

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

**Financial Statements
December 31, 2018 and 2017
Together with
Independent Auditor's Report**

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
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Basic Financial Statements	13
SUPPLEMENTARY SCHEDULES:	
Schedule of Revenue, Expenses and Change in Net Position	25
Schedule of Operating Expenses	26
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27

INDEPENDENT AUDITOR'S REPORT

March 27, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities 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, 2018 and 2017, 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, 2018 and 2017, 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 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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, 2018 AND 2017

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 NYS Authority Budget Office provides oversight of operations and practices of all public authorities in New York. 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 leased most of its workforce from the County's Public Works Department through December 31, 2018. 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 by the Authority. The Authority has an overall staff of 11 full-time employees, which includes 10 leased employees (three are administrative and seven are for water and sewer operations). Professional services are used to supplement the staff as needed. Beginning January 1, 2019, the Authority began employing these individuals directly and is no longer utilizing the County Department of Public Works.

In 2017, the Authority Board formally created and filled the position of "Executive Director". The Executive Director is the chief executive officer and chief fiscal officer of the Authority.

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 2018 with comparative data for 2017 and 2016. This report should be used and considered in conjunction with the 2018 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

Financial Highlights

- Net Position increased from 2017 by \$2,821,427, resulting in total 2018 net position of \$32,354,997.
- 2018 Operating Revenues increased over 2017 by \$27,523, or 0.8%.
- 2018 Operating Expenses increased over 2017 by \$101,074, or 2.8%.

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.

STATEMENTS OF NET POSITION

The condensed Statements of Net Position that follow 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 Statements of Net Position (in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current and other assets	\$ 5,650	\$ 5,310	\$ 6,077
Capital assets, net	<u>32,266</u>	<u>29,069</u>	<u>24,317</u>
Total assets	<u>37,916</u>	<u>34,379</u>	<u>30,394</u>
Liabilities:			
Current liabilities	704	807	1,846
Long-term liabilities	<u>4,539</u>	<u>4,038</u>	<u>4,190</u>
Total liabilities	<u>5,243</u>	<u>4,845</u>	<u>6,036</u>
Deferred inflows	<u>318</u>	-	-
Net Position:			
Net investment in capital assets	27,576	24,879	19,981
Restricted	117	143	178
Unrestricted	<u>4,662</u>	<u>4,512</u>	<u>4,199</u>
Total net position	<u>\$ 32,355</u>	<u>\$ 29,534</u>	<u>\$ 24,358</u>

STATEMENTS OF NET POSITION (Continued)

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 \$340,000 from 2017 to 2018. This increase is primarily due to an increase in the cash balances of approximately \$637,000 offset by a decrease in amounts due from New York State related to the Lakeville Wastewater Treatment Plant Upgrades project with the NYS Environmental Facilities Corporation and the project with the Department of Corrections and Community Supervision (DOCCS) to provide a distribution system and drinking water service for ten years to Groveland and Livingston Correctional Facilities. Amounts due from NYS related to these projects decreased approximately \$618,000 from 2017 to 2018.

Total liabilities show the total funds the Authority borrowed to improve infrastructure either with debt or other current year payables. Total liabilities increased approximately \$398,000 from 2017 to 2018. This was the result of borrowing on the bond anticipation note payable in the amount of \$653,120 related to the NYS EFC funding of the Lakeville Wastewater Treatment Plant Upgrades project, offset by a decrease in accounts payable and total bonds payable.

STATEMENTS 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 Statements of Revenue, Expenses, and Change in Net Position provide information on the Authority's operations for the years ended December 31, 2018, 2017 and 2016.

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

	Sewer			Water		
	2018	2017	2016	2018	2017	2016
Operating revenue:						
Service fees	\$ 1,814	\$ 1,772	\$ 1,733	\$ 1,452	\$ 1,441	\$ 1,422
Permit fees	28	23	23	61	72	46
Other income	45	58	44	27	33	13
Total operating revenues	1,887	1,853	1,800	1,540	1,546	1,481
Operating expenses						
Contracted employees	595	545	505	495	453	407
Professional services	284	211	200	93	79	69
Utilities	175	183	174	111	100	103
Equipment/building expense	52	39	78	84	90	70
Vehicle expenses	10	9	6	10	8	6
Purchased water and sewer	67	54	59	486	480	478
Outside services	123	121	164	63	148	90
Depreciation	722	725	739	259	247	243
Other	45	49	25	16	48	14
Total operating expenses	2,073	1,936	1,950	1,617	1,653	1,480
Total operating income (loss)	(186)	(83)	(150)	(77)	(107)	1
Non-operating revenue (expense):						
Contract with NYS	-	-	-	2,403	5,418	418
Contributed funds	-	-	-	-	-	107
Interest income	10	1	1	17	19	20
Interest expense	(70)	(73)	(74)	-	-	-
Grant revenue (expense), net	706	-	10	-	-	-
Gain on sale of assets	9	-	15	9	-	13
Total non-operating rev (exp)	655	(72)	(48)	2,429	5,437	558
Change in net position	\$ 469	\$ (155)	\$ (198)	\$ 2,352	\$ 5,330	\$ 559

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

The Statements of Revenue, Expenses, and Change in Net Position (Table 2) show a total increase in net position in 2018 of approximately \$2,821,000 and an increase in 2017 of approximately \$5,175,000. Operating revenue is income earned by the Authority from normal operations. Total operating revenue increased \$27,523 from 2017 to 2018, or approximately 0.8%, while from 2016 to 2017 operating revenue increased \$118,717, or approximately 3.6%.

In 2018, non-operating revenue and capital contributions decreased approximately \$2,282,000. This was due to the DOCCS project beginning to wind down in 2018. Work in process related to this project increased by approximately \$2,403,000 in 2018, while in 2017, work in process for the DOCCS project increased approximately \$4,528,000.

Operating expense reflects the expenses incurred by the Authority during the execution of normal operating procedures. These normal operating costs include: personnel, professional, utilities, vehicle, equipment, building, permit, supply, and depreciation on capital assets. The Authority has Administrative, Treatment and Transmission/Collection Departments. All of the leased workforce 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 \$101,074, or approximately 2.8%.

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. Thus, the depreciated amount from capital assets does not represent all infrastructure the Authority is responsible to maintain. Water/Sewer infrastructure leases generally have a term of 40 years.

FUTURE FACTORS

Retail Water & Sewer Rates

The Authority Board approved a sewer rate increase of \$20.00/quarter/unit and \$1.11/1000 gallons for 2019 for customers located in the Town of Groveland/Town of Leicester/Town of Mount Morris service area, due to an increase in wholesale treatment costs charged by the Village of Mount Morris. All other water and sewer rates remain unchanged for 2019.

Employee Transfer

Pursuant to Section 1199-dddd of the LCWSA enabling legislation, NYS Public Authorities Law, Article 5, Title 8G, the Authority has the power to appoint such officers and employees as are required for the performance of its duties. In 2018, the Authority Board began to take the necessary steps to hire and employ its staff directly, which included recognizing CSEA as the exclusive bargaining representative, and recognizing a new CSEA unit of Authority employees that consists of the same job titles currently recognized in the Livingston County/CSEA collective bargaining agreement.

Employee Transfer (Continued)

On December 21, 2018, a new CSEA full-time employee collective bargaining agreement was executed between the Livingston County Water & Sewer Authority and CSEA, Local 1000, AFSCME, AFL-CIO, Livingston County Employees Local 826, Livingston County Water & Sewer Authority Unit #7301. The term of the new agreement is January 1, 2019 to December 31, 2020. This agreement covers nine (9) of the eleven (11) full-time employees. (Note: The Executive Director and Director of Operations positions are non-union, full-time, salaried positions). This agreement includes an attendant Memorandum of Agreement (MOA) that recognizes certain benefits of employment to which the nine (9) employees were entitled while covered by the governing Livingston County/CSEA collective bargaining agreement, including seniority, pay, accrued leave time, vacation, health insurance, retiree health insurance, etc.

In accordance with Livingston County Civil Service Rules, all 10 leased employees were either appointed and/or transferred to the Authority on January 1, 2019.

On November 20, 2018, an agreement was executed between the Authority and Livingston County, which terminated the employee lease arrangement, effective December 31, 2018. This agreement also addresses (1) on-going retiree health insurance costs for six (6) Livingston County Department of Public Works employees who were previously leased to the Authority and retired between 2003 and 2017, and (2) the Authority's pro-rata share of the 2018 employer contribution to the New York State and Local Retirement System (NYSLRS).

As of January 1, 2019, Livingston County is no longer providing administrative support services, including payroll, information technology (IT), etc. The Authority has entered in various agreements/contracts with third party vendors/consultants to provide these services directly to the Authority. As of January 1, 2019, the Authority will be required to perform the necessary employer retirement reporting to the NYSLRS for all eleven (11) full-time employees.

Lakeville Wastewater Treatment Plant – Modifications to Existing SPDES Permit

In 2017, the New York State Department of Environmental Conservation (NYSDEC) issued the following two (2) modifications to the discharge permit for the above referenced treatment plant:

- Seasonal reduction in final effluent limit for Ammonia (from 45 lbs/day to 16 lbs/day, May through October). Compliance deadline is April 1, 2019.
- Addition of seasonal disinfection of sewage treatment plant effluent. Compliance deadline is May 1, 2022.

In order to meet the April 1, 2019 compliance deadline, the Authority is proceeding with an approximate \$5,700,000 upgrade project, which is being completed in two phases. The project is being financed through a combination of grant and interest-free loan monies issued by the New York State Environmental Facilities Corporation (EFC). See Section 12 (Commitments and Contingencies) for additional detail on the Project Finance Agreement that was executed between the Authority and EFC on February 1, 2018. The first principal payment must be made on or before February 1, 2020, and the amount of the principal payment will be dependent on actual draws of project funds but will not exceed \$86,080.

A separate future project will be undertaken to meet the disinfection requirement and will need to be completed and operational by May 1, 2022. In December 2018, the Authority was notified by the NYSDEC that it was awarded up to \$767,250 in grant monies through the Water Quality Improvement Project (WQIP) program, for the installation of a UV disinfection system at the wastewater treatment plant. The overall project estimate is \$1,255,500, therefore the Authority's contribution to the project will be approximately \$488,250. The Authority is in the process of executing a contract with the NYSDEC, and will then develop a schedule for design, bidding, and construction.

Lakeville Wastewater Treatment Plant – NYSDEC Consent Order (R8-20180803-83)

In 2017 and 2018, the Authority experienced high levels of flow during heavy rainfall and snowmelt events which resulted in multiple flow exceedances at the wastewater treatment plant. The NYSDEC issued a draft Consent Order in August 2018, which was finalized and fully executed by both parties in February 2019. The Consent Order identifies several compliance directives to address infiltration and inflow (I/I) issues. In accordance with the Consent Order, the Authority will be proceeding with a manhole repair/rehabilitation project, which requires a minimum initial expenditure of \$25,000. In addition, the Authority will be required to prepare a comprehensive I/I report, that will need to include a plan/program for how “cross connections for roof drains, sump pumps, and other sources of storm water will be discovered, documented, and disconnected” and a three-year schedule of I/I reduction projects expected to be completed with a corresponding budget. The I/I report is due to the NYSDEC at the end of May 2019. Upon completion of the report, the Authority will then be able to better estimate its future capital expenditures to address the above I/I issues.

As part of the Consent Order negotiations with the NYSDEC, the Authority agreed to submit a permit modification request to increase the current permitted design flow of 0.98 million gallons per day (MGD) to the original plant design flow of 1.27 MGD. This permit modification request is currently under review by the NYSDEC. It is anticipated that this increase will likely trigger additional treatment requirements, specifically phosphorus removal. The Authority is awaiting issuance of a final modified permit before it can quantify future costs of any additional capital upgrades.

Groveland Correctional Facility Water Supply Project

By the end of 2018, the major components of the project including but not limited to approximately 60,000 linear feet of new water main, new pumping station, new water storage tank, and miscellaneous upgrades to the Authority’s existing facilities were complete and ready to be put in service. In January 2019, the Authority received approval from the Livingston County Department of Health to put the new water system into operation. The contract between the Authority and the Department of Corrections and Community Supervision (DOCCS) allows the Authority to utilize pipe capacity of up to 70,000 gallons per day (gpd) for connections by residential/non-industrial users, without further authorization from DOCCS. There are approximately 130 properties, primarily residential, located along the corridor and it is anticipated that many of these properties will connect to the water system in the next few years. It is anticipated that the Groveland and Livingston Correctional Facilities will begin taking water from the Authority by the end of 2019, following completion by DOCCS of a separate project that involves modifications to its existing water treatment plant. Per the contract between the Authority and DOCCS, the Authority’s infrastructure shall be capable of delivering a minimum average daily flow of 500,000 gpd, and a maximum daily flow of 700,000 gpd to the DOCCS facilities.

During construction of the above project, certain water facilities were “upsized” at a cost of \$318,000 to provide additional system capacity to two (2) farms, Dairy Knoll Farms LLC and Sparta Farms LP, both located in the Town of Groveland. The initial capital contribution was provided by the Authority, and both farms have entered in capital re-payment agreements with the Authority, with each farm required to pay its proportionate payment obligation of \$159,000 over a maximum 20-year period. It is anticipated that both farms will be billed their first quarterly “capital charge” in early May 2019.

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 Executive Director, 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)

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,024,362	\$ 1,936,350
Restricted cash	549,964	1,016
Accounts receivable	845,185	840,032
Due from New York State	1,291,384	1,909,158
Current portion of capital contributions receivable	45,594	35,609
Inventory	42,605	10,408
Prepaid expenses	67,808	46,391
Funds held for others	<u>33,025</u>	<u>28,781</u>
Total current assets	<u>4,899,927</u>	<u>4,807,745</u>
NONCURRENT ASSETS:		
Restricted cash	11,061	11,059
Funds held by trustee	106,337	131,669
Capital contributions receivable, net of current portion	632,064	359,658
Capital assets, net	<u>32,266,493</u>	<u>29,068,601</u>
Total noncurrent assets	<u>33,015,955</u>	<u>29,570,987</u>
Total assets	<u>37,915,882</u>	<u>34,378,732</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	399,661	516,207
Current portion of bonds payable	151,725	151,725
Other current liabilities	119,129	110,499
Funds held for others	<u>33,025</u>	<u>28,781</u>
Total current liabilities	<u>703,540</u>	<u>807,212</u>
NONCURRENT LIABILITIES:		
Bond anticipation note payable	653,120	-
Bonds payable, net of current portion	<u>3,886,225</u>	<u>4,037,950</u>
Total noncurrent liabilities	<u>4,539,345</u>	<u>4,037,950</u>
Total liabilities	<u>5,242,885</u>	<u>4,845,162</u>
DEFERRED INFLOWS OF RESOURCES		
Contributed capital	<u>318,000</u>	-
Total deferred inflows of resources	<u>318,000</u>	-
NET POSITION		
Net investment in capital assets	27,575,423	24,878,926
Restricted	117,398	142,728
Unrestricted	<u>4,662,176</u>	<u>4,511,916</u>
Total net position	<u>\$ 32,354,997</u>	<u>\$ 29,533,570</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)

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE:		
Service fees	\$ 3,266,764	\$ 3,212,725
Permit fees	88,861	95,157
Other income	<u>71,207</u>	<u>91,427</u>
Total operating revenue	<u>3,426,832</u>	<u>3,399,309</u>
OPERATING EXPENSES:		
Administrative	561,679	578,152
Treatment	1,004,017	891,554
Transmission/collection	1,143,477	1,148,377
Depreciation	<u>981,272</u>	<u>971,288</u>
Total operating expenses	<u>3,690,445</u>	<u>3,589,371</u>
Total operating loss	<u>(263,613)</u>	<u>(190,062)</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest revenue	28,487	20,027
Interest expense	(70,398)	(72,350)
Gain on sale of capital assets	17,931	-
Grant revenue	<u>706,250</u>	<u>-</u>
Total non-operating revenue (expense)	<u>682,270</u>	<u>(52,323)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>418,657</u>	<u>(242,385)</u>
CAPITAL CONTRIBUTIONS:		
Contract with New York State	<u>2,402,770</u>	<u>5,417,870</u>
Total capital contributions	<u>2,402,770</u>	<u>5,417,870</u>
CHANGE IN NET POSITION	2,821,427	5,175,485
NET POSITION - beginning of year	<u>29,533,570</u>	<u>24,358,085</u>
NET POSITION - end of year	<u>\$ 32,354,997</u>	<u>\$ 29,533,570</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)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenues -		
Receipts from service fees	\$ 3,261,611	\$ 3,238,489
Receipts from permit fees	88,861	95,157
Other operating receipts	71,207	65,473
Expenses -		
Payments to vendors and suppliers for goods and services	(1,788,717)	(1,248,871)
Payments to Livingston County for contracted employees	<u>(1,081,230)</u>	<u>(991,092)</u>
Net cash flow from operating activities	<u>551,732</u>	<u>1,159,156</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received under New York State contract	3,349,600	2,093,500
Purchases of capital assets	(1,075,118)	(304,589)
Purchase of capital assets with state revenue	(3,109,020)	(5,417,870)
Proceeds on disposal of capital assets	22,905	-
Cash received for capital contributions	35,609	34,049
Grants received for capital assets	706,250	-
Proceeds from bond anticipation note payable	324,064	-
Withdrawals from funds held with trustee	25,332	35,000
Repayments of bond payable	(151,725)	(146,725)
Interest on capital debt	<u>(71,154)</u>	<u>(73,062)</u>
Net cash flow from capital and related financing activities	<u>56,743</u>	<u>(3,779,697)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	<u>28,487</u>	<u>20,027</u>
Net cash flow from investing activities	<u>28,487</u>	<u>20,027</u>
CHANGE IN CASH AND CASH EQUIVALENTS	636,962	(2,600,514)
CASH AND CASH EQUIVALENTS - beginning of year	<u>1,948,425</u>	<u>4,548,939</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,585,387</u>	<u>\$ 1,948,425</u>
CLASSIFIED AS:		
Cash and cash equivalents	\$ 2,024,362	\$ 1,936,350
Restricted cash and cash equivalents	<u>561,025</u>	<u>12,075</u>
Total cash and cash equivalents	<u>\$ 2,585,387</u>	<u>\$ 1,948,425</u>

(Continued)

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Continued)

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating loss	\$ (263,613)	\$ (190,062)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	981,272	971,288
Bad debt expense	-	61
Change in:		
Accounts receivable	(5,153)	(190)
Inventory	(32,197)	(2,905)
Prepaid expenses	(21,417)	5,464
Accounts payable	(116,546)	368,461
Other current liabilities	<u>9,386</u>	<u>7,039</u>
Net cash flow from operating activities	<u>\$ 551,732</u>	<u>\$ 1,159,156</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITY:		
Amounts due from NYS related to Bond Anticipation Notes payable not yet received	<u>\$ 329,506</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, 2018 AND 2017

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.

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."

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.

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 statements of net position 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, Sparta Farms, LP, and Dairy Knoll Farms, LLC to repay the Authority for capital improvements that were made to system infrastructure to benefit the Village's water system, and to provide additional system capacity to meet the farms' anticipated water demands. 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 related gains or losses are recorded.

Funds Held by Trustee

Funds held by M&T Bank (the Trustee) consist of fixed income United States Government securities. The Authority reports these items at reported values by the trustee. This represents funds held by EFC as unspent proceeds related to a project that was funded by the EFC, as well as debt service funds required under the 2012 series bonds.

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 market value on the date of donation.

Unearned Revenue

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.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position will sometimes report a separate section for deferred outflows/inflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then.

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.
 - 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, 2018 and 2017, respectively, cash and cash equivalents and restricted cash held by the Authority in financial institutions (not including funds held for others) were \$2,585,387 and \$1,948,425. At December 31, 2018 and 2017, 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:

	<u>2018</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 75,432	\$ 169,651
Time deposits	<u>2,542,980</u>	<u>2,539,654</u>
Total cash and investments	<u>\$ 2,618,412</u>	<u>\$ 2,709,305</u>
Insured cash - FDIC		\$ 419,651
Uninsured - collateralized with securities held by pledging financial institution		<u>2,508,501</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 2,928,152</u>
	<u>2017</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 35,081	\$ 187,094
Time deposits	<u>1,942,125</u>	<u>1,951,404</u>
Total cash and investments	<u>\$ 1,977,206</u>	<u>\$ 2,138,498</u>
Insured cash - FDIC		\$ 437,094
Uninsured - collateralized with securities held by pledging financial institution		<u>1,918,517</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 2,355,611</u>

4. RESTRICTED CASH

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

	<u>2018</u>	<u>2017</u>
Department of Corrections Capital Project	\$ 549,964	\$ 1,016
Capital development and repairs	<u>11,061</u>	<u>11,059</u>
	<u>\$ 561,025</u>	<u>\$ 12,075</u>

5. FUNDS HELD BY TRUSTEE

Funds held by trustee refers to cash held by a third party for the benefit of 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, 2018 and 2017 this amount was \$106,337 and \$131,669, respectively. This represents funds held by EFC as unspent proceeds related to a project that was funded by the EFC, as well as debt service funds required under the 2012 series bonds.

6. ACCOUNTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Water and sewer service fees	\$ 603,689	\$ 588,657
Due from local governments	<u>241,496</u>	<u>251,375</u>
	<u>\$ 845,185</u>	<u>\$ 840,032</u>

7. CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Village of Geneseo	\$ 359,658	\$ 395,267
Sparta Farms, LP	159,000	-
Dairy Knoll Farms, LLC	<u>159,000</u>	<u>-</u>
	<u>\$ 677,658</u>	<u>\$ 395,267</u>

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

2019	\$ 45,594
2020	50,432
2021	52,618
2022	54,906
2023	57,289
2024-2028	226,517
2029-2033	84,370
2034-2038	100,436
2039	<u>5,496</u>
	<u>\$ 677,658</u>

The Authority reports deferred inflows of resources for the capital contributions receivable related to the agreements with Sparta Farms, LP and Dairy Knoll Farms, LLC that will not be recognized as revenue until the projects are completed and in service. It is anticipated that these projects will become operational in 2019, and at that time the Authority will recognize capital contributions revenue.

8. CAPITAL ASSETS

The Authority's capital assets for 2018 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 150,285	\$ -	\$ -	\$ -	\$ 150,285
Construction work-in-progress	<u>5,356,748</u>	<u>4,056,232</u>	<u>(559,607)</u>	<u>-</u>	<u>8,853,373</u>
Total non-depreciable assets	<u>5,507,033</u>	<u>4,056,232</u>	<u>(559,607)</u>	<u>-</u>	<u>9,003,658</u>
Buildings	5,342,500	-	93,104	(1,709)	5,433,895
Water distribution system	10,641,926	2,010	143,518	-	10,787,454
Sewer collection system	20,713,337	-	301,167	-	21,014,504
Machinery and equipment	<u>3,413,776</u>	<u>125,896</u>	<u>21,818</u>	<u>(77,413)</u>	<u>3,484,077</u>
Total depreciable assets	<u>40,111,539</u>	<u>127,906</u>	<u>559,607</u>	<u>(79,122)</u>	<u>40,719,930</u>
Less: Accumulated depreciation:					
Buildings	(2,143,880)	(141,605)	-	-	(2,285,485)
Water distribution system	(3,581,875)	(200,274)	-	-	(3,782,149)
Sewer collection system	(8,816,782)	(471,359)	-	-	(9,288,141)
Machinery and equipment	<u>(2,007,434)</u>	<u>(168,034)</u>	<u>-</u>	<u>74,148</u>	<u>(2,101,320)</u>
Total accumulated depreciation	<u>(16,549,971)</u>	<u>(981,272)</u>	<u>-</u>	<u>74,148</u>	<u>(17,457,095)</u>
Net depreciable assets	<u>23,561,568</u>	<u>(853,366)</u>	<u>559,607</u>	<u>(4,974)</u>	<u>23,262,835</u>
Total capital assets, net	<u>\$ 29,068,601</u>	<u>\$ 3,202,866</u>	<u>\$ -</u>	<u>\$ (4,974)</u>	<u>\$ 32,266,493</u>

The Authority's capital assets for 2017 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 150,285	\$ -	\$ -	\$ -	\$ 150,285
Construction work-in-progress	<u>829,050</u>	<u>5,669,515</u>	<u>(1,141,817)</u>	<u>-</u>	<u>5,356,748</u>
Total non-depreciable assets	<u>979,335</u>	<u>5,669,515</u>	<u>(1,141,817)</u>	<u>-</u>	<u>5,507,033</u>
Buildings	5,342,500	-	-	-	5,342,500
Water distribution system	9,583,315	-	1,058,611	-	10,641,926
Sewer collection system	20,713,337	-	-	-	20,713,337
Machinery and equipment	<u>3,277,626</u>	<u>52,944</u>	<u>83,206</u>	<u>-</u>	<u>3,413,776</u>
Total depreciable assets	<u>38,916,778</u>	<u>52,944</u>	<u>1,141,817</u>	<u>-</u>	<u>40,111,539</u>
Less: Accumulated depreciation:					
Buildings	(2,004,912)	(138,968)	-	-	(2,143,880)
Water distribution system	(3,402,869)	(179,006)	-	-	(3,581,875)
Sewer collection system	(8,349,022)	(467,760)	-	-	(8,816,782)
Machinery and equipment	<u>(1,821,880)</u>	<u>(185,554)</u>	<u>-</u>	<u>-</u>	<u>(2,007,434)</u>
Total accumulated depreciation	<u>(15,578,683)</u>	<u>(971,288)</u>	<u>-</u>	<u>-</u>	<u>(16,549,971)</u>
Net depreciable assets	<u>23,338,095</u>	<u>(918,344)</u>	<u>1,141,817</u>	<u>-</u>	<u>23,561,568</u>
Total capital assets, net	<u>\$ 24,317,430</u>	<u>\$ 4,751,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,068,601</u>

9. BOND ANTICIPATION NOTE

On February 1, 2018, the Authority issued a Bond Anticipation Note (BAN) Series 2018 through the EFC for a maximum amount of \$4,306,960 for the Lakeville wastewater treatment plant upgrades with an initial rate of 0.00% under a NYS EFC short-term financing program. The BAN has a maturity date of February 1, 2023. At that time, the Authority can convert the BAN to long-term financing if all conditions are met and if such financing is made available by EFC. A principal payment of up to \$86,080 must be made on or before February 1, 2020, which will be based on actual total draws made on the BAN. In 2018, the Authority drew down approximately \$653,000 which is reported under noncurrent liabilities.

10. FINANCING ARRANGEMENTS

The Authority had the following debt outstanding as of December 31, 2018:

	<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 sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	2,315,000	-	(85,000)	(85,000)	2,145,000
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.	729,675	-	(31,725)	(31,725)	666,225
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>1,145,000</u>	<u>-</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>1,075,000</u>
	<u>\$ 4,189,675</u>	<u>\$ -</u>	<u>\$ (151,725)</u>	<u>\$ (151,725)</u>	<u>\$ 3,886,225</u>

The Authority had the following debt outstanding as of December 31, 2017:

	<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 sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$ 2,395,000	\$ -	\$ (80,000)	\$(85,000)	\$ 2,230,000
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.	761,400	-	(31,725)	(31,725)	697,950
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>1,180,000</u>	<u>-</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>1,110,000</u>
	<u>\$ 4,336,400</u>	<u>\$ -</u>	<u>\$ (146,725)</u>	<u>\$ (151,725)</u>	<u>\$ 4,037,950</u>

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

2019	\$ 151,725
2020	151,725
2021	156,725
2022	156,725
2023	161,725
2024 - 2028	843,625
2029 - 2033	918,625
2034 - 2038	1,003,625
2039 - 2042	<u>493,450</u>
	<u>\$ 4,037,950</u>

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

Interest paid	\$ 71,154
Plus: Interest accrued in the current year	19,838
Less: Interest accrued in the prior year	<u>(20,594)</u>
Total interest expense	<u>\$ 70,398</u>

In 2008, the Authority entered into a Trust Indenture under which debt is issued. The Trust Indenture pledges all revenues and other income collected by the Authority for payment of principal and interest on the bonds. The Trust Indenture also generally requires establishment of 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, 2018 and 2017, 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.

11. 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>2018</u>	<u>2017</u>
Compact of towns (flood gates)	\$ 21,942	\$ 21,939
Collections	<u>11,083</u>	<u>6,842</u>
	<u>\$ 33,025</u>	<u>\$ 28,781</u>

12. 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 2018 and 2017 was \$1,090,616 and \$911,550, respectively. This agreement was terminated mutually by the County and the Authority on December 31, 2018.

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.

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, to enable the Authority to begin water supply services to the Groveland and Livingston Correctional Facilities. Per the contract, DOCCS has agreed to pay the Authority 100% of the estimated total cost of the Project, or the actual cost, whichever is less.

Since this time, there have been two (2) amendments to the contract, which were executed in 2015 and 2017 respectively.

Amendment No. 1 modified the schedule of payments as follows, based on a project cost of \$7,500,000:

- 25% of \$7,500,000 (\$1,875,000) after approval of contract
- 25% of \$7,500,000 (\$1,875,000) upon written certification by the Authority's consulting engineer that the project is 25% complete.
- 25% of \$7,500,000 (\$1,875,000) upon written certification by the Authority's consulting engineer that the project is 50% complete.
- 15% of \$7,500,000 (\$1,125,000) upon written certification by the Authority's consulting engineer that the project is 75% complete.
- Final payment that is equal to the difference between the actual project cost and the amounts paid as set forth above, upon written certification by the Authority's consulting engineer that the project is 100% complete.

Amendment No. 2 increased the total project cost to \$8,374,000. And modified the schedule of payments as follows:

- 25% of \$7,500,000 (\$1,875,000) after approval of contract.
- 25% of \$8,374,000 (\$2,093,500) upon written certification by the Authority's consulting engineer that the project is 25% complete.
- 25% of \$8,374,000 (\$2,093,500) upon written certification by the Authority's consulting engineer that the project is 50% complete.
- 15% of \$8,374,000 (\$1,256,100) upon written certification by the Authority's consulting engineer that the project is 75% complete.
- Final payment that is equal to the difference between the actual project cost and the amounts paid as set forth above, upon written certification by the Authority's consulting engineer that the project is 100% complete.

At the end of 2017, the Authority reached the 50% completion point but did not receive payment of \$2,093,500 until early 2018. During 2018, the Authority achieved 75% completion, and received payment of \$1,256,100. Therefore, total payments in 2018 were \$3,349,600. The Authority also expended \$962,328 past the 75% completion point. This amount is recorded as due from New York State as of December 31, 2018. The Authority will not receive final reimbursement until the project is 100% complete.

Lakeville Wastewater Treatment Plant Upgrades Project

On February 1, 2018, the Authority entered into a short-term Clean Water State Revolving Fund financing agreement with the New York State Environmental Facilities Corporation for a total project cost of \$5,716,460. The contract is financed with \$4,303,960 of debt along with \$1,412,500 of grant funds. During 2018, the Authority expended \$706,250 of the grant funds and received such reimbursement from EFC during the year. Of the \$4,303,960 in bond anticipation notes authorized for the project, the Authority has expended \$653,120 as of December 31, 2018. This amount is a short-term obligation of the Authority as of December 31, 2018, and of this amount, \$329,056 is recorded as an amount due from New York State, as the Authority had not received this money from EFC until subsequent to year end.

Lakeville Wastewater Treatment Plant – NYSDEC Consent Order (R8-20180803-83)

As of February 4, 2019, the Authority and the New York State Department of Environment Conservation (DEC) executed an Order of Consent regarding a violation of certain permit limits and the commencement of construction without prior written approval of the DEC which occurred prior to December 31, 2018. The executed Order of Consent requires the Authority pay a penalty of \$25,000, which was paid in February of 2019. In addition, the Authority must comply with an additional directive from the DEC regarding the resolution of the permit violations. If the Authority fails to meet the requirement of the additional directive, they will be subject to an additional penalty of \$25,000. A plan for remediation is due in 2019 and if approved, such repairs will be performed by the Authority and expended in the normal course of operations and thus no additional liability is required.

13. SUBSEQUENT EVENT

Effective December 31, 2018, the Authority ended its agreement with the County to lease all of the necessary employees to operate the Authority. On January 1, 2019, these employees were transferred to the Authority, and the Authority became responsible for administering the salaries and benefits to these employees.

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 YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING REVENUE:						
Service fees	\$ 1,814,210	\$ 1,452,554	\$ 3,266,764	\$ 1,771,838	\$ 1,440,887	\$ 3,212,725
Permit fees	28,091	60,770	88,861	22,967	72,190	95,157
Other income	44,298	26,909	71,207	58,433	32,994	91,427
Total operating revenue	<u>1,886,599</u>	<u>1,540,233</u>	<u>3,426,832</u>	<u>1,853,238</u>	<u>1,546,071</u>	<u>3,399,309</u>
OPERATING EXPENSES:						
Administrative	290,926	270,753	561,679	298,481	279,671	578,152
Treatment	476,789	527,228	1,004,017	385,965	505,589	891,554
Transmission/collection	583,309	560,168	1,143,477	527,219	621,158	1,148,377
Depreciation	<u>721,856</u>	<u>259,416</u>	<u>981,272</u>	<u>724,707</u>	<u>246,581</u>	<u>971,288</u>
Total operating expenses	<u>2,072,880</u>	<u>1,617,565</u>	<u>3,690,445</u>	<u>1,936,372</u>	<u>1,652,999</u>	<u>3,589,371</u>
Total operating income (loss)	<u>(186,281)</u>	<u>(77,332)</u>	<u>(263,613)</u>	<u>(83,134)</u>	<u>(106,928)</u>	<u>(190,062)</u>
NON-OPERATING REVENUE (EXPENSE):						
Interest revenue	10,753	17,734	28,487	731	19,296	20,027
Interest expense	(70,398)	-	(70,398)	(72,350)	-	(72,350)
Gain on sale of assets	9,088	8,843	17,931	-	-	-
Grant revenue	<u>706,250</u>	<u>-</u>	<u>706,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating revenue (expense)	<u>655,693</u>	<u>26,577</u>	<u>682,270</u>	<u>(71,619)</u>	<u>19,296</u>	<u>(52,323)</u>
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>469,412</u>	<u>(50,755)</u>	<u>418,657</u>	<u>(154,753)</u>	<u>(87,632)</u>	<u>(242,385)</u>
CAPITAL CONTRIBUTIONS:						
Contract with New York State	-	<u>2,402,770</u>	<u>2,402,770</u>	-	<u>5,417,870</u>	<u>5,417,870</u>
Total capital contributions	-	<u>2,402,770</u>	<u>2,402,770</u>	-	<u>5,417,870</u>	<u>5,417,870</u>
CHANGE IN NET POSITION	<u>\$ 469,412</u>	<u>\$ 2,352,015</u>	2,821,427	<u>\$ (154,753)</u>	<u>\$ 5,330,238</u>	5,175,485
NET POSITION - beginning of year			<u>29,533,570</u>			<u>24,358,085</u>
NET POSITION - end of year			<u>\$ 32,354,997</u>			<u>\$ 29,533,570</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 YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Sewer</u>	<u>2018</u> <u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>2017</u> <u>Water</u>	<u>Total</u>
OPERATING EXPENSES:						
Administrative -						
Contracted employees	\$ 165,176	\$ 161,587	\$ 326,763	\$ 163,549	\$ 157,652	\$ 321,201
Professional services	100,782	90,082	190,864	90,355	78,246	168,601
Small equipment purchases	1,731	168	1,899	1,628	140	1,768
Travel and training	2,995	3,257	6,252	2,825	3,447	6,272
Equipment and building maintenance	934	2,424	3,358	640	2,045	2,685
Utilities	757	745	1,502	1,145	1,113	2,258
Outside services	3,417	3,323	6,740	19,272	18,714	37,986
Other	<u>15,134</u>	<u>9,167</u>	<u>24,301</u>	<u>19,067</u>	<u>18,314</u>	<u>37,381</u>
Total administrative	<u>290,926</u>	<u>270,753</u>	<u>561,679</u>	<u>298,481</u>	<u>279,671</u>	<u>578,152</u>
Treatment -						
Contracted employees	129,026	41,603	170,629	102,417	23,672	126,089
Purchased water/sewer	67,254	485,625	552,879	53,958	479,900	533,858
Utilities	50,346	-	50,346	45,374	-	45,374
Outside services	23,953	-	23,953	34,477	75	34,552
Equipment and building maintenance	12,488	-	12,488	14,333	122	14,455
Professional services	180,936	-	180,936	120,335	-	120,335
Small equipment purchases	481	-	481	9,419	-	9,419
Permits, fees and inspections	3,757	-	3,757	3,780	1,820	5,600
Travel and training	-	-	-	-	-	-
Other	<u>8,548</u>	<u>-</u>	<u>8,548</u>	<u>1,872</u>	<u>-</u>	<u>1,872</u>
Total treatment	<u>476,789</u>	<u>527,228</u>	<u>1,004,017</u>	<u>385,965</u>	<u>505,589</u>	<u>891,554</u>
Transmission/collection -						
Contracted employees	301,079	292,145	593,224	279,244	271,597	550,841
Utilities	123,494	110,264	233,758	137,062	99,036	236,098
Equipment and building maintenance	38,729	81,237	119,966	24,080	87,485	111,565
Vehicle expense	10,442	10,113	20,555	8,554	8,317	16,871
Outside services	95,145	59,766	154,911	67,202	129,355	196,557
Professional services	2,373	2,444	4,817	634	616	1,250
Small equipment purchases	11,592	1,901	13,493	7,036	15,851	22,887
Permits, fees and inspections	-	1,590	1,590	386	6,669	7,055
Travel and training	414	673	1,087	2,229	2,167	4,396
Other	<u>41</u>	<u>35</u>	<u>76</u>	<u>792</u>	<u>65</u>	<u>857</u>
Total transmission/collection	<u>583,309</u>	<u>560,168</u>	<u>1,143,477</u>	<u>527,219</u>	<u>621,158</u>	<u>1,148,377</u>
Depreciation	<u>721,856</u>	<u>259,416</u>	<u>981,272</u>	<u>724,707</u>	<u>246,581</u>	<u>971,288</u>
Total operating expenses	<u>\$ 2,072,880</u>	<u>\$ 1,617,565</u>	<u>\$ 3,690,445</u>	<u>\$ 1,936,372</u>	<u>\$ 1,652,999</u>	<u>\$ 3,589,371</u>

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 27, 2019

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, 2018, 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 27, 2019.

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.

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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.

Bonadio & Co., LLP