WAYNE COUNTY WATER AND SEWER AUTHORITY

NEW YORK

BASIC FINANCIAL STATEMENTS

For Years Ended December 31, 2018 and 2017

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

T A B L E   O F   C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board Members
Wayne County Water and Sewer Authority
Wayne County, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Wayne County Water and Sewer Authority, New York, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Wayne County Water and Sewer Authority, New York, as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 2 to the financial statements, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the beginning net position has been restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of the authority’s proportionate share of the net pension liability, and schedule of authority contributions on pages 3–7 and pages 29-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wayne County Water and Sewer Authority, New York‘s financial statements. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplemental information as listed in the table of contents 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. Such 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 accompanying supplemental information as listed in the table of contents is fairly stated, in all material respects, in relation to the 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 11, 2019 on our consideration of the Wayne County Water and Sewer Authority, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wayne County Water and Sewer Authority, New York’s internal control over financial reporting and compliance.

Raymond F. Wager, CPA, P.C.

Rochester, New York
March 11, 2019

Wayne County Water & Sewer Authority
Wayne County, New York

Management's Discussion and Analysis (MD&A)

December 31, 2018

Introduction

Our discussion and analysis of the Wayne County Water and Sewer Authority, Wayne County, New York's (Authority) financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2018. It should be read in conjunction with the basic financial statements to enhance understanding of the Authority's financial performance, which immediately follows this section.

Activities and Accomplishments

Sewer:

- The Authority continued with its on-going inflow/infiltration program for sanitary sewers.
- Construction of the Port Bay sewer project with the potential of 640 connections in the Towns of Huron and Wolcott has begun.
- The Village of Wolcott continued pumping Village wastewater to the Regional Plant through the former Village treatment plant, now converted to a pump station.
- The proposed Western Regional Wastewater Treatment Plant to service the Towns of Marion and Macedon and the Village of Palmyra is in the design phase. An intermunicipal agreement among the three participants as well as the Town of Palmyra (with some out of village customers) was signed. Financing is being arranged.
- Bids were received for Phase 4 of the sanitary sewer system expansion in the Village of Red Creek. The project consists of a low-pressure sanitary sewer system on Canada Street.
- The Authority worked with Wayne County to rehabilitate a number of sewer manholes and a pump station wet well in the Town of Lyons.
- Roofs were replaced on the process (main) building and influent building at the Red Creek Regional Wastewater Treatment Facility.

Water:

- The Authority continued its meter replacement program.
- The Regional Water Storage Tank Project advanced with funding being pursued through USDA. The Authority closed on the property on Brantling Hill in early 2018.
- Construction of the Town of Sodus Water District No. 11, which consists of approximately 24,000 linear feet of 8-inch water main in the southwest corner of the town, was completed.
- A 6,000 linear foot district extension on South Geneva Road in the Town of Sodus was completed.
- The Authority continued to assist the Village of Red Creek in their water operations.
- The Authority replaced water main on portions of Mill Street in the Town of Marion.
- Construction of the Town of Arcadia Water District #12, which consists of approximately 31,000 linear feet of 12-inch and 8-inch water main in the eastern part of the town, was completed.

Miscellaneous:

- The expansion of the Authority office was completed and the staff settled in the new addition and revamped existing structure.
- The Authority continued to exercise its vehicle and construction equipment replacement program by consigning older equipment to the municipal auction in the spring and purchasing replacement equipment.
- The Authority continues with participation in the BOCES cooperative bids for electric and natural gas service for those energy accounts that are eligible.
- The DEC is in the process of reviewing the Authority's updated Sewer Use Rules.

Summary of Operations and Changes in Net Position

	2018		2017		2016	
	Water Activity	Sewer Activity	Water Activity	Sewer Activity	Water Activity	Sewer Activity
Operating Revenues	$ 6,870,093	$ 1,578,466	$ 6,575,120	$ 1,561,755	$ 6,316,894	$ 1,378,191
Operating Expenses	7,025,336	1,427,381	6,423,340	1,430,188	6,106,072	1,304,172
Operating Income (Loss)	$ (155,243)	$ 151,085	$ 151,780	$ 131,567	$ 210,822	$ 74,019
Non-Operating Revenues	61,606	-	31,919	-	70,429	-
Non-Operating Expenses	(56,755)	(1,874)	(77,983)	(2,087)	(13,890)	(2,471)
Income Before Other Items	$ (150,392)	$ 149,211	$ 105,716	$ 129,480	$ 267,361	$ 71,548
Allocation of funds	-	-	-	-	(7,817)	7,817
Contributed Capital	-	-	37,500	-	-	-
Increase (Decrease) in Net Position	**$ (150,392)**	**$ 149,211**	**$ 143,216**	**$ 129,480**	**$ 259,544**	**$ 79,365**

The decrease of Net Position is explained in the following Operating Revenue and Operating Expense summaries.

Operating Revenues

The Authority's operating revenue increased by $311,684 in 2018 and increased by $441,790 in 2017.

Operating Expenses

The Authority's operating expenses increased by $399,723 in 2018 and increased by $443,284 in 2017.

The total number of active customers serviced during the past three years is as follows:

Water			Sewer		
2018	2017	2016	2018	2017	2016
13,847	13,735	12,259	2,322	2,322	2,192

Net Position

Net position is an indication of financial strength. The WCWSA net position decreased by $1,181 in 2018 and increased $272,696 in 2017. The following is a summary of the Authority's net position as of December 31, 2018, 2017, and 2016:

	2018	2017	2016
ASSETS:			
Current Assets	$ 6,399,619	$ 6,827,915	$ 5,859,571
Fixed Assets	12,862,394	12,409,688	11,433,728
Total Assets	**$ 19,262,013**	**$ 19,237,603**	**$ 17,293,299**
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows of Resources	$ 872,463	$ 532,469	$ 843,495
LIABILITIES:			
Current Liabilitites	$ 835,473	$ 670,257	$ 478,056
Noncurrent Liabilities	2,812,507	3,279,120	1,912,501
Total Liabilitites	**$ 3,647,980**	**$ 3,949,377**	**$ 2,390,557**
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows of Resources	$ 774,213	$ 107,231	$ 106,003
NET POSITION:			
Net Investment in Capital Assets	$ 10,954,838	$ 10,254,058	$ 10,772,803
Restricted - Capital Reserve	2,092,788	1,791,483	2,110,956
Unrestricted	2,664,657	3,667,923	2,756,475
Total Net Position	**$ 15,712,283**	**$ 15,713,464**	**$ 15,640,234**

The net position includes the value of the Authority's investment in infrastructure, and funds for ongoing repairs/replacement and/or additions to infrastructure.

WCWSA Rates and Charges

The Authority sets its rates annually in concurrence with the adoption of its annual operating budget. For 2018, the water rate remained the same for all of the Authority's customers and the basic service charge remained $22.50 per quarter. In the Village of Lyons, water rates were $5.50 per thousand gallons. The Village of Lyons sewer rates were as follows: $32.00 for the first 5000 gallons, $6.00 for 6000 to 100,000 additional gallons, and $5.00 for 101,000 gallons and above.

The projected budgeted construction revenue for 2018 was $1,150,000. The Authority exceeded this number due to the aforementioned capital projects.

Financial Statements

The WCWSA is a public benefit corporation functioning under legislation passed by the State of New York; its volunteer Board members are appointed by the Wayne County Board of Supervisors. The WCWSA functions much like a municipality with competitive bidding laws and financial safeguards required.

The accompanying basic financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (“GAAP”) for governments as prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard setting body for establishing governmental accounting and financial reporting principles. Effective December 31, 2004, the Authority adopted GASB Statement No. 34 – Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments as amended by GASB Statements No. 37 and 38. The Authority is engaged only in business-type activities as defined in GASB Statement No. 34.

Revenues and expenses are recorded under the accrual method of accounting.

Capital Assets

By the end of the 2018 year, the WCWSA had invested $12,862,394 in a broad range of capital assets, including land, completed facilities, and equipment. The change in capital assets, including the accumulated depreciation, is reflected below:

	2018	2017	2016
Land	$ 257,071	$ 257,071	$ 251,071
Completed facilities	19,374,169	18,366,400	17,096,681
Equipment	2,696,760	2,510,224	2,045,825
Less: Accumulated Depreciation	(9,465,606)	(8,724,007)	(7,959,849)
Total	**$ 12,862,394**	**$ 12,409,688**	**$ 11,433,728**

Long -Term Obligations

The Authority’s long-term obligations are as follows:

1. **Water & Sewer System Revenue Bonds Refunded -** This $920,000 bond was secured in 2011 with a ten (10) year maturity. The bond matures in 2021 and has an unpaid principle balance of $295,000 as of December 31, 2018.

   It should be noted that with the bond refunding in 2011, the Authority’s bond rating was updated to a Moody’s Underlying Rating of A1.

2. **State Revolving Fund Loan -** In June 2006, $4,000,000 of EFC revenue bonds were issued to finance the Red Creek Area Regional Wastewater Treatment Facility construction project. The New York State Department of Corrections paid $3,600,000, whereas the remaining outstanding balance as of December 31, 2018 of $140,000 was refinanced reducing the Authority’s future interest cost.

3. **Bond Payable -** In 2017, $1,570,000 of revenue bonds were issued to finance work a renovation project at the operations center, and a roof project at the regional wastewater facility. The bonds were issued with an interest rate of 2.00%-4.00%. Bonds outstanding as of December 31, 2018 amounted to $1,440,000 and have a final maturity date of June 15, 2027.

Future Factors

- The Authority expects to sign a contract with the Town of Arcadia for construction of Water District No. 16 and No. 17. Both projects will consist of a total of approximately 33,000 of new water line
- The Authority will be replacing additional water main on portions of Mill Street in the Town of Marion.
- The Authority plans on working with the Town of Lyons to replace approximately 70 existing lead water services in the town.
- The Town of Wolcott is in the process of forming a new water district, which if approved by the residents, will provide water for 46 EDU's in the north central area of the town. The project would consist of 22,000 linear feet of 8-inch water main in the north central area of the town.

Requests for Information

This financial report is designed to provide a general overview of the Wayne County Water & Sewer Authority, Wayne County, New York's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Martin Aman, Executive Director, Wayne County Water & Sewer Authority, 3377 Daansen Road, Walworth, N.Y. 14568.

WAYNE COUNTY WATER AND SEWER AUTHORITY

WAYNE COUNTY, NEW YORK

Statement of Net Position

December 31, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	**2018**	**2017**
Current Assets -		
Cash and cash equivalents	$ 3,302,390	$ 3,984,423
Investments	1,001,118	1,000,065
Accounts receivable (net of allowance)	1,319,724	1,374,781
Materials and supplies inventory	646,141	350,360
Prepaid items	130,246	118,286
Total Current Assets	$ 6,399,619	$ 6,827,915
Capital Assets -		
Land and work in progress	$ 257,701	$ 257,071
Facilities and equipment, net of depreciation	12,604,693	12,152,617
Total Capital Assets, Net	$ 12,862,394	$ 12,409,688
Deferred Outflow of Resources -		
Deferred outflows of resources	$ 872,463	$ 532,469
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	**$ 20,134,476**	**$ 19,770,072**
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION:		
Current Liabilities -		
Accounts payable	$ 491,218	$ 340,628
Accrued liabilities	81,181	81,555
Current portion of debt	263,074	248,074
Total Current Liabilities	$ 835,473	$ 670,257
Noncurrent Liabilities -		
Revenue bonds payable (net of unamortized premiums/discounts)	$ 1,524,482	$ 1,767,556
EFC loan liability	120,000	140,000
Net Pension liability	231,965	543,014
OPEB liability	936,060	828,550
Total Noncurrent Liabilities	$ 2,812,507	$ 3,279,120
Deferred Inflow of Resources -		
Deferred inflows of resources	$ 774,213	$ 107,231
Net Position -		
Net investment in capital assets		
Water fund	$ 4,326,227	$ 3,614,625
Sewer fund	6,628,611	6,639,433
Restricted - capital reserve	2,092,788	1,791,483
Unrestricted net position		
Water fund	2,261,961	3,425,260
Sewer fund	402,696	242,663
Total Net Position	$ 15,712,283	$ 15,713,464
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	**$ 20,134,476**	**$ 19,770,072**

(The accompanying notes are an integral part of these financial statements)

WAYNE COUNTY WATER AND SEWER AUTHORITY

WAYNE COUNTY, NEW YORK

Statement of Revenues, Expenses and Changes in Net Position

For Years Ended December 31, 2018 and 2017

		2018		2017
OPERATING REVENUES:				
Water sales	$	5,135,653	$	4,870,378
Sewer sales		1,437,745		1,430,156
Penalty on water and sewer sales		98,468		96,050
Service and connection fees		443,823		475,710
Construction revenue		1,260,627		1,079,335
Other operating income		72,243		185,246
TOTAL OPERATING REVENUES	**$**	**8,448,559**	**$**	**8,136,875**
OPERATING EXPENSES:				
Water supply	$	2,578,865	$	2,383,725
Sewer disposal		6,608		9,312
Personnel services and benefits		3,021,685		2,905,455
Insurance		115,272		108,176
Professional services		65,753		90,464
Building/vehicle repair and maintenance		167,149		158,453
Electricity		237,891		199,827
Water and sewer tests and chemicals		46,718		41,929
Water line and sewer parts and supplies		1,158,774		1,155,941
Administration and office expense		224,074		226,405
Depreciation		829,928		773,307
TOTAL OPERATING EXPENSES	**$**	**8,452,717**	**$**	**8,052,994**
OPERATING (LOSS) INCOME	**$**	**(4,158)**	**$**	**83,881**
NONOPERATING REVENUES (EXPENSES):				
Interest earnings	$	1,317	$	5,198
Interest expense		(54,764)		(13,312)
Rental income		21,147		20,531
Bond discount		(3,865)		(66,758)
Gain on sale of equipment (net)		39,142		6,190
TOTAL NONOPERATING REVENUES (EXPENSES)	**$**	**2,977**	**$**	**(48,151)**
(DECREASE) INCREASE IN NET POSITION	**$**	**(1,181)**	**$**	**35,730**
OTHER ITEM:				
Contributed capital	$	-	$	37,500
(DECREASE) INCREASE IN NET POSITION	**$**	**(1,181)**	**$**	**73,230**
NET POSITION - BEGINNING OF YEAR		15,713,464		15,640,234
NET POSITION - END OF YEAR	**$**	**15,712,283**	**$**	**15,713,464**

(The accompanying notes are an integral part of these financial statements)

WAYNE COUNTY WATER AND SEWER AUTHORITY

WAYNE COUNTY, NEW YORK

Statement of Cash Flows

For Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from providing services	$ 8,503,616	$ 8,059,434
Payments to suppliers	(4,746,294)	(4,168,513)
Payments to employees	(2,910,570)	(2,598,343)
Net Cash Provided by Operating Activities	**$ 846,752**	**$ 1,292,578**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	$ (245,000)	$ (115,000)
Proceeds from capital debt	-	1,570,000
Bond premium	(3,889)	38,890
Interest expense	(54,764)	(13,312)
Bond issuance cost	(3,050)	(65,943)
Acquisition and construction of capital assets	(1,293,763)	(1,749,267)
Proceeds from sale of assets	50,270	6,190
Capital contribution	-	37,500
Net Cash Used In Capital and Related Financing Activities	**$ (1,550,196)**	**$ (290,942)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Rental income	$ 21,147	$ 20,531
Interest income	264	5,198
Net Cash Provided By Investing Activities	**$ 21,411**	**$ 25,729**
Net (Decrease) Increase in Cash and Cash Equivalents	$ (682,033)	$ 1,027,365
Cash and Cash Equivalents - Beginning of Year	3,984,423	2,957,058
Cash and Cash Equivalents - End of Year	**$ 3,302,390**	**$ 3,984,423**
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) income	$ (4,158)	$ 83,871
Adjustments to reconcile changes in net position to cash Provided by Activities -		
Depreciation	829,928	773,307
Changes in assets and liabilities -		
Accounts receivable	55,057	(77,890)
Deferred outflows	(339,994)	311,026
Deferred inflows	666,982	1,228
Net pension liability	(311,049)	(242,521)
Materials and supplies inventory	(295,781)	153,762
Prepayment and other current assets	(11,960)	(16,850)
Accounts payable, accrued payroll and benefits	257,727	306,645
Net Cash Provided by Operating Activities	**$ 846,752**	**$ 1,292,578**

(The accompanying notes are an integral part of these financial statements)

(Note 1) **Summary of Significant Accounting Policies:**

The financial statements of the Wayne County Water and Sewer Authority, Wayne County, New York, have been prepared in conformity with generally accepted accounting principles (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 more significant of the government's accounting policies are described below.

A. The Reporting Entity

The Wayne County Water and Sewer Authority, Wayne County, New York (the Authority) is a public benefit corporation, created by special state legislation, Chapter 685 of the Laws of 1987 (NYS Public Authorities Laws 199-aa et seq.) and became operational in the spring of 1988 upon the appointment of the nine initial members of the Authority by the Wayne County Board of Supervisors. The Authority has the powers necessary to plan, finance, operate and manage water systems in Wayne County. The Authority provides a structure for planning and implementing improvement in the availability, reliability, and quality of public water supplies in Wayne County.

The Authority has approximately 13,735 water service accounts supplying water within the Towns of Macedon, Walworth, Palmyra, Marion, Arcadia, Lyons, Butler, Huron, Sodus and Wolcott. The Authority also supplies the Village of Sodus Point and Cayuga County Water and Sewer Authority (wholesale only). The average yearly consumption of water from all sections of the Authority's service area encompasses nearly one billion gallons. The Authority is responsible for the operation and maintenance of over 500 miles of transmission and distribution mains, ten (10) water storage tanks (totaling 10 million gallons), and seven (7) water pumping stations within its overall service area.

During the early years of operation, the Authority was primarily a "Water Authority" with wastewater collection, treatment and disposal representing only about 1.5% of operating revenues. Now, the Authority operates a 500,000 GPD Regional Wastewater Treatment Facility and a related collection system that includes approximately 9,000 linear feet of gravity sewer, 40,000 feet of force main and three main pump stations. This regional treatment facility replaced a 30,000 GPD treatment facility in September 2006. This system currently collects and treats approximately 220,000 GPD of wastewater, with the majority of the flows coming from the Village of Wolcott, Cayuga County Sewer District #2, Village of Red Creek, Red Creek Central Schools and the newly formed Blind Sodus Bay sewer district in the town of Wolcott. The New York State Department of Corrections contributed to the cost of building the regional facility, which replaced their aging and costly Correctional Facility treatment plant. The Regional Facility was designed to accept flows from the Village of Fairhaven, the Village of Red Creek, Village of Wolcott and other eastern Wayne County communities.

The Authority now also operates and maintains the Lyons and Macedon wastewater treatment plants and 17 pump stations along with the associated collection and conveyance systems, all in accordance with a lease/operations agreement with the Towns of Lyons and Macedon.

The Authority operates and maintains the Village of Palmyra's water and wastewater facilities under the terms of an operational agreement with the Village of Palmyra.

The Authority has approximately 2322 sewer customers and operates a series of small collection systems in western and eastern Wayne County which include three pump stations and approximately six miles of gravity sewer mains and related appurtenances. Collected wastewater from these systems is conveyed to existing wastewater treatment facilities owned by other municipalities and the Authority is billed on a total flow basis per thousand gallons treated. The Authority also operates and maintains portions of Cayuga County Sewer District #2 under contract with Cayuga County Water and Sewer Authority.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying basic financial statements of the Authority have been prepared in conformity with generally accepted accounting principles ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board ("GASB"), which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

Revenues and expenses are recorded under the accrual method of accounting.

C. Cash Management

The Authority has adopted investment guidelines which conform with Sections 2735 and 2925 of the New York State Public Authorities Law. These guidelines establish the permissible investments and procedures for obtaining pledged collateral for investments which exceed FDIC insurance coverage.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

E. Materials and Supplies Inventories

Materials and supplies are stated at cost, determined on the first-in, first-out method, which approximates market.

F. Accounts Receivable

Accounts receivable consist of fees for services for sewer and water charges due from individuals and other governments and project and grant receivables. Accounts receivable are carried on the balance sheet at net realizable value. Generally accepted accounting principles requires the allowance method 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.

G. Capital Assets

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

Facilities	20-40 Years
Transmission and Equipment	5-40 Years

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

H. <u>Deferred Outflows and Inflows of Resources</u>

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The government may have three items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the Authority-wide Statement of Net Position. This represents the effect of the net change in the Authority's proportion of the collective net pension asset or liability and difference during the measurement period between the Authority's contributions and its proportion share of total contributions to the pension systems not included in pension expense. Lastly are the Authority contributions to the pension system (ERS) subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority may have items related to pensions reported in the Authority-wide Statement of Net Position. This represents the effect of the net change in the Authority's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the Authority's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

I. <u>Non-Current Liabilities</u>

Long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using an amortization schedule consistent with the bond payment schedule. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. <u>Revenue Recognition</u>

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. Construction revenues are recognized at the time an expenditure is incurred for the project.

K. <u>Contributed Capital</u>

Contributed capital 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.

(Note 1) (Continued)

L. Net Position

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

1. **Net investment in capital assets** - consists of 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. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position.

2. **Restricted net position** - consists of restricted assets (i.e. restrictions imposed by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enable legislation) reduced by liabilities and deferred inflows related to those assets.

3. **Unrestricted net position** - consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates. Actual results could differ from those estimates.

N. 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.

O. New Accounting Standards

The Authority has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At December 31, 2018, the Authority implemented the following new standards issued by GASB:

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be effective for the year ended December 31, 2018.

The GASB has issued Statement No. 85, *Omnibus 2018*, which will be effective for the year ended December 31, 2018.

The GASB has issued Statement No. 86, *Certain Debt Extinguishment Issues*, which will be effective for the year ended December 31, 2018.

(Note 1) (Continued)

P. Future Changes in Accounting Standards

GASB has issued Statement 83, *Certain Asset Retirement Obligations*, which will be effective for reporting periods beginning after June 15, 2018.

GASB has issued Statement 84, *Fiduciary Activities*, which will effective for the periods beginning after December 15, 2018.

GASB has issued Statement 87, *Leases*, which will be effective for the periods beginning after December 15, 2020.

GASB has issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*, which will be effective for reporting periods beginning after December 15, 2019.

GASB has issued Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for reporting periods beginning after December 15, 2019

GASB has issued Statement 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, which will be effective for reporting periods beginning after December 15, 2018.

The Authority is currently studying these statements and plans on adoption as required.

(Note 2) Restatement of Net Position

For the fiscal year ended December 31, 2018, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Authority's net position has been restated as follows:

	Governmentwide Statements
	Governmental Activities
Net position beginning of 2017, as previously stated	$ 16,065,732
Increased to OPEB liability	(425,498)
Net position beginning of 2017, as restated	$ 15,640,234

(Note 3) Changes in Accounting Principles

For the fiscal year ended December 31, 2018, the Authority implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The implementation of the statement requires entities to report Other Postemployment Benefits (OPEB) liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB. See Note 2 for the financial statement impact of implementation of the Statements.

(Note 4) **Detail Notes on All Funds and Account Groups:**

A. Assets

1. Cash and Investments

The Authority's investment policies are governed by state statutes. In addition, the Authority has its own written investment policy. The Authority's monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit, which are not subject to investment risk relating to changing interest rates. Permissible investments include obligations of the U.S. treasury and U.S. agencies, repurchase agreements and obligations of New York State or its localities.

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity. The revenue bond covenant account reported under restricted assets has been included as cash and cash equivalents in accordance with this definition. The Statement of Cash Flows uses the indirect method of reporting cash flows.

	2018	2017
Uncollateralized	$ -	
Collateralized within Trust department or agent	2,917,442	2,729,508
Total	**$ 2,917,442**	**$ 2,729,508**

2. Accounts Receivable

The balance of accounts receivable for 2018 and 2017 is as follows:

	2018	2017
Water Rents	$ 996,650	$ 1,027,153
Sewer Rents	274,491	290,319
Other Receivables	48,583	57,309
Total	**$ 1,319,724**	**$ 1,374,781**

3. Fixed Assets

The following is a summary of fixed assets for the Authority at December 31:

	Balance at 1/1/2018	Additions	Deletions	Balance at 12/31/2018
Land	$ 257,071	$ -	$ -	$ 257,071
Completed facilities	18,366,400	1,007,769	-	19,374,169
Equipment	2,510,224	285,993	(99,457)	2,696,760
Less: Accumulated depreciation	(8,724,007)	(829,928)	88,329	(9,465,606)
Total	**$ 12,409,688**	**$ 463,834**	**$ (11,128)**	**$ 12,862,394**

(Note 4) (Continued)

	Balance at 1/1/2017	Additions	Deletions	Balance at 12/31/2017
Land	$ 251,071	$ 6,000	$ -	$ 257,071
Completed facilities	17,096,681	1,273,033	(3,314)	18,366,400
Equipment	2,045,825	473,548	(9,149)	2,510,224
Less: Accumulated depreciation	(7,959,849)	(773,639)	9,481	(8,724,007)
Total	**$ 11,433,728**	**$ 978,942**	**$ (2,982)**	**$ 12,409,688**

B. Long-Term Debt

1. State Revolving Fund Loan

The Authority entered into two loan agreements with the New York State Environmental Facilities Corporation (EFC) to provide short-term financing for the Red Creek Area Regional Wastewater Treatment Facility. The significant terms of the loan agreement are as follows:

a. The Authority was allowed periodic draw downs with a maximum principal sum of $1,750,000 on the loan dated September 30, 2004.

b. During April 2006, the Authority entered into a second loan in which the Authority was allowed periodic draw downs with a maximum principal sum of $2,199,338.

c. The final maturity date of the loans was September 30, 2007, however, the loan balance was refinanced through a Revenue Bond during the 2006 year.

2. Bond Payable

In 2012, $920,000 of revenue bonds were issued to refinance the original loan of $1,630,000 in general obligation bonds from 2001. The bonds were issued with an interest rate of 2.00%-3.00%. Bonds outstanding as of December 31, 2018 amounted to $295,000 and have a final maturity date of March 15, 2021.

3. EFC Revenue Bond Payable

In June 2006, $4,000,000 of EFC revenue bonds were issued to finance the Red Creek Area Regional Wastewater Treatment Facility construction project and refinance the original loans of $1,750,000 from 2005 and the $2,199,388 issued April 2006. The bonds were issued with an interest rate of 3.60%-4.75%. Revenue bonds outstanding as of December 31, 2018 amounted to $140,000 and have a final maturity date of October 1, 2025.

4. Bond Payable

In 2017, $1,570,000 of revenue bonds were issued to finance work a renovation project at the operations center, and a roof project at the regional wastewater facility. The bonds were issued with an interest rate of 2.00%-4.00%. Bonds outstanding as of December 31, 2018 amounted to $1,440,000 and have a final maturity date of June 15, 2027.

(Note 4) (Continued)

5. Change in Long-Term Debt

	1/1/2018	Additions	Deletions	12/31/2018	Current Portion	Non-Current Portion
Bonds	$ 1,960,000	$ -	$ 225,000	$ 1,735,000 *	$ 240,000	$ 1,495,000 *
Unamortized Bond Premium	38,890	-	3,889	35,001 *	3,889	31,112 *
Unamortized Bond Discount	(3,260)	-	(815)	(2,445) *	(815)	(1,630) *
Total Revenue Bonds	$ 1,995,630	$ -	$ 228,074	$ 1,767,556	$ 243,074	$ 1,524,482
EFC Revenue Bond	160,000	-	20,000	140,000	20,000	120,000
OPEB Liability	828,550	107,510	-	936,060	-	936,060
Unfunded Pension	543,014	-	311,049	231,965	-	231,965
Total Long-Term Debt	**$ 3,527,194**	**$ 107,510**	**$ 559,123**	**$ 3,075,581**	**$ 263,074**	**$ 2,812,507**

* The financial statements net the $2,445 discount, and the $35,001 premium against the $1,735,000 bonds payable.

	1/1/2017	Additions	Deletions	12/31/2017	Current Portion	Non-Current Portion
Bonds	$ 485,000	$ 1,570,000	$ 95,000	$ 1,960,000 *	$ 225,000	$ 1,735,000 *
Unamortized Bond Premium	-	38,890	-	38,890 *	3,889	35,001 *
Unamortized Bond Discount	(4,075)	-	(815)	(3,260) *	(815)	(2,445) *
Total Revenue Bonds	$ 480,925	$ 1,608,890	$ 94,185	$ 1,995,630	$ 228,074	$ 1,767,556
EFC Revenue Bond	180,000	-	20,000	160,000	20,000	140,000
OPEB Liability	779,692	48,858	-	828,550	-	828,550
Unfunded Pension	785,535	-	242,521	543,014	-	543,014
Total Long-Term Debt	**$ 2,226,152**	**$ 1,657,748**	**$ 356,706**	**$ 3,527,194**	**$ 248,074**	**$ 3,279,120**

* The financial statements net the $3,260 discount, and the $38,890 premium against the $1,960,000 bonds payable.

(Note 4) (Continued)

6. Estimated Debt Service Requirements

Revenue bond estimated debt service requirements to maturity are as follows:

Year	2001 Revenue Bond Principal	2001 Revenue Bond Interest	2006 EFC Revenue Bond Principal	2006 EFC Revenue Bond Interest	2017 Revenue Bond Principal	2017 Revenue Bond Interest	Total Debt Principal	Total Debt Interest
2019	$ 95,000	$ 6,950	$ 20,000	$ 6,521	$ 145,000	$ 35,487	$ 260,000	$ 48,958
2020	95,000	4,456	20,000	5,613	145,000	31,863	260,000	41,932
2021	105,000	1,575	20,000	4,694	150,000	27,438	275,000	33,707
2022	-	-	20,000	3,768	155,000	22,862	175,000	26,630
2023	-	-	20,000	2,833	160,000	17,338	180,000	20,171
2024-27	-	-	40,000	2,844	685,000	29,281	725,000	32,125
Total	**$ 295,000**	**$ 12,981**	**$ 140,000**	**$ 26,273**	**$ 1,440,000**	**$ 164,269**	**$ 1,875,000**	**$ 203,523**

(Note 5) Other Notes:

A. Employee Pension and Other Benefit Plans

1. Plan Description

The Authority participates in the New York State Local Employees' Retirement System (ERS). This is a cost sharing multiple employer defined benefit retirement system. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees’ Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State’s financial report as a pension trust fund. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

2. Benefits Provided

The System provides retirement benefits as well as death and disability benefits.

Tier 1 and 2

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20 percent of the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent of the average of the previous two years.

Tier 3, 4, 5

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4, and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of wages earned in the three highest consecutive years. For Tier 3, 4, and 5 members, each year of final average salary is limited to no more than 10 percent of the average of the previous two years.

Tier 6

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age of Tier 6 is 63 for ERS members.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits

For all eligible Tier 1 and Tier 2 ERS and PFRS members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5, and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first $50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed $18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

3. Contributions

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3 percent of their salary for their entire length of service. For Tier 6 members, the contribution rate varies from 3 percent to 6 percent depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly, used in computing the employers' contributions based on salaries paid during the Systems' financial year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

Prepayment Due Date	ERS
12/15/2018	$ 281,909
12/15/2017	$ 253,439
12/15/2016	$ 208,035

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

At December 31, 2018, the Authority reported a liability of $231,965 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2018, the Authority's proportion was 0.0071873%.

For the year ended December 31, 2018 the Authority recognized pension expense of $290,703. At December 31, 2018, the Authority reported deferred inflows and deferred outflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources
Differences between expected and actual experience	$	82,734
Changes of assumptions		153,812
Net difference between projected and actual earnings on pension plan investments		336,911
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions		87,574
SubTotal	$	661,031
Authority's contributions subsequent to the measurement date		211,432
Grand Total	**$**	**872,463**

(Note 5) (Continued)

	Deferred Inflows of Resources
Differences between expected and actual experience	$ 68,369
Net difference between projected and actual earnings on pension plan investments	665,028
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	40,789
Grand Total	**$ 774,186**

$211,432reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year	Amount
2019	$ 59,926
2020	51,737
2021	(156,168)
2022	(68,677)
Total	**$ (113,182)**

1. **Actuarial Assumptions**

The total pension liability at March 31, 2018 was determined by using an actuarial valuation of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The actuarial valuations used the following actuarial assumptions:

Significant actuarial assumptions used in the valuations were as follows:

	ERS
Inflation	2.50%
Salary increases	3.80%
Investment rate of return (net of investement expense, including inflation)	7.00%
COLA'S	1.30%

Annuitant mortality rates are based on April 1, 2010-March 31, 2017 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2018.

The actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010-March 31, 2017.

The long term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 are summarized below:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	4.55%
International equity	6.35%
Private equity	7.50%
Real estate	5.55%
Absolute return strategies *	3.75%
Opportunistic portfolios	5.68%
Real assets	5.29%
Bond and mortgages	1.31%
Cash	-0.25%
Inflation-indexed bonds	1.25%

The real rate of return is net of the long-term inflation assumption of 2.5%

* Excludes equity-oriented long-only funds. For investment management purposes, these funds are included in domestic equity and internal equity.

2. Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

3. Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentagepoint lower (6%) or 1-percentagepoint higher (8%) than the current rate :

	1% Decrease (6%)	Current Assumption (7%)	1% Increase (8%)
Employer's proportionate share of the net pension asset (liability)	$ (1,755,109)	$ (231,965)	$ 1,056,554

4. <u>Pension Plan Fiduciary Net Position</u>

The components of the current year net pension liability of the employers as of the March 31, 2018, were as follows:

		(In Thousands)
		ERS
Employers' total pension liability	$	(183,400,590)
Plan net position		180,173,145
Employers' net pension asset/(liability)	$	(3,227,445)
Ration of plan net position to the employers' total pension liability		98.24%

5. <u>Prepayments to the Pension Plan</u>

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of December 31, 2018 represents the projected employer contribution for the period of December 31, 2018 through March 31, 2018 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of December 31, 2018 amounted to $70,477.

(Note 6) <u>Postemployment Benefits</u>

A. <u>General Information About the OPEB Plan</u>

Plan Description – Full time employees who retire after 25 or more years of continuous service with the Authority or after 25 or more years of combined continuous service with both the Authority and a municipality that joins the Authority (with at least 5 years of those combined years spent working for the Authority) and who are retiring in accordance with the NYS Retirement System eligibility requirements, may elect to continue to be covered by the health insurance plan(s) offered to current employees.

If the employee elects to continue coverage under the Authority's plan, the Authority will pay up to $250 per month toward the premium for the former employee and spouse, provided that the retired employee pays the balance of the premium due by the first day of the month of coverage. If the former employee fails to pay his or her share of the premium when due, the Authority reserves the right to cancel the coverage without notice. Once the retired employee is no longer covered by the Authority's health insurance plan, whether because the retired employee does not elect to maintain coverage, or the retired employee does not pay his or her share of the premium when due, then the retired employee's right to this benefit shall terminate and may only be reinstated by the action of the Board of the Authority, in its sole discretion. This benefit shall also terminate upon the death of the retired employee, when the retired employee is no longer eligible for coverage under the terms of the Authority's health insurance plan, or when the retired employee becomes eligible for other coverage (excluding Medicare)

At age 65, the retired employee must switch from regular coverage to Medicare Supplement coverage. Several different Medicare Supplement policies are available. It is the retired employee's responsibility to apply for Medicare Parts A and B, so he or she is eligible for a Medicare Supplement policy. After the retired employee has applied for such coverage, the Authority will continue to pay up to $250 per month toward the cost of any approved supplemental insurance policy to help cover the Medicare "gap".

Employees Covered by Benefit Terms – At March 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Inactive employees entitled to but not yet receiving benefit payments	-
Active Employees	38
Total	**38**

B. Total OPEB Liability

The Authority's total OPEB liability of $936,060 was measured as of December 31, 2018, and was determined using the alternative method.

The assumptions used for the alternative method are as follows:

Inflation	3.0 percent
Salary Increases	Not Applicable
Discount Rate	3.6 percent
Healthcare Cost Trend Rates	6.2 percent for 2018, decreasing .05 percent per year to an ultimate rate of 5.5 percent
Retirees' Share of Benefit-Related Costs	All cost above $3,000

The discount rate was based on a Aa rating .

Mortality rates were based on the IRS Social Security tables.

C. Changes in the Total OPEB Liability

Balance at December 31, 2017	$	828,550
Changes for the Year -		
Changes of benefit terms	$	107,510
Net Changes	$	107,510
Balance at December 31, 2018	**$**	**936,060**

Changes of benefits represents additional employees added to the system.

(Note 6) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.6 percent) or 1-percentage-point higher (4.6 percent) than the current discount rate:

	1% Decrease (2.6%)	Discount Rate (3.6%)	1% Increase (4.6%)
Total OPEB Liability	$ 1,167,222	$ 936,060	$ 764,440

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.5 percent) or 1-percentage-point higher (10.5 percent) than the current healthcare cost trend rate:

	1% Decrease (8.5% Decreasing to 4.5%	Healthcare Cost Trend Rates (9.5% Decreasing to 5.5%	1% Increase (10.5% Decreasing to 6.5%
Total OPEB Liability	$ 936,060	$ 936,060	$ 936,060

(Note 7) Related Party Transactions:

The Authority enters into contracts and other agreements with towns and villages whose supervisor or mayor may sit on the Authority's Board.

(Note 8) Commitments and Contingencies:

A. Subsequent Debt

The Authority is in the process of financing a $34,200,000 capital project to construct a Regional Waste Water Treatment Plan. Financing will be supported with grants, bonds, and reimbursement from the participating municipalities.

B. Litigation

Management is not aware of any litigation as of the date of this report.

(Note 9) **Capital Assets:**

A. Net investment in capital assets - is summarized as follows:

INVESTMENT IN CAPITAL ASSETS:	**2018**	**2017**
Water	$ 6,093,783	$ 5,610,255
Sewer	6,768,611	6,799,433
TOTAL INVESTMENT IN CAPITAL ASSETS	**$ 12,862,394**	**$ 12,409,688**

WATER:	**2018**	**2017**
Capital Assets, Net	**$ 6,093,783**	**$ 5,610,255**
Add:		
Discount on bonds payable	$ 2,445	$ 3,260
Total Additions	**$ 2,445**	**$ 3,260**
Deduct:		
Short-term portion of bonds payable	$ 225,000	$ 225,000
Long-term portion of bonds payable	1,510,000	1,735,000
Unamortized bond premium	35,001	38,890
Total Deducts	**$ 1,770,001**	**$ 1,998,890**
Net Investment in Capital Assets	**$ 4,326,227**	**$ 3,614,625**

SEWER:	**2018**	**2017**
Capital Assets, Net	**$ 6,768,611**	**$ 6,799,433**
Deduct:		
Short-term portion of EFC loan	$ 20,000	$ 20,000
Long-term portion of EFC loan	120,000	140,000
Total Deducts	**$ 140,000**	**$ 160,000**
Net investment in Capital Assets	**$ 6,628,611**	**$ 6,639,433**

B. **Capital Reserve –** In 2004, the Authority authorized the establishment of a capital reserve for repair and/or replacement of facilities. During the year $301,305 in interest was earned. The balance in the reserve at December 31, 2018 and 2017 is $2,092,788 and $1,791,483, respectively.

(Note 10) **Lease Revenues:**

The Authority entered into an agreement with Bell Atlantic Mobile of Rochester d/b/a Verizon Wireless to lease space on the existing water tower and certain ground space at 6296 Shaker Tract Road, North Rose, New York 14516. The initial agreement requires a base rent of $14,400 and the annual rental for each lease year during the initial term or any extension shall be equal to 103% of the annual rental payable with respect to the immediately preceding lease year. The initial term of the lease ended December 31, 2009 which has been extended based on the term of the lease which provides four automatic extensions of five year terms. Total rental income received for the years ended December 31, 2018 and 2017 was $21,147 and $20,531, respectively.

Required Supplementary Information

WAYNE COUNTY WATER AND SEWER AUTHORITY

Schedule of Changes in Authority's Total OPEB Liabiity and Related Ratio

(Unaudited)

For The Year Ended December 31, 2018

TOTAL OPEB LIABILITY

		2018
Changes in benefit terms	$	107,510
Net Change in Total OPEB Liability	**$**	**107,510**
Total OPEB Liability - Beginning (restated)	**$**	**828,550**
Total OPEB Liability - Ending	**$**	**936,060**
Covered Employee Payroll	$	2,049,530
Total OPEB Liability as a Percentage of Covered Employee Payroll		45.67%

10 years of historical information is not available and will be reported each year going forward

Required Supplementary Information

WAYNE COUNTY WATER AND SEWER AUTHORITY

Schedule of the Authority's Proportionate Share of the Net Pension Liability

(Unaudited)

For The Year Ended December 31, 2018

NYSERS Pension Plan

	2018	2017	2016	2015
Proportion of the net pension liability (assets)	0.0071873%	0.0057791%	0.0048942%	0.0046373%
Proportionate share of the net pension liability (assets)	$ 231,965	$ 543,014	$ 785,535	$ 156,660
Covered-employee payroll	$ 1,947,961	$ 1,683,652	$ 1,360,781	$ 1,328,219
Proportionate share of the net pension liability (assets) as a percentage of its covered-employee payroll	11.908%	32.252%	57.727%	11.795%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.70%	97.90%

10 years of historical information is not available and will be reported each year going forward

Required Supplementary Information

WAYNE COUNTY WATER AND SEWER AUTHORITY

Schedule of Authority Contributions

(Unaudited)

For Year Ended December 31, 2018

NYSERS Pension Plan

	2018	2017	2016	2015
Contractually required contributions	$ 281,909	$ 253,439	$ 208,035	$ 215,887
Contributions in relation to the contractually required contribution	(281,909)	(253,439)	(208,035)	(215,887)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 1,947,961	$ 1,683,652	$ 1,360,781	$ 1,328,219
Contributions as a percentage of covered-employee payroll	14.47%	15.05%	15.29%	16.25%

10 years of historical information is not available and will be reported each year going forward

Supplemental Schedule

WAYNE COUNTY WATER AND SEWER AUTHORITY

WAYNE COUNTY, NEW YORK

Combining Schedule of Revenues, Expenses and Changes in Net Position

For Year Ended December 31, 2018

	Water Activity	Sewer Activity	2018 Total
OPERATING REVENUES:			
Water sales	$ 5,135,653	$ -	$ 5,135,653
Sewer sales	-	1,437,745	1,437,745
Penalty on water and sewer sales	81,220	17,248	98,468
Service and connection fees	320,350	123,473	443,823
Construction revenue	1,260,627	-	1,260,627
Other operating income	72,243	-	72,243
TOTAL OPERATING REVENUES	**$ 6,870,093**	**$ 1,578,466**	**$ 8,448,559**
OPERATING EXPENSES:			
Water supply	$ 2,578,865	$ -	$ 2,578,865
Sewer disposal	-	6,608	6,608
Personnel services and benefits	2,312,595	709,090	3,021,685
Insurance	57,622	57,650	115,272
Professional services	54,637	11,116	65,753
Building/vehicle repair and maintenance	91,845	75,304	167,149
Electricity	60,994	176,897	237,891
Water and sewer tests and chemicals	39,844	6,874	46,718
Water line and sewer parts and supplies	1,059,155	99,619	1,158,774
Administration and office expense	176,785	47,289	224,074
Depreciation	592,994	236,934	829,928
TOTAL OPERATING EXPENSES	**$ 7,025,336**	**$ 1,427,381**	**$ 8,452,717**
OPERATING (LOSS) INCOME	**$ (155,243)**	**$ 151,085**	**$ (4,158)**
NONOPERATING REVENUES (EXPENSES):			
Interest earnings	$ 1,317	$ -	$ 1,317
Interest expense	(52,890)	(1,874)	(54,764)
Rental income	21,147	-	21,147
Bond discount	(3,865)	-	(3,865)
Gain on sale of equipment (net)	39,142	-	39,142
TOTAL NONOPERATING REVENUES (EXPENSES)	**$ 4,851**	**$ (1,874)**	**$ 2,977**
(DECREASE) INCREASE IN NET POSITION	**$ (150,392)**	**$ 149,211**	**$ (1,181)**
NET POSITION - BEGINNING OF YEAR	8,831,368	6,882,096	15,713,464
NET POSITION - END OF YEAR	**$ 8,680,976**	**$ 7,031,307**	**$ 15,712,283**

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*

Independent Auditors' Report

To the Board Members
Wayne County Water and Sewer Authority
Wayne County, New York

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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Wayne County Water and Sewer Authority, New York, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Wayne County Water and Sewer Authority, New York's basic financial statements, and have issued our report thereon dated March 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Wayne County Water and Sewer Authority, New York's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wayne County Water and Sewer Authority, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wayne County Water and Sewer Authority, New York'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 Authority'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wayne County Water and Sewer Authority, New York'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raymond F. Wager, CPA, P.C.

Rochester, New York
March 11, 2019

WAYNE COUNTY WATER AND SEWER AUTHORITY

NEW YORK

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2018

I. Summary of the Auditors' Results

Financial Statements

a) Type of auditor's report issued	Unmodified
b) Internal control over financial reporting	
1. Material weaknesses identified	No
2. Significant deficiency(ies) identified	No
c) Noncompliance material to financial statements noted	No

II. Financial Statement Findings

There were no current year findings and there were no prior year findings.