

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

Financial Statements
December 31, 2017 and 2016
Together with
Independent Auditor's Report

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

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INDEPENDENT AUDITOR'S REPORT

March 28, 2018

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 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, 2017 and 2016, 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, 2017 and 2016, 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 25-26, 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 28, 2018 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.

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, 2017 AND 2016

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 most of its workforce from the County's Public Works Department. 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 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.

Following the retirement in 2017 of the existing Director of Public Works, who was responsible for overseeing the operations of the Authority, 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, and is the only employee 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 2017 with comparative data for 2016 and 2015. This report should be used and considered in conjunction with the 2017 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 2016 by \$5,175,485, resulting in total 2017 net position of \$29,533,550.
- 2017 Operating Revenues increased over 2016 by \$118,717, or 3.6%.
- 2017 Operating Expenses increased over 2016 by \$160,138, or 4.7%.

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>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current and other assets	\$ 5,310	\$ 6,077	\$ 6,309
Capital assets, net	<u>29,069</u>	<u>24,317</u>	<u>24,272</u>
Total assets	<u>34,379</u>	<u>30,394</u>	<u>30,581</u>
Liabilities:			
Current liabilities	807	1,846	2,248
Long-term liabilities	<u>4,038</u>	<u>4,190</u>	<u>4,336</u>
Total liabilities	<u>4,845</u>	<u>6,036</u>	<u>6,584</u>
Net Position:			
Net investment in capital assets	24,879	19,981	19,789
Restricted	143	178	197
Unrestricted	<u>4,512</u>	<u>4,199</u>	<u>4,011</u>
Total net position	<u>\$ 29,534</u>	<u>\$ 24,358</u>	<u>\$ 23,997</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 decreased approximately \$767,000 from 2016 to 2017. This decrease is primarily due to a decrease in the cash balances of approximately \$2.60 million offset by an increase in the receivable balance related to the agreement 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 of approximately \$1.91 million.

Total liabilities show the total funds the Authority borrowed to improve infrastructure either with debt or other current year payables. The decrease in total liabilities of approximately \$1,191,000 from 2016 to 2017 is primarily the result of the recognition of unearned revenue as a result of current year work performed for the DOCCS project.

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, 2017, 2016 and 2015.

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

	Sewer			Water		
	2017	2016	2015	2017	2016	2015
Operating revenue:						
Service fees	\$ 1,772	\$ 1,733	\$ 1,669	\$ 1,467	\$ 1,422	\$ 1,353
Permit fees	23	23	30	72	46	35
Other income	58	44	57	7	13	7
Total operating revenues	1,853	1,800	1,756	1,546	1,481	1,395
Operating expenses						
Contracted employees	545	505	496	453	407	416
Professional services	211	200	154	79	69	54
Utilities	183	174	177	100	103	98
Equipment/building expense	39	78	75	90	70	88
Vehicle expenses	9	6	16	8	6	10
Purchased water and sewer	54	59	64	480	478	493
Outside services	121	164	170	148	90	92
Depreciation	725	739	712	247	243	243
Other	49	25	30	48	14	22
Total operating expenses	1,936	1,950	1,894	1,653	1,480	1,516
Total operating income (loss)	(83)	(150)	(138)	(107)	1	(121)
Non-operating revenue (expense):						
Contract with NYS	-	-	-	5,418	418	44
Contributed funds	-	-	-	-	107	-
Interest income	1	1	5	19	21	17
Interest expense	(73)	(74)	(70)	-	-	-
Grant revenue	-	15	44	-	-	-
Grant expense	-	(5)	(43)	-	-	-
Gain on sale of assets	-	15	-	-	13	-
Total non-operating rev (exp)	(72)	(48)	(64)	5,437	559	61
Change in net position	\$ (155)	\$ (198)	\$ (202)	\$ 5,330	\$ 560	\$ (60)

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 2017 of approximately \$5,175,000 and an increase in 2016 of approximately \$362,000. Operating revenue is income earned by the Authority from normal operations. Total operating revenue increased \$118,717 from 2016 to 2017, or approximately 3.6%, while from 2015 to 2016 operating revenue increased \$129,511, or approximately 4.1%.

In 2017 non-operating revenue increased approximately \$4,879,000. This was due to the ongoing DOCCS project which increased work in process related to the project 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 \$160,138, or approximately 4.7%.

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 infrastructures the Authority is responsible to maintain. Water/Sewer infrastructure leases generally have a term of 40 years.

FUTURE FACTORS

Sewer Rates were increased \$6 per unit per year in most service areas for 2018.

Water Rates remain unchanged for 2018.

On September 25, 2017, the new CSEA full-time employee collective bargaining agreement was executed. The term of the new agreement is January 1, 2017 through December 31, 2020. Of the ten employees leased to the Authority by the County, nine employees are covered under this new collective bargaining agreement. (Note: The Director of Operations position is a non-union, full-time, salaried position).

Lakeville Wastewater Treatment Plant Permit Modifications

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.

FUTURE FACTORS (Continued)

Lakeville Wastewater Treatment Plant Permit Modifications (Continued)

In order to meet the April 1, 2019 compliance deadline, the Authority is proceeding with an approximate \$5,700,000 upgrade project, which will be financed through a combination of grant and loan monies issued by the New York State Environmental Facilities Corporation (NYSEFC).

A separate future project will be undertaken to meet the disinfection requirement, and will need to be completed and operational by May 1, 2022. The Authority will be seeking funding through the NYSDEC Water Quality Improvement Project (WQIP) program for this eligible project.

Sanitary Sewer Collection System (Lakeville Wastewater Treatment Plant Service Area)

In 2015, the Authority initiated a study of the collection system and associated infiltration and inflow issues within the Lakeville Wastewater Treatment Plant Service Area. The study was completed in 2016 and identified several potential alternatives to minimizing overflows within the service area. The Authority has already implemented several of the lower-cost recommendations, and continues to invest in infiltration/inflow repair projects, in addition to performing annual preventative maintenance work including televising and cleaning of the sewer system.

While there were no documented overflows in the system in 2017 due to heavy rainfall or snowmelt events, the wastewater treatment facility continues to experience high levels of flow during these events which has led to flow exceedances above the permitted limit. Additional capital improvements within the collection system may be necessary in the future to further reduce infiltration and inflow, and were estimated in the study to range in cost from \$1,200,000 to \$9,000,000.

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,936,350	\$ 3,122,098
Restricted cash	1,016	1,415,783
Accounts receivable	840,032	839,903
Due from New York State	1,909,158	-
Current portion of capital contributions receivable	35,609	34,050
Inventory	10,408	7,503
Prepaid expenses	46,391	51,855
Funds held for others	<u>28,781</u>	<u>32,547</u>
Total current assets	<u>4,807,745</u>	<u>5,503,739</u>
NONCURRENT ASSETS:		
Restricted cash	11,059	11,058
Funds held by trustee	131,669	166,669
Capital contributions receivable, net of current portion	359,658	395,266
Capital assets, net	<u>29,068,601</u>	<u>24,317,430</u>
Total noncurrent assets	<u>29,570,987</u>	<u>24,890,423</u>
Total assets	<u>34,378,732</u>	<u>30,394,162</u>
LIABILITIES		
CURRENT LIABILITIES:		
Unearned revenue	-	1,415,212
Accounts payable	516,207	147,746
Current portion of bonds payable	151,725	146,725
Other current liabilities	110,499	104,172
Funds held for others	<u>28,781</u>	<u>32,547</u>
Total current liabilities	<u>807,212</u>	<u>1,846,402</u>
NONCURRENT LIABILITIES:		
Bonds payable, net of current portion	<u>4,037,950</u>	<u>4,189,675</u>
Total noncurrent liabilities	<u>4,037,950</u>	<u>4,189,675</u>
Total liabilities	<u>4,845,162</u>	<u>6,036,077</u>
NET POSITION		
Net investment in capital assets	24,878,926	19,981,030
Restricted	142,728	177,727
Unrestricted	<u>4,511,916</u>	<u>4,199,328</u>
Total net position	<u>\$ 29,533,570</u>	<u>\$ 24,358,085</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE:		
Service fees	\$ 3,238,679	\$ 3,154,904
Permit fees	95,157	69,251
Other income	<u>65,473</u>	<u>56,437</u>
Total operating revenue	<u>3,399,309</u>	<u>3,280,592</u>
OPERATING EXPENSES:		
Administrative	578,152	529,732
Treatment	891,554	913,310
Transmission/collection	1,148,377	1,004,432
Depreciation	<u>971,288</u>	<u>981,759</u>
Total operating expenses	<u>3,589,371</u>	<u>3,429,233</u>
Total operating loss	<u>(190,062)</u>	<u>(148,641)</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest revenue	20,027	21,440
Interest expense	(72,350)	(74,215)
Gain on sale of capital assets	-	27,930
Grant revenue	-	15,000
Grant expense	<u>-</u>	<u>(5,075)</u>
Total non-operating revenue (expense)	<u>(52,323)</u>	<u>(14,920)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(242,385)</u>	<u>(163,561)</u>
CAPITAL CONTRIBUTIONS:		
Contract with New York State	5,417,870	418,483
Developers and customers	<u>-</u>	<u>106,640</u>
Total capital contributions	<u>5,417,870</u>	<u>525,123</u>
CHANGE IN NET POSITION	5,175,485	361,562
NET POSITION - beginning of year	<u>24,358,085</u>	<u>23,996,523</u>
NET POSITION - end of year	<u>\$ 29,533,570</u>	<u>\$ 24,358,085</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenues -		
Receipts from service fees	\$ 3,238,489	\$ 3,164,985
Receipts from permit fees	95,157	69,251
Other operating receipts	65,473	56,437
Expenses -		
Payments to vendors and suppliers for goods and services	(1,248,871)	(1,518,852)
Payments to Livingston County for contracted employees	<u>(991,092)</u>	<u>(915,731)</u>
Net cash flow from operating activities	<u>1,159,156</u>	<u>856,090</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received under New York State contract	2,093,500	-
Purchases of capital assets	(304,589)	(511,270)
Purchase of capital assets with state revenue	(5,417,870)	(418,483)
Proceeds on disposal of capital assets	-	36,788
Cash received for capital contributions	34,049	32,560
Grants received for capital assets	-	15,000
Repayments on grants	-	(5,075)
Withdrawals from funds held with trustee	35,000	19,200
Repayments of bond payable	(146,725)	(146,725)
Interest on capital debt	<u>(73,062)</u>	<u>(74,926)</u>
Net cash flow from capital and related financing activities	<u>(3,779,697)</u>	<u>(1,052,931)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	<u>20,027</u>	<u>21,440</u>
Net cash flow from investing activities	<u>20,027</u>	<u>21,440</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(2,600,514)	(175,401)
CASH AND CASH EQUIVALENTS - beginning of year	<u>4,548,939</u>	<u>4,724,340</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,948,425</u>	<u>\$ 4,548,939</u>
CLASSIFIED AS:		
Cash and cash equivalents	\$ 1,936,350	\$ 3,122,098
Restricted cash and cash equivalents	<u>12,075</u>	<u>1,426,841</u>
Total cash and cash equivalents	<u>\$ 1,948,425</u>	<u>\$ 4,548,939</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, 2017 AND 2016

(Continued)

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating loss	\$ (190,062)	\$ (148,641)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	971,288	981,759
Bad debt expense	61	-
Change in:		
Accounts receivable	(190)	10,081
Inventory	(2,905)	972
Prepaid expenses	5,464	(3,901)
Accounts payable	368,461	20,001
Other current liabilities	<u>7,039</u>	<u>(4,181)</u>
Net cash flow from operating activities	<u>\$ 1,159,156</u>	<u>\$ 856,090</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITY:		
Capital assets received directly from developers and governments	<u>\$ -</u>	<u>\$ 106,640</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, 2017 AND 2016

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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 related gains or losses are recorded.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fair value based on quoted market prices. 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 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.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

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, 2017 and 2016, respectively, cash and cash equivalents and restricted cash held by the Authority in financial institutions (not including funds held for others) were \$1,948,425 and \$4,548,939. At December 31, 2017 and 2016, 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.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

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

	2017	
	<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>
		2016
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 41,675	\$ 58,441
Time deposits	<u>4,539,811</u>	<u>4,537,412</u>
Total cash and investments	<u>\$ 4,581,486</u>	<u>\$ 4,595,853</u>
Insured cash - FDIC		\$ 308,441
Uninsured - collateralized with securities held by pledging financial institution		<u>4,442,644</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 4,751,085</u>

4. RESTRICTED CASH

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

	<u>2017</u>	<u>2016</u>
Department of Corrections Capital Project	\$ 1,016	\$ 1,415,783
Capital development and repairs	<u>11,059</u>	<u>11,058</u>
	<u>\$ 12,075</u>	<u>\$ 1,426,841</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, 2017 and 2016 this amount was \$131,669 and \$166,669, 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.

United States Treasury obligations and United States Treasury bills are considered level 1 investments. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of December 31, 2017 and 2016:

- U.S. Treasury securities of \$92,750 are valued using quoted market prices (Level 1 inputs).

6. ACCOUNTS RECEIVABLE

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

	<u>2017</u>	<u>2016</u>
Water and sewer service fees	\$ 588,657	\$ 566,071
Due from local governments	<u>251,375</u>	<u>273,832</u>
	<u>\$ 840,032</u>	<u>\$ 839,903</u>

7. CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Village of Geneseo	<u>\$ 395,267</u>	<u>\$ 429,316</u>

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

2018	\$ 35,609
2019	37,238
2020	38,942
2021	40,724
2022	42,588
2023-2027	<u>200,166</u>
	<u>\$ 395,267</u>

8. CAPITAL ASSETS

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>

The Authority's capital assets for 2016 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 150,285	\$ -	\$ -	\$ -	\$ 150,285
Construction work-in-progress	<u>375,922</u>	<u>807,201</u>	<u>(354,073)</u>	<u>-</u>	<u>829,050</u>
Total non-depreciable assets	<u>526,207</u>	<u>807,201</u>	<u>(354,073)</u>	<u>-</u>	<u>979,335</u>
Buildings	5,167,310	-	175,190	-	5,342,500
Water distribution system	9,583,315	-	-	-	9,583,315
Sewer collection system	20,534,862	106,640	71,835	-	20,713,337
Machinery and equipment	<u>3,113,010</u>	<u>122,552</u>	<u>107,048</u>	<u>(64,984)</u>	<u>3,277,626</u>
Total depreciable assets	<u>38,398,497</u>	<u>229,192</u>	<u>354,073</u>	<u>(64,984)</u>	<u>38,916,778</u>
Less: Accumulated depreciation:					
Buildings	(1,866,356)	(138,556)	-	-	(2,004,912)
Water distribution system	(3,220,075)	(182,794)	-	-	(3,402,869)
Sewer collection system	(7,883,239)	(465,783)	-	-	(8,349,022)
Machinery and equipment	<u>(1,683,380)</u>	<u>(194,626)</u>	<u>-</u>	<u>56,126</u>	<u>(1,821,880)</u>
Total accumulated depreciation	<u>(14,653,050)</u>	<u>(981,759)</u>	<u>-</u>	<u>56,126</u>	<u>(15,578,683)</u>
Net depreciable assets	<u>23,745,447</u>	<u>(752,567)</u>	<u>354,073</u>	<u>(8,858)</u>	<u>23,338,095</u>
Total capital assets, net	<u>\$ 24,271,654</u>	<u>\$ 54,634</u>	<u>\$ -</u>	<u>\$ (8,858)</u>	<u>\$ 24,317,430</u>

9. FINANCING ARRANGEMENTS

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>

The Authority had the following debt outstanding as of December 31, 2016:

	<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.	\$ 2,475,000	\$ -	\$ (80,000)	\$(80,000)	\$ 2,315,000
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.	793,125	-	(31,725)	(31,725)	729,675
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>1,215,000</u>	<u>-</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>1,145,000</u>
	<u>\$ 4,483,125</u>	<u>\$ -</u>	<u>\$ (146,725)</u>	<u>\$ (146,725)</u>	<u>\$ 4,189,675</u>

9. FINANCING ARRANGEMENTS (Continued)

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

2018	\$	151,725
2019		151,725
2020		151,725
2021		156,725
2022		156,725
2023 - 2027		828,625
2028 - 2032		903,625
2033 - 2037		983,625
2038 - 2042		<u>705,175</u>
	\$	<u>4,189,675</u>

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

Interest paid	\$	73,062
Plus: Interest accrued in the current year		20,594
Less: Interest accrued in the prior year		<u>(21,306)</u>
Total interest expense	\$	<u>72,350</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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Compact of towns (flood gates)	\$ 21,939	\$ 21,936
Collections	<u>6,842</u>	<u>10,611</u>
	<u>\$ 28,781</u>	<u>\$ 32,547</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 2017 and 2016 was \$998,131 and \$911,550, 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.

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.

11. COMMITMENTS AND CONTINGENCIES (Continued)

Groveland Correctional Facility Water Supply Project (Continued)

During 2017, the Authority achieved 25% completion and therefore received a payment of \$2,093,500. Subsequent to year-end, the Authority reached the 50% milestone and therefore vouched for the second payment of \$2,093,500, of which \$1,909,158 was incurred prior to year-end and was recorded as Due from New York State in the statement of net position.

12. IMPACT OF FUTURE GASB PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2018, with early adoption encouraged.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2019.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Authority is required to adopt the provisions of this Statement for the year ended December 31, 2018.

12. IMPACT OF FUTURE GASB PRONOUNCEMENTS (Continued)

In June 2017, the GASB issued Statement No. 87, Leases. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Authority is required to adopt the provisions of this Statement for the year ended December 31, 2020.

The Authority's management has begun to assess the impact of certain of these statements on its future financial statements while others will be assessed in the coming periods.

13. SUBSEQUENT EVENT FOOTNOTE

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.

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, 2017 AND 2016

	2017			2016		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING REVENUE:						
Service fees	\$ 1,771,838	\$ 1,466,841	\$ 3,238,679	\$ 1,732,680	\$ 1,422,224	\$ 3,154,904
Permit fees	22,967	72,190	95,157	23,170	46,081	69,251
Other income	58,433	7,040	65,473	43,938	12,499	56,437
Total operating revenue	<u>1,853,238</u>	<u>1,546,071</u>	<u>3,399,309</u>	<u>1,799,788</u>	<u>1,480,804</u>	<u>3,280,592</u>
OPERATING EXPENSES:						
Administrative	298,481	279,671	578,152	274,623	255,109	529,732
Treatment	385,965	505,589	891,554	409,634	503,676	913,310
Transmission/collection	527,219	621,158	1,148,377	527,014	477,418	1,004,432
Depreciation	724,707	246,581	971,288	738,554	243,205	981,759
Total operating expenses	<u>1,936,372</u>	<u>1,652,999</u>	<u>3,589,371</u>	<u>1,949,825</u>	<u>1,479,408</u>	<u>3,429,233</u>
Total operating income (loss)	<u>(83,134)</u>	<u>(106,928)</u>	<u>(190,062)</u>	<u>(150,037)</u>	<u>1,396</u>	<u>(148,641)</u>
NON-OPERATING REVENUE (EXPENSE):						
Interest revenue	731	19,296	20,027	664	20,776	21,440
Interest expense	(72,350)	-	(72,350)	(74,215)	-	(74,215)
Gain on sale of assets	-	-	-	15,406	12,524	27,930
Grant revenue	-	-	-	15,000	-	15,000
Grant expense	-	-	-	(5,075)	-	(5,075)
Total non-operating revenue (expense)	<u>(71,619)</u>	<u>19,296</u>	<u>(52,323)</u>	<u>(48,220)</u>	<u>33,300</u>	<u>(14,920)</u>
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(154,753)</u>	<u>(87,632)</u>	<u>(242,385)</u>	<u>(198,257)</u>	<u>34,696</u>	<u>(163,561)</u>
CAPITAL CONTRIBUTIONS:						
Contract with New York State	-	5,417,870	5,417,870	-	418,483	418,483
Developers and customers	-	-	-	-	106,640	106,640
Total capital contributions	<u>-</u>	<u>5,417,870</u>	<u>5,417,870</u>	<u>-</u>	<u>525,123</u>	<u>525,123</u>
CHANGE IN NET POSITION	<u>\$ (154,753)</u>	<u>\$ 5,330,238</u>	<u>5,175,485</u>	<u>\$ (198,257)</u>	<u>\$ 559,819</u>	<u>361,562</u>
NET POSITION - beginning of year			<u>24,358,085</u>			<u>23,996,523</u>
NET POSITION - end of year			<u>\$ 29,533,570</u>			<u>\$ 24,358,085</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, 2017 AND 2016

	2017			2016		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING EXPENSES:						
Administrative -						
Contracted employees	\$ 163,549	\$ 157,652	\$ 321,201	\$ 158,599	\$ 150,306	\$ 308,905
Professional services	90,355	78,246	168,601	78,524	68,513	147,037
Small equipment purchases	1,628	140	1,768	2,027	663	2,690
Travel and training	2,825	3,447	6,272	1,136	1,190	2,326
Equipment and building maintenance	640	2,045	2,685	529	1,793	2,322
Utilities	1,145	1,113	2,258	1,046	1,017	2,063
Outside services	19,272	18,714	37,986	15,960	15,108	31,068
Other	19,006	18,314	37,320	16,802	16,519	33,321
Total administrative	<u>298,481</u>	<u>279,671</u>	<u>578,152</u>	<u>274,623</u>	<u>255,109</u>	<u>529,732</u>
Treatment -						
Contracted employees	102,417	23,672	126,089	107,296	24,530	131,826
Purchased water/sewer	53,958	479,900	533,858	59,161	477,309	536,470
Utilities	45,374	-	45,374	56,812	-	56,812
Outside services	34,477	75	34,552	39,233	17	39,250
Equipment and building maintenance	14,333	122	14,455	22,298	-	22,298
Professional services	120,335	-	120,335	121,100	-	121,100
Small equipment purchases	9,419	-	9,419	40	-	40
Permits, fees and inspections	3,780	1,820	5,600	2,953	1,820	4,773
Travel and training	-	-	-	196	-	196
Other	1,872	-	1,872	545	-	545
Total treatment	<u>385,965</u>	<u>505,589</u>	<u>891,554</u>	<u>409,634</u>	<u>503,676</u>	<u>913,310</u>
Transmission/collection -						
Contracted employees	279,244	271,597	550,841	238,733	232,086	470,819
Utilities	137,062	99,036	236,098	116,238	102,422	218,660
Equipment and building maintenance	24,080	87,485	111,565	55,201	68,426	123,627
Vehicle expense	8,554	8,317	16,871	6,066	5,651	11,717
Outside services	67,202	129,355	196,557	108,909	75,079	183,988
Professional services	634	616	1,250	250	-	250
Small equipment purchases	7,036	15,851	22,887	975	(7,515)	(6,540)
Permits, fees and inspections	386	6,669	7,055	45	854	899
Travel and training	2,229	2,167	4,396	244	337	581
Other	792	65	857	353	78	431
Total transmission/collection	<u>527,219</u>	<u>621,158</u>	<u>1,148,377</u>	<u>527,014</u>	<u>477,418</u>	<u>1,004,432</u>
Depreciation	<u>724,707</u>	<u>246,581</u>	<u>971,288</u>	<u>738,554</u>	<u>243,205</u>	<u>981,759</u>
Total operating expenses	<u>\$ 1,936,372</u>	<u>\$ 1,652,999</u>	<u>\$ 3,589,371</u>	<u>\$ 1,949,825</u>	<u>\$ 1,479,408</u>	<u>\$ 3,429,233</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 28, 2018

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, 2017, 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 28, 2018.

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.

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.