

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

Financial Statements
December 31, 2015 and 2014
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)

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3 - 7
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014:	
Statement of Net Position	8
Statement of Revenue, Expenses and Change in Net Position	9
Statement of Cash Flows	10 - 11
Notes to Basic Financial Statements	12 - 21
SUPPLEMENTARY SCHEDULES:	
Schedule of Revenue, Expenses and Change in Net Position	22
Schedule of Operating Expenses	23
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	24 - 25

INDEPENDENT AUDITOR'S REPORT

March 23, 2016

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

We have audited the accompanying financial statements of the 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 years ended December 31, 2015 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2015 and 2014, and the changes in its financial position, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

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 3–7 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 audits 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 audits were conducted for the purpose of forming an opinion 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 23, 2016 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.

Bonadio & Co., LLP

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, 2015 AND 2014

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 appoints the volunteer members who comprise the Authority's 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 10 leased employees: four are administrative and six 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 2015 with comparative data for 2014 and 2013. This report should be used and considered in conjunction with the 2015 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 2014 by \$262,130, resulting in total 2015 net position of \$23,996,523.
- 2015 Operating Revenues increased over 2014 by \$119,840, or 4%.
- 2015 Operating Expenses decreased over 2014 by \$30,381, or 0.9%.

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>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current and other assets	\$ 6,309	\$ 4,296	\$ 4,110
Capital assets, net	<u>24,272</u>	<u>24,925</u>	<u>25,648</u>
Total assets	<u>30,581</u>	<u>29,221</u>	<u>29,758</u>
Liabilities:			
Current liabilities	2,248	479	427
Long-term liabilities	<u>4,336</u>	<u>4,483</u>	<u>4,630</u>
Total liabilities	<u>6,584</u>	<u>4,962</u>	<u>5,057</u>
Net Position:			
Net investment in capital assets	19,789	20,295	20,874
Restricted	197	258	259
Unrestricted	<u>4,011</u>	<u>3,706</u>	<u>3,568</u>
Total net position	<u>\$ 23,997</u>	<u>\$ 24,259</u>	<u>\$ 24,701</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 \$2,013,000 from 2015 to 2014. This increase is due to a large increase in cash of approximately \$1,834,000 related to the agreement with the Department of Corrections and Community Supervisions (DOCCS) to provide a distribution system and drinking water service for ten years to Groveland and Livingston Correctional Facilities.

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 increase in total liabilities of approximately \$1,619,000 from 2014 to 2015 is the result of the DOCCS money being recorded as unearned revenue offset by annual debt payments of approximately \$147,000 as well as a decrease in accounts payable of approximately \$41,000.

STATEMENT OF REVENUE, EXPENSES, 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 Revenue, Expenses, and Change in Net Position provides information on the Authority's operations for the years ended December 31, 2015, 2014 and 2013.

Table 2 - Statement of Revenue, Expenses and Change in Net Position (In thousands)

	Sewer			Water		
	2015	2014	2013	2015	2014	2013
Operating revenue:						
Service fees	\$ 1,669	\$ 1,577	\$ 1,586	\$ 1,353	\$ 1,373	\$ 1,320
Permit fees	30	13	11	35	27	23
Other income	57	40	48	7	2	-
Total operating revenues	1,756	1,630	1,645	1,395	1,402	1,343
Operating expenses						
Wages and fringes	496	616	571	416	429	412
Professional services	154	89	135	54	53	50
Utilities	177	184	167	98	105	99
Equipment/building expense	75	45	71	88	56	58
Vehicle expenses	16	15	14	10	15	13
Purchased water and sewer	77	83	66	480	436	417
Outside services	170	219	123	92	87	88
Depreciation	712	726	831	243	237	225
Other	30	24	20	22	22	31
Total operating expenses	1,907	2,001	1,998	1,503	1,440	1,393
Total operating income (loss)	(151)	(371)	(353)	(108)	(38)	(50)
Non-operating revenue (expense):						
Contributed funds	-	-	-	44	-	-
Interest income	5	1	2	17	24	26
Interest expense	(69)	(79)	(70)	-	-	-
Grant revenue	44	36	-	-	-	-
Grant expense	(44)	(21)	-	-	-	-
Gain on sale of assets	-	3	-	-	2	-
Total non-operating rev (exp)	(64)	(60)	(68)	61	26	26
Change in net position	\$ (215)	\$ (431)	\$ (421)	\$ (47)	\$ (12)	\$ (24)

STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN NET POSITION (Continued)

The Summary Statement of Revenue, Expenses, and Change in Net Position (Table 2) shows a decrease in Net Position in 2015 of \$262,000 and a decrease in 2014 of \$443,000. Operating revenue is income earned by the Authority from normal operations. Total operating revenue increased \$120,000 from 2014 to 2015, or approximately 4%, while from 2013 to 2014 operating revenue decreased \$43,000.

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 decreased \$30,000, or approximately 1%. In the current year wages and fringes decreased approximately \$133,000. This was due to two employees separating from the Authority in 2015 as well as the retirement of two employees. Professional services increased approximately \$65,000 as a result of the Authority hiring contracted services to help operate the system in lieu of losing two sewer operators.

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 \$4 per unit per year in most service areas for 2016.

Water Rates were increased \$4 per unit per year in most service areas for 2016.

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

Sewage Treatment Plant Permit Requirements

Lakeville Sewage Treatment Plant – The LCWSA is in receipt of funding from the Environmental Facilities Corporation (EFC) through the Clean Water State Revolving Loan Fund (CWSRLF) for upgrades to the Lakeville treatment plant. The LCWSA has recently completed the Chemical and Biological analysis of the Conesus outlet as part of the SPDES permit renewal process. In anticipation of the potential impacts that may come from the permit renewal process the LCWSA undertook an engineering study that evaluated the upgrades necessary to meet potential permit requirements. The evaluation looked at options to close the plant and consolidate services with the Village of Avon. The most cost efficient method of treatment was found to be upgrades at the Lakeville plant. The costs for the upgrade can be up to \$5,650,000.

FUTURE FACTORS (Continued)

Sewage Treatment Plant Permit Requirements (Continued)

Groveland Station Sewage Treatment Plant – The SPDES Permit was reissued with no changes.

Total Maximum Daily Load (TMDL) Study – Both the Lakeville and Groveland 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.

2015 Collection System Study – Due to the recent rash of extreme storms that created overflows in the LCWSA sewer collection system, the LCWSA conducted a study that examines the inflow and infiltration issues in the Lakeville treatment plant service area. The Study looked at rain events and flows with the collection system and evaluated the data. The report is completed, and outlines the activities for the next five years, to attempt to stop the overflow issue. The following are steps to be undertaken over the next 5 years

- Hire a new employee who will undertake internal plumbing inspections of residents in the service area to determine if there are any illegal connections
- Continue with the Inflow and Infiltration repair projects \$80,000 per year
- Continue televising and cleaning the sanitary sewer system and identifying project for the Inflow and Infiltration repair projects

At the end of each year a report will be submitted to the NYSDEC on the accomplishments under the study. At the end of the five years if the LCWSA has not been successful in eliminating or reducing overflow issues, the report outlines capital improvement options that include:

- Installation of parallel gravity sewer mains
- Installation of a new force main
- Combinations of both gravity and force mains
- Different sizes of sewer storage tanks
- Installation of entire new system diverting the sewage from the Lake collection system through a new collection system directly to the plant

The costs of the capital improvement options range from \$1,200,000 to \$9,000,000.

Contracting Plant Operations – The LCWSA has decided to contract for treatment plant operations from Yaws Environmental Process Control, Inc. The Contract allows the LCWSA to have two licensed Operators available to operate the plants without hiring and training new employees. The contract is a two year contract with two one year extensions.

Development / Growth – The LCWSA has negotiated a contract to construct a water supply to the Department of Corrections and Community Supervision (DOCCS) in Groveland. The Project is an eight million dollar construction project that will be paid by DOCCS and owned by the LCWSA. The route of the project will provide a potential to add approximately 133 new customers.

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,879,525	\$ 2,626,302
Restricted cash	1,833,758	-
Accounts receivable	849,984	818,291
Current portion of capital contributions receivable	32,560	31,135
Inventory	8,475	9,591
Prepaid expenses	47,954	61,091
Funds held for others	<u>30,657</u>	<u>30,123</u>
Total current assets	<u>5,682,913</u>	<u>3,576,533</u>
NONCURRENT ASSETS:		
Restricted cash	103,807	103,806
Funds held by trustee	93,119	153,919
Capital contributions receivable, net of current portion	429,316	461,876
Capital assets, net	<u>24,271,654</u>	<u>24,925,264</u>
Total noncurrent assets	<u>24,897,896</u>	<u>25,644,865</u>
Total assets	<u>30,580,809</u>	<u>29,221,398</u>
LIABILITIES		
CURRENT LIABILITIES:		
Unearned revenue	1,833,695	-
Accounts payable	127,745	169,023
Current portion of loans payable	146,725	146,725
Other current liabilities	109,064	133,749
Funds held for others	<u>30,657</u>	<u>30,123</u>
Total current liabilities	<u>2,247,886</u>	<u>479,620</u>
NONCURRENT LIABILITIES:		
Loans payable, net of current portion	<u>4,336,400</u>	<u>4,483,125</u>
Total noncurrent liabilities	<u>4,336,400</u>	<u>4,483,125</u>
Total liabilities	<u>6,584,286</u>	<u>4,962,745</u>
NET POSITION		
Net investment in capital assets	19,788,529	20,295,414
Restricted	196,926	257,725
Unrestricted	<u>4,011,068</u>	<u>3,705,514</u>
Total net position	<u>\$ 23,996,523</u>	<u>\$ 24,258,653</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUE:		
Service fees	\$ 3,021,550	\$ 2,949,958
Permit fees	65,325	38,987
Other income	<u>64,206</u>	<u>42,296</u>
Total operating revenue	<u>3,151,081</u>	<u>3,031,241</u>
OPERATING EXPENSES:		
Administrative	562,960	529,084
Treatment	950,028	951,337
Transmission/collection	941,979	996,848
Depreciation	<u>955,291</u>	<u>963,370</u>
Total operating expenses	<u>3,410,258</u>	<u>3,440,639</u>
Total operating loss	<u>(259,177)</u>	<u>(409,398)</u>
NON-OPERATING REVENUE (EXPENSE):		
Contract with New York State	43,605	-
Interest revenue	22,759	24,956
Interest expense	(70,065)	(78,657)
Gain on sale of assets	-	5,209
Grant revenue	44,470	36,060
Grant expense	<u>(43,722)</u>	<u>(20,928)</u>
Total non-operating revenue (expense)	<u>(2,953)</u>	<u>(33,360)</u>
CHANGE IN NET POSITION	(262,130)	(442,758)
NET POSITION - beginning of year	<u>24,258,653</u>	<u>24,701,411</u>
NET POSITION - end of year	<u>\$ 23,996,523</u>	<u>\$ 24,258,653</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenues -		
Receipts from service fees	\$ 2,989,857	\$ 2,955,423
Receipts from permit fees	65,325	38,987
Other operating receipts	64,206	42,296
Expenses -		
Payments to vendors and suppliers for goods and services	(1,570,901)	(1,390,433)
Payments to Livingston County for contracted employees	<u>(929,085)</u>	<u>(1,039,136)</u>
Net cash flow from operating activities	<u>619,402</u>	<u>607,137</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received under New York State contract	1,875,000	-
Purchase of capital assets	(258,317)	(246,329)
Contributed capital assets	(41,305)	-
Disposal of capital assets	241	11,249
Cash received for capital contributions	31,135	29,772
Grants received for capital assets	44,470	36,060
Repayments on grants	(43,722)	(20,928)
Change in funds held with trustee	60,800	1,750
Repayments of bond payable	(146,725)	(144,417)
Interest on capital debt	<u>(76,756)</u>	<u>(78,458)</u>
Net cash flow from capital and related financing activities	<u>1,444,821</u>	<u>(411,301)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	<u>22,759</u>	<u>24,956</u>
Net cash flow from investing activities	<u>22,759</u>	<u>24,956</u>
CHANGE IN CASH AND CASH EQUIVALENTS	2,086,982	220,792
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,730,108</u>	<u>2,509,316</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 4,817,090</u>	<u>\$ 2,730,108</u>
CLASSIFIED AS:		
Cash and cash equivalents	\$ 2,879,525	\$ 2,626,302
Restricted cash and cash equivalents	<u>1,937,565</u>	<u>103,806</u>
Total cash and cash equivalents	<u>\$ 4,817,090</u>	<u>\$ 2,730,108</u>

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, 2015 AND 2014
(Continued)

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating loss	\$ (259,177)	\$ (409,398)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	955,291	963,370
Change in:		
Accounts receivable	(31,693)	5,465
Inventory	1,116	5,308
Prepaid expenses	13,137	(5,520)
Accounts payable	(41,278)	42,470
Other current liabilities	(17,994)	5,442
	<u>619,402</u>	<u>607,137</u>
Net cash flow from operating activities	<u>\$ 619,402</u>	<u>\$ 607,137</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITY:		
Capital assets received directly from developers and governments	<u>\$ 2,300</u>	<u>\$ -</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, 2015 AND 2014

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 position 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 (EFC) 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.

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.

Unearned Revenue

Unearned revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Authority before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the Authority has legal claim to resources, the liability for unearned revenue is removed and revenue is recognized.

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.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

- **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 (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, 2015 and 2014, respectively, cash and cash equivalents and restricted cash held by the Authority in financial institutions were \$4,817,090 and \$2,730,108. At December 31, 2015 and 2014, 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, 2015:

	2015	
	Carrying Amount	Bank Balance
Demand deposits	\$ 40,648	\$ 45,098
Time deposits	4,807,099	4,809,660
Total cash and investments	\$ 4,847,747	\$ 4,854,758
Insured cash - FDIC		\$ 392,308
Uninsured - collateralized with securities held by pledging financial institution		4,608,859
Total insured and collateralized cash and cash equivalents		\$ 5,001,167

3. DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

	<u>2014</u>	
	<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>

4. RESTRICTED CASH

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

	<u>2015</u>	<u>2014</u>
Department of Corrections Capital Project	\$ 1,833,758	\$ -
SLGS Debt Reserve	92,750	92,750
Capital development and repairs	<u>11,057</u>	<u>11,056</u>
	<u>\$ 1,937,565</u>	<u>\$ 103,806</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, 2015 and 2014 this amount was \$93,119 and \$153,919, 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>2015</u>	<u>2014</u>
Water and sewer service fees	\$ 570,070	\$ 568,630
Due from local governments	279,914	245,901
Financing interest	<u>-</u>	<u>3,760</u>
	<u>\$ 849,984</u>	<u>\$ 818,291</u>

7. CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Village of Geneseo	\$ <u>461,876</u>	\$ <u>493,011</u>

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

2016	\$ 32,560
2017	34,050
2018	35,608
2019	37,238
2020	38,942
2021-2025	223,132
Thereafter	<u>60,346</u>
	<u>\$ 461,876</u>

8. CAPITAL ASSETS

The Authority's capital assets for 2015 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 147,985	\$ 2,300	\$ -	\$ -	\$ 150,285
Construction work-in-progress	<u>864,489</u>	<u>299,622</u>	<u>(787,948)</u>	<u>(241)</u>	<u>375,922</u>
Total non-depreciable assets	<u>1,012,474</u>	<u>301,922</u>	<u>(787,948)</u>	<u>(241)</u>	<u>526,207</u>
Buildings	5,148,174	-	19,136	-	5,167,310
Water distribution system	9,583,315	-	-	-	9,583,315
Sewer collection system	20,417,529	-	117,333	-	20,534,862
Machinery and equipment	<u>2,461,531</u>	<u>-</u>	<u>651,479</u>	<u>-</u>	<u>3,113,010</u>
Total depreciable assets	<u>37,610,549</u>	<u>-</u>	<u>787,948</u>	<u>-</u>	<u>38,398,497</u>
Less: Accumulated depreciation:					
Buildings	(1,733,256)	(133,100)	-	-	(1,866,356)
Water distribution system	(3,037,883)	(182,192)	-	-	(3,220,075)
Sewer collection system	(7,419,689)	(463,550)	-	-	(7,883,239)
Machinery and equipment	<u>(1,506,931)</u>	<u>(176,449)</u>	<u>-</u>	<u>-</u>	<u>(1,683,380)</u>
Total accumulated depreciation	<u>(13,697,759)</u>	<u>(955,291)</u>	<u>-</u>	<u>-</u>	<u>(14,653,050)</u>
Net depreciable assets	<u>23,912,790</u>	<u>(955,291)</u>	<u>787,948</u>	<u>-</u>	<u>23,745,447</u>
Total capital assets, net	<u>\$ 24,925,264</u>	<u>\$ (653,369)</u>	<u>\$ -</u>	<u>\$ (241)</u>	<u>\$ 24,271,654</u>

8. CAPITAL ASSETS (Continued)

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	859,476	166,738	(161,725)	-	864,489
Total non-depreciable assets	1,007,461	166,738	(161,725)	-	1,012,474
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	2,339,104	79,591	61,542	(18,706)	2,461,531
Total depreciable assets	37,387,939	79,591	161,725	(18,706)	37,610,549
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	(1,344,640)	(174,957)	-	12,666	(1,506,931)
Total accumulated depreciation	(12,747,055)	(963,370)	-	12,666	(13,697,759)
Net depreciable assets	24,640,884	(883,779)	161,725	(6,040)	23,912,790
Total capital assets, net	\$ 25,648,345	\$ (717,041)	\$ -	\$ (6,040)	\$ 24,925,264

9. FINANCING ARRANGEMENTS

The Authority had the following debt outstanding as of December 31, 2015:

	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.	\$ 2,555,000	\$ -	\$ (80,000)	\$ (80,000)	\$ 2,395,000
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.	824,850	-	(31,725)	(31,725)	761,400
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.	1,250,000	-	(35,000)	(35,000)	1,180,000
	<u>\$ 4,629,850</u>	<u>\$ -</u>	<u>\$ (146,725)</u>	<u>\$ (146,725)</u>	<u>\$ 4,336,400</u>

9. FINANCING ARRANGEMENTS (Continued)

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

	<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.	\$ 2,630,000	\$ -	\$ (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>

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

2016	\$ 146,725
2017	146,725
2018	151,725
2019	151,725
2020	151,725
2021 - 2025	798,625
2026 - 2030	878,625
2031 - 2035	948,625
2036 - 2040	908,625
Thereafter	<u>200,000</u>
	<u>\$ 4,483,125</u>

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

Interest paid	\$ 76,756
Plus: Interest accrued in the current year	22,017
Less: Interest accrued in the prior year	<u>(28,708)</u>
Total interest expense	<u>\$ 70,065</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 certain trust funds, for which M&T Bank acts as a trustee, into which monies 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, 2015 and 2014, 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>2015</u>	<u>2014</u>
Compact of towns (flood gates)	\$ 21,934	\$ 21,931
Collections	<u>8,723</u>	<u>8,192</u>
	<u>\$ 30,657</u>	<u>\$ 30,123</u>

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Authority has an agreement with the County to lease the County's employees, with the exception of 10% of the billing clerk salary which is paid by the County. Therefore, the Authority makes monthly payments to the County for all payroll and related employee expenses. The total amount recognized in 2015 and 2014 was \$911,091 and \$1,044,578, 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 New York State Department of Environmental Conservation (NYSDEC) 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.

Groveland Correctional Facility Water Supply Project

On June 15, 2014 the Authority signed a contract with the New York State Department of Corrections and Community Supervision (DOCCS) to design and construct needed improvements to the Authority's water supply and distribution system. These improvements would allow the Authority to begin water supply services to the Groveland Correctional Facilities.

It was agreed that DOCCS would pay 100% of the anticipated project cost of \$7,500,000, or the actual costs, whichever is less. The agreement calls for 25% of the project cost (\$1,875,000) to be paid immediately after approval of the contract, 25% to be paid after the project is 25% complete, 25% to be paid after the project is 50% complete and 15% when the project is 75% complete. DOCCS will then make a final payment to cover the final remaining cost of the project.

On November 19, 2015, the Authority received its first check from DOCCS in the amount of \$1,875,000. This amount was initially recorded as unearned revenue and will be recognized as the Authority completes the project. As of December 31, 2015, the Authority has recognized \$41,305 of revenue and expense related to this project.

SUPPLEMENTARY INFORMATION

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, 2015**

	2015			2014		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING REVENUE:						
Service fees	\$ 1,668,610	\$ 1,352,940	\$ 3,021,550	\$ 1,576,726	\$ 1,373,232	\$ 2,949,958
Permit fees	30,355	34,970	65,325	12,552	26,435	38,987
Other income	57,042	7,164	64,206	40,266	2,030	42,296
Total operating revenue	<u>1,756,007</u>	<u>1,395,074</u>	<u>3,151,081</u>	<u>1,629,544</u>	<u>1,401,697</u>	<u>3,031,241</u>
OPERATING EXPENSES:						
Administrative	293,988	268,972	562,960	272,537	256,547	529,084
Treatment	429,683	520,345	950,028	474,119	477,218	951,337
Transmission/collection	471,390	470,589	941,979	527,972	468,876	996,848
Depreciation	712,309	242,982	955,291	726,083	237,287	963,370
Total operating expenses	<u>1,907,370</u>	<u>1,502,888</u>	<u>3,410,258</u>	<u>2,000,711</u>	<u>1,439,928</u>	<u>3,440,639</u>
Total operating loss	<u>(151,363)</u>	<u>(107,814)</u>	<u>(259,177)</u>	<u>(371,167)</u>	<u>(38,231)</u>	<u>(409,398)</u>
NON-OPERATING REVENUE (EXPENSE):						
Contract with New York State	-	43,605	43,605	-	-	-
Interest revenue	5,281	17,478	22,759	1,233	23,723	24,956
Interest expense	(70,065)	-	(70,065)	(78,657)	-	(78,657)
Gain on sale of assets	-	-	-	2,646	2,563	5,209
Grant revenue	44,470	-	44,470	36,060	-	36,060
Grant expense	(43,722)	-	(43,722)	(20,928)	-	(20,928)
Total non-operating revenue (expense)	<u>(64,036)</u>	<u>61,083</u>	<u>(2,953)</u>	<u>(59,646)</u>	<u>26,286</u>	<u>(33,360)</u>
CHANGE IN NET POSITION	<u>\$ (215,399)</u>	<u>\$ (46,731)</u>	<u>(262,130)</u>	<u>\$ (430,813)</u>	<u>\$ (11,945)</u>	<u>(442,758)</u>
NET POSITION - beginning of year			<u>24,258,653</u>			<u>24,701,411</u>
NET POSITION - end of year			<u>\$ 23,996,523</u>			<u>\$ 24,258,653</u>

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, 2015

	2015			2014		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING EXPENSES:						
Administrative -						
Contracted employees	\$ 191,451	\$ 185,372	\$ 376,823	\$ 183,287	\$ 174,951	\$ 358,238
Professional services	65,141	53,660	118,801	60,989	51,315	112,304
Small equipment purchase	1,595	(258)	1,337	1,662	131	1,793
Travel and training	1,340	1,624	2,964	792	777	1,569
Equipment and building maintenance	657	2,009	2,666	314	2,248	2,562
Utilities	1,091	1,056	2,147	981	950	1,931
Outside services	17,510	15,194	32,704	16,909	16,377	33,286
Other	15,203	10,315	25,518	7,603	9,798	17,401
Total administrative	293,988	268,972	562,960	272,537	256,547	529,084
Treatment -						
Contracted employees	103,263	35,653	138,916	212,226	38,632	250,858
Purchased water/sewer	63,913	479,565	543,478	82,863	435,638	518,501
Utilities	57,078	-	57,078	58,829	-	58,829
Outside services	75,457	2,103	77,560	64,291	945	65,236
Equipment and building maintenance	31,410	704	32,114	22,564	284	22,848
Professional services	85,774	500	86,274	21,934	-	21,934
Small equipment purchases	4,567	-	4,567	513	-	513
Permits, fees and inspections	4,219	1,820	6,039	3,987	1,635	5,622
Travel and training	1,516	-	1,516	164	-	164
Other	2,486	-	2,486	6,748	84	6,832
Total treatment	429,663	520,345	950,028	474,119	477,218	951,337
Transmission/collection -						
Contracted employees	209,815	194,537	395,352	220,032	215,450	435,482
Utilities	119,178	97,154	216,332	124,600	104,301	228,901
Equipment and building maintenance	28,605	74,192	102,797	15,824	49,004	64,828
Vehicle expense	15,120	11,119	26,239	15,288	14,807	30,095
Outside services	76,646	74,376	151,022	138,140	69,828	207,968
Purchased water	13,333	-	13,333	-	-	-
Professional services	2,858	218	3,076	6,341	2,130	8,471
Small equipment purchases	7,947	10,882	18,829	3,923	4,730	8,653
Permits, fees and inspections	468	4,961	5,429	447	5,239	5,686
Travel and training	129	181	310	235	287	522
Other	6,291	2,969	9,260	3,142	3,100	6,242
Total transmission/collection	471,390	470,589	941,979	527,972	468,876	996,848
Depreciation	712,309	242,982	955,291	726,083	237,287	963,370
Total operating expenses	\$ 1,907,370	\$ 1,502,888	\$ 3,410,258	\$ 2,000,711	\$ 1,439,928	\$ 3,440,639

**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 23, 2016

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 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, 2015, 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 23, 2016.

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.

(Continued)

24

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.

Bonadio & Co., LLP