

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

**Financial Statements as of
December 31, 2019 and 2018
Together with Independent
Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

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

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INDEPENDENT AUDITOR'S REPORT

March 25, 2020

To the Board of Directors of the
Livingston County Water and Sewer Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Livingston County Water and Sewer Authority (the Authority), a New York Public Benefit Corporation, which is a discretely presented component unit of Livingston County, New York, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of December 31, 2019 and 2018, and the respective changes in financial position, and cash flows thereof, for the years then ended in accordance with accounting principals generally accepted in the United States of America.

Other Matters***Change in Accounting Principle***

As discussed in Note 15 to the financial statements, the Authority adopted GASB 68, *Accounting and Financial Reporting for Pensions*, GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, as of January 1, 2019. 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 proportionate share of the net pension liability (asset), schedule of contributions - pension plans, and schedule of changes in total OPEB liability and related ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Introduction

The Livingston County Water and Sewer Authority (the Authority) is a public benefit corporation formed in 1995, created by legislation passed by the State of New York. Livingston County's (the County) Board of Supervisors appoints the volunteer members who comprise the Authority's Board. The NYS Authority Budget Office provides oversight of operations and practices of all public authorities in New York. The Authority also is required to meet the requirements of Federal, State, and County water pollution control and safe drinking water laws, thereby helping to protect the health of citizens, improving drinking water quality, and protecting the environment.

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

The Authority leased most of its workforce from the County's Public Works Department through December 31, 2018. Up until this time, employee related services, such as payroll, personnel, etc. were provided by the County. The County then billed the Authority annually for a share of the related indirect expenses. Payroll and health care costs were reimbursed monthly by the Authority. Beginning January 1, 2019, the Authority began employing these individuals directly and is no longer utilizing the County Department of Public Works.

The Authority has an overall staff of 11 full-time employees, which includes: One (1) Executive Director (who is the Chief Executive Officer and Chief Fiscal Officer of the Authority), One (1) Director of Operations, One (1) Principal Account Clerk, One (1) Senior Account Clerk/Typist, One (1) Account Clerk/Typist, Five (5) Water/Wastewater Maintenance Persons, and One (1) Building Maintenance Person. Professional services are used to supplement the staff as needed.

The discussion and analysis of the Authority's financial performance provides highlights of the Authority's major activities that had an effect on the operations of the Authority for the fiscal year ended December 2019 with comparative data for 2018 and 2017. This report should be used and considered in conjunction with the 2019 audited financial statements, which follows this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The statement of net position and the statement of revenue, expenses, and change in net position report information about the Authority as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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These two statements report the Authority's net position and changes in them from one year to the next. The Authority's net position, the difference between assets and liabilities, is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other factors, such as changes in the Authority's operating revenue and the fluctuation of the Authority's expenses, to assess the overall health of the Authority.

Financial Highlights

- Net Position decreased from 2018 by \$1,203,873, resulting in total 2019 net position of \$31,151,124.
- 2019 Operating Revenues increased over 2018 by \$209,165, or 6.1%.
- 2019 Operating Expenses increased over 2018 by \$100,190, or 2.7%.

The remainder of this report contains a series of financial information and tables disclosing the basis for the above financial highlights and the operations of the Authority.

NOTES TO FINANCIAL STATEMENTS

The financial statements also include notes that explain the information in the financial statements. They are essential to a full understanding of the data provided in the financial statements.

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STATEMENTS OF NET POSITION

The condensed Statements of Net Position that follow provides information about the nature and amounts of resources (assets) and the obligations to the Authority's creditors (liabilities). The difference between the assets and liabilities is reported as net position. The following is a summary of the Authority's net position as of December 31 (in thousands):

Table 1 - Summary Statements of Net Position (in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current and other assets	\$ 5,625	\$ 5,650	\$ 5,310
Capital assets, net	<u>34,771</u>	<u>32,266</u>	<u>29,069</u>
Total assets	<u>40,396</u>	<u>37,916</u>	<u>34,379</u>
Deferred outflows	<u>35</u>	<u>-</u>	<u>-</u>
Liabilities:			
Current liabilities	455	704	807
Long-term liabilities	<u>8,819</u>	<u>4,539</u>	<u>4,038</u>
Total liabilities	<u>9,274</u>	<u>5,243</u>	<u>4,845</u>
Deferred inflows	<u>6</u>	<u>318</u>	<u>-</u>
Net Position:			
Net investment in capital assets	27,251	27,576	24,879
Restricted	115	117	143
Unrestricted	<u>3,785</u>	<u>4,662</u>	<u>4,512</u>
Total net position	<u>\$ 31,151</u>	<u>\$ 32,355</u>	<u>\$ 29,534</u>

Current and other assets reflect the value of all cash accounts, accounts receivable, inventory, capital contribution receivables, prepaid expenses and funds held for others. These funds are the total customer payments and other operating deposits less the Authority's operating and repair expense payments. The balance of current and other assets decreased approximately \$25,000 from 2018 to 2019. This decrease is mainly related to a decrease in amounts due from New York State of approximately \$238,000, offset by an increase in cash of \$246,000 and an increase in prepaid expenses of \$22,000. Amounts due from New York State in the current year consisted of the final amount due related to the project with the Department of Corrections and Community Supervision (DOCCS) to provide a distribution system and drinking water service for ten years to Groveland and Livingston Correctional Facilities. In the prior year, there was also an amount due related to the Lakeville Wastewater Treatment Plant Upgrades project with the NYS Environmental Facilities Corporation.

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Total liabilities show the total funds the Authority borrowed to improve infrastructure either with debt or other current year payables, as well as liabilities related to future retirement benefits of Authority employees. Total liabilities increased approximately \$4,000,000 from 2018 to 2019. This was the result of borrowing on the bond anticipation note payable in the amount of \$2,980,616 related to the NYS EFC funding of the Lakeville Wastewater Treatment Plant Upgrades project and the recognition of the Total Other Postemployment Benefits Liability of \$1,408,511 upon employees transferring to the Authority from the County on January 1, 2019. These increases were offset by decreases in accounts payable and total bonds payable.

STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET POSITION

Net position changes as a result of operating activities over a period of one year (revenues earned, and expenses incurred). The following Statements of Revenue, Expenses, and Change in Net Position provide information on the Authority's operations for the years ended December 31, 2019, 2018 and 2017.

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

	Sewer			Water		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenue:						
Service fees	\$ 1,868	\$ 1,814	\$ 1,772	\$ 1,351	\$ 1,303	\$ 1,301
O&M Service Fees	17	17	18	169	148	140
Permit fees	10	28	23	162	61	72
Other income	<u>28</u>	<u>28</u>	<u>40</u>	<u>32</u>	<u>29</u>	<u>33</u>
Total operating revenues	<u>1,923</u>	<u>1,887</u>	<u>1,853</u>	<u>1,714</u>	<u>1,541</u>	<u>1,546</u>
Operating expenses:						
Wages, salaries, and benefits	543	-	-	464	-	-
Contracted employees	-	595	545	-	495	453
Professional services	282	284	211	90	93	79
Utilities	175	175	183	125	111	100
Equipment/building expense	58	52	39	193	84	90
Vehicle expenses	17	10	9	17	10	8
Purchased water and sewer	96	67	54	488	486	480
Outside services	86	123	121	46	63	148
Depreciation	723	722	725	257	259	247
Other	<u>76</u>	<u>34</u>	<u>49</u>	<u>55</u>	<u>27</u>	<u>48</u>
Total operating expenses	<u>2,056</u>	<u>2,062</u>	<u>1,936</u>	<u>1,735</u>	<u>1,628</u>	<u>1,653</u>
Total operating income (loss)	<u>(133)</u>	<u>(175)</u>	<u>(83)</u>	<u>(21)</u>	<u>(87)</u>	<u>(107)</u>
Non-operating revenue (expense):						
Contract with NYS	-	-	-	91	2,403	5,418
Developers and customers	-	-	-	318	-	-
Interest income	15	10	1	30	17	19
Interest expense	(72)	(70)	(73)	-	-	-
Grant revenue (expense), net	-	706	-	-	-	-
Gain on sale of assets	<u>1</u>	<u>9</u>	<u>-</u>	<u>1</u>	<u>9</u>	<u>-</u>
Total non-operating rev (exp)	<u>(56)</u>	<u>655</u>	<u>(72)</u>	<u>440</u>	<u>2,429</u>	<u>5,437</u>
Special item:						
Transfer of debt from Livingston County	<u>(735)</u>	<u>-</u>	<u>-</u>	<u>(699)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>\$ (924)</u>	<u>\$ 480</u>	<u>\$ (155)</u>	<u>\$ (280)</u>	<u>\$ 2,342</u>	<u>\$ 5,330</u>

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The Statements of Revenue, Expenses, and Change in Net Position (Table 2) show a total decrease in net position in 2019 of approximately \$1,204,000, a total increase in net position in 2018 of approximately \$2,822,000, and an increase in 2017 of approximately \$5,175,000. Operating revenue is income earned by the Authority from normal operations. Total operating revenue increased approximately \$209,000 from 2018 to 2019, or approximately 6.1%, while from 2017 to 2018, operating revenue increased approximately \$29,000, or approximately 0.9%.

In 2019, non-operating revenue and capital contributions decreased approximately \$2,700,000. This was due to the DOCCS project being in the completion phase in 2019 and due to the fact that the Authority did not expend on the grant portion of the EFC-funded Lakeville Wastewater Treatment Plant project in the current year, only the loan portion.

Operating expense reflects the expenses incurred by the Authority during the execution of normal operating procedures. These normal operating costs include: personnel, professional, utilities, vehicle, equipment, building, permit, supply, and depreciation on capital assets. The Authority has Administrative, Treatment and Transmission/Collection Departments. The workforce performs work for both the water and sewer areas. All direct costs are applied directly to the applicable water/sewer service area. All indirect costs (costs applicable to both water and sewer, such as administrative salaries) are applied according to the number of service units within each service area. Operating expenses increased \$100,000, or approximately 2.7% from 2018 to 2019.

Table 3 - Capital Assets at Year End (in thousands)

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Land	\$ 150	\$ 150	\$ 150
Construction work-in-progress	288	8,853	5,357
Buildings	5,434	5,434	5,343
Water distribution system	16,690	10,787	10,642
Sewer collection system	25,367	21,015	20,713
Machinery and equipment	4,408	3,484	3,414
Leasehold improvements	871	-	-
Less: Accumulated Depreciation	<u>(18,437)</u>	<u>(17,457)</u>	<u>(16,550)</u>
Total capital assets, net	<u>\$ 34,771</u>	<u>\$ 32,266</u>	<u>\$ 29,069</u>

As shown in Table 3 above, the Authority's capital assets increased approximately \$2.5 million in 2019. This was the result of approximately \$2.9 million of work done on the Lakeville Wastewater Treatment Plant Upgrades project, which was added to work in progress and then, upon project completion, transferred into the sewer collection system category. This was offset by approximately \$980,000 in depreciation expense. From 2017 to 2018, the Authority's capital assets increased approximately \$3.2 million as the result of increases to work in progress for work done on the DOCCS project and the Lakeville Wastewater Treatment Plant Project.

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Table 4 - Long-Term Debt Outstanding at Year End (in thousands)

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Sewer Installment Bond	\$ 2,145	\$ 2,230	\$ 2,315
Drinking Water Installment Bond	666	698	730
Clean Water Installment Bond	<u>1,075</u>	<u>1,110</u>	<u>1,145</u>
Total bonds payable	<u>\$ 3,886</u>	<u>\$ 4,038</u>	<u>\$ 4,190</u>

As of December 31, 2019, the Authority had \$3,886,225 in bonds payable. In 2008, the Authority entered into a Trust Indenture under which debt is issued. 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, 2019, 2018, and 2017, there were no covenant violations with any outstanding debt issues for the Authority.

FUTURE FACTORS

Retail Water & Sewer Rates

In October 2018, the Authority Board approved a sewer rate increase of \$20.00/quarter/unit and \$1.11/1000 gallons for 2019 for customers located in the Town of Groveland/Town of Leicester/Town of Mount Morris service area, due to an increase in wholesale treatment costs charged by the Village of Mount Morris. All other water and sewer rates remain unchanged for 2019.

Employee Transfer

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

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

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

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

As of January 1, 2019, Livingston County is no longer providing administrative support services, including payroll, information technology (IT), etc. The Authority has entered in various agreements/contracts with third party vendors/consultants to provide these services directly to the Authority. As of January 1, 2019, the Authority began the necessary employer retirement reporting to the NYSLRS for all eleven (11) full-time employees. With the employee transfer, the Authority also assumed the Postemployment Benefits Other Than Pensions (OPEB) liability for a total of four (4) employees who are eligible for postemployment health benefits, and is now required to report this on its financial statement in accordance with GASB 75 (See Section 12 - Postemployment Health Care Benefits for additional information).

Lakeville Wastewater Treatment Plant – Modifications to Existing SPDES Permit

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

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

In order to meet the April 1, 2019 compliance deadline, the Authority completed the first phase of an approximate \$5,700,000 upgrade project, which involved biological enhancements to the treatment plant through the construction of a new biotower, new final clarifier, and other on-site modifications to existing facilities. The remainder of the project will be completed as a second phase and will consist of other significant upgrades to the treatment plant, which was originally constructed in the early 1970s, with construction anticipated to begin in 2021. The project is being financed through a combination of grant and interest-free loan monies issued by the New York State Environmental Facilities Corporation (EFC). See Section 14 (Commitments and Contingencies) for additional detail on the Project Finance Agreement that was executed between the Authority and EFC on February 1, 2018. The first principal payment must be made within one year of the construction completion date for the first phase of the project, which was September 2019. The amount of the principal payment will be dependent on actual draws of project funds but will not exceed \$86,080.

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A separate future project will be undertaken to meet the disinfection requirement and will need to be completed and operational by May 1, 2022. In December 2018, the Authority was notified by the NYSDEC that it was awarded up to \$767,250 in grant monies through the Water Quality Improvement Project (WQIP) program, for the installation of a UV disinfection system at the wastewater treatment plant. The overall project estimate is \$1,255,500, therefore the Authority's contribution to the project will be approximately \$488,250. The Authority is in the process of executing a contract with the NYSDEC, and has authorized its engineers to complete the design of the project in order to meet the May 1, 2020 NYSDEC submittal deadline identified in the modified SPDES permit.

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

In 2017 and 2018, the Authority experienced high levels of flow during heavy rainfall and snowmelt events which resulted in multiple flow exceedances at the wastewater treatment plant. The NYSDEC issued a draft Consent Order in August 2018, which was finalized and fully executed by both parties in February 2019. The Consent Order identifies several compliance directives to address infiltration and inflow (I/I) issues. The Authority has met all compliance directives to date, including submitting 6-month progress reports to NYSDEC summarizing I/I reduction activities that have been completed. In 2019, the Authority performed significant flow monitoring within its sanitary sewer system and completed approximately 60 commercial property inspections in an effort to identify and remove cross connections (roof drains, sump pumps, and other sources of stormwater) from the sanitary sewer system. In 2019, the Authority was awarded a \$100,000 grant from NYSDEC/NYSEFC through the Wastewater Infrastructure Engineering Planning Grant program to complete an I/I Evaluation. These funds will be used to complete additional sewer cleaning and televising, and smoke testing of the sanitary sewer system, which will help to identify "priority areas". Upon completion of this work, the Authority will then be able to better estimate its future capital expenditures to address the above I/I issues.

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

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Groveland Correctional Facility Water Supply Project

By the end of 2018, the major components of the project including but not limited to approximately 60,000 linear feet of new water main, new pumping station, new water storage tank, and miscellaneous upgrades to the Authority's existing facilities were complete and ready to be put in service. In January 2019, the Authority received approval from the Livingston County Department of Health and placed the new water system into operation. Per the contract between the Authority and the Department of Corrections and Community Supervision (DOCCS), the Authority's infrastructure shall be capable of delivering a minimum average daily flow of 500,000 gpd, and a maximum daily flow of 700,000 gpd to the DOCCS facilities, which comprise both the Groveland Correctional Facility and the Livingston Correctional Facility. The FY2020 Enacted New York State Budget authorized the closure of up to three correctional facilities operated by DOCCS, and it was announced in May 2019 that Livingston Correctional Facility was selected as one of the two facilities scheduled to close. In September 2019, the Livingston Correctional Facility was closed and no public plans have been identified yet regarding the re-purposing of the facility. Following completion of a separate project by DOCCS involving modifications to its existing water treatment plant, the Groveland Correctional Facility began taking water in November 2019 from the LCWSA public water supply system to meet 40% of its water demands. It is anticipated that the water treatment plant will be fully decommissioned by June 2020, and the Groveland Correctional Facility will be 100% transitioned over to LCWSA's public water supply at that time. The contract between the Authority and DOCCS also allows the Authority to utilize pipe capacity of up to 70,000 gallons per day (gpd) for connections by residential/non-industrial users, without further authorization from DOCCS. There are approximately 130 properties, primarily residential, located along the corridor and it is anticipated that many of these properties will connect to the water system in the next few years. In 2019, there were approximately 50 residential/non-industrial hookups to the system.

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

Groveland Station Wastewater Treatment Plant – Modification to Existing SPDES Permit

In March 2019, the Authority was notified by NYSDEC of an anticipated modification to the discharge permit for the above referenced treatment plant, which would require the addition of disinfection treatment of the plant effluent. In July 2019, the Authority applied for a grant through the NYSDEC WQIP program, to cover a portion of the anticipated \$343,000 project cost to install a UV disinfection system at the wastewater treatment plant. The Authority was notified in December 2019 that it was unsuccessful in obtaining a grant award, and intends to re-apply through the same program in 2020. The NYSDEC has identified the following compliance schedule to implement disinfection treatment of the plant effluent:

- May 1, 2022 – Submittal of Plans & Specs to NYSDEC
- May 1, 2023 – Commencement of Construction
- May 1, 2024 – Equipment put into Operation

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

Management's Discussion and Analysis (Unaudited)
December 31, 2019 and 2018

LCWSA Consolidated Water District (PWS NY2501019) – EPA Administrative Order SDWA-02-2019-8032

In June 2019, the US Environmental Protection Agency issued an Administrative Order (AO), due to repeated exceedances of the maximum contaminant level (MCL) for disinfection by-products (THMs) in the Groveland Station area of the Authority's LCWSA Consolidated Water District (CWD). The AO required the submittal of a corrective action plan in addition to performing monitoring activities. The Authority submitted a corrective action plan identifying both interim and long-term measures to achieve compliance with the MCL for THMs. Interim measures that have been implemented include adjustments to chlorination and flushing operations. Long-term measures that are planned include a proposed water main interconnection in the Groveland Station area with the recently completed DOCCS water supply infrastructure, and the addition of THM removal systems in various tanks within the CWD. This work will be completed as part of the "Countywide Water System Improvements Project" that was recently funded by NYSEFC (see below for more detail).

Countywide Water System Improvements Project – DWSRF Project No. 18746

In July 2019, the Authority applied for and was successful in obtaining a \$3,000,000 grant through the NYS Water Infrastructure Improvement Act (WIIA) program, which is being administered by NYSEFC. This grant will be utilized to complete a \$7,000,000 water system project that will include the following major components:

- ARS interconnection: Installation of approximately 17,000 to 22,000 linear feet of water main to connect the existing CWD in the Town of Groveland to the existing American Rock Salt water system and water storage tank.
- Groveland Station interconnection: Installation of approximately 2,000 linear feet of water main connecting the existing Groveland Station water main and the existing water main in the Town of Groveland.
- Additional storage at Shelly Road: Replacement of the existing Shelly Road water storage tank with a new, higher capacity water storage tank.
- Countywide miscellaneous improvements: SCADA Controls systems upgrades and improvements, installation of THM removal systems at several water storage tanks throughout the CWD, and installation of new water meters for LCWSA customers throughout the CWD.

The Authority has not yet entered into a finance agreement with NYSEFC. Once this agreement is in place, the Authority will then develop a schedule for design, bidding, and construction.

REQUESTS FOR INFORMATION

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

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

Statements of Net Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,630,794	\$ 2,024,362
Restricted cash	189,645	549,964
Accounts receivable	831,768	845,185
Due from New York State	1,053,440	1,291,384
Current portion of capital contributions receivable	51,834	45,594
Inventory	49,400	42,605
Prepaid expenses	89,378	67,808
Funds held for others	<u>32,768</u>	<u>33,025</u>
Total current assets	<u>4,929,027</u>	<u>4,899,927</u>
NONCURRENT ASSETS:		
Restricted cash	11,150	11,061
Funds held by trustee	104,060	106,337
Capital contributions receivable, net of current portion	581,634	632,064
Capital assets, net	<u>34,770,814</u>	<u>32,266,493</u>
Total noncurrent assets	<u>35,467,658</u>	<u>33,015,955</u>
Total assets	<u>40,396,685</u>	<u>37,915,882</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	<u>35,055</u>	<u>-</u>
Total deferred outflows of resources	<u>35,055</u>	<u>-</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	183,313	399,661
Current portion of bonds payable	151,725	151,725
Other current liabilities	87,126	119,129
Funds held for others	<u>32,768</u>	<u>33,025</u>
Total current liabilities	<u>454,932</u>	<u>703,540</u>
NONCURRENT LIABILITIES:		
Bond anticipation note payable	3,633,736	653,120
Bonds payable, net of current portion	3,734,500	3,886,225
Compensated absences	29,371	-
Net pension liability	13,264	-
Total other postemployment benefits liability	<u>1,408,511</u>	<u>-</u>
Total noncurrent liabilities	<u>8,819,382</u>	<u>4,539,345</u>
Total liabilities	<u>9,274,314</u>	<u>5,242,885</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	6,302	-
Contributed capital	<u>-</u>	<u>318,000</u>
Total deferred inflows of resources	<u>6,302</u>	<u>318,000</u>
NET POSITION		
Net investment in capital assets	27,250,853	27,575,423
Restricted	115,210	117,398
Unrestricted	<u>3,785,061</u>	<u>4,662,176</u>
Total net position	<u>\$ 31,151,124</u>	<u>\$ 32,354,997</u>

The accompanying notes are an integral part of these statements.

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

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUE:		
Service fees	\$ 3,218,623	\$ 3,116,869
Operation & maintenance service fees	185,294	164,949
Permit fees	172,981	88,861
Other income	<u>59,099</u>	<u>56,153</u>
Total operating revenue	<u>3,635,997</u>	<u>3,426,832</u>
OPERATING EXPENSES:		
Administrative	555,923	569,129
Treatment	1,062,778	996,567
Transmission/collection	1,191,957	1,143,477
Depreciation	<u>979,977</u>	<u>981,272</u>
Total operating expenses	<u>3,790,635</u>	<u>3,690,445</u>
Total operating income (loss)	<u>(154,638)</u>	<u>(263,613)</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest revenue	44,734	28,487
Interest expense	(71,906)	(70,398)
Gain on sale of capital assets	2,340	17,931
Grant revenue	<u>-</u>	<u>706,250</u>
Total non-operating revenue (expense)	<u>(24,832)</u>	<u>682,270</u>
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	<u>(179,470)</u>	<u>418,657</u>
CAPITAL CONTRIBUTIONS:		
Developers and customers	318,000	-
Contract with New York State	<u>91,112</u>	<u>2,402,770</u>
Total capital contributions	<u>409,112</u>	<u>2,402,770</u>
SPECIAL ITEM:		
Transfer of liabilities from the County (Note 16)	<u>(1,433,515)</u>	<u>-</u>
Total special items	<u>(1,433,515)</u>	<u>-</u>
CHANGE IN NET POSITION	(1,203,873)	2,821,427
NET POSITION - beginning of year	<u>32,354,997</u>	<u>29,533,570</u>
NET POSITION - end of year	<u>\$ 31,151,124</u>	<u>\$ 32,354,997</u>

The accompanying notes are an integral part of these statements.

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

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenues -		
Receipts from service fees	\$ 3,417,334	\$ 3,276,665
Receipts from permit fees	172,981	88,861
Other operating receipts	59,099	56,153
Expenses -		
Payments to vendors and suppliers for goods and services	(2,048,404)	(1,788,717)
Payments to employees for wages and benefits	(1,052,896)	-
Payments to Livingston County for contracted employees	<u>-</u>	<u>(1,081,230)</u>
Net cash flow from operating activities	<u>548,114</u>	<u>551,732</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received under New York State contract	-	3,349,600
Purchases of capital assets	(3,166,298)	(1,075,118)
Purchase of capital assets with state revenue	(318,000)	(3,109,020)
Proceeds on disposal of capital assets	2,340	22,905
Cash received for capital contributions	44,190	35,609
Grants received for capital assets	329,056	706,250
Proceeds from bond anticipation note payable	2,980,616	324,064
Withdrawals from funds held with trustee	2,277	25,332
Repayments of bond payable	(151,725)	(151,725)
Interest on capital debt	<u>(69,102)</u>	<u>(71,154)</u>
Net cash flow from capital and related financing activities	<u>(346,646)</u>	<u>56,743</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Interest received	<u>44,734</u>	<u>28,487</u>
Net cash flow from investing activities	<u>44,734</u>	<u>28,487</u>
CHANGE IN CASH AND CASH EQUIVALENTS	246,202	636,962
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,585,387</u>	<u>1,948,425</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,831,589</u>	<u>\$ 2,585,387</u>
CLASSIFIED AS:		
Cash and cash equivalents	\$ 2,630,794	\$ 2,024,362
Restricted cash and cash equivalents	<u>200,795</u>	<u>561,025</u>
Total cash and cash equivalents	<u>\$ 2,831,589</u>	<u>\$ 2,585,387</u>

(Continued)

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

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

(Continued)

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Operating loss	\$ (154,638)	\$ (263,613)
Adjustments to reconcile operating loss to net cash flow from operating activities:		
Depreciation	979,977	981,272
Change in:		
Accounts receivable	13,417	(5,153)
Inventory	(6,795)	(32,197)
Prepaid expenses	(21,570)	(21,417)
Accounts payable	(216,348)	(116,546)
Compensated absences	4,367	-
Pension items - ERS	(15,489)	-
Other current liabilities	<u>(34,807)</u>	<u>9,386</u>
Net cash flow from operating activities	<u>\$ 548,114</u>	<u>\$ 551,732</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITY:		
Amounts due from NYS related to Bond Anticipation Notes payable not yet received	\$ <u>-</u>	\$ <u>329,506</u>
Total non-cash capital and related financing activity	<u>\$ -</u>	<u>\$ 329,506</u>

The accompanying notes are an integral part of these statements.

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

Notes to Basic Financial Statements
December 31, 2019 and 2018

1. ORGANIZATION AND REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Basis of Presentation

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

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted Net Position - This component of net position consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component consists of net position that does not meet the definition of "net investment in capital assets," or "restricted."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

Notes to Basic Financial Statements
December 31, 2019 and 2018

Cash and Cash Equivalents

The Authority's cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value.

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

For purposes of presenting the statement of cash flows, the Authority considers all highly liquid short-term investments with a maturity of three months or less from year-end to be cash or cash equivalents.

Accounts Receivable

Accounts receivable consist of fees for services for sewer and water charges due from individuals and other governments. Accounts receivable are carried on the statements of net position at net realizable value. The Authority has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require the allowance method to be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Capital Contributions Receivable

Capital contributions receivable represents contractual agreements with a village and two farms to repay the Authority for capital improvements that were made to system infrastructure to benefit the village's water system, and to provide additional system capacity to meet the farms' anticipated water demands. In addition, interest is charged by the Authority for amounts expended during project completion at rates equivalent to borrowings incurred by the Authority during that time and are recorded as interest income in the accompanying statements of revenue, expenses and changes in net position.

Inventory

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

Capital Assets

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

Machinery and equipment	5 - 10 years
Buildings	20 - 40 years
Water distribution system	30 - 50 years
Sewer collection system	20 - 50 years
Leasehold improvements	40 years

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

Notes to Basic Financial Statements
December 31, 2019 and 2018

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

Funds Held by Trustee

Funds held by M&T Bank (the Trustee) consist of fixed income United States Government securities. The Authority reports these items at reported values by the trustee. In 2019, this represents debt service funds required under the 2012 series bonds. In 2018, this also included funds held by EFC as unspent proceeds related to a project that was funded by the EFC.

Revenue Recognition

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

Capital Contributions

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

Operating and Non-Operating Revenues and Expenses

Operating revenue consists of water and sewer service fees and other related revenue. The Authority defines non-operating revenue as grant revenues, interest earnings on investment assets, and gains or losses on the sales of assets. Non-operating expenses consist of interest expense.

Unearned Revenue

Unearned revenue also arises when resources are received by the Authority before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the Authority has legal claim to resources, the liability for unearned revenue is removed and revenue is recognized.

Compensated Absences

Authority employees earn vacation time based on length of employment and employee contracts. Upon termination, employees are paid full value for any accrued unused vacation time. The Authority records this as a long-term liability.

Total Other Postemployment Benefits

The Authority administers a single-employer defined benefit Other Postemployment Benefit (OPEB) Plan (the Plan). The only employees eligible for the health care benefits through the Plan are the four employees previously employed by Livingston County who were transferred to the Authority without a break in service on January 1, 2019. Those County employees who worked for the Authority but retired prior to the employee lease termination with the County will receive retiree health care benefits through the County, but these costs will be reimbursed by the Authority. Employees hired by the Authority after January 1, 2019 are not eligible for retiree health insurance. The total other postemployment benefit liability is actuarially determined and presented as a long-term liability.

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

Notes to Basic Financial Statements
December 31, 2019 and 2018

Pensions

The Authority participates in the New York State Employees' Retirement System.

Deferred Outflows and Inflows of Resources

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

Income Taxes

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

Budget

The Authority is not required to have a legally adopted budget. However, under the New York State Public Authorities Law, the Authority board must approve and issue a budget on an annual basis representing the Authority's objectives and priorities for the year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS

The guidelines established by the Authority permit the investment of funds held by the Authority to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State of New York, or in general obligations of its political subdivisions; obligations of the United States.

The Authority's investment policy requires its deposits and investments to be 100% collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States or the State of New York. Collateral must be delivered to the Authority or an authorized custodial bank. In addition, the Authority's investment policy includes the following provisions for interest rate risk, credit risk and custodial credit risk (as defined below):

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

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Notes to Basic Financial Statements
December 31, 2019 and 2018

- 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:
 - o Interest bearing demand accounts.
 - o Certificates of deposit.
 - o Obligations of the United States Treasury and United States agencies.
 - o Obligations of New York State and its localities.
- Custodial credit risk
Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Authority's investment and deposit policy, all deposits of the Authority including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits.
 - o Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
 - o Obligations issued or fully insured or guaranteed by New York State and its localities.

The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority did not have any investments that are measured using Level 2 or Level 3 inputs.

Fair value measurements of the Authority's investments at December 31, 2019 were comprised of U.S. Treasury Bonds valued at \$90,275 based on quoted market prices (Level 1 inputs). Fair value measurements of the Authority's investments at December 31, 2018 were comprised of U.S. Treasury Bonds valued at \$90,277 based on quoted market prices (Level 1 inputs). On the Statements of Net Position, these investments are included in funds held with trustee.

At December 31, 2019 and 2018, respectively, cash and cash equivalents and restricted cash held by the Authority in financial institutions (not including funds held for others) were \$2,831,589 and \$2,585,387. At December 31, 2019 and 2018, cash and cash equivalents and restricted cash consisted of bank demand deposit and money market accounts, which are not subject to investment risk relating to changing interest rates. The Authority's deposits and investments are required to be collateralized in the event of loss due to the failure of the issuer or counterparty to its investments.

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

Notes to Basic Financial Statements
December 31, 2019 and 2018

At December 31, 2019, the reported amount of the Authority's deposits, including funds held for others, was \$2,864,357 and the bank balance was \$2,726,841. Of the bank balance, \$340,796 was covered by federal depository insurance, with the remaining amount covered by collateral held in the pledging bank's trust department in the Authority's name.

At December 31, 2018, the reported amount of the Authority's deposits, including funds held for others, was \$2,618,412 and the bank balance was \$2,709,305. Of the bank balance, \$419,651 was covered by federal depository insurance, with the remaining amount covered by collateral held in the pledging bank's trust department in the Authority's name.

4. RESTRICTED CASH

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

	<u>2019</u>	<u>2018</u>
Department of Corrections Capital Project	\$ 189,645	\$ 549,964
Capital development and repairs	<u>11,150</u>	<u>11,061</u>
	<u>\$ 200,795</u>	<u>\$ 561,025</u>

5. FUNDS HELD BY TRUSTEE

Funds held by trustee refers to cash held by a third party for the benefit of the Authority. The funds held by trustee are not subject to the Authority's Investment and Deposit Policy or collateralization requirements. As of December 31, 2019 and 2018, this amount was \$104,060 and \$106,337, respectively. In 2018, this represented funds held by EFC as unspent proceeds related to a project that was funded by the EFC, as well as debt service funds required under the 2012 series bonds. In 2019, the only funds held by trustee were for debt service required by 2012 series bonds. As mentioned in footnote 3, the debt service funds held by trustee include U.S. Treasury Bonds which are stated at market value.

6. ACCOUNTS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Water and sewer service fees	\$ 592,874	\$ 603,689
Due from local governments	<u>238,894</u>	<u>241,496</u>
	<u>\$ 831,768</u>	<u>\$ 845,185</u>

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

Notes to Basic Financial Statements
December 31, 2019 and 2018

7. CAPITAL CONTRIBUTIONS RECEIVABLE

Capital contributions receivable at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Village of Geneseo	\$ 322,419	\$ 359,658
Sparta Farms, LP	156,228	159,000
Dairy Knoll Farms, LLC	<u>154,821</u>	<u>159,000</u>
	<u>\$ 633,468</u>	<u>\$ 677,658</u>

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

2020	\$ 51,834
2021	52,618
2022	54,906
2023	57,289
2024	59,781
2025 - 2029	182,453
2030 - 2034	87,366
2035 - 2039	<u>87,221</u>
	<u>\$ 633,468</u>

In 2018, the Authority reported deferred inflows of resources for the capital contributions receivable related to the agreements with Sparta Farms, LP and Dairy Knoll Farms, LLC that were not recognized as revenue until the projects were completed and in service. As the projects became operational in 2019, the Authority recognized capital contributions revenue related to these projects.

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8. CAPITAL ASSETS

The Authority's capital assets for 2019 are as follows:

	Balance January 1	Increases	Transfers	Decreases	Balance December 31
Land	\$ 150,285	\$ -	\$ -	\$ -	\$ 150,285
Construction work-in-progress	8,853,373	3,417,321	(11,983,269)	-	287,425
Total non-depreciable	9,003,658	3,417,321	(11,983,269)	-	437,710
Buildings	5,433,895	-	-	-	5,433,895
Water distribution system	10,787,454	-	5,902,333	-	16,689,787
Sewer collection system	21,014,504	-	4,352,340	-	25,366,844
Machinery and equipment	3,484,077	66,977	857,219	-	4,408,273
Leasehold improvements	-	-	871,377	-	871,377
Total depreciable assets	40,719,930	66,977	11,983,269	-	52,770,176
Less: Accumulated depreciation:					
Buildings	(2,285,485)	(148,883)	-	-	(2,434,368)
Water distribution system	(3,782,149)	(203,927)	-	-	(3,986,076)
Sewer collection system	(9,288,141)	(472,558)	-	-	(9,760,699)
Machinery and equipment	(2,101,320)	(154,609)	-	-	(2,255,929)
Total accumulated depreciation	(17,457,095)	(979,977)	-	-	(18,437,072)
Net depreciable assets	23,262,835	(913,000)	11,983,269	-	34,333,104
Total capital assets, net	\$ 32,266,493	\$ 2,504,321	\$ -	\$ -	\$ 34,770,814

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

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

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9. BOND ANTICIPATION NOTE

On February 1, 2018, the Authority issued a Bond Anticipation Note (BAN) Series 2018 through the EFC for a maximum amount of \$4,306,960 for the Lakeville wastewater treatment plant upgrades with an initial rate of 0.00% under a NYS EFC short-term financing program, which is a direct borrowing. The BAN has a maturity date of February 1, 2023. At that time, the Authority can convert the BAN to long-term financing if all conditions are met and if such financing is made available by EFC. A principal payment of up to \$86,080 must be made on or before February 1, 2020, which will be based on actual total draws made on the BAN. In 2019 and 2018, the Authority drew down \$2,980,616 and \$653,120, respectively, the total of which is reported under noncurrent liabilities. The following is a summary of changes in short-term debt:

Balance - January 1, 2018	\$ -
Borrowings	653,120
Repayments	<u>-</u>
Balance - December 31, 2018	<u>\$ 653,120</u>
Balance January 1, 2019	\$ 653,120
Borrowings	2,980,616
Repayments	<u>-</u>
Balance - December 31, 2019	<u>\$ 3,633,736</u>

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10. FINANCING ARRANGEMENTS

The Authority had the following debt outstanding as of December 31, 2019:

	Balance January 1	Increases	Decreases	Due Within One Year	Due After One Year
Bonds from Indirect Borrowings					
On August 27, 2009, the Authority issued a \$2,921,000 Sewer Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$ 2,230,000	\$ -	\$ (85,000)	\$ (85,000)	\$ 2,060,000
On February 7, 2011 the Authority issued a \$951,750 Drinking Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of the Groveland Station water project. The note has an interest rate of 0% and will mature on August 31, 2040.	697,950	-	(31,725)	(31,725)	634,500
On May 1, 2012, the Authority was a part of a \$1,322,692 offering of the NYS EFC Revenue Bonds to fund the cost of various sewer projects. The bond has an interest rate of 3.74% and will mature on May 1, 2042.	1,110,000	-	(35,000)	(35,000)	1,040,000
	<u>\$ 4,037,950</u>	<u>\$ -</u>	<u>\$ (151,725)</u>	<u>\$ (151,725)</u>	<u>\$ 3,734,500</u>

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

	Balance January 1	Increases	Decreases	Due Within One Year	Due After One Year
<u>Bonds from Indirect Borrowings</u>					
On August 27, 2009, the Authority issued a \$2,921,000 Sewer Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of various sewer projects. The bond has an interest rate of 4.27% and will mature on August 1, 2039.	\$ 2,315,000	\$ -	\$ (85,000)	\$ (85,000)	\$ 2,145,000
On February 7, 2011 the Authority issued a \$951,750 Drinking Water Installment Bond with the NYS Environmental Facilities Corporation to fund the cost of the Groveland Station water project. The note has an interest rate of 0% and will mature on August 31, 2040.	729,675	-	(31,725)	(31,725)	666,225
On May 1, 2012, the Authority was a part of a \$1,322,692 offering of the NYS EFC Revenue Bonds to fund the cost of various sewer projects. The bond has an interest rate of 3.74% and will mature on May 1, 2042.	<u>1,145,000</u>	<u>-</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>1,075,000</u>
	<u>\$ 4,189,675</u>	<u>\$ -</u>	<u>\$ (151,725)</u>	<u>\$ (151,725)</u>	<u>\$ 3,886,225</u>

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Future scheduled principal and interest payments on bonds from direct borrowings are as follows at December 31:

	Principal	Interest	Total
2020	\$ 151,725	\$ 67,005	\$ 218,730
2021	156,725	64,866	221,591
2022	156,725	62,579	219,304
2023	161,725	60,241	221,966
2024	161,725	57,744	219,469
2025-2029	858,625	248,593	1,107,218
2030-2034	933,625	175,170	1,108,795
2035-2039	1,023,625	88,978	1,112,603
2040-2042	281,725	14,835	296,560
	<u>\$ 3,886,225</u>	<u>\$ 840,011</u>	<u>\$ 4,726,236</u>

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

Interest paid	\$ 69,102
Plus: Interest accrued in the current year	22,642
Less: Interest accrued in the prior year	<u>(19,838)</u>
Total interest expense	<u>\$ 71,906</u>

In 2008, the Authority entered into a Trust Indenture under which debt is issued. The Trust Indenture pledges all revenues and other income collected by the Authority for payment of principal and interest on the bonds. The Trust Indenture also generally requires establishment of certain trust funds, for which M&T Bank acts as a trustee, into which monies are to be deposited. The Authority is required to maintain on deposit amounts sufficient to cover the annual debt service (as defined in the Trust Indenture) of its bonds. The Authority covenants in its indenture that it will establish water and sewer rates sufficient to cover the sum of: (1) 105% times debt service, (2) operating revenues exceed operating expenses as defined by the covenant, and (3) any additional amounts required to restore the debt service reserve fund to the debt service reserve requirement. As of December 31, 2019 and 2018, there were no covenant violations with any outstanding debt issues for the Authority. The Authority includes in their customer billings an amount designated for debt service. The intention by the Board, related to the use of these revenues, is to satisfy debt service requirements.

Should an event of default occur on any of the bonds under the general revenue bond resolution, the Trustee may declare the principal of all bonds outstanding to be due and payable immediately.

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11. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

The Authority participates in the New York State Employees' Retirement System (NYSERS) also referred to as New York State and Local Retirement System (the System). This is a cost-sharing, multiple employer public employee retirement system, providing retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), established to hold all net position and record changes in plan net position allocated to the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYS RSSL). Once an 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, including information with regard to benefits provided, 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.

The System is noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010 and prior to April 1, 2012, employees in NYERS contribute 3% of their salary throughout their active membership. For employees who joined after April 1, 2012, employees contribute 3% of their salary until April 1, 2013 and then contribute 3% to 6% of their salary throughout their active membership. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of contributions required, and were as follows:

	<u>NYSERS</u>
2019	\$ 4,772
2018	\$ -
2017	\$ -

Of the cash paid for NYSERS during 2019, \$6,981 represents amounts owed for the period of January 1 - March 31, 2020 and is shown in prepaid expenses on the accompanying statement of net position.

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Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At December 31, 2019, the Authority reported a net pension liability of \$13,264 for its proportionate share of the NYS ERS net pension liability. The net pension liability was measured as of March 31, 2019, and the total pension liability used to calculate the net pension liability was determined by the 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. The Authority did not report a net pension liability as of December 31, 2018. As of the March 31, 2018 measurement date, the Authority leased employees from the County of Livingston, and therefore, the Authority did not have a proportionate share of the net pension liability as of that date.

At December 31, 2019, the Authority's proportion was .0001872%. As mentioned previously, the Authority did not have a proportionate share at December 31, 2018.

For the year ended December 31, 2019, the Authority recognized pension expense of \$10,227. At December 31, 2019, the Authority reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,612	\$ 890
Changes in assumptions	3,334	-
Net difference between projected and actual earnings on	-	3,404
Changes in proportion and differences between the		
Authority's contributions and proportionate share of		
contributions	8,166	2,008
Contributions subsequent to the measurement date	20,943	-
Total	<u>\$ 35,055</u>	<u>\$ 6,302</u>

For the year ended December 31, 2018, the Authority did not recognize pension expense, deferred outflows of resources, or deferred inflows of resources related to pensions.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended March 31:	<u>2019</u>
2020	\$ 4,285
2021	(1,078)
2022	1,284
2023	3,319
	<u>\$ 7,810</u>

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The Authority recognized \$20,943 as a deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2019 which will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

Actuarial Assumptions

The total pension liability at March 31, 2019 was determined by using an actuarial valuation as of April 1, 2018, with update procedures used to roll forward the total pension liability to March 31, 2019.

The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary scale	3.8% indexed by service
Projected COLAs	1.3% compounded annually
Decrement	Developed from the Plan's 2015 experience study of the period
Mortality improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.0% compounded annually, net of investment expenses

In 2019, the long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocations and best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2019 are summarized below:

Asset Type	2019	
	Target Allocations in %	Long-Term expected real rate of return in %
Domestic Equity	36	4.55
International Equity	14	6.35
Private Equity	10	7.50
Real Estate	10	5.55
Absolute Return Strategies	2	3.75
Opportunistic Portfolio	3	5.68
Real Assets	3	5.29
Bonds and Mortgages	17	1.31
Cash	1	-0.25
Inflation-Indexed Bonds	4	1.25
	<u>100%</u>	

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Discount Rate

The discount rate used to calculate the total pension liability in 2019 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 Plan'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.

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 for 2019 calculated using the discount rate of 7.0%, 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% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease <u>6.00%</u>	Current Discount <u>7.00%</u>	1% Increase <u>8.00%</u>
Proportionate Share of Net Pension liability (asset)	<u>\$ 57,992</u>	<u>\$ 13,264</u>	<u>\$ (24,311)</u>

Pension Plan Fiduciary Net Position (000's)

The components of the current-year net pension liability of the employers as of March 31, 2019 were as follows:

	<u>2019</u>
Total pension liability	\$ 189,803,429
Net position	<u>(182,718,124)</u>
Net pension liability (asset)	<u>\$ 7,085,305</u>
ERS net position as a percentage of total pension liability	96.27%

12. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The Authority provides certain health care benefits for retired employees. The Authority administers a single-employer defined benefit Other Postemployment Benefit (OPEB) Plan (the Plan). The only employees eligible for the health care benefits through the Plan are the four employees previously employed by Livingston County who were transferred to the Authority without a break in service on January 1, 2019. Those County employees who worked for the Authority but retired prior to the employee lease termination with the County will receive retiree health care benefits through the County, but these costs will be reimbursed by the Authority. Employees hired by the Authority after January 1, 2019 shall not be eligible for retiree health insurance.

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The obligations of the Plan are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The Authority will pay its portion of the premium for the retiree and spouse for the lifetime of the retiree. The costs of administering the Plan are paid by the Authority. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Employees Covered by Benefit Terms

At December 31, 2019, the following employees were covered by the benefit terms:

Active employees	4
Total participants	4

Total OPEB Liability

The Authority's total OPEB liability of \$1,408,511 was measured as of January 1, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Methods and Other Inputs

The total OPEB liability in the actuarial valuation prepared for the December 31, 2019 reporting date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.2%
Salary Scale	3%
Discount Rate	4.1% as of the January 1, 2019 measurement date
Actuarial Cost Method	Entry Age Normal Level - Level Percent of Pay
Mortality - Actives	The RPH-2014 Mortality Table for employees, sex distinct, with generational mortality adjusted to 2006 using scale MP-2014, and projected forward with scale MP-2019.
Mortality - Retirees	The RPH-2014 Mortality Table for Healthy Annuitants, sex distinct, with generational mortality adjusted to 2006 using scale MP-2014, and projected forward with scale MP-2019.
Turnover	Rates of decrement due to turnover based on the experience under the New York State & Local Retirement System as prepared by the Department of Civil Service's actuarial consultant in the report titled, <u>Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 75 Valuation (June 2019).</u>
Retirement Incidence	Rates of decrement due to retirement based on the experience under the New York State & Local Retirement System as prepared by the Department of Civil Service's actuarial consultant in the report titled, <u>Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 75 Valuation (June 2019).</u>

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Medical Trend	To Fiscal Year		
	Ending	Pre-65	Post-65
	2020	5.70%	7.10%
	2021	7.00%	7.00%
	2022	6.50%	6.50%
	2023	6.00%	6.00%
	2024	5.86%	5.86%
	2029	5.18%	5.18%
	2034	5.18%	5.18%
	2039	5.18%	5.18%
	2049	4.98%	4.98%
	2059	4.75%	4.75%
	2069	4.42%	4.42%
	2079	3.94%	3.94%
	2089	3.94%	3.94%
Election Percentage	Participant Group	% Electing Coverage	
	Retiree	100%	
	Retiree's Spouse	80%	
	Surviving Spouse	100%	
Marriage Rate	It is assumed that 80% of retirees will be married at the time of their retirement, with the male spouse assumed to be approximately 3 years older than the female.		
Morbidity	To reflect the differences in covered health care expenses due to aging, the premiums are adjusted by age and gender using the following age-sex factors:		
	Age	Male	Female
	40-44	0.805	1.229
	45-49	1.016	1.349
	50-54	1.339	1.587
	55-59	1.74	1.835
	60-64	2.233	2.184
	65-69	0.933	0.886
	70-74	1.025	0.973
	75-79	1.089	1.040
	80-84	1.111	1.071
	85-89	1.073	1.044
	90-94	1.004	0.958
	95+	0.931	0.827
	Post-65 Medical Coverage	It has been assumed for this valuation that all future retirees enrolling in post-65 medical coverage will enroll in the same Medicare Advantage plan provided by Livingston County to its post-65 retirees.	

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Per Capita Costs

The Livingston County Water & Sewer Authority provides pre-65 medical coverage to all actives and eligible future retirees through the SimplyBlue Plus Platinum 2 plan, a community rated plan provided through Excellus. For post-65 medical coverage, it has been assumed for this valuation that future post-65 retirees will enroll in one of the same post-65 medical plan options provided by Livingston County to its post-65 retirees. Currently, Livingston County provides a choice of Medicare Supplemental coverage or a Medicare Advantage plan. It is assumed that all future post-65 retirees will select the Medicare Advantage plan (Medicare Blue Choice Copay Plan). This plan is rated solely on the experience of post-65 retirees.

The following table presents per capita costs of the plan, including administrative fees, which was used to calculate the actuarial accrued liability, separated by male and female:

Age	Male	Female
40-44	\$ 5,765	\$ 8,797
45-49	7,278	9,663
50-54	9,586	11,367
55-59	12,462	13,141
60-64	15,992	15,637
65-69	4,954	4,704
70-74	5,442	5,166
75-79	5,782	5,522
80-84	5,899	5,686
85-89	5,697	5,543
90-94	5,330	5,086
95+	4,943	4,391

Changes in the Total OPEB Liability

Balance at January 1, 2019:	\$ -
Transfer of Total OPEB Liability from Livingston County	<u>1,408,511</u>
Balance at December 31, 2019	<u>\$ 1,408,511</u>

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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 or 1 percentage point higher than the current discount rate:

	1% Decrease	Current Discount	1% Increase
	<u>3.10%</u>	<u>4.10%</u>	<u>5.10%</u>
Total OPEB Liability	<u>\$ 1,698,484</u>	<u>\$ 1,408,511</u>	<u>\$ 1,179,523</u>

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 or 1 percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability	<u>\$ 1,155,460</u>	<u>\$ 1,408,511</u>	<u>\$ 1,734,054</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the Authority did not recognize OPEB expense, deferred outflows of resources, or deferred inflows of resources related to OPEB.

13. FUNDS HELD FOR OTHERS

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

	<u>2019</u>	<u>2018</u>
Compact of towns (flood gates)	\$ 22,118	\$ 21,942
Collections	<u>10,650</u>	<u>11,083</u>
	<u>\$ 32,768</u>	<u>\$ 33,025</u>

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14. COMMITMENTS AND CONTINGENCIES

Commitments

The Authority had an agreement with the County to lease the County's employees, with the exception of 10% of the billing clerk salary which is paid by the County. Therefore, the Authority made monthly payments to the County for all payroll and related employee expenses. The total amount recognized in 2018 was \$1,090,616. This agreement was terminated mutually by the County and the Authority on December 31, 2019.

Contingencies

The Authority has various insurance policies with third-party carriers related to property protection and casualty.

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

Groveland Correctional Facility Water Supply Project

On June 15, 2014 the Authority signed a contract with the New York State Department of Corrections and Community Supervision (DOCCS) to design and construct needed improvements to the Authority's water supply and distribution system, to enable the Authority to begin water supply services to the Groveland and Livingston Correctional Facilities. Per the contract, DOCCS has agreed to pay the Authority 100% of the estimated total cost of the Project, or the actual cost, whichever is less.

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

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

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

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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December 31, 2019 and 2018

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

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

During 2018, the Authority achieved 75% completion, and received payment of \$3,349,600. The Authority also expended \$962,328 past the 75% completion point in 2018, which was recorded as due from New York State as of December 31, 2018. The Authority reached the 100% completion point in 2019. As of December 31, 2019, the final payment due from DOCCS of \$1,053,440 was recorded as due from New York State.

Lakeville Wastewater Treatment Plant Upgrades Project

On February 1, 2018, the Authority entered into a short-term Clean Water State Revolving Fund financing agreement with the New York State Environmental Facilities Corporation for a total project cost of \$5,716,460. The contract is financed with \$4,303,960 of debt along with \$1,412,500 of grant funds. During 2018, the Authority expended \$706,250 of the grant funds and received such reimbursement from EFC during the year. Of the \$4,303,960 in bond anticipation notes authorized for the project, the Authority had expended \$653,120 as of December 31, 2018. Of this amount, \$329,056 was recorded as an amount due from New York State as of December 31, 2018. In 2019, the Authority did not expend any additional grant funds; however, the Authority expended \$2,980,616 of the remaining bond anticipation note amount, which resulted in a total short term liability related to this project of \$3,633,736 as of December 31, 2019.

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

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

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15. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2019, the Authority terminated its employee lease agreement with the County. On that date, the employees became employees of the Authority. As a result, the Authority was required to implement GASB 68, *Accounting and Financial Reporting for Pensions*, GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; and GASB 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*.

16. TRANSFER OF OPERATIONS

On December 28, 2001, the Authority entered into an Employee Lease Agreement with Livingston County (the County) through which County personnel provided services to the Authority. On January 1, 2019, the Employee Lease Agreement was terminated, as the Authority became willing and able to independently employ these individuals for purposes of continuing to provide quality water and sewer services to its users. On January 1, 2019, the County transferred the liabilities associated with the employment of these individuals to the Authority. As a result of the transfer, the Authority recognized the following liabilities and net position:

Transferred Liabilities

Total Other Postemployment Benefit Liability	\$ 1,408,511
Compensated absences	<u>25,004</u>
Total Transferred Liabilities	<u>1,433,515</u>

Net Position of Transferred Operation

Unrestricted net position	<u>(1,433,515)</u>
Total Net Position of Transferred Operation	<u>\$ (1,433,515)</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Schedule of Proportionate Share of Net Pension Liability (Asset) (Unaudited)
For the Year Ended December 31, 2019

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of the net pension liability (asset)	0.0001872%									
Proportionate share of the net pension liability (asset)	\$ 13,264									
Covered-employee payroll	\$ 52,308									
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.36%									
Plan fiduciary net position as a percentage of the total pension liability (asset)	96.27%									

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Schedule of Contributions - Pension Plans (Unaudited)
For the Year Ended December 31, 2019

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 4,772									
Contributions in relation to the contractually required contribution	<u>4,772</u>									
Contribution deficiency (excess)	<u>\$ -</u>									
Covered-employee payroll	<u>\$ 52,308</u>									
Contributions as a percentage of covered-employee payroll	9.12%									

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Schedule of Changes in Total OPEB Liability and Related Ratios (Unaudited)
For the Year Ended December 31, 2019

		Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total OPEB Liability											
Service cost	\$	-									
Interest		-									
Changes of benefit terms		-									
Differences between expected and actual experience		-									
Changes in assumptions		-									
Benefit payments		-									
Transfer of Total OPEB Liability		<u>1,408,511</u>									
Total change in total OPEB liability		1,408,511									
Total OPEB liability - beginning		<u>-</u>									
Total OPEB liability - ending	\$	<u><u>1,408,511</u></u>									
Covered-employee payroll	\$	259,234									
Total OPEB liability as a percentage of covered-employee payroll		543%									

Information for the periods prior to implementation of GASB 75 is unavailable and will be completed for each year going forward as they become available.

Notes to schedule:

Changes of assumptions. Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate in effect at the current measurement date is 4.1%.

Plan Assets. No assets are accumulated in a trust that meets the criteria in GASB 75, paragraph 4, to pay related benefits:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing OPEB to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Schedule Of Revenue, Expenses And Change In Net Position
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING REVENUE:						
Service fees	\$ 1,867,997	\$ 1,350,626	\$ 3,218,623	\$ 1,814,210	\$ 1,302,659	\$ 3,116,869
O&M Service Fees	16,700	168,594	185,294	16,702	148,247	164,949
Permit fees	10,475	162,506	172,981	28,091	60,770	88,861
Other income	27,570	31,529	59,099	27,596	28,557	56,153
Total operating revenue	<u>1,922,742</u>	<u>1,713,255</u>	<u>3,635,997</u>	<u>1,886,599</u>	<u>1,540,233</u>	<u>3,426,832</u>
OPERATING EXPENSES:						
Administrative	277,594	278,329	555,923	288,172	280,957	569,129
Treatment	548,940	513,838	1,062,778	469,339	527,228	996,567
Transmission/collection	506,012	685,945	1,191,957	583,309	560,168	1,143,477
Depreciation	723,382	256,595	979,977	721,856	259,416	981,272
Total operating expenses	<u>2,055,928</u>	<u>1,734,707</u>	<u>3,790,635</u>	<u>2,062,676</u>	<u>1,627,769</u>	<u>3,690,445</u>
Total operating income (loss)	<u>(133,186)</u>	<u>(21,452)</u>	<u>(154,638)</u>	<u>(176,077)</u>	<u>(87,536)</u>	<u>(263,613)</u>
NON-OPERATING REVENUE (EXPENSE):						
Interest revenue	15,094	29,640	44,734	10,753	17,734	28,487
Interest expense	(71,906)	-	(71,906)	(70,398)	-	(70,398)
Gain on sale of capital assets	1,189	1,151	2,340	9,088	8,843	17,931
Grant revenue	-	-	-	706,250	-	706,250
Total non-operating revenue (expense)	<u>(55,623)</u>	<u>30,791</u>	<u>(24,832)</u>	<u>655,693</u>	<u>26,577</u>	<u>682,270</u>
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	<u>(188,809)</u>	<u>9,339</u>	<u>(179,470)</u>	<u>479,616</u>	<u>(60,959)</u>	<u>418,657</u>
CAPITAL CONTRIBUTIONS:						
Developers and customers	-	318,000	318,000	-	-	-
Contract with New York State	-	91,112	91,112	-	2,402,770	2,402,770
Total capital contributions	<u>-</u>	<u>409,112</u>	<u>409,112</u>	<u>-</u>	<u>2,402,770</u>	<u>2,402,770</u>
SPECIAL ITEM:						
Transfer of liabilities from the County (Note 16)	<u>(734,799)</u>	<u>(698,716)</u>	<u>(1,433,515)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total special items	<u>(734,799)</u>	<u>(698,716)</u>	<u>(1,433,515)</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ (923,608)</u>	<u>\$ (280,265)</u>	<u>(1,203,873)</u>	<u>\$ 479,616</u>	<u>\$ 2,341,811</u>	<u>2,821,427</u>
NET POSITION - beginning of year			<u>32,354,997</u>			<u>29,533,570</u>
NET POSITION - end of year			<u>\$ 31,151,124</u>			<u>\$ 32,354,997</u>

LIVINGSTON COUNTY WATER AND SEWER AUTHORITY
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Schedule of Operating Expenses
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
OPERATING EXPENSES:						
Wages, salaries, and benefits	\$ 144,090	\$ 153,761	\$ 297,851	\$ -	\$ -	\$ -
Contracted employees	-	-	-	165,176	161,587	326,763
Professional services	92,642	84,834	177,476	100,782	90,082	190,864
Small equipment purchases	855	-	855	1,731	168	1,899
Travel and training	4,005	3,929	7,934	2,995	3,257	6,252
Equipment and building maintenance	4,588	5,278	9,866	934	2,424	3,358
Utilities	1,926	1,873	3,799	757	745	1,502
Outside services	3,401	3,307	6,708	3,417	3,323	6,740
Other	26,087	25,347	51,434	12,380	19,371	31,751
Total administrative	277,594	278,329	555,923	288,172	280,957	569,129
Treatment -						
Wages, salaries, and benefits	107,603	26,225	133,828	-	-	-
Contracted employees	-	-	-	129,026	41,603	170,629
Purchased water/sewer	95,693	487,562	583,255	67,254	485,625	552,879
Utilities	70,533	-	70,533	50,346	-	50,346
Outside services	38,487	-	38,487	23,953	-	23,953
Equipment and building maintenance	19,651	-	19,651	12,488	-	12,488
Professional services	187,134	-	187,134	180,936	-	180,936
Small equipment purchases	1,890	-	1,890	481	-	481
Permits, fees and inspections	2,949	-	2,949	3,757	-	3,757
Other	25,000	51	25,051	1,098	-	1,098
Total treatment	548,940	513,838	1,062,778	469,339	527,228	996,567
Transmission/collection -						
Wages, salaries, and benefits	291,672	283,616	575,288	-	-	-
Contracted employees	-	-	-	301,079	292,145	593,224
Utilities	102,126	123,441	225,567	123,494	110,264	233,758
Equipment and building maintenance	33,524	188,085	221,609	38,729	81,237	119,966
Vehicle expense	17,447	16,944	34,391	10,442	10,113	20,555
Outside services	44,093	42,874	86,967	95,145	59,766	154,911
Professional services	2,402	5,150	7,552	2,373	2,444	4,817
Small equipment purchases	12,466	8,749	21,215	11,592	1,901	13,493
Permits, fees and inspections	249	8,416	8,665	-	1,590	1,590
Travel and training	1,738	3,558	5,296	414	673	1,087
Other	295	5,112	5,407	41	35	76
Total	506,012	685,945	1,191,957	583,309	560,168	1,143,477
Depreciation	723,382	256,595	979,977	721,856	259,416	981,272
Total operating expenses	\$ 2,055,928	\$ 1,734,707	\$ 3,790,635	\$ 2,062,676	\$ 1,627,769	\$ 3,690,445

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 25, 2020

To the Board of Directors of
Livingston County Water and Sewer Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Livingston County Water and Sewer Authority (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Livingston, New York, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 25, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.