

**AUDITED
FINANCIAL STATEMENTS**

**LIVINGSTON COUNTY WATER AND SEWER
AUTHORITY**

DECEMBER 31, 2011 AND 2010

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY

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**SECTION A
FINANCIAL SECTION**



Independent Auditor's Report

To the Board Members of
Livingston County Water and Sewer Authority

We have audited the accompanying basic financial statements of Livingston County Water and Sewer Authority (the Authority), a component unit of Livingston County, New York, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 9, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Freed Maxick CPAs, P.C.

(Formerly known as Freed Maxick & Battaglia, CPAs, PC)
Batavia, New York
March 7, 2012

**Management Discussion and Analysis
Livingston County Water & Sewer Authority
Fiscal Year ended December 31, 2011**

This section of the Livingston County Water & Sewer Authority ('Authority') annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2011. Please read it in conjunction with the Authority's audited financial statements, and required supplemental information, which immediately follow this section.

Introduction

The Livingston County Water & Sewer Authority ('Authority') is a public benefit corporation formed in 1995, created by legislation passed by the State of New York. Livingston County's Board of Supervisors appoint the volunteer members who comprise the Authority Board. The N.Y.S. Authority Budget Office provides oversight of operations and practices. The Authority also is required to meet the requirements of Federal, State, and County water pollution control and safe drinking water laws.

The Authority functions with required fair bidding laws, prevailing wage rates and financial safeguards. It is required to report as an *Enterprise Fund* similar to private business. Financial statements are prepared on an accrual basis in accordance with Generally Accepted Accounting Principals (GAAP) put forth by the Government Accounting Standards Board (GASB). Within these principles, revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. The Authority is self-supporting and does not receive Federal, State or County funds for operating expenses or issuance of debt.

The Authority leases its employees from Livingston County. Employee related services, such as payroll, and personnel, etc. are provided by Livingston County. Payroll and health care costs are reimbursed to the County, monthly. The County bills the Authority annually for a share of the other related indirect expenses. The Authority has a staff of 12 employees: 4 are administrative and 8 are water and sewer operations staff. Professional and outside operational services are used to supplement the staff as needed.

Financial Highlights

- Net Assets decreased from 2010 by \$857,000, resulting in total 2011 net assets of \$25,709,000.
- Total outstanding debt increased \$876,600 from \$3,749,300 in 2010 to \$4,625,900 in 2011.
- Construction work-in-progress is higher than 2010 by \$1,309,000 with a total of \$3,145,000 for 2011.
- Water/Sewer rates did not change in 2011

Financial Statements

There are two financial statements from which financial highlights are discussed in this report:

- Statement of Net Assets (*Figure A-1*)
- Changes in Net Assets from Operating Results (*Figure A-2*)

The Statement of Net Assets provides information about the nature and amounts of what the Authority owns (assets) and owes (liabilities). The difference between the assets and liabilities is reported as net assets.

Over time, increases or decreases in net assets are an indicator of whether the Authority's financial position is improving or deteriorating, respectively.

To assess the Authority's overall health, you need to consider additional factors that are not reflected on financial statements such as changes in the Authority's management, employee turnover, customer fees, debt balances, and the condition of the Authority's infrastructure and other facilities.

Figure A-1

Statement of Net Assets
(in thousands of dollars)

	2011	2010	2009
* Current and other assets	\$ 3,580	\$ 3,204	\$ 2,995
Capital assets, net	27,041	27,411	28,653
Total assets	\$ 30,621	\$ 30,615	\$ 31,648
Long-term liabilities	\$ 4,551	\$ 3,677	\$ 3,752
Other liabilities	361	371	300
* Total Liabilities	\$ 4,912	\$ 4,048	\$ 4,052
* Invested in capital assets			
net of related debt	\$ 22,415	\$ 23,662	\$ 24,829
Restricted for:			
Capital repairs	11	11	11
Unrestricted	3,283	2,894	2,756
Total net assets	\$ 25,709	\$ 26,567	\$ 27,596
Total liabilities and net assets	\$ 30,621	\$ 30,615	\$ 31,648

"Current and other assets" reflect the value of all cash accounts, accounts receivable, inventory and prepaid expenses. Of these, the greatest difference from 2010 was in cash related to the operating funds. These funds are the total customer payments & other operating deposits less the Authority's operating & repair expense payments. The reason for the balance to be higher by \$253,000 in 2011 is because there were less repair projects funded from this account than in 2010. In 2010 the operating funds balance was \$311,700 more than 2009 for the same reason.

"Total Liabilities" shows the total funds the Authority borrowed to improve infrastructure. In 2011, many of the NYS DEC Consent ordered projects connected with the Lakeville Sewer Plant were in progress & paid for by a NYS EFC loan. The total amount borrowed for this in 2011 was \$925,900. There was also \$62,000 borrowed related to the Groveland Station Water Project still in progress during 2011. So, the total debt increased in 2011 by \$987,900. There were also some principal payments made on existing debt totaling \$111,400. There is a more detailed discussion of debt under the caption of "Outstanding Debt".

Net Assets change as a result of operating activities over a period of 1 year (Revenues earned and Expenditures made). The following Changes in Net Assets from Operating Results report provides a summary of the Authority's operations for the years ended December 31, 2011, 2010 and 2009.

Figure A-2

Changes in Net Assets from Operating Results
(in thousands of dollars)

	Sewer			Water		
	2011	2010	2009	2011	2010	2009
Operating revenue:						
Service fees	\$ 1,633	\$ 1,628	\$ 1,438	\$ 1,108	\$ 1,080	\$ 1,020
Permit fees	7	18	27	33	35	45
Other income	5	9	3	8	4	6
Total operating revenues	\$ 1,645	\$ 1,655	\$ 1,468	\$ 1,149	\$ 1,119	\$ 1,071
Operating Expenses:						
Wages & Fringes (Contracted Employees)	\$ 574	\$ 582	\$ 514	\$ 367	\$ 394	\$ 360
Professional Services	142	80	78	62	60	59
Utilities	204	231	245	94	99	108
Outside Services	105	53	50	98	83	33
Vehicle Expenses	20	15	15	17	14	14
Purchased Water and Sewer	50	43	45	202	202	214
Equipment/Bldg Maintenance	85	78	65	52	61	85
Other Expenses	47	52	60	41	40	46
Depreciation	1,299	1,287	1,264	510	508	499
Total operating expenses	\$ 2,526	\$ 2,421	\$ 2,336	\$ 1,443	\$ 1,461	\$ 1,418
Total Operating income/loss	\$ (881)	\$ (766)	\$ (868)	\$ (294)	\$ (342)	\$ (347)
Non-Operating Revenues(Expenses)						
Interest income	\$ 5	\$ 4	\$ 10	\$ 30	\$ 84	\$ 20
Grant revenue	4	1	-	214	-	(28)
Gain on sale of assets	7	-	(1)	6	-	-
Interest expense	(59)	(71)	(73)	-	-	(1)
Total non-operating revenues(expenses)	\$ (43)	\$ (66)	\$ (64)	\$ 250	\$ 84	\$ (9)
Loss before capital contributions	\$ (924)	\$ (832)	\$ (932)	\$ (44)	\$ (258)	\$ (356)
Capital Contributions	111	55	-	-	5	-
Change in Net Assets	\$ (813)	\$ (777)	\$ (932)	\$ (44)	\$ (253)	\$ (356)
				Water & Sewer		
				2011	2010	2009
Net assets-beginning of year				\$ 26,566	\$ 27,596	\$ 28,884
Net assets-end of year				\$ 25,709	\$ 26,566	\$ 27,596

Figure A-3

Sources of Revenues		
Fiscal Year 2011		
	<u>Sewer</u>	<u>Water</u>
Customer Fees	51%	38%
Customer Debt Fees	8%	1%
Permits & Other	0%	2%
Total	59%	41%

Figure A-4

Expenses for		
Fiscal Year 2011		
	<u>Sewer</u>	<u>Water</u>
Depreciation	32%	13%
Wages & Fringes	14%	9%
Utilities	5%	2%
Equip/Bldg Maint	5%	4%
Purchased Sewer/Water	1%	5%
Interest on Debt	2%	0%
Other & Professional Serv	5%	5%
Total	64%	36%

Changes in Net Assets from Operating Results (Figure A-2) shows less net assets in 2010 by \$1,030,000, or a 4% decrease and then again in 2011 by \$857,000, or a 3% decrease. These decreases were due mostly to depreciation expense. Key elements of the business-type activities are as follows:

Revenue

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

Total operating revenue for 2011 increased over 2010 by \$19,000 or 1%.
 Total operating revenue for 2010 increased over 2009 by \$236,000 or 9%.

In 2009, the sewer retail rates for the Lakeville sewer area were decreased by \$16 per unit, per year and a separate debt fee was charged in its place in the amount of \$64 per unit, per year. In 2010, sewer retail rate increased by \$24 per unit, per year and water retail rates increased \$4 per unit per year. In 2011, water/sewer service rates were not changed.

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

Figure A-5	Customer units					
	<u>Sewer</u>			<u>Water</u>		
	2011	2010	2009	2011	2010	2009
Number of Units	4,079	4,047	4,018	3,931	3,910	3,907
Increase over previous year	32	29	159	21	3	243

The increase in sewer units was higher in 2009 mostly as a result of the completion of the Conesus Sewer Project in December 2008, resulting in an increase of 127 new sewer units. The increase in water units was higher in 2009 mostly as a result of a new lease the Authority entered into with the Town of Groveland, resulting in an increase of 205 units. New customers (units) were not as high in 2010 & 2011, possibly as a result of the economic unease related to the housing industry.

Expenses

Operating Expenses reflect the costs incurred by the Authority during the execution of normal operating procedures. These normal operational costs include: personnel, professional services, utilities, vehicle, equipment, building, permit, supply, and depreciation on fixed assets.

Operating expenses, not including depreciation expense, increased in 2011 by \$72,500 or 3.5%
 Operating expenses, not including depreciation expense, increased in 2010 by \$96,000 or 5%.

In 2009 there was a 3.2% general salary increase of approximately \$17,000, and also the addition of a new Sewer Operator Trainee in June 2009. This new operator position was needed because one of the present operators is preparing to retire and it takes several years in training to reach the expertise needed to become a Sewer Operator. Then in 2010 & 2011, there was a general salary increase of 1%. Also in 2011, one of the maintenance crew retired & was not replaced. The net change in 2011 due to this activity was a savings in wages of \$27,500.

Overtime occurs as a result of customer service calls made after regular working hours and various operational reasons: low water reads at tanks, main line water breaks, lost primes on pumps, water shut-offs due to fire, high sewer level in wet-wells, and SCADA communication losses. Overtime fluctuates dependent on need. In 2010 there was a decrease in overtime of \$4,000 while in 2011 there was a further decrease of \$4,000.

The largest area of Personnel cost increase over the past few years has always been in the area of Health Care. In 2010 Health Care increased by \$31,000. In 2011 there was an increase of \$4,600, the smallest increase over the last 5 years.

Professional Services includes legal, engineering, accounting services, computer services and insurance. The largest impact in 2011 was an increase in engineering fees increasing over 2010 by \$66,600. This increase was directly due to costs related to the DEC Consent Order requirements for which the following had to be designed:

Bio-Tower	\$47,500
Final clarifier	9,900
Engineer Reporting	4,600
Wet weather plan	1,400

Utility expenses include electricity, heating fuel, and telephone. These costs fluctuate as a result of many factors including rainfall amounts, temperatures, water use, sewer discharge, infiltration, and water loss. Utilities decreased in 2010 by \$23,000. There were some main line repairs that reduced water loss and infiltration, the temperatures in 2010 were warmer on average than in 2009 and there was slightly less water consumption per customer than in previous years. In 2011 there was a decrease of \$31,400 mostly due to a rate decrease in the Authority's contract electric rate.

Outside Services includes work that the Authority has contracts for, such as: water/sewer operator services, laboratory services, sludge hauling lawn mowing, uniform service, refuse collection, office cleaning, building rent, and government services. These services increased \$67,000 in 2011. This increase was mainly due to the cost of the agreement the Authority signed with the Town of Geneseo for providing water system operation and maintenance services for the newly leased area of the Town of Groveland. This service began in November 2009 and was paid for the full year in 2010 & 2011. The increase in 2011 was mainly due to re-structuring where some of the expenses that were reported in building maintenance & more preventative maintenance vendors were used. There was also sludge cleaning performed at the Lakeville & Groveland Station sewer plants in the amount of \$20,000.

The Authority has 7 trucks (one is a dump truck). Vehicle expense increased \$8,000 in 2011 due to the increase in the price of gasoline.

Purchased water is the cost at which the Authority buys water to sell to its customers. These costs can decrease as a result of lower customer consumption and leak repairs executed on the water mains. Water purchase decreased in 2010 by \$12,000. There were some water leaks found and repaired in the water mains. In 2009 the lost water was at 33% while at the end of 2011, this water loss has been lowered to 27%. There was no change from 2010 in the cost of water purchase in 2011.

Purchased sewer is the cost of having sewage treated at sewer plants not owned by the Authority. Purchased sewer increased in 2011 by \$7,000 due to an increase in sewer treatment in the Mt Morris service area.

Equipment/Building Maintenance includes large equipment repair (sewer cleaner, backhoe, etc), building maintenance, small equipment purchases, equipment maintenance and lease contracts, customer installation supplies, and chemicals/biologicals. This cost area decreased in 2010 by \$31,000 and decreased \$3,000 in 2011.

Other expenses include permits, fees, inspections, chemicals, safety supplies, postage, office supplies, advertising, travel/training, safety supplies, easements, and judgements/claims. There was an increase in training in 2010 due to operator training requirements.

Operating Expense, including depreciation expense, increased 3% in 2010 & 2% in 2011. Depreciation expense is the largest contributing factor that results in the decrease of the Authority's net assets.

Depreciation Expense is calculated as the cost of fixed assets such as pipeline, buildings, tanks, vehicles, etc., allocated to each year of its estimated useful life (ie. pipeline life is 50 years). As repair projects are completed and equipment purchased, they become part of the Capital Assets & begin to be depreciated. Depreciation increased in 2010 by \$37,000 and \$14,000 in 2011. In 2010 there were \$1,029,000 in completed projects added to fixed assets & \$159,000 added in 2011.

Interest income reflects the interest earned on bank accounts and also on accounts receivable. The accounts receivable interest is from an agreement made in 2007 for supplemental water supply infrastructure reimbursement with the Village of Geneseo.

Grant Revenue received in 2011 was for a NYS DWSRF grant related to the Groveland Station Water Project in the amount of \$214,000 & another \$4,000 received as part of a NYSERDA grant for drive replacement in the intermediate pump station at the Lakeville sewer plant.

Gain/Loss on sale of assets is the amount of profit or loss made on the disposal/sale of an asset. This gain or loss on a sale is calculated as follows: $Sold\ Amount + Accumulated\ Depreciation - Cost\ Amount = Gain/Loss\ on\ asset$. In 2011, three trucks were replaced.

Interest expense is interest the Authority pays on debt. In August 2009 a Revenue Anticipation Note was converted to permanent financing in the amount of \$2,921,000 with a subsidized rate not to exceed 4.27%. The subsidized rate has been around 2.14%. Interest is reduced when principal payments have been made.

Overall, the Authority's operating activities resulted in lowering its net assets by \$1,030,000 in 2010 and again by \$857,000 in 2011.

Most of the 2011 operating changes occurred in the sewer operations due to the added DEC Consent Order costs, while the cost of water operations didn't change much from 2009 to 2011. In 2010 & 2011, overall operating costs seem to be leveling off with an increase of 4% over 2009 and 2% over 2010, which reflects the fact that there weren't any large increases in units as in years past. These facts are reflected in the following graphs:

Business Type Activities - Revenues & Expenses

Figure A-7

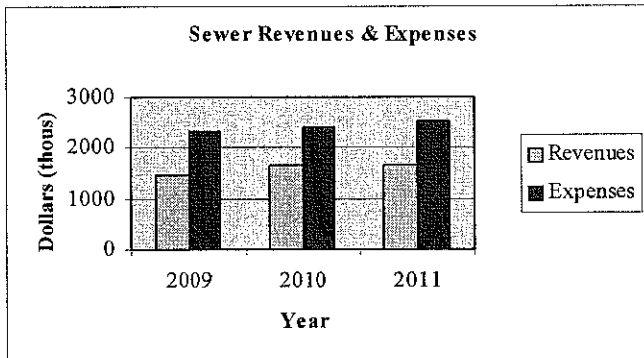
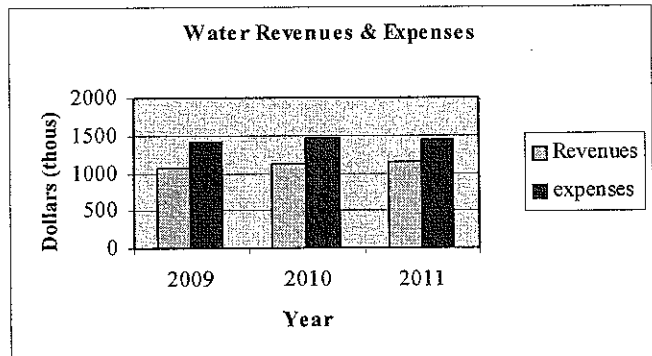


Figure A-8



Capital Assets

Capital assets include Land, Buildings, Machinery & Equipment, Water Distribution Systems, Sewer Collection Systems and Work In Progress.

Figure A-10

Capital Assets, Net of Depreciation
(in thousands of dollars)

	2011	2010	2009
Land	\$ 148	\$ 148	\$ 148
Buildings	3,563	3,689	3,820
Machinery & Equipment	981	1,048	1,148
Water Distribution Systems	4,926	5,386	5,846
Sewer Collection Systems	14,278	15,304	15,298
Construction Work In Progress	3,145	1,836	2,393
Total	\$ 27,041	\$ 27,411	\$ 28,653

Capital assets decreased in 2010 & 2011 because the amount of the depreciation expense was higher than the total of new assets added.

Expenses related to work on assets worth \$10,000 or more are recorded in Construction Work In Progress. The balance in this account reflects the expenditure balance of construction projects that were not completed by the end of the year. When projects are completed, the project cost is transferred to the appropriate Capital Asset category (ie. water distribution systems). In 2010 Work In Progress decreased \$557,000 and \$1,029,000 in completed projects were transferred to assets. In 2011 Work In Progress increased \$1,309,000 and \$159,000 were transferred to assets.

Some of the Work In Progress activity included the following:

In 2008, construction of the Groveland Station water project began and should be completed in 2012. This project replaces an outdated spring-fed water system that was contributed to the Authority in 2007. This project is currently funded by a New York State Environmental Facilities (NYS EFC) 0% construction loan (\$964,150), a Small Cities Grant awarded to Livingston County (\$600,000) and a NYS EFC grant (\$327,950).

In 2007, the Authority was served with a Consent Order by the NYS Department of Environmental Conservation (DEC). This order was for violation of the Lakeville Sewer Plant SPEDES Permit. There are capital improvements to be completed at the Lakeville Sewer Plant as a result of this Order. To fund these improvements, the Authority obtained two EFC Sewer Construction Loans. One is for \$1,671,000 at 0% interest and the other is for \$1,671,000 at 2%. In 2010 projects were started at the plant to facilitate compliance with the order. As of the end of 2011, the balance borrowed on the 0% loan was \$920,025. The loan funds are disbursed from NYS EFC upon submission of expenses.

In 2004, the Authority began a 5-year capital improvement program to facilitate major capital repairs. The money used to fund these repairs was obtained thru the annual issuance of Revenue Anticipation Notes (RAN). In 2009 the outstanding RAN principal balance owed was \$4,465,000 plus interest of \$118,000. This balance was paid using \$1,249,000 of unused RAN balance plus \$413,000 of Debt Reserve funds along with the issuance of a 30 year NYS EFC construction loan in the amount of \$2,921,000 at a 4.27% subsidized rate. The projects related to this loan were completed during 2010.

In 2011, the Authority entered into an agreement with the Village of Livonia to complete sewer improvements within the Village. The Authority administers the project and pays the contractors, then submits the payments to the Village for reimbursement. The unexpended budget balance for this project at the end of 2011 was \$176,000.

Aside from the major projects for which funding was needed, there were capital improvements made that were funded from the Operating Reserve. At the end of 2011 the outstanding budgets on these projects was \$705,000.

Outstanding Debt

Figure A-10

Outstanding Debt (in thousands of dollars)			
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Sewer</u>			
NYS EFC Sewer Bond	2,780	2,851	2,921
NYS EFC Sewer BAN (consent order)	926	-	-
Livingston County - South Cove	-	8	10
<u>Water</u>			
System revenue note with NYS EFC	920	890	421
Total Debt	4,626	3,749	3,352

In 2010, outstanding debt increased by \$400,000 as expenditures were made on the Groveland Station Water Project. In 2011, there was a further increase in debt due to more expenditures, totaling \$62,000 related to the Groveland Station Water Project, and \$926,000 used to make improvements at the Lakeville Sewer Plant to comply with a NYS DEC Consent Order.

In 1999, the South Cove water system was constructed with funds obtained from an interest free loan from Livingston County. This loan was paid off in 2011.

Relevy

Relevy is a term used to designate an amount that is added to property taxes by the County as a result of unpaid balances from other than property taxes by its residents.

In 2002, New York State approved legislation allowing the Authority the ability to relevy any unpaid balances from the water & sewer billing. These balances are transferred to the Livingston County Real Property Tax office to add to the respective property tax bill. The Livingston County Treasurer then reimburses the Authority for the total of the relevy by May of each year.

Lease Areas

The Authority lease several water/sewer service areas. The value of these leased areas is not carried within the capital asset totals because the balance sheet reflects only assets that the Authority owns. The Authority is responsible for repair and improvements upon these leased areas. When an improvement is made, the value of the improvement/repair is added to capital assets. Thus, the depreciated amount from capital assets does not represent all infrastructures the Authority is responsible to maintain. Water/Sewer infrastructure leases generally have a term of 40 years.

Authority Rates and Charges

The Authority has seven (7) water service areas and, four (4) sewer service areas. Rates vary according to the cost of providing service for each area. Annually, each service area is budgeted for as a separate cost center to determine what the respective rate should be. Rates are set in concurrence with the adoption of the Authority's annual operating budget along with a related public hearing.

When the Authority has to borrow funds to complete a capital improvement project, the related debt payment is added as a debt charge to customer's accounts within the service area of the improvement. This charge is also determined annually and set according to trustee indenture requirements in concurrence with the adoption of the Authority's operating budget, in the same manner as with the other rates.

Economic/Environmental Factors That May Affect the Authority

There are several unknown factors that may affect the Authority and encompass changes in existing federal, state and/or local legislation including additional responsibilities for new environmental or drinking standards. Additionally, the Authority invests funds not required for immediate disbursement as permitted by statute and the Authority's investment policy. The Authority's investment revenue has been affected by declines in short-term interest rates in prior years.

Annually, during budget preparation, Authority staff attempt to estimate the number of new hookups that will occur in each area. Growth in existing service areas can absorb inflationary expenses that result in higher rates to customers. Future population growth and economic availability for growth is always speculative and hinges upon many unknown economic and environmental factors. Growth has slowed in the last few years.

There is always a possibility for natural disasters creating emergency requirements to keep our systems operating. In February 2009, the Authority entered into the New York Mutual Aid and Assistance Agreement for membership into the Water and Wastewater Agency Response Network (WARN). This is a network of water and wastewater agencies helping each other respond to and recover from emergency events.

Future Factors

The Groveland Station water system project completion is expected in 2012. The only portion of the project left to complete in the building of a water tank.

The NYS DEC Consent Order that was served to the Authority in 2007 has been completed. The Authority has worked closely with NYSDEC & their engineers in planning capital projects to provide better treatment of waste. It is expected that these projects, will resolve SPEDES permit discharge issues, testing after completion will need to be done to confirm this. In February 2011, the NYS DEC issued a satisfactory comprehensive inspection report for the Lakeville Sewer Plant with an understanding that further work will be done. As this work is being done, the Authority is "drawing down" on the NYS EFC Loan. The projects will be completed early in 2012.

In 2009, the Authority signed an operation and maintenance agreement of the Town of Groveland water system serving 205 units, with the Town of Geneseo. Revenue earned from these units is paid to the Town of Geneseo for operating and maintaining the system. This agreement will expire as of 1/31/2012 after which, the Authority will take over this work, thereby reducing Outside O&M Costs by approximately \$50,000.

In 2010, the Authority began billing the Village of Livonia a pro-rata share of the water service expenses. The pro-rata share is increased each year by 20% until 100% is reached. In 2011, the pro-rata share was 40%. In 2012, the pro-rata share is 60%. Each 20% increases O&M Revenue projection approximately \$17,000.

In 2011, a shop was built at the Lakeville Sewer Plant. This shop replaces a shop the Authority was leasing from the Town of Livonia for \$13,800 per year. The last lease payment will be made in April 2012, thereby saving operating expenses of \$9,200 in 2012, then \$13,800 in 2013.

2012 water service rates increased \$4 per year per unit and the Lakeville service area sewer debt charge increased \$4 per year per unit.

Requests for Information

The financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact Judith Travis, Financial Manager, LCWSA, P.O. Box 396, Lakeville, N.Y., 14480; or call 585-346-3523.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)
STATEMENTS OF NET ASSETS
DECEMBER 31,

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,069,663	\$ 1,756,425
Accounts receivable	783,737	735,623
Current portion of capital contributions receivable	74,064	27,807
Inventory	11,656	9,367
Prepaid expenses	50,986	58,772
Funds held for others	27,641	26,058
Total current assets	3,017,747	2,614,052
NONCURRENT ASSETS:		
Restricted cash	11,039	11,030
Capital contributions receivable, net of current portion	551,253	578,568
Capital assets, net	27,041,367	27,411,036
Total noncurrent assets	27,603,659	28,000,634
Total assets	30,621,406	30,614,686
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	174,827	143,301
Current portion of loans payable	75,000	72,680
Other current liabilities	83,663	129,653
Funds held for others	27,641	26,058
Total current liabilities	361,131	371,692
NONCURRENT LIABILITIES:		
System revenue note payable	1,845,935	889,686
Loans payable, net of current portion	2,705,000	2,786,971
Total other noncurrent liabilities	4,550,935	3,676,657
Total liabilities	4,912,066	4,048,349
NET ASSETS:		
Invested in capital assets, net of related debt	22,415,432	23,661,699
Restricted	11,039	11,030
Unrestricted	3,282,869	2,893,608
Total net assets	\$ 25,709,340	\$ 26,566,337

See notes to financial statements

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES:		
Service fees	\$ 2,740,444	\$ 2,708,459
Permit fees	39,897	53,232
Capital development/repair	7	2
Other income	13,808	13,258
Total operating revenues	<u>2,794,156</u>	<u>2,774,951</u>
OPERATING EXPENSES:		
Administrative	464,086	447,574
Treatment	896,400	784,096
Transmission/collection	799,037	855,296
Depreciation	1,810,163	1,794,965
Total operating expenses	<u>3,969,686</u>	<u>3,881,931</u>
Operating loss	<u>(1,175,530)</u>	<u>(1,106,980)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	34,332	87,908
Grant revenue	218,670	900
Interest expense	(59,333)	(71,345)
Gain on sale of assets	13,602	-
Total nonoperating revenues	<u>207,271</u>	<u>17,463</u>
Loss before capital contributions	<u>(968,259)</u>	<u>(1,089,517)</u>
CAPITAL CONTRIBUTIONS:		
Governments	<u>111,262</u>	<u>59,787</u>
Change in net assets	(856,997)	(1,029,730)
Net assets - beginning of year	<u>26,566,337</u>	<u>27,596,067</u>
Net assets - end of year	<u>\$ 25,709,340</u>	<u>\$ 26,566,337</u>

See notes to financial statements

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
(A COMPONENT UNIT OF THE COUNTY OF LIVINGSTON, NEW YORK)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from service fees	\$ 2,692,330	\$ 2,671,316
Cash received from permit fees	39,897	53,232
Cash payments for goods and services	(1,182,272)	(1,110,296)
Cash payments to Livingston County for contracted employees	(984,679)	(916,972)
Other operating receipts	13,815	13,260
Net cash provided by operating activities	<u>579,091</u>	<u>710,540</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,440,494)	(497,548)
Proceeds from the sale of capital assets	13,602	-
Capital contributions	92,320	135,113
Proceeds from system revenue note payable	987,974	6,933
Repayments of system revenue note payable	(31,725)	(10,000)
Repayments of loans payable	(79,651)	(71,680)
Interest paid on capital debt	(60,872)	(57,859)
Grants received for capital related items	218,670	900
Net cash used by capital and related financing activities	<u>(300,176)</u>	<u>(494,141)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	<u>34,332</u>	<u>87,908</u>
Net cash provided by investing activities	<u>34,332</u>	<u>87,908</u>
Net increase in cash and cash equivalents	313,247	304,307
Cash and cash equivalents - beginning of year	<u>1,767,455</u>	<u>1,463,148</u>
Cash and cash equivalents - end of year	<u>\$ 2,080,702</u>	<u>\$ 1,767,455</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,175,530)	\$ (1,106,980)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,810,163	1,794,965
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(48,114)	(37,143)
Inventories	(2,289)	8,872
Prepaid expenses	7,786	(9,808)
Increase (decrease) in:		
Accounts payable	31,526	2,414
Other current and accrued liabilities	(44,451)	58,220
Net cash provided by operating activities	<u>\$ 579,091</u>	<u>\$ 710,540</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITY:		
Capital assets received directly from developers and governments	<u>\$ -</u>	<u>\$ 55,000</u>

See notes to financial statements.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND REPORTING ENTITY

The Livingston County Water and Sewer Authority (the Authority) is a public benefit corporation organized under the Public Authorities Law of the State of New York. The Authority was created to finance, construct, operate and maintain water and sewage facilities for the benefit of the residents of the County of Livingston, New York (the County).

The Authority was created by special New York State legislation on July 26, 1995 and commenced operations with the appointment of its officers on August 23, 1995 and September 13, 1995.

Members of the Authority's governing board are appointed by the County's Board of Supervisors; however, the Board of Supervisors exercises no oversight responsibility for management of the Authority, or accountability for fiscal matters. The County is not liable for any Authority indebtedness. The Authority is considered a discretely presented component unit of the County and is included as such within the County's basic financial statements.

The financial statements presented herein do not include agencies that have been formed under applicable state laws, or separate and distinct units of government apart from the Livingston County Water and Sewer Authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

The financial statements of the Livingston County Water and Sewer Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority is engaged only in business-type activities as defined in GASB Statement No. 34. In compliance with GASB Statement No. 20, the Authority applies all applicable GASB pronouncements, as well as, Financial Accounting Standards Board's (FASB) Accounting Standards Codification unless these standards conflict with or contradict GASB pronouncements.

The financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the cash is received or paid. Nonexchange transactions in which the Authority gives or receives value without directly receiving or giving equal value in exchange include grants and donations. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Authority distinguishes operating revenues and expenses from nonoperating items in its financial statements. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Authority's principal on-going operations. The principal operating revenue of the Authority's funds are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. CASH AND CASH EQUIVALENTS

The Authority's cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value. In addition, cash with fiscal agent consists of cash that is held by New York State Environmental Facilities Corporation on the Authority's behalf.

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond sales can only be used for the stated purpose of the borrowing and therefore any remaining proceeds are restricted. Also, certain assets were restricted to fund development and repairs associated with specific service areas.

B. ACCOUNTS RECEIVABLE

Accounts receivable consist of fees for services for sewer and water charges due from individuals and other governments. Management considers the receivables fully collectible because the Authority has the ability to relevel to the respective municipalities' tax rolls where the water and sewer customers reside.

C. CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable represents contractual agreements with the Village of Livonia and 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 assets.

D. INVENTORY

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

E. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

F. CAPITAL ASSETS

Capital assets are recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements is expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

Capitalization thresholds (the dollar value at or above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Authority are as follows:

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Machinery and equipment	\$10,000	straight-line	5-10 years
Buildings	10,000	straight-line	20-40 years
Water distribution system	10,000	straight-line	30-50 years
Sewer collection system	10,000	straight-line	20-50 years

G. REVENUE RECOGNITION

Revenues from water and sewer sales are recognized at the time of service delivery based on actual or estimated water meter readings and actual sewer units.

H. CAPITAL CONTRIBUTIONS

Capital contributions represent amounts that developers, customers and governments have contributed for betterments or additions to capital assets. These contributions are received in cash or in the form of non-cash contributions of capital items and are recorded at fair value on the date of donation.

I. NET ASSETS

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

Invested in Capital Assets, Net of Related Debt - consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets - consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

J. INSURANCE

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, personal injury liability, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Settled claims from these risks have not yet exceeded commercial insurance coverage for the past three fiscal years.

K. INCOME TAXES

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales taxes.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. BUDGET

Under the New York State Public Authorities Law, the Authority board must approve and issue a budget on an annual basis representing the Authority's objectives and priorities for the year.

N. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flows, the Authority considers cash to be all unrestricted and restricted cash accounts including demand accounts and certificates of deposit with an original maturity of generally three months or less, as well as, cash with fiscal agent.

P. NEW ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2011, no new accounting pronouncements were adopted.

The GASB has issued the following new statements:

- Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-employers Plans*, which will be effective for the year ending December 31, 2012;
- Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, which will be effective for the year ending December 31, 2013;
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which will be effective for the year ending December 31, 2012;
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the year ending December 31, 2012; and
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which will be effective for the year ending December 31, 2012.

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

NOTE 3 - DEPOSITS AND INVESTMENTS

The Authority's investment policies are governed by State statutes. In addition, the Authority has its own written investment policy. Authority monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Authority is authorized to use interest bearing demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of the State of New York and its localities.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Collateral is required for demand deposits and certificates of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Investment and Deposit Policy

The Authority implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Authority follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Authority's Executive Director.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Authority's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Authority's investment and deposit policy, all deposits of the Authority including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits. The Authority restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by New York State and its localities.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - RESTRICTED CASH AND NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Capital development and repairs	\$ <u>11,039</u>	\$ <u>11,030</u>

Restricted funds are established to fund development and repairs associated with specific service areas. In addition, amounts received but unspent from the issuance of a bond anticipation note (BAN) or a revenue anticipation note (RAN) are reported as restricted until such time as the BAN or RAN expires.

NOTE 5 - ACCOUNTS RECEIVABLE

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

	<u>2011</u>	<u>2010</u>
Water and sewer service fees	\$ 555,597	\$ 517,424
Due from local governments	223,801	215,450
Financing interest	<u>4,339</u>	<u>2,749</u>
	\$ <u>783,737</u>	\$ <u>735,623</u>

NOTE 6 - CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Village of Geneseo	\$ 578,477	\$ 606,375
Village of Livonia	<u>46,840</u>	<u>-</u>
	\$ <u>625,317</u>	\$ <u>606,375</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the Authority for the year ended December 31, 2011 was as follows:

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>
Capital assets, not being depreciated:				
Land	\$ 147,985	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>1,836,167</u>	<u>1,467,874</u>	<u>159,374</u>	<u>3,144,667</u>
Total capital assets, not being depreciated	\$ <u>1,984,152</u>	\$ <u>1,467,874</u>	\$ <u>159,374</u>	\$ <u>3,292,652</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS (Continued)

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
Capital assets, being depreciated:				
Buildings	\$ 4,869,678	\$ 7,250	\$ -	\$ 4,876,928
Water distribution system	7,390,929	29,941	-	7,420,870
Sewer collection system	19,553,910	32,147	-	19,586,057
Machinery and equipment	<u>2,070,083</u>	<u>82,377</u>	<u>66,148</u>	<u>2,086,312</u>
Total capital assets, being depreciated	<u>33,884,600</u>	<u>151,715</u>	<u>66,148</u>	<u>33,970,167</u>
Less accumulated depreciation:				
Buildings	1,180,345	133,966	-	1,314,311
Water distribution system	2,005,161	489,352	-	2,494,513
Sewer collection system	4,250,067	1,057,930	-	5,307,997
Machinery and equipment	<u>1,022,143</u>	<u>128,915</u>	<u>46,427</u>	<u>1,104,631</u>
Total accumulated depreciation	<u>8,457,716</u>	<u>1,810,163</u>	<u>46,427</u>	<u>10,221,452</u>
Total capital assets being depreciated, net	<u>25,426,884</u>	<u>(1,658,448)</u>	<u>19,721</u>	<u>23,748,715</u>
Total capital assets, net	<u>\$ 27,411,036</u>	<u>\$ (190,574)</u>	<u>\$ 179,095</u>	<u>\$ 27,041,367</u>

Capital asset activity for the Authority for the year ended December 31, 2010 was as follows:

	Balance 01/01/10	Additions	Deletions	Balance 12/31/10
Capital assets, not being depreciated:				
Land	\$ 147,985	\$ -	\$ -	\$ 147,985
Construction work-in-progress	<u>2,393,401</u>	<u>471,725</u>	<u>1,028,959</u>	<u>1,836,167</u>
Total capital assets, not being depreciated	<u>\$ 2,541,386</u>	<u>\$ 471,725</u>	<u>\$ 1,028,959</u>	<u>\$ 1,984,152</u>
Capital assets, being depreciated:				
Buildings	\$ 4,866,593	\$ 3,085	\$ -	\$ 4,869,678
Water distribution system	7,363,751	27,178	-	7,390,929
Sewer collection system	18,499,554	1,054,356	-	19,553,910
Machinery and equipment	<u>2,044,920</u>	<u>25,163</u>	<u>-</u>	<u>2,070,083</u>
Total capital assets, being depreciated	<u>32,774,818</u>	<u>1,109,782</u>	<u>-</u>	<u>33,884,600</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>01/01/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/10</u>
Less accumulated depreciation:				
Buildings	1,046,572	133,773	-	1,180,345
Water distribution system	1,517,070	488,091	-	2,005,161
Sewer collection system	3,201,900	1,048,167	-	4,250,067
Machinery and equipment	<u>897,209</u>	<u>124,934</u>	<u>-</u>	<u>1,022,143</u>
Total accumulated depreciation	<u>6,662,751</u>	<u>1,794,965</u>	<u>-</u>	<u>8,457,716</u>
Total capital assets being depreciated, net	<u>26,112,067</u>	<u>(685,183)</u>	<u>-</u>	<u>25,426,884</u>
Total capital assets, net	<u>\$ 28,653,453</u>	<u>\$ (213,458)</u>	<u>\$ 1,028,959</u>	<u>\$ 27,411,036</u>

NOTE 8 - FINANCING ARRANGEMENTS

On September 30, 2009 the Authority issued a Clean Water Facility Bond Anticipation Note (BAN) with the NYS Environmental Facilities Corporation to borrow up to a maximum of \$1,670,960 to fund the cost of various sewer projects. The note has an interest rate of 1.02% per annum, will mature on September 30, 2012 and is collateralized by future revenues. At December 31, 2011 and 2010, the Authority had not made any draw downs on the note.

The Authority had the following construction period loans and debt outstanding as of December 31, 2011:

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
On August 27, 2009, the Authority issued a \$2,921,000 Clean Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of various water and sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$2,851,000	\$ -	\$ 71,000	\$2,780,000	\$ 75,000
On February 7, 2008 the Authority issued a system revenue note with the NYS Environmental Facilities Corporation to borrow up to a maximum of \$964,150 to fund the cost of the Groveland Station water project. The note has an interest rate of 0% and will mature in 2038.	889,686	62,064	31,725	920,025	-

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - FINANCING ARRANGEMENTS (Continued)

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
On September 30, 2009 the Authority authorized a bond anticipation note (BAN) not to exceed \$1,670,960 with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The BAN is non-interest bearing and will mature on September 30, 2012.	-	925,910	-	925,910	-
The South Cover Water System was constructed with monies loaned from the County. The loan is non-interest bearing and the annual principal payment is \$1,680 (\$240/unit/year).	<u>8,651</u>	<u>-</u>	<u>8,651</u>	<u>-</u>	<u>-</u>
	<u>\$3,749,337</u>	<u>\$ 987,974</u>	<u>\$ 111,376</u>	<u>\$4,625,935</u>	<u>\$ 75,000</u>

The Authority had the following construction period loans outstanding as of December 31, 2010:

	<u>Balance</u> <u>01/01/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/10</u>	<u>Due Within</u> <u>One Year</u>
On August 27, 2009, the Authority issued a \$2,921,000 Clean Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of various water and sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$2,921,000	\$ -	\$ 70,000	\$2,851,000	\$ 71,000
On February 7, 2008 the Authority issued a system revenue note with the NYS Environmental Facilities Corporation to borrow up to a maximum of \$964,150 to fund the cost of the Groveland Station water project. The system revenue note is non-interest bearing, will mature on February 7, 2011 and is collateralized by future pledged revenues.	892,753	6,933	10,000	889,686	-
The South Cover Water System was constructed with monies loaned from the County. The loan is non-interest bearing and the annual principal payment is \$1,680 (\$240/unit/year).	<u>10,331</u>	<u>-</u>	<u>1,680</u>	<u>8,651</u>	<u>1,680</u>
	<u>\$3,824,084</u>	<u>\$ 6,933</u>	<u>\$ 81,680</u>	<u>\$3,749,337</u>	<u>\$ 72,680</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - FINANCING ARRANGEMENTS (Continued)

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

	<u>Principal</u>	<u>Interest</u>
2012	\$ 75,000	\$ 118,706
2013	75,000	115,504
2014	75,000	112,301
2015	80,000	109,098
2016	80,000	105,683
2017-2021	425,000	475,892
2022-2026	475,000	380,884
2027-2031	530,000	274,988
2032-2036	580,000	157,563
2037-3039	<u>385,000</u>	<u>33,093</u>
	<u>\$ 2,780,000</u>	<u>\$ 1,883,712</u>

In 2008, the Authority entered into a Trust Indenture under which debt is issued. The Trust Indenture pledges all revenues and other income collected by the Authority for payment of principal and interest on the bonds. The Trust Indenture also generally requires establishment of a certain trust funds, for which M&T Bank acts as a trustee, into which funds are to be deposited. The Authority is required by this document to maintain on deposit amounts sufficient to cover the annual debt service (as defined in the Trust Indenture) of its bonds. The Authority covenants in its indenture that it will establish water and sewer rates sufficient to cover the sum of (1) 105% times debt service, (2) operating revenues exceed operating expenses as defined by the covenant, and (3) any additional amounts required to restore the debt service reserve fund to the debt service reserve requirement. As of December 31, 2011 and 2010, there were no covenant requirements with any outstanding debt issues for the Authority. The Authority includes in their customer billings an amount designated for debt service. The intention by the Board, related to the use of these revenues, is to satisfy debt service requirements.

NOTE 9 - FUNDS HELD FOR OTHERS

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

	<u>2011</u>	<u>2010</u>
Compact of towns (flood gates)	\$ 21,824	\$ 21,737
Collections	<u>5,817</u>	<u>4,321</u>
	<u>\$ 27,641</u>	<u>\$ 26,058</u>

NOTE 10 - CAPITAL CONTRIBUTIONS

Contributed capital represents amounts contributed by outside entities, and governments or through federal or state agents. In 2011, \$111,262 was contributed from governments for capital developments. In 2010, \$59,787 was contributed from governments and developers of which \$55,000 was received in the form of non-cash contributions.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A. COMMITMENTS

The Authority has an agreement with the County to share the services of the County's employees. Therefore, the Authority makes monthly payments to the County for all payroll and related employee expenses. The total amount recognized in 2011 and 2010 was \$941,528 and \$976,364, respectively.

B. CONTINGENCIES

The Authority is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have a material adverse effect on the financial condition of the Authority.

C. DEC CONSENT ORDER

On September 30, 2011, the DEC Consent Order, previously imposed on the Authority, was lifted because the Authority met all compliance requirements.

D. CONSTRUCTION COMMITMENTS

As of December 31, 2011 and 2010 the Authority had approximately \$1,400,000 and \$2,900,000, respectively, committed to complete the various capital projects.

**SECTION B
SUPPLEMENTAL INFORMATION**

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

	2011			2010		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING REVENUES						
Service fees	\$ 1,632,465	\$ 1,107,979	\$ 2,740,444	\$ 1,627,938	\$ 1,080,521	\$ 2,708,459
Permit fees	7,114	32,783	39,897	17,889	35,343	53,232
Capital development/repair	-	7	7	-	2	2
Other income	5,321	8,487	13,808	9,442	3,816	13,258
Total operating revenues	<u>1,644,900</u>	<u>1,149,256</u>	<u>2,794,156</u>	<u>1,655,269</u>	<u>1,119,682</u>	<u>2,774,951</u>
OPERATING EXPENSES:						
Administrative	244,338	219,748	464,086	233,289	214,285	447,574
Treatment	564,119	332,281	896,400	446,957	337,139	784,096
Transmission/collection	418,268	380,769	799,037	453,942	401,354	855,296
Depreciation	1,299,698	510,465	1,810,163	1,286,607	508,358	1,794,965
Total operating expenses	<u>2,526,423</u>	<u>1,443,263</u>	<u>3,969,686</u>	<u>2,420,795</u>	<u>1,461,136</u>	<u>3,881,931</u>
Operating loss	<u>(881,523)</u>	<u>(294,007)</u>	<u>(1,175,530)</u>	<u>(765,526)</u>	<u>(341,454)</u>	<u>(1,106,980)</u>
NONOPERATING REVENUES (EXPENSES):						
Interest income	4,715	29,617	34,332	4,226	83,682	87,908
Grant revenue	4,500	214,170	218,670	900	-	900
Gain on sale of assets	7,209	6,393	13,602	-	-	-
Interest expense	(59,333)	-	(59,333)	(71,345)	-	(71,345)
Total nonoperating revenues (expenses)	<u>(42,909)</u>	<u>250,180</u>	<u>207,271</u>	<u>(66,219)</u>	<u>83,682</u>	<u>17,463</u>
Loss before capital contributions	<u>(924,432)</u>	<u>(43,827)</u>	<u>(968,259)</u>	<u>(831,745)</u>	<u>(257,772)</u>	<u>(1,089,517)</u>
CAPITAL CONTRIBUTIONS:						
Governments	111,262	-	111,262	55,000	4,787	59,787
Change in net assets	<u>(813,170)</u>	<u>(43,827)</u>	<u>(856,997)</u>	<u>(776,745)</u>	<u>(252,985)</u>	<u>(1,029,730)</u>
Net assets - beginning of year			<u>26,566,337</u>			<u>27,596,067</u>
Net assets - end of year			<u>\$ 25,709,340</u>			<u>\$ 26,566,337</u>

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

	2011			2010		
	Sewer	Water	Total	Sewer	Water	Total
OPERATING EXPENSES:						
Administrative:						
Contracted employees	\$ 152,442	\$ 135,229	\$ 287,671	\$ 144,689	\$ 134,876	\$ 279,565
Professional services	65,833	60,582	126,415	66,174	58,175	124,349
Payments to other governments	12,266	10,946	23,212	9,141	8,506	17,647
Travel and training	588	597	1,185	480	448	928
Equipment and building maintenance	2,352	2,085	4,437	2,764	2,729	5,493
Vehicle expense	110	97	207	-	-	-
Utilities	1,249	1,108	2,357	1,485	1,386	2,871
Outside services	2,351	2,093	4,444	2,221	2,072	4,293
Other	7,147	7,011	14,158	6,335	6,093	12,428
Total administrative	<u>244,338</u>	<u>219,748</u>	<u>464,086</u>	<u>233,289</u>	<u>214,285</u>	<u>447,574</u>
Treatment:						
Contracted employees	248,255	79,196	328,451	245,011	79,223	324,234
Purchased water/sewer	48,743	201,932	251,675	42,560	202,364	244,924
Utilities	72,037	-	72,037	93,310	-	93,310
Outside services	67,362	51,153	118,515	27,516	51,625	79,141
Equipment and building maintenance	32,602	-	32,602	15,014	-	15,014
Professional services	74,661	-	74,661	11,992	-	11,992
Small equipment purchases	6,852	-	6,852	1,342	19	1,361
Permits, fees and inspections	5,521	-	5,521	1,846	3,800	5,646
Travel and training	3,138	-	3,138	2,394	108	2,502
Other	2,948	-	2,948	5,972	-	5,972
Total treatment	<u>564,119</u>	<u>332,281</u>	<u>896,400</u>	<u>446,957</u>	<u>337,139</u>	<u>784,096</u>
Transmission/collection:						
Contracted employees	172,449	152,957	325,406	192,811	179,754	372,565
Utilities	130,984	92,984	223,968	135,823	97,784	233,607
Equipment and building maintenance	39,128	37,544	76,672	55,447	57,947	113,394
Vehicle expense	19,538	17,223	36,761	14,880	13,848	28,728
Outside services	35,140	45,008	80,148	22,864	29,238	52,102
Professional services	1,282	1,095	2,377	2,596	1,829	4,425
Small equipment purchases	3,944	11,067	15,011	3,828	1,692	5,520
Permits, fees and inspections	52	8,701	8,753	85	4,893	4,978
Travel and training	383	340	723	240	555	795
Other	15,368	13,850	29,218	25,368	13,814	39,182
Total transmission/collection	<u>418,268</u>	<u>380,769</u>	<u>799,037</u>	<u>453,942</u>	<u>401,354</u>	<u>855,296</u>
Depreciation	1,299,698	510,465	1,810,163	1,286,607	508,358	1,794,965
Total operating expenses	<u>\$ 2,526,423</u>	<u>\$ 1,443,263</u>	<u>\$ 3,969,686</u>	<u>\$ 2,420,795</u>	<u>\$ 1,461,136</u>	<u>\$ 3,881,931</u>

SECTION C
COMPLIANCE AND INTERNAL CONTROLS

**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**

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

We have audited the financial statements of Livingston County Water and Sewer Authority (the Authority), a component unit of Livingston County, New York, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

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

Freed Maxick CPAs, P.C.

Batavia, NY
March 7, 2012