852
Change in:		
Accounts receivable	5,465	3,293
Inventory	5,308	13,267
Prepaid expenses	(5,520)	(4,453)
Accounts payable	42,470	(9,360)
Other current liabilities	5,442	23,662
	<u>607,137</u>	<u>679,592</u>
Net cash flow from operating activities	<u>\$ 607,137</u>	<u>\$ 679,592</u>

The accompanying notes are an integral part of these statements.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 component unit of the County and is included as such within the County's basic financial statements as a discretely presented component unit.

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 Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Basis of Presentation

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

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted Net Position - This component of net position consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component consists of net position that does not meet the definition of "net investment in capital assets," or "restricted."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

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 held with trustee 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 services areas.

For purposes of presenting the statement of cash flows, the Authority considers all highly liquid short-term investments with a maturity of three months or less from year-end to be cash or cash equivalents.

Accounts Receivable

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

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.

Inventory

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

Capital Assets

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

Machinery and equipment	5 - 10 years
Buildings	20 - 40 years
Water distribution system	30 - 50 years
Sewer collection system	20 - 50 years

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Budget

The Authority is not required to have a legally adopted budget. However, 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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS

The guidelines established by the Authority permit the investment of funds held by the Authority to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State of New York, or in general obligations of its political subdivisions; obligations of the United States.

The Authority's investment policy requires its deposits and investments to be 100% collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States or the State of New York. Collateral must be delivered to the Authority or an authorized custodial bank. In addition, the Authority's investment policy includes the following provisions for interest rate risk, credit risk and custodial credit risk (as defined below):

- 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.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

- Credit risk (Continued)
 - 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 (FDIA) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits.

 - 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.

At December 31, 2014 and 2013, respectively, cash and cash equivalents and restricted cash held by the Authority in financial institutions were \$2,730,108 and \$2,509,316. At December 31, 2014 and 2013, cash and cash equivalents and restricted cash consisted of bank demand deposit and money market accounts, which are not subject to investment risk relating to changing interest rates. The Authority's deposits and investments are required to be collateralized in the event of loss due to the failure of the issuer or counterparty to its investments.

Total deposits of cash and cash equivalents, including funds held for others, are as follows for the years ended December 31, 2014:

	2014	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 40,169	\$ 95,363
Time deposits	<u>2,720,062</u>	<u>2,708,578</u>
Total cash and investments	<u>\$ 2,760,231</u>	<u>\$ 2,803,941</u>
Insured cash - FDIC		\$ 440,930
Uninsured - collateralized with securities held by pledging financial institution		<u>2,508,280</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 2,949,210</u>

3. DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

	<u>2013</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 28,583	\$ 75,357
Time deposits	<u>2,508,973</u>	<u>2,505,884</u>
Total cash and investments	<u>\$ 2,537,556</u>	<u>\$ 2,581,241</u>
Insured cash - FDIC		\$ 418,107
Uninsured - collateralized with securities held by pledging financial institution		<u>2,282,075</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 2,700,182</u>

4. RESTRICTED CASH

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

	<u>2014</u>	<u>2013</u>
SLGS Debt Reserve	\$ 92,750	\$ 92,750
Capital development and repairs	<u>11,056</u>	<u>11,052</u>
	<u>\$ 103,806</u>	<u>\$ 103,802</u>

Restricted funds are established to fund development and repairs associated with specific service areas as well as requirements related to debt reserves.

5. FUNDS HELD BY TRUSTEE

Funds held by trustee for the Authority refer to cash held by a third party for the Authority. The funds held by trustee are not subject to the Authority's Investment and Deposit Policy or collateralization requirements. As of December 31, 2014 and 2013 this amount was \$153,919 and \$155,669, respectively. This represents funds held by EFC as unspent proceeds related to a project that was funded by the EFC.

6. ACCOUNTS RECEIVABLE

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

	<u>2014</u>	<u>2013</u>
Water and sewer service fees	\$ 568,630	\$ 568,049
Due from local governments	245,901	251,786
Financing interest	<u>3,760</u>	<u>3,921</u>
	<u>\$ 818,291</u>	<u>\$ 823,756</u>

7. CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Village of Geneseo	\$ <u>493,011</u>	\$ <u>522,783</u>

Future scheduled principal payments of capital contributions are as follows at December 31:

2015	\$ 31,135
2016	32,560
2017	34,050
2018	35,608
2019	37,238
2020-2024	213,367
Thereafter	<u>109,053</u>
	<u>\$ 493,011</u>

8. CAPITAL ASSETS

The Authority's capital assets for 2014 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 147,985	\$ -	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>859,476</u>	<u>166,738</u>	<u>(161,725)</u>	<u>-</u>	<u>864,489</u>
Total non-depreciable assets	<u>1,007,461</u>	<u>166,738</u>	<u>(161,725)</u>	<u>-</u>	<u>1,012,474</u>
Buildings	5,148,174	-	-	-	5,148,174
Water distribution system	9,583,315	-	-	-	9,583,315
Sewer collection system	20,317,346	-	100,183	-	20,417,529
Machinery and equipment	<u>2,339,104</u>	<u>79,591</u>	<u>61,542</u>	<u>(18,706)</u>	<u>2,461,531</u>
Total depreciable assets	<u>37,387,939</u>	<u>79,591</u>	<u>161,725</u>	<u>(18,706)</u>	<u>37,610,549</u>
Less: Accumulated depreciation:					
Buildings	(1,592,658)	(140,598)	-	-	(1,733,256)
Water distribution system	(2,855,691)	(182,192)	-	-	(3,037,883)
Sewer collection system	(6,954,066)	(465,623)	-	-	(7,419,689)
Machinery and equipment	<u>(1,344,640)</u>	<u>(174,957)</u>	<u>-</u>	<u>12,666</u>	<u>(1,506,931)</u>
Total accumulated depreciation	<u>(12,747,055)</u>	<u>(963,370)</u>	<u>-</u>	<u>12,666</u>	<u>(13,697,759)</u>
Net depreciable assets	<u>24,640,884</u>	<u>(883,779)</u>	<u>161,725</u>	<u>(6,040)</u>	<u>23,912,790</u>
Total capital assets, net	<u>\$ 25,648,345</u>	<u>\$ (717,041)</u>	<u>\$ -</u>	<u>\$ (6,040)</u>	<u>\$ 24,925,264</u>

8. CAPITAL ASSETS (Continued)

The Authority's capital assets for 2013 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 147,985	\$ -	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>778,626</u>	<u>405,787</u>	<u>(324,937)</u>	<u>-</u>	<u>859,476</u>
Total non-depreciable assets	<u>926,611</u>	<u>405,787</u>	<u>(324,937)</u>	<u>-</u>	<u>1,007,461</u>
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	16,869	119,166	-	20,317,346
Machinery and equipment	<u>2,221,976</u>	<u>7,666</u>	<u>109,462</u>	<u>-</u>	<u>2,339,104</u>
Total depreciable assets	<u>37,038,467</u>	<u>24,535</u>	<u>324,937</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>-</u>	<u>(1,344,640)</u>
Total accumulated depreciation	<u>(11,691,203)</u>	<u>(1,055,852)</u>	<u>-</u>	<u>-</u>	<u>(12,747,055)</u>
Net depreciable assets	<u>25,347,264</u>	<u>(1,031,317)</u>	<u>-</u>	<u>-</u>	<u>24,640,884</u>
Total capital assets, net	<u>\$ 26,273,875</u>	<u>\$ (625,530)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,648,345</u>

9. FINANCING ARRANGEMENTS

The Authority had the following debt outstanding as of December 31, 2014:

	Balance January 1	Increases	Decreases	Due Within One year	Due After One Year
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.	\$ 2,630,000	\$ -	\$ (75,000)	\$(80,000)	\$ 2,475,000
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 on August 31, 2040.	856,575	-	(31,725)	(31,725)	793,125
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>1,287,692</u>	<u>-</u>	<u>(37,692)</u>	<u>(35,000)</u>	<u>1,215,000</u>
	<u>\$ 4,774,267</u>	<u>\$ -</u>	<u>\$ (144,417)</u>	<u>\$ (146,725)</u>	<u>\$ 4,483,125</u>

9. FINANCING ARRANGEMENTS (Continued)

The Authority had the following debt outstanding as of December 31, 2013:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One year</u>	<u>Due After 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)	\$ (75,000)	\$ 2,555,000
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 on August 31, 2040.	888,300	-	(31,725)	(31,725)	824,850
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>(37,692)</u>	<u>1,250,000</u>
	<u>\$ 4,915,992</u>	<u>\$ -</u>	<u>\$ (141,725)</u>	<u>\$ (144,417)</u>	<u>\$ 4,629,850</u>

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

2015	\$ 146,725
2016	146,725
2017	146,725
2018	151,725
2019	151,725
2020 - 2024	788,625
2025 - 2029	858,625
2030 - 2034	933,625
2035 - 2039	1,023,625
Thereafter	<u>281,725</u>
	<u>\$ 4,629,850</u>

Interest on all long-term debt for the year was composed of:

Interest paid	\$ 78,458
Plus: Interest accrued in the current year	28,708
Less: Interest accrued in the prior year	<u>(28,509)</u>
Total interest expense	<u>\$ 78,657</u>

9. FINANCING ARRANGEMENTS (Continued)

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 Banks acts as a trustee, into which funds are to be deposited. The Authority is required 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, 2014 and 2013, 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.

10. FUNDS HELD FOR OTHERS

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

	<u>2014</u>	<u>2013</u>
Compact of towns (flood gates)	\$ 21,931	\$ 21,923
Collections	<u>8,192</u>	<u>6,467</u>
	<u>\$ 30,123</u>	<u>\$ 28,390</u>

11. COMMITMENTS AND CONTINGENCIES

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 2014 and 2013 was \$1,044,578 and \$959,348, respectively.

Contingencies

The Authority has various insurance policies with third-party carriers related to property protection and casualty.

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.

11. COMMITMENTS AND CONTINGENCIES (Continued)

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 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 Plant 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.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

SCHEDULE OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014			2013		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUE:						
Service fees	\$ 1,576,726	\$ 1,373,232	\$ 2,949,958	\$ 1,585,852	\$ 1,319,653	\$ 2,905,505
Permit fees	12,552	26,435	38,987	11,408	22,785	34,193
Other income	40,266	2,030	42,296	48,332	7	48,339
Total operating revenue	<u>1,629,544</u>	<u>1,401,697</u>	<u>3,031,241</u>	<u>1,645,592</u>	<u>1,342,445</u>	<u>2,988,037</u>
OPERATING EXPENSES:						
Administrative	272,839	257,152	529,991	298,824	259,055	557,879
Treatment	473,817	477,218	951,035	454,762	486,685	941,447
Transmission/collection	527,972	468,271	996,243	413,274	422,185	835,459
Depreciation	726,083	237,287	963,370	831,011	224,910	1,055,921
Total operating expenses	<u>2,000,711</u>	<u>1,439,928</u>	<u>3,440,639</u>	<u>1,997,871</u>	<u>1,392,835</u>	<u>3,390,706</u>
Total operating loss	<u>(371,167)</u>	<u>(38,231)</u>	<u>(409,398)</u>	<u>(352,279)</u>	<u>(50,390)</u>	<u>(402,669)</u>
NON-OPERATING REVENUE (EXPENSE):						
Interest revenue	1,233	23,723	24,956	2,469	25,906	28,375
Interest expense	(78,657)	-	(78,657)	(69,875)	-	(69,875)
Gain on sale of assets	2,646	2,563	5,209	-	-	-
Grant revenue	36,060	-	36,060	-	-	-
Grant expense	(20,928)	-	(20,928)	-	-	-
Total non-operating revenue (expense)	<u>(59,646)</u>	<u>26,286</u>	<u>(33,360)</u>	<u>(67,406)</u>	<u>25,906</u>	<u>(41,500)</u>
CHANGE IN NET POSITION	<u>\$ (430,813)</u>	<u>\$ (11,945)</u>	<u>(442,758)</u>	<u>\$ (419,685)</u>	<u>\$ (24,484)</u>	<u>(444,169)</u>
NET POSITION - beginning of year			<u>24,701,411</u>			<u>25,145,580</u>
NET POSITION - end of year			<u>\$ 24,258,653</u>			<u>\$ 24,701,411</u>

The accompanying notes are an integral part of these schedules.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A Discretely Presented Component Unit of the County of Livingston, New York)

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014			2013		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING EXPENSES:						
Administrative -						
Contracted employees	\$ 183,287	\$ 174,951	\$ 358,238	\$ 164,360	\$ 159,168	\$ 323,528
Professional services	60,989	51,920	112,909	101,578	47,694	149,272
Small equipment purchase	1,662	131	1,793	5,973	10,700	16,673
Payments to other governments	-	-	-	-	85	85
Travel and training	792	777	1,569	581	562	1,143
Equipment and building maintenance	314	2,248	2,562	592	2,893	3,485
Utilities	981	950	1,931	1,001	1,046	2,047
Outside services	17,211	16,377	33,588	17,970	14,844	32,814
Other	7,603	9,798	17,401	6,769	22,063	28,832
Total administrative	272,839	257,152	529,991	298,824	259,055	557,879
Treatment -						
Contracted employees	212,226	38,632	250,858	219,449	68,145	287,594
Purchased water/sewer	82,863	435,638	518,501	65,899	416,905	482,804
Utilities	58,829	-	58,829	57,988	-	57,988
Outside services	63,989	945	64,934	53,292	-	53,292
Equipment and building maintenance	22,564	284	22,848	10,217	-	10,217
Professional services	21,934	-	21,934	32,837	-	32,837
Small equipment purchases	513	-	513	8,726	-	8,726
Permits, fees and inspections	3,987	1,635	5,622	2,547	1,635	4,182
Travel and training	164	-	164	806	-	806
Other	6,748	84	6,832	3,001	-	3,001
Total treatment	473,817	477,218	951,035	454,762	486,685	941,447
Transmission/collection -						
Contracted employees	220,032	215,450	435,482	187,233	184,957	372,190
Utilities	124,600	104,301	228,901	107,659	97,839	205,498
Equipment and building maintenance	15,824	49,004	64,828	43,093	41,290	84,383
Vehicle expense	15,288	14,807	30,095	13,907	13,491	27,398
Outside services	138,140	69,828	207,968	51,360	72,708	124,068
Professional services	6,341	1,525	7,866	954	2,502	3,456
Small equipment purchases	3,923	4,730	8,653	2,375	2,720	5,095
Permits, fees and inspections	447	5,239	5,686	271	2,263	2,534
Travel and training	235	287	522	447	433	880
Other	3,142	3,100	6,242	5,975	3,982	9,957
Total transmission/collection	527,972	468,271	996,243	413,274	422,185	835,459
Depreciation	726,083	237,287	963,370	831,011	224,910	1,055,921
Total operating expenses	\$ 2,000,711	\$ 1,439,928	\$ 3,440,639	\$ 1,997,871	\$ 1,392,835	\$ 3,390,706

The accompanying notes are an integral part of these schedules.

INDEPENDENT AUDITOR'S 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

March 25, 2015

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Livingston County Water and Sewer Authority (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Livingston, New York, as of and for the year ended December 31, 2014, 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 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial 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 on 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 a 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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.

171 Sully's Trail, Suite 201
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

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(Continued)

INDEPENDENT AUDITOR'S 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*

(Continued)

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.