

O NONDAGA COUNTY WATER
AUTHORITY

FINANCIAL STATEMENTS
December 31, 2018 and 2017

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ONONDAGA COUNTY WATER AUTHORITY

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Dermody, Burke & Brown, CPAs, LLC

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS ONONDAGA COUNTY WATER AUTHORITY

Report on the Financial Statements

We have audited the accompanying financial statements of **ONONDAGA COUNTY WATER AUTHORITY** (the Authority), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 10 to the financial statements, in 2018 the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, “*Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*” – an amendment of GASB 45. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required supplementary information, on pages 4 to 25 and 60 to 62, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 20, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended December 31, 2018

Introduction

Onondaga County Water Authority's (OCWA) Management's Discussion and Analysis for the fiscal year ended December 31, 2018, provides an introduction to the major activities that had an effect on the operations of the Authority and it also addresses the financial performance and status of OCWA. The information contained within the Management's Discussion and Analysis (MD&A) should be used and considered in conjunction with all of the information contained within the 2018 financial report, which follows this report.

Financial Highlights

Operations returned to a more normal pace in 2018 after the unusually active and transformative year experienced in 2017 when OCWA assumed the operation and maintenance of Onondaga County's Metropolitan Water Board / Onondaga County Water District (MWB). As we entered 2018, all Lake Ontario water system facilities and all former MWB personnel were fully integrated into OCWA and throughout this discussion the benefits of the consolidation are recognized. It should be noted, based on cost savings generated by the consolidation, the Authority did not raise water rates for 2018 after annual rate increases being implemented from 2001-2017. Although rates were not increased for 2018, OCWA did see an increase in water sales revenues, the nature of which will be discussed below.

Regarding revenues, OCWA's 2018 total revenues increased by \$2,510,765 (5.65%) over 2017. Water revenue was up \$998,278 over the previous year's total. Residential and Commercial revenue was up by \$654,657 and mainly attributed to a more normal summer season after the record rains experienced in the spring and summer of 2017. Municipal revenues increased by \$191,235 and was due in part to the summer weather and in part due to having the Village of Phoenix on the books for a full year after becoming a wholesale customer in the second half of 2017. Industrial revenues rose \$170,645 due in part to modest increases in water used coupled with having Giovanni Foods as a customer for the entire year after connecting to the system in June of 2017.

2018 gallons sold increased by 483.8 million gallons (MG) over 2017 sales and resulted in the increase in water revenues. Residential sales increased by 93.3 MG, Commercial sales were up 59.8 MG, Industrial sales increased by 122.8 MG and Municipal sales climbed 207.9 MG. The increases in residential, commercial and municipal sales were primarily tied to the summer weather experience in 2018, as opposed to the record rains seen in the spring and summer of 2017. Municipal sales were also positively impacted by the Village of Phoenix being a wholesale customer for the entire year after connecting to the OCWA system in the summer of 2017. Industrial sales were generally up across the board and the addition of new industrial accounts pushed the total even higher.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Financial Highlights – Continued

Beyond water sales, grant revenues in 2018 increased by \$1,845,858 over 2017's amount. Funding was received from the New York State Department of Health for the Otisco Lake fluoride feed system replacement (\$693,714), the Lake Ontario fluoride feed system replacement (\$35,588) and from New York's Department of State (\$1,189,076) consolidation fund as a result of the OCWA / MWB consolidation.

OCWA's 2018 total customer account base increased by 546 (0.54%) over 2017's year-end total. By year end OCWA's total customer base totaled 103,330 accounts with 101,882 metered residential, commercial, industrial and wholesale accounts. Customer account growth was again well below average and 125 accounts lower than the total number of new accounts added in 2017.

On the expense side, the Authority's operating expenses (less depreciation and amortization) for 2018 were \$127,836 (0.4%) more than 2017 expenses. While the total increase is low, there were some offsetting increases and decreases in specific expense categories that will be covered below. It is also worth noting that keeping expenses in check for 2018 reflects the ongoing benefit related to the 2017 consolidation of the OCWA and MWB systems.

Labor expense for 2018 increased \$602,529 (5.4%) and is partly attributed to wage increases for the Teamsters union personnel (3.0%), CSEA union personnel (4.0%) and Administrative personnel (4.0%). In addition to wages increases, the night crew that was established at the end of 2017 was on the payroll for all of 2018. The night crew is dedicated to hydrant maintenance and valve operations and is attached to Distribution Maintenance.

2018 employee benefits decreased by \$66,858 from 2017. The decreased expense is primarily attributed to a \$444,368 decrease for OCWA's New York State Retirement System expense for the year. Offsetting the decrease in retirement expense was a \$267,717 increase for employee health care and an increase of \$46,093 for Social Security and Medicare expense tied to increased labor expense for the year.

2018 electric expense increased by \$233,898 (15.4%) over 2017. Part of the increase is due to a 3% increase in production over the previous. Additionally, supply cost for both National Grid and NYSEG increased for the year. Also contributing to the increase was the startup of the Lake Ontario facilities solar arrays, increasing electric expense by \$90,794.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Financial Highlights – Continued

Outside Contractor expense in 2018 increased by \$386,462 over the previous year. Due to the number of main repairs, the cost of paving and restoration of those locations increased by \$105,387 over 2017. Because of a significantly positive budget variance, OCWA decided to wash several tanks at a cost of \$81,300. \$68,346 was spent to complete the ARC-Flash electric program for the Lake Ontario facilities to make the sites safety compliant. Other Lake Ontario facility related projects included \$23,303 for the wetlands mitigation study for the Terminal reservoir site in Clay and \$27,010 for the separation of the gas and electric services for the former MWB administration center that was turned over to Onondaga County.

Transportation Expense was up \$114,516 over the previous year, with the cost of fuel increasing \$95,334 for 2018.

Another significant change is the decrease of \$1,120,280 in MWB legacy costs from 2017 to 2018. In addition to a decrease in the legacy costs themselves, the County applied \$1.2 million of MWB reserves to reduce the amount that OCWA was required to pay. No reserves were applied to 2017 costs.

2018 Miscellaneous Administration expenses were down \$97,554 from 2017 with a \$116,513 increase for 2018 capitalized labor cost being responsible for the overall decreased expense.

Using This Annual Statement

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. Because Onondaga County Water Authority is treated as a Proprietary Fund for auditing purposes, it has in the past and will continue to use the accrual basis of accounting. The accrual basis of accounting provides both short-term and long-term information about the Authority's overall financial status.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Summary of Statements of Net Position

TABLE 1

	Restated 2017	2018
ASSETS		
Cash and Cash Equivalents	\$ 17,925,591	\$ 20,862,468
Accounts Receivable	10,848,340	11,023,882
Materials, Supplies and Prepaid Expenses	3,911,353	3,394,248
Restricted Assets	10,051,502	8,989,411
Intangible Assets, Net	0	75,421
Plant and Water Rights, Net	<u>234,367,218</u>	<u>240,099,102</u>
TOTAL ASSETS	<u><u>\$ 277,104,004</u></u>	<u><u>\$ 284,444,532</u></u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	\$ 761,631	\$ 671,477
Other Post-Employment Benefits	6,651,454	5,418,453
Pension Related - ERS	<u>3,696,540</u>	<u>5,009,608</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 11,109,625</u></u>	<u><u>\$ 11,099,538</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 4,349,702	\$ 4,202,070
Liabilities Payable from Restricted Assets	1,066,842	928,733
Bonds Payable	59,384,789	55,909,914
Post-Employment Benefits Other than Pension	31,466,926	31,746,682
Due to NYS Retirement System	3,378,779	1,208,617
Capital Lease Obligations	<u>36,400</u>	<u>18,200</u>
TOTAL LIABILITIES	<u><u>\$ 99,683,438</u></u>	<u><u>\$ 94,014,216</u></u>
DEFERRED INFLOWS OF RESOURCES		
Other Post-Employment Benefits	3,552,392	4,300,666
Pension Related - ERS	<u>\$ 513,087</u>	<u>\$ 3,821,248</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>\$ 4,065,479</u></u>	<u><u>\$ 8,121,914</u></u>
NET POSITION		
Net Investment in Capital Assets	\$ 176,463,707	\$ 184,843,114
Restricted	14,283,127	10,098,182
Unrestricted	<u>(6,282,122)</u>	<u>(1,533,356)</u>
TOTAL NET POSITION	<u><u>\$ 184,464,712</u></u>	<u><u>\$ 193,407,940</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Summary of Statements of Net Position – Continued

Total Assets increased by \$7,340,528 in 2018 as a result of the following items:

- The increase in cash of \$2,936,877 is primarily due to a \$1,362,543 increase in the General Revenue Fund and a \$1,679,329 increase in the General Authority Fund.
- Accounts receivable have increased by \$175,542 or 1.6%. Accounts Receivable – Special increased by the largest amount (\$150,692) due to the \$251,235 billing near year end for OCWA's fluoride grant. The two components that comprise accounts receivable for water sales are accounts receivable for water that has been billed to customers which decreased by \$13,579 and the estimated revenue that has been accrued on accounts which increased by \$54,269. And finally, Accounts Receivable – Miscellaneous decreased by \$15,841.
- Materials, supplies and prepaid expenses decreased by \$517,105 (13.2%) as compared to 2017 levels. The largest part of this variance is the \$678,256 decrease in prepaid insurance. This is mostly due to OCWA not paying its 2019 worker's compensation premium of nearly \$700,000 until after the beginning of the year. Whereas the entire 2018 premium was paid in December of 2017. Other smaller components of the variance include increases to inventory (\$28,692) and prepaid service contracts (\$131,313).
- Restricted assets decreased by \$1,062,091 (10.6%) in 2018. This decrease is due to the net effect of decreases to construction funds (\$755,698), bond funds (\$430,585) and customer deposits (\$283,535), partially offset by increases to the Renewal & Replacement Fund (\$390,315) and Bond Reserve Funds (\$17,112).
- Intangible assets, net increased to \$75,421 at the end of 2018 from \$-0- at the end of 2017. Improvements made by OCWA to Onondaga County owned facilities as part of MWB consolidation agreement are set up as intangible assets as ownership of those facilities remains with the County.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2018. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Summary of Statements of Net Position – Continued

Deferred Outflows of Resources decreased by \$10,087 in 2018 as a result of the following:

- Deferred Amount on Refunding decreased by \$90,154. Deferred Amount on Refunding is the difference between the reacquisition price and the net carrying amount of the old debt for two bond issues that were advance refunded. It is being recognized as a component of interest expense over the remaining life of the old debt. The amount recognized as a component of interest expense in 2018 was \$90,154.
- Deferred Outflow to Other Post-Employment Benefits decreased by \$1,233,001 in 2018. This information is based on calculations performed by OCWA's actuary that allow for the creation of GASB 75 entries.
- Deferred Contributions to Pension Plan increased by \$1,313,068 based on information provided by the NYS & Local Retirement System to enable the calculation of required GASB 68 entries.

Total liabilities decreased by \$5,669,222 in 2018 as a result of the following items:

- Accounts Payable and Accrued Liabilities decreased by \$147,632 (3.4%) in 2018 due primarily to the decrease of \$360,833 in the amount due to Onondaga County for legacy costs related to the MWB consolidation. Partially offsetting that decrease were increases in Accounts Payable - \$142,365 and Accrued Payroll - \$49,838.
- Liabilities Payable from Restricted Assets decreased by \$138,109 (12.9%) as compared to 2017 due to the combination of several factors. Customer deposits decreased by \$323,525, accrued interest on bonds decreased by \$26,876 and retainage held at year end decreased by \$36,676. Partially offsetting the decreases is an increase in accounts payable for capital work in the amount of \$248,971.
- The Bonds Payable balance decreased by \$3.47 million for a couple of reasons. First, principal payments totaling \$3,225,000 were made during the year. It was also affected by the amortization of bond premium in the amount of \$249,878 during 2018.
- GASB Statement No. 75 establishes guidance for the financial reporting of OPEB. It does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded liability. The financial statements at December 31, 2018 include a liability in the amount of \$31,746,682 that was determined by OCWA's actuary that represents the Authority's unfunded liability. This is an increase of \$279,756 over the 2017 amount.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Summary of Statements of Net Position – Continued

- Due to NYS Retirement System decreased by \$2,170,162. This represents the Authority's share of the total net pension liability based on information provided by the New York State Local Retirement System. This information is provided by the System on an annual basis.
- Capital Lease Obligations decreased by \$18,200 due to principal payments made on various leases.

Deferred Inflows of Resources increased by \$4,056,435 over the end of 2017 at which time the balance was \$4,065,479.

- Deferred Inflows from Other Post-Employment Benefits increased to \$4,300,066 at the end of 2018 from \$3,552,392 at the end of 2017. This again is information based on calculations performed by OCWA's actuary that allow for the creation of GASB 75 entries.
- Deferred Inflows from Pension Plan increased to \$3,821,248 at the end of 2018 from \$513,087 at the end of 2017. This again is based on information provided by NYS & Local Retirement System and enables the calculation of required GASB 68 entries.

Net Position is the difference between all the other elements of the statement. That is assets plus deferred outflows, less liabilities, less deferred inflows.

Review of Revenues

TABLE 2

	2017	2018
Residential/Commercial Sales	\$ 32,531,788	\$ 33,186,445
Industrial Sales	4,631,813	4,802,458
Municipal (Water Utility) Sales	3,807,391	3,998,626
Fire Protection	1,411,201	1,392,942
Miscellaneous Revenue	1,949,538	1,298,566
Grant Income	72,520	1,918,378
Interest from Investments Held in Trust	218,401	476,740
Gain on Disposal of Fixed Assets	11,350	70,612
	<hr/>	<hr/>
TOTAL REVENUES	\$ 44,634,002	\$ 47,144,767
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Review of Revenues – Continued

- Total Revenue increased by \$2,510,765 (5.6%) in 2018 as compared to 2017. That amount is comprised of the following variances.
- The most significant variance was the \$1,845,858 increase in Grant Income. It was comprised of \$1,189,076 related to a consolidation grant from the NYS Department of State and \$729,302 of grant funds to upgrade OCWA's fluoride systems.
- No rate increases were implemented by OCWA in 2018. This was determined during the budget process in late 2017 and was based on the projected requirements for 2018 and took into account changes that were expected at the time to have an effect on 2018 operations.
- Total water revenues for 2018 increased by \$998,278 (2.4%) over the previous year. Residential and Commercial sales increased by \$654,657 (2.0%), Industrial sales increased by \$170,645 (3.7%), Municipal sales increased by \$191,235 (5.0%). On the other hand, Fire Protection decreased by \$18,259 (1.3%).
- Residential and Commercial sales increased by \$654,657 (2.0%) in 2018 as compared to 2017. Since there was no rate increase, the main factor that affected revenue was consumption. Residential and Commercial consumption increased from 6,348 MG in 2017 to 6,501 MG in 2018. The increase of 153 MG equates to a 2.4% rise in the number of gallons billed. Much of the consumption variance is weather related as 2017 was rainy, especially in the spring and early summer. Whereas 2018 was relatively dry and warm especially in the first part of the summer.
- Industrial sales increased by \$170,645 (3.7%) as compared to the 2017 amounts. As with Residential and Commercial sales there was no rate increase so the main factor affecting revenue was consumption. Industrial consumption increased from 2,450 MG in 2017 to 2,573 MG in 2018. The increase of 123 MG equates to a 5.0% rise in the number of gallons billed.
- Municipal sales increased by \$191,235 (5.0%) as compared to the 2017 amounts. As above, since there was no rate increase in 2018, the main factor that affected revenue was consumption. Municipal consumption increased from 2,051 MG in 2017 to 2,259 MG in 2018. The increase of 208 MG equates to a 10.1% rise in the number of gallons billed. In addition to the increased consumption due to the weather, the Village of Phoenix was a customer for the full year after having become a customer in the summer of 2017.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Review of Revenues – Continued

- Miscellaneous Revenue decreased by \$650,972 (33.4%) over the 2017 amount. Two items comprise the majority of this decrease. First, in 2017 OCWA received over \$500,000 in assets from Onondaga County as a result of the consolidation with MWB. OCWA received no donated assets in 2018. Second, in 2017 OCWA billed the County for certain of its expenses related to the consolidation which added more than \$156,000 in revenue. There were no such billings in 2018.

- Interest from Investments Held in Trust increased by \$258,339 (118.3%) over the 2017 amount. Significant increases in both money market and Treasury bill yields over the course of the year account for the rise in interest.

Review of Expenses

TABLE 3

	Restated 2017	2018
Operations	\$ 13,830,444	\$ 14,267,708
Purchased Water	1,111,665	1,218,810
General and Administrative	9,513,302	7,506,622
Less: Burden Applied	(1,067,490)	(1,193,620)
Depreciation	6,111,680	6,375,914
Bond Premium Amortization	(249,874)	(249,874)
Water District Lease Amortization	481,443	473,650
Maintenance	7,288,960	9,005,197
Interest Expense	<u>2,487,371</u>	<u>2,367,839</u>
TOTAL EXPENSES	<u><u>\$ 39,507,501</u></u>	<u><u>\$ 39,772,246</u></u>

Total expenses for 2018 increased by just \$264,745 (0.7%) compared to fiscal year 2017. Areas of expense that experienced significant changes, both plus and minus, in 2018 included: labor, legacy costs, pensions, interest expense, purchased water, health insurance, worker's compensation and general liability insurances, purchased water, electric/gas, transportation, outside contractors and depreciation are discussed below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Review of Expenses – Continued

Labor Changes Impacting Operations, Maintenance, and General and Administrative Expenses

Labor expenses in operations, maintenance and general and administrative accounts increased by \$602,529 (5.4%) during 2018 as compared to 2017 amounts. Both Teamsters and CSEA contracts included wage increases effective January 1, 2018. The rates for CSEA employees increased by 4.0% and Teamsters employees by 3.0%. OCWA's non-union administrative personnel also received a 4% increase. In addition, OCWA staffing included three more full-time employees at the end of 2018 than at the end of 2017.

Notable Expense Changes (Other Than Labor)

Three of the larger decreases in expense from 2017 to 2018 are legacy costs, pension expense and interest expenses.

The amount of legacy costs that, per the consolidation agreement, the Authority pays to Onondaga County on an annual basis to balance the budgeted appropriations made by the County on behalf of the District decreased by \$1,120,280 in 2018 as compared to 2017. The amount is the net of costs still incurred by the County for such items as debt service, employee benefits and interdepartmental charges over and above amounts collected for ad valorem taxes and appropriated fund balance. This decrease was primarily due to the County applying \$1.2 million of MWB reserves in 2018 to offset the costs. This was not done in 2017.

Pension Expense decreased by \$444,368 (22.0%) in 2018 as compared to 2017 based on the GASB 68 calculations provided by the NYS Local Retirement System. The NYSLRS calculates pension expense and other information on an annual basis and provides it to the Authority for inclusion in financials.

Interest expenses decreased by \$119,532 (4.8%) in 2018. The main reason for the reduction was a decrease in bond interest expense of \$116,826 (4.7%) in 2018. Another smaller component of the decrease was a decline of \$2,706 in lease interest expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Review of Expenses – Continued

Notable Expense Changes (Other Than Labor) – Continued

Significant expense increases from 2017 to 2018 include the following:

Purchased water cost increased by \$107,145 (9.64%) in 2018. OCWA felt the full effect of a large rate increase implemented by the City of Syracuse in the summer of 2017. Purchases from the City rose to \$1,218,810 in 2018 from \$958,605 in 2017, an increase of \$260,205 (27.1%). This increase was somewhat mitigated by the \$153,060 decrease in purchases from the Town of Clay. The decrease was because beginning in 2018 OCWA started netting the amount of water it purchases from the Town against the amount of water it sells to the Town.

Group health insurance had an overall increase of \$267,717 (7.49%) as compared to 2017 for the Authority's employees and retirees. In addition to having more covered employees in 2018 than 2017, the Authority experienced premium increases for CSEA and non-union employees of 8.7% and 4% for Teamsters employees.

Worker's Compensation premium increased by \$32,211 and the expense related to various other insurances, including general liability, increased by \$41,792. This last increase includes the addition of pollution and drone policies in 2018.

OCWA experienced a \$233,898 (15.4%) increase in its electric and natural gas charges in 2018 as compared to 2017 amounts. Some of the increase is related to pump the additional water that OCWA produced in 2018 and some due to increased supply costs. The cost for MWB initiated solar power, some of which only started in July of 2017, increased by \$90,794 (74.1%) in 2018. Also, payments to National Grid and NYSEG increased by \$164,056 (13.3%) and \$17,280 (14.1%), respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Review of Expenses – Continued

Notable Expense Changes (Other Than Labor) – Continued

The Authority's expense for Outside Contractors increased by \$386,462 (19.3%) in 2018 as compared to 2017. Some of the expenses, such as the \$105,387 additional cost for paving restoration work, increased in 2018 because of operational requirements. Others increased because OCWA chose to do additional work because of 2018's favorable financial position. Examples of the latter include tank washing - \$81,300 and right-of-way clearing - \$47,280. In addition, there were still several items related to the consolidation with MWB required action. These include the \$27,010 cost to separate power at former MWB administration building which allowed OCWA to return that building to the County for repurposing, the \$68,346 cost of having arc flash assessments performed on various former MWB facilities and the \$23,303 cost of wetland mitigation at a former MWB facility.

Depreciation increased by \$264,234 (4.3%) in 2018 as compared to 2017 figures. This is a reflection of the fact that OCWA added over \$10.1 million to Water Plant in Service in 2017 as well as over \$12.35 million in 2018.

Fuel costs for the Authority's vehicles increased by a total of \$95,334 (31.2%) in 2018. Gasoline costs increased from \$203,700 in 2017 to \$251,833 in 2018 and diesel increased from \$101,610 to \$148,811 over the same period. In addition, the cost to repair and maintain OCWA's vehicles and equipment increased by a total of \$29,850 (6.7%) in 2018.

Summary of Overall 2018 Operations

In 2018, OCWA experienced a net income before capital contributions of \$7,372,521, an increase of \$2,246,020 from the net income of \$5,126,501 for the fiscal year ended December 31, 2017. This is comprised of the following factors:

Total Revenues increased by \$2,510,765 (5.6%) in 2018. This is primarily comprised of increases to Water Revenues - \$998,278, Grant Income - \$1,845,858 and Interest Income - \$258,339, partially offset by a decrease in Miscellaneous Revenue - \$650,972.

Total Expenses increased by \$264,745 (0.7%) in 2018. This is the net result of increases in: health insurance, power, contractors, depreciation and transportation cost, etc. nearly offset by significant decreased in legacy costs, pension expense and interest expense

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

OCWA Budget Process

Each year the Authority's department managers prepare comprehensive draft budgets, one for operations and maintenance and one for capital projects. The executive staff combines the budgets and prepares a recommendation for the Authority's Board to review in early October of each year. The Board, in turn, conducts a budget workshop with executive management and a final recommendation is made for approval by the Board at its October meeting. Per the implementation of New York State's Public Authorities Accountability Act, OCWA's annual budget process must be completed by the end of October. Copies of the approved budget are then forwarded to elected officials at the County and State level in accordance with PAAA guidelines.

Executive management, also in accordance with OCWA's trust indenture, provides a copy of the budgets to the Authority's consulting engineer for review and approval. Executive management and the consulting engineer meet to review both budgets prior to the consulting engineer submitting their letter acknowledging satisfactory review.

The operations and maintenance budget is generally not amended once it has been approved by the Board. On a monthly basis, each Authority department manager completes a budget variance, which is in turn submitted to the Executive Director. Also on a monthly basis, a summary budget variance report is provided to the Board and extraordinary variances (plus and minus) are explained.

With respect to the capital budget, specific projects for the year are approved at the preceding year's October board meeting. It should also be noted that although the October budget approval encompasses all approved projects for the coming year, each project must be submitted to the Board for approval of the project's work authorization prior to the start of the project.

Executive management also prepares 20-year capital budgets and 20-year operations and maintenance budgets for the Authority. Both budgets include a list of assumptions that are used to prepare the long-range projections. It should be noted that both long-range budgets are updated regularly and submitted to the OCWA Board for review and are ultimately added to the Authority's annual business plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

System Growth

Areas of growth included the following:

- 17 developer main extensions were completed in 2018, adding 15,705 feet of main. New customer connections will follow.
- The Town of Constantia's Bernard's Bay Water District (which will extend water lines to the east close to the western border of the Village of Cleveland) was completed, adding 45,000 feet of 6, 8 and 16-inch water main and 86 hydrants. New customers started connecting by year-end with the bulk of more than 300 (out of a potential 600) new customers connecting in 2019.
- 200 small service application packets were distributed during 2018.
- A total of 546 water accounts were added by the end of 2018, including 509 metered accounts.

Areas of Growth, 2019 and Beyond

- Related to the Bernard's Bay Water District, the Village of Cleveland intends to connect to the OCWA system, using the Authority as a back-up source for the Village well supply.
- With the Madison County (ARE) Park water system completed, the Clockville area is forming a water district and looking into funding options.
- The Town of Sullivan and Madison County continue to work jointly on the development of a water system that would serve two small developments off Salt Springs Road in Manlius and Sullivan as well as the Clear Path for Veterans facility located on the border of the two towns.
- The Town of Granby is moving forward with the development of Water Supply Area 7, with construction anticipated to start in the second half of 2019.
- The Town of Parish is pursuing funding for the developing of a system to serve portions of the town and village to the north of the Town of Hastings via a connection to the OCWA system.
- By the end of 2018, a total of 23 small developer extensions, totaling 20,190 feet of main, were designed and permitted by the OCWA Engineering department.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2017	2018	2017-2018
Water Plant in Service	\$ 312,037,248	\$ 324,387,448	3.96%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	6,192,290	5,168,543	-16.53%
Water District Lease	23,169,890	23,169,890	0.00%
Pre-Survey and Investigation	417,806	634,086	51.77%
Jobbing in Progress	204,700	144,546	-29.39%
Allowance for Depreciation	(93,471,711)	(98,751,384)	5.65%
Accumulated Amortization/Water Districts	(14,179,275)	(14,652,925)	3.34%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(3,730)	(1,102)	-70.46%
Total	\$ 234,367,218	\$ 240,099,102	2.45%

Increase to Water Plant in Service Highlights

- Meter Testing Facility Upgrade – \$857,424
- Hydropillar Tank Rehabilitations – \$806,709
- 12” Ext Milton Ave to Gertrude Ave – \$704,816
- 12” Ext Bridge St – \$631,882
- The completion of various other water main projects – \$4,197,085
- Otisco Lake Fluoride System – \$574,766
- Eastview Tank Rehabilitation – \$543,692
- Yager Road Tank Rehabilitation – \$531,810
- Water meters in the amount of \$817,161 as part of an ongoing meter replacement project
- The installation of new and replacement water services – \$837,787
- The installation of new and replacement hydrants – \$585,782

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Capital Assets at Year End (Net of Depreciation) – Continued

Construction Work-In-Progress Highlights

Construction Work-In-Progress decreased by \$1,023,747 during 2018, from \$6,192,290 at the beginning of the year, to \$5,168,543 at year end. Of that amount, \$3,416,021 is related to the following five projects:

- Raw Water Pump Station Variable Frequency Drives – \$1,232,813
- 12” Relocation Route 5 Canastota – \$733,181
- Oakridge Tank Replacement – \$612,738
- Lake Ontario Fluoride System – \$554,459
- 8” Ext Kathan Rd – \$282,830

Pre-Survey and Investigation Highlights

Pre-survey and investigation costs capture costs related to studies undertaken related to potential additions and improvements to the OCWA system. The Authority has created a project to track its costs related to Onondaga County’s CARE project. The total in the project at year-end is \$425,853. When the CARE project is completed the Authority will create an intangible asset for the total amount of its costs.

Jobbing in Progress

Jobbing in progress captures costs associated with activities for which an individual or developer will pay for the job in full. The installation of new hydrants and large services within certain areas of OCWA’s system are examples of this. A deposit for the job is taken. When the project is completed, the Authority will either bill the developer if the actual cost is more than the deposit or refund a portion of the deposit if the cost is less. “Job Orders” are also used to capture costs associated with repairing or replacing assets, generally hydrants and services, which are hit and damaged by individuals. The Authority then bills the individual or the individual’s insurance for the repair cost. The account is also used to track the cost of contract operations and of maintenance agreements with various water systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Long-Term Debt Administration

The Authority has four General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling \$53,765,000 as of December 31, 2018. OCWA's most recent bonds were issued in December 2016.

On December 1, 2016, the Authority issued \$12,320,000 in General Water System Revenue Refunding Bonds Series 2016A. The bonds bear interest at rates ranging from 2.0% to 5.0% and have a final maturity date of September 15, 2028. The bonds were issued to advance refund the Authority's Series 2011 bonds maturing after September 15, 2018. The 2011 bonds were originally issued for capital improvements to the water system including construction of a third covered water storage tank, two large pump stations, one small pump station and various other capital projects. As of December 31, 2018, the 2016 bonds have a remaining balance of \$12,285,000. This amount reflects a principal payment of \$5,000 made in September 2018.

On April 22, 2015, the Authority issued \$5,200,000 in General Water System Revenue Bonds Series 2015A. The bonds bear interest at rates ranging from 1.0% to 3.375% and have a final maturity date of September 15, 2035. The bonds were issued for capital improvements to the water system including a water tank replacement, two pump stations, water tank improvements, Otisco Lake Dam improvements and water main improvements. As of December 31, 2018, these bonds have a remaining principal of \$4,350,000. This amount reflects a principal payment of \$200,000 made in September 2018.

On March 5, 2013, the Authority issued \$8,390,000 in General Water System Revenue Bonds Series 2013. The bonds bear interest at rates ranging from 2.0% to 4.5% and have a final maturity date of September 15, 2025. The bonds were issued to advance refund the Authority's 2005 Series A bonds maturing after 2015. The 2005 Series A Bonds were originally issued to pay capital costs of certain improvements of the Water System. As of December 31, 2018, the 2013 bonds have a remaining principal of \$5,990,000. This amount reflects a principal payment of \$740,000 made in September 2018.

The final principal payment of \$1,000,000 on the General Water System Revenue Bonds Series 2011 was made on September 15, 2018. In December 2016, the 2011 Series bonds maturing after September 15, 2018 (\$13,495,000) were advance refunded. The bonds were issued for capital improvements to the water system including construction of a third covered water storage tank, two large pump stations, one small pump station and various other capital projects.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Long-Term Debt Administration – Continued

The General Water System Revenue Bonds, Series 2010A have a remaining principal balance of \$1,100,000 as of December 31, 2018. This amount reflects a principal payment of \$130,000 made in September 2018. The required principal payment on the bond in 2019 is \$135,000. The bonds bear interest at rates ranging from 3.0% to 5.0% and have a final maturity date of September 15, 2025. The bonds were issued to provide funds to redeem all outstanding 2001 Series A Bonds maturing after 2010 as well as provide funds for capital improvements.

The E.F.C. Drinking Water Bonds, 2009 Series A have a remaining principal balance of \$20,695,000 as of December 31, 2018. The remaining balance reflects a principal payment of \$540,000 made in June 2018. The required principal payment on the bond in 2019 is \$565,000. The interest rate is 4.8721%. Bonds mature serially in varying annual amounts and have a final maturity date of June 15, 2038.

The E.F.C. Drinking Water Installment Bonds, 2008 Series A were issued in the amount of \$14,226,510 and have a remaining principal balance of \$9,345,000 as of December 31, 2018. This amount reflects a principal payment of \$610,000 made in October 2018. The required principal payment on the bond in 2019 is \$625,000. The 2008 Bonds mature serially in varying annual amounts through 2029, with an interest rate of 4.27%, one third of which is subsidized by E.F.C. (New York State Environmental Facilities Corporation).

Pursuant to its Bond Resolution, all revenues collected by the Authority are pledged to the payment of principal and interest on the bonds. All such revenues are deposited in the name of a trustee for allocation to funds set up in accordance with the Bond Resolution.

Series Bonds	Bonds Outstanding as of December 31, 2018
2016 Series A Bonds	\$ 12,285,000
2015 Series Bonds	4,350,000
2013 Series Bonds	5,990,000
2011 Series Bonds	0
2010 Series A Bonds	1,100,000
2009 E.F.C. Bonds	20,695,000
2008 E.F.C. Bonds	<u>9,345,000</u>
Total	<u>\$ 53,765,000</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Long-Term Debt Administration – Continued

OCWA Bond Rating

On November 1, 2018, Moody's Investors Service upgraded the Onondaga County Water Authority to Aa2 from Aa3 with a positive outlook.

Looking Ahead

As 2019 begins, OCWA is already gearing up to address the much-needed upgrades and improvements to the 50-year-old, 60 MGD Lake Ontario water treatment plant located in the Town of Oswego. The plant improvements and upgrades, once determined, coupled with other major capital needs identified in OCWA's 20- year capital budget, will serve as the main driver for future customer rate increases. To that end, OCWA implemented a \$1.00 / month increase per equivalent dwelling unit (EDU), with the increased revenue being used to pay for costs related to capital improvements, including debt service expense related to the issuance of water revenue bonds.

It should also be noted, with respect to operation and maintenance expenses, the savings generated by the consolidation of OCWA and MWB will have an ongoing, positive impact on rates and the Authority's ability to pay for the debt service related to the improvements to the Lake Ontario facilities. Further, the combined operations now allow for a more flexible and cost effective operation, of the now unified systems, again with a positive impact on OCWA's ability to fund capital projects.

Other operation and maintenance activities also help lower expenses. For instance, the purchase of a vacuum truck is helping to facilitate quicker repairs, in many instances, with the added benefit of excavating a smaller footprint which in turn lowers the cost of restoration of the excavation site.

OCWA's full time leak detection crew has aided the Authority greatly over the course of the past 24-months through early detection of leaking water mains and the facilitation of prompt repairs. By the end of 2018, daily water loss had dropped by 1.38 mgd as compared to the daily loss at the end of 2016. As a result, savings are generated with respect to both chemical and electric costs throughout the system and we anticipate seeing continued improvement in 2019 and beyond.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Looking Ahead – Continued

Rate increases since 2001 and up to and including 2019 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2019	\$12.00 / EDU	\$12.00 / EDU	\$12.00 / EDU	0.00%
2018	0.00%	0.00%	0.00%	0.00%
2017	\$4.00 / EDU	\$4.00 / EDU	\$4.00 / EDU	0.00%
2016	\$4.00 / EDU + \$0.08/1,000 gal	\$4.00 / EDU + \$0.08/1,000 gal	\$4.00 / EDU + \$0.08/1,000 gal	5.00%
2015	\$12.00 / EDU + \$0.025 / 1,000 gal	\$12.00 / EDU + \$0.025 / 1,000 gal	\$12.00 / EDU + \$0.025 / 1,000 gal	0.00%
2014	\$8.00 / EDU	\$8.00 / EDU	\$8.00 / EDU	0.00%
2013	2.00%	2.00%	2.00%	0.00%
2012	2.47%	2.31%	2.38%	0.00%
2011	9.00%	9.00%	9.00%	0.00%
2010	12.00%	10.00%	10.00%	3.25%
2009	15.00%	15.00%	9.90%	3.25%
2008	7.70%	7.70%	6.70%	3.25%
2007	9.80%	9.80%	6.75%	4.00%
2006	6.00%	6.00%	4.00%	4.00%
2005	8.00%	8.00%	5.00%	5.00%
2004	15.00%	15.00%	3.00%	3.00%
2003	2.00%	2.00%	2.00%	2.00%
2002	2.00%	2.00%	2.00%	2.00%

- With the consolidation of the OCWA and MWB well behind, the Authority's purchased water is solely limited to purchases from the City of Syracuse Water Department. OCWA's purchased water averaged 1.3 mgd or roughly 3.5% of the Authority's daily demand. The City's budget year runs July 1 – June 30 each year and as a result rate increase information typically becomes available 9 months after OCWA's annual budget is approved.
- Chemical costs for 2019 are projected to increase 15% due in part to OCWA's ongoing program to annually replace the carbon in one filter in both the Otisco Lake and Lake Ontario water treatment plants. Projected increased system demand and some price increases also contributed to the overall increase in chemical expense.
- OCWA’s cost of electric and natural gas costs in 2019 are projected to increase roughly 5%, due in part to projected increases in the cost of supply, coupled with projected water demand.

ONONDAGA COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Looking Ahead – Continued

- Outside Professional Services expenses for 2019 are projected to increase 10%, with the increase primarily attributed to monitoring costs related to OCWA's water sampling requirements related to round four of the USEPA's Unregulated Contaminant Monitoring Rule.
- OCWA's capital budget for 2019 includes the Authority's ongoing / recurring capital expenditures including \$3,000,000 for main replacement projects and funding for special projects. For instance, the 2019 capital budget funds major projects like the replacement of the Skyview and the Southwood water storage tanks (\$3,750,000) located in the town of Camillus. The budget also includes \$1,950,000 to kick off the review and design tied to the upgrade and improvements need for the 50-year-old, 60 MGD, Lake Ontario water treatment plant and related facilities and \$7,000,000 for electrical upgrades and addition of auxiliary power systems for the Lake Ontario raw water intake pump station and the water treatment plant campus.
- OCWA's 2019 capital improvement program is funded in part by net income from 2018, coupled with use of capital construction funds established by the Authority. In addition to funds provided by OCWA operations, additional funding sources for 2019 capital projects include grant awards from the New York State Department of Health for fluoride system replacement project for Lake Ontario water treatment plant. An \$846,000 NYS Water Infrastructure Improvement Act (WIIA) grant was awarded to OCWA for the improvement of the transmission mains in and around the Otisco Lake dam site. OCWA also anticipates additional funding will be received as part of a consolidation grant from the New York State Department of State (tied to the OCWA / MWB consolidation) that was awarded in 2017 and is covered under an agreement that was signed in February 2018. The 2019 budget also anticipates OCWA issuing water revenue bonds to fund the cost of major projects that are over and above normal capital budget funding levels.
- In addition to the major capital budget items addressed above, the 2019 capital budget also continues to fund the ongoing demand for meter replacements and upgrades, replacement of water mains, hydrants and valves. The budget also covers unending replacement of vehicles and heavy equipment. Additionally, the capital budget addresses building and facilities improvements ranging from control pit repairs and storage tank rehabilitation projects. All approved projects are in keeping with OCWA's ongoing asset management efforts, whereby operating and engineering staff continually review and prioritize the overall needs related to replacement and or enhancement of all assets throughout the system.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2018

Request for Information

This report is presented as a broad overview of the financial condition of the Onondaga County Water Authority. Questions related to the report or the Authority in general should be sent to the Executive Director, Onondaga County Water Authority, PO Box 4949, Syracuse, New York 13221-4949. Questions can also be directed to the Executive Director via the Authority's web site at www.ocwa.org

AUDITED FINANCIAL STATEMENTS**STATEMENTS OF NET POSITION**

December 31, 2018 and 2017

	ASSETS	
	2018	Restated 2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 20,862,468	\$ 17,925,591
Accounts Receivable - Customers (Less Allowance for Doubtful Accounts of \$60,000 for Both 2018 and 2017)	10,749,958	10,709,267
Accounts Receivable - Other	273,924	139,073
Materials, Supplies and Prepaid Expenses	3,394,248	3,911,353
Total Current Assets	35,280,598	32,685,284
RESTRICTED ASSETS		
Customer Deposits	484,198	767,733
Bond Fund	1,379,872	1,810,457
Renewal and Replacement Fund	2,143,755	1,753,440
Bond Reserve Fund	4,980,937	4,963,825
Construction Fund	649	756,047
Total Restricted Assets	8,989,411	10,051,502
INTANGIBLE ASSETS, NET	75,421	0
PLANT AND WATER RIGHTS, NET	240,099,102	234,367,218
TOTAL ASSETS	284,444,532	277,104,004
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Refunding	671,477	761,631
Other Post-Employment Benefits	5,418,453	6,651,454
Pension Related - ERS	5,009,608	3,696,540
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,099,538	11,109,625

ONONDAGA COUNTY WATER AUTHORITY

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	2018	Restated 2017
Accounts Payable and Accrued Liabilities	4,202,070	4,349,702
Capital Lease Obligations - Current Portion	18,200	18,200
Total Current Liabilities	4,220,270	4,367,902
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts Payable	335,326	123,031
Customer Deposits	216,204	539,732
Bonds Payable, Portion Due Within One Year	3,270,000	3,225,000
Accrued Interest on Bonds Payable	377,203	404,079
Total Liabilities Payable from Restricted Assets	4,198,733	4,291,842
LONG-TERM DEBT		
Bonds Payable	52,639,914	56,159,789
Post-Employment Benefits Other Than Pension	31,746,682	31,466,926
Net Pension Liability - ERS	1,208,617	3,378,779
Capital Lease Obligations, Net of Current Portion	0	18,200
Total Long-Term Debt	85,595,213	91,023,694
TOTAL LIABILITIES	94,014,216	99,683,438
DEFERRED INFLOWS OF RESOURCES		
Other Post-Employment Benefits	4,300,666	3,552,392
Pension Related - ERS	3,821,248	513,087
TOTAL DEFERRED INFLOWS OF RESOURCES	8,121,914	4,065,479
NET POSITION		
Net Investment in Capital Assets	184,843,114	176,463,707
Restricted	10,098,182	14,283,127
Unrestricted	(1,533,356)	(6,282,122)
TOTAL NET POSITION	\$ 193,407,940	\$ 184,464,712

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

Years Ended December 31, 2018 and 2017

	2018	Restated 2017
OPERATING REVENUE		
Charges for Services	\$ 43,380,471	\$ 42,382,193
Penalties	581,293	572,768
Other	717,273	1,376,770
	<hr/>	<hr/>
Total Operating Revenue	44,679,037	44,331,731
OPERATING EXPENSE		
Source of Supply	1,218,810	1,111,665
Transmission and Distribution	21,609,168	19,696,385
Collection	1,663,737	1,423,019
Administration	6,313,002	8,445,812
Depreciation and Amortization	6,599,690	6,343,249
	<hr/>	<hr/>
Total Operating Expense	37,404,407	37,020,130
INCOME FROM OPERATIONS	7,274,630	7,311,601
OTHER INCOME (EXPENSE)		
Interest from Investments Held by Trustee	476,740	218,401
Gain on Disposal of Fixed Assets	70,612	11,350
Grant Income	1,918,378	72,520
Interest Expense	(2,367,839)	(2,487,371)
	<hr/>	<hr/>
Net Other Income (Expense)	97,891	(2,185,100)
Net Income Before Capital Contributions	7,372,521	5,126,501
Capital Contributions	1,570,707	1,539,493
	<hr/>	<hr/>
CHANGE IN NET POSITION	8,943,228	6,665,994
NET POSITION		
Balance, Beginning of Year - Restated	184,464,712	177,798,718
	<hr/>	<hr/>
Balance, End of Year	\$ 193,407,940	\$ 184,464,712
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See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 44,503,496	\$ 43,749,495
Cash Payments for Goods and Services	(16,381,262)	(16,514,854)
Cash Payments to Employees	(11,782,600)	(10,930,480)
	<hr/>	<hr/>
Net Cash Provided By Operating Activities	16,339,634	16,304,161
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Customer Deposits Received	1,332,973	784,268
Refunding of Customer Deposits	(1,656,501)	(555,662)
	<hr/>	<hr/>
Net Cash Provided By (Used In) Noncapital Financing Activities	(323,528)	228,606
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	214,495	117,818
Cash Received from Contributed Capital	1,570,707	1,539,493
Grant Income	1,918,378	72,520
Payments for Capital Acquisitions	(12,800,755)	(12,638,956)
Principal Payments	(3,243,200)	(3,175,925)
Interest Paid	(2,277,685)	(2,397,222)
	<hr/>	<hr/>
Net Cash Used In Capital and Related Financing Activities	(14,618,060)	(16,482,272)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of Interest	476,740	218,401
	<hr/>	<hr/>
Net Cash Provided By Investing Activities	476,740	218,401
Net Increase in Cash	1,874,786	268,896
Cash, Beginning of Year	27,977,093	27,708,197
	<hr/>	<hr/>
Cash, End of Year	<u>\$ 29,851,879</u>	<u>\$ 27,977,093</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from Operations	\$ 7,274,630	\$ 7,311,601
Adjustments to Reconcile Income from Operations to Net Cash Provided By Operating Activities:		
Depreciation	6,375,914	6,111,680
Amortization	223,776	231,569
Donated Capital Assets	0	(516,226)
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customers	(40,691)	18,391
Accounts Receivable - Other	(134,851)	(84,405)
Materials, Supplies, and Prepaid Expenses	517,105	(440,258)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	37,787	969,900
Post-Employment Benefits Other Than Pension	279,756	2,280,167
Pension Related Deferrals and Liabilities	1,806,208	421,742
	<u>\$ 16,339,634</u>	<u>\$ 16,304,161</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 – NATURE OF OPERATIONS

Onondaga County Water Authority (the “Authority”) is a public benefit corporation created by New York State and engaged in construction, maintenance and operation of a water supply and distribution system for the benefit of the people of Onondaga County and surrounding municipalities.

NOTE 2 – 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.

In accordance with GASB standards, the accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. As required by GASB standards, the transactions of the Authority are accounted for on a flow of economic resources measurement focus and accrual basis of accounting.

Basis of Presentation

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

- *Net Investment in Capital Assets* are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation and related debt.
- *Restricted Net Position* – This component of net position consists of amounts which have external constraints placed on their 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 the remaining net assets, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to Authority policy and/or Board directives. Designated assets include funds and assets committed to working capital.

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources

In addition to assets, the statements of net position will sometimes report separate sections for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will therefore not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflow amounts on refunding of water revenue bonds, other post-employment benefits, as well as amounts relating to the New York State Employees' Retirement System in this category.

In addition to liabilities, the statements of net position will sometimes report separate sections for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that is applicable to a future reporting period and will therefore not be recognized as an inflow of resources (revenue) until then. The Authority reports deferred inflow amounts on other post-employment benefits, as well as amounts relating to the New York State Employees' Retirement System in this category.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority has adopted the direct method of reporting net cash flows from operating activities and considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Assets Held by Trustee

Assets held in trust in accordance with the General Water System Revenue Bonds Trust Indentures and the Environmental Facilities Corporation's Drinking Water Installment Bond Indentures are included in Restricted Assets on the statements of net position (See Note 5).

Assets held by the Trustee consist of fixed income United States Government securities. The Authority reports these items at fair value based on quoted market prices.

Accounts Receivable

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Authority analyzes accounts receivable on a monthly basis and adjusts the allowance for doubtful accounts as is necessary. Accounts receivable are written off against the allowance for doubtful accounts as they are deemed uncollectible.

Accrued unbilled revenues (included in accounts receivable on the statements of net position) represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and is an estimate made by management. See Note 9 for more information on this estimate.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Materials, Supplies and Prepaid Expenses

Materials and supplies, consisting mainly of valves, pipe and hydrants are stated at cost and are determined using a weighted average cost method. Prepaid expenses consist of prepaid insurance and service contracts.

Bond Premium

Amortization of bond premium is on the straight-line basis over the life of the bonds and amounted to \$249,874 for the both 2018 and 2017.

Plant and Water Rights

The Authority leases and operates certain water districts which are capitalized and included in total plant and water rights and are being amortized over periods of 20 and 40 years, depending on the terms of the lease agreement. Lease transactions entered into prior to December 31, 1976 are recorded at the total of the future amount payable under the terms of the respective leases. Commencing January 1, 1977, the Authority adopted the policy of capitalizing long-term lease obligations at the present value of the future lease payments using the interest rates specified in the agreements. Interest expense is recognized on these leases in proportion to the outstanding balance of the principal accounts payable.

Depreciation has been recorded using the straight-line method of depreciation, with one-half year's depreciation taken in the year of acquisition and disposal. The Authority does not capitalize interest. The estimated useful lives for the major classes of depreciable fixed assets include the following:

Class	Life in Years
Dams, Buildings and Other Structures	37 – 100
Pumping and Purification Equipment	50
Mains, Meters, Services and Other Distribution Facilities	10 – 100
Filtration Plant	50
Automobiles, Trucks and Other Equipment	5
Leased Equipment	5
Leased Water Districts	20 – 40
Water Rights	52

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Contributed Capital

Contributed capital represents amounts, which have been received from customers for betterments or additions to water plants. The Authority accounts for such contributions as such in its statements of revenues, expense and change in net position.

Pensions

For purposes of measuring the net pension liability, net pension asset, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Employee's Retirement System (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported in the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the statutes governing the System. Investments are reported at fair value.

Other Post-Employment Benefits

The Authority provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts (See Note 7).

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Income Tax Status

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.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Authority has evaluated subsequent events through March 20, 2019, the date the financial statements were available to be issued, and identified the following additional disclosure.

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Cash held by the Authority at December 31, 2018 consists of the following:

	Carrying Value	Bank Balance
Cash Held:		
Cash on Hand	\$ 1,000	\$ 1,000
Bank Accounts	<u>1,148,856</u>	<u>1,472,908</u>
Total Cash Held	<u><u>\$ 1,149,856</u></u>	<u><u>\$ 1,473,908</u></u>

Cash held by the Authority at December 31, 2017 consists of the following:

	Carrying Value	Bank Balance
Cash Held:		
Cash on Hand	\$ 1,000	\$ 1,000
Bank Accounts	<u>1,076,843</u>	<u>1,257,454</u>
Total Cash Held	<u><u>\$ 1,077,843</u></u>	<u><u>\$ 1,258,454</u></u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 3 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS – Continued

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned. The Authority’s deposits are secured by \$507,849 from the Federal Depository Insurance Corporation plus \$966,059 of pledged collateral at December 31, 2018. For the Authority, all pledged collateral and all investments are classified in the highest category by being held in bank trust departments in the Authority’s name.

Funds held by the Authority are administered in accordance with the Authority’s investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller’s investment guidelines for public authorities.

Statutes authorize the Authority to invest in defeasance obligations, obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated F-1 by Fitch, A-1+ by Standard & Poor’s Corporation or P-1 by Moody’s Commercial Paper Record, among other things. At the present time the investments are primarily in money market funds and obligations of the U.S. Treasury.

Total marketable securities by type as of December 31 are as follows:

	2018	2017
Investments:		
Money Market Funds	\$ 6,439,897	\$ 6,202,322
U.S. Treasury Bills	<u>22,262,128</u>	<u>20,696,929</u>
Total Investments	<u>\$ 28,702,025</u>	<u>\$ 26,899,251</u>

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

The Authority’s recurring fair value measurements of its U.S. Treasury bills as of December 31, 2018 and 2017, are valued using quoted market prices (Level 1 inputs).

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 4 – PLANT AND WATER RIGHTS

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2018 is as follows:

	December 31, 2017	Additions	Retirements / Reclassifications	December 31, 2018
Land	\$ 988,834	\$ 0	\$ 0	\$ 988,834
Dams, Buildings and Other Structures	85,138,243	3,398,079	0	88,536,322
Pumping and Purification Equipment	3,293,374	2,414	0	3,295,788
Mains, Meter, Services and Other Distribution Facilities	177,481,193	7,797,882	365,918	184,913,157
Filtration Plant	25,280,994	580,422	0	25,861,416
Automobiles, Trucks and Other Equipment	19,854,610	1,811,462	874,142	20,791,930
Leased Water Districts	23,169,890	0	0	23,169,890
	<u>335,207,138</u>	<u>13,590,259</u>	<u>1,240,060</u>	<u>347,557,337</u>
Construction-in-Progress	6,814,796	4,992,835	5,860,455	5,947,176
Water Rights	5,250,000	0	0	5,250,000
	<u>347,271,934</u>	<u>18,583,094</u>	<u>7,100,515</u>	<u>358,754,513</u>
Less: Accumulated Depreciation and Amortization	<u>112,904,716</u>	<u>6,846,870</u>	<u>1,096,175</u>	<u>118,655,411</u>
Net Plant and Water Rights	<u>\$ 234,367,218</u>	<u>\$ 11,736,224</u>	<u>\$ 6,004,340</u>	<u>\$ 240,099,102</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 4 – PLANT AND WATER RIGHTS – Continued

Activity for plant and water rights and changes in accumulated depreciation for the year ended December 31, 2017 is as follows:

	December 31, 2016	Additions	Retirements / Reclassifications	December 31, 2017
Land	\$ 988,834	\$ 0	\$ 0	\$ 988,834
Dams, Buildings and Other Structures	81,329,093	3,809,150	0	85,138,243
Pumping and Purification Equipment	3,185,623	107,751	0	3,293,374
Mains, Meter, Services and Other Distribution Facilities	173,598,572	4,266,720	384,099	177,481,193
Filtration Plant	25,200,214	80,780	0	25,280,994
Automobiles, Trucks and Other Equipment	18,438,995	1,994,499	578,884	19,854,610
Leased Water Districts	<u>23,169,890</u>	<u>0</u>	<u>0</u>	<u>23,169,890</u>
	325,911,221	10,258,900	962,983	335,207,138
Construction-in-Progress	3,918,511	3,427,938	531,653	6,814,796
Water Rights	<u>5,250,000</u>	<u>0</u>	<u>0</u>	<u>5,250,000</u>
Total Plant and Water Rights	335,079,732	13,686,838	1,494,636	347,271,934
Less: Accumulated Depreciation and Amortization	<u>107,168,109</u>	<u>6,593,123</u>	<u>856,516</u>	<u>112,904,716</u>
Net Plant and Water Rights	<u>\$ 227,911,623</u>	<u>\$ 7,093,715</u>	<u>\$ 638,120</u>	<u>\$ 234,367,218</u>

Depreciation and amortization charged to expense at December 31, 2018 and 2017 was \$6,599,690 and \$6,343,249, respectively, which includes amortization of leased water districts (see Note 5).

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 – LONG-TERM DEBT

Water Revenue Bonds Payable

In November 2005, August 2010, April 2011, March 2013, April 2015 and December 2016, the Authority issued \$13,840,000, \$5,925,000, \$16,910,000, \$8,390,000, \$5,200,000 and \$12,320,000, respectively, in General Water System Revenue Bonds, 2005, 2010, 2011, 2013, 2015 and 2016 Series A pursuant to a Trust Indenture which pledges all revenues collected by the Authority to the payment of the principal and interest on the bonds. All such revenues are deposited in the name of the trustee for allocation to funds in accordance with the provisions of the Trust Indenture.

Bonds outstanding at December 31, 2018 and 2017 amounted to \$23,725,000 and \$25,800,000, respectively. The bonds mature serially in varying annual amounts through 2035, with interest ranging from 1.00% and 5.00%, payable semi-annually. The 2010 bonds maturing on or after September 15, 2021, the 2011 bonds maturing on September 15, 2018, the 2013 bonds maturing on or after September 15, 2025, the 2015 bonds maturing on or after September 15, 2035 and the 2016 bonds maturing on or after September 15, 2028, are redeemable, at the option of the Authority, prior to maturity in the inverse order of their maturity at par, plus accrued interest thereon to the redemption date.

On August 19, 2010, the Authority issued \$5,925,000 in General Water System Revenue Bonds, Series 2010A to refund all outstanding General Water System Revenue Bonds, 2001A due September 15, 2015. The Series 2010A bonds bear interest at rates ranging from 3.0% to 5.0% and have a final maturity date of September 15, 2025. The net proceeds, along with the Debt Service Reserve for the 2001 Bonds, were used to refund \$4,640,000 of the Series 2001A General Water System Revenue Bonds, fund the Debt Service Reserve Fund in the amount of \$590,408, fund the Construction Fund for \$2,006,255 and to pay bond issuance costs of \$87,180. The refunding produced an approximate \$372,573 net present value savings.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$81,780 which was reported as a deferred outflow of resources. The Authority completed the refunding to reduce its total debt service payments over the next five years by \$389,037 and to obtain an economic gain of \$372,573.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 – LONG-TERM DEBT – Continued

Water Revenue Bonds Payable – Continued

On March 5, 2013, the Authority issued \$8,390,000 in General Water System Revenue Bonds, Series 2013A to partially advance refund outstanding General Water System Revenue Bonds, 2005A. The Series 2013A bonds bear interest rates ranging from 2.0% to 4.5% and have a final maturity date of September 15, 2025. The net proceeds (after payment of \$97,987 in underwriting fees and other issuance costs) and \$399,492 of existing reserve funds for the 2005A Series bonds were used to purchase State and Local Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$8,390,000 of the 2005A Series bonds are considered to be defeased and the liability has been removed from the accounts. The outstanding principal for the unrefunded portion of the 2005A Series bonds matured on September 15, 2015.

The advance partial refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$870,452. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as a component of interest expense through the year 2025. The Authority completed the refunding to reduce its total debt service payments over the next thirteen years by \$962,963 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$621,709. At December 31, 2018 and 2017, \$466,931 and \$536,106, respectively, of the deferred amount on refunding was included in deferred outflows on the statements of net position.

On December 1, 2016, the Authority issued \$12,320,000 in General Water System Revenue Bonds, Series 2016A to partially advance refund outstanding General Water System Revenue Bonds, 2011A. The Series 2016A bonds bear interest rates ranging from 2.0% to 5.0% and have a final maturity date of September 15, 2028. The net proceeds (after payment of \$158,403 in underwriting fees and other issuance costs) and \$660,595 of existing reserve funds for the 2011A Series bonds were used to purchase State and Local Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$13,495,000 of the 2011A Series bonds are considered to be defeased and the liability has been removed from the accounts. The outstanding principal for the unrefunded portion of the 2011A Series bonds matured on September 15, 2018.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 – LONG-TERM DEBT – Continued

Water Revenue Bonds Payable – Continued

The advance partial refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$248,253. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged as a component of interest expense through the year 2028. The Authority completed the refunding to reduce its total debt service payments over the next twelve years by \$2,604,450 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,459,445. At December 31, 2018 and 2017, \$204,546 and \$225,525, respectively, of the deferred amount on refunding was included in deferred outflows on the statements of net position.

Environmental Facilities Corporation Revenue Bonds (“E.F.C. Drinking Water Installment Bonds”)

The State of New York has established a State Drinking Water Program, which includes a state drinking water revolving fund (the “Revolving Fund”) to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (the “Corporation”) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. The Corporation issues bonds to provide loans from the Revolving Fund to private water companies, political subdivisions and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table below to finance safe drinking water projects.

In 2008, the Authority received bond proceeds in the amount of \$14,226,510 from the Environmental Facilities Corporation’s 2008 Series A Drinking Water Installment Bond Offering. The bonds have a final maturity date of October 1, 2029 and bear interest at a rate of 4.27%. The interest cost of these bonds is subsidized by the State of New York drinking water revolving fund.

The E.F.C. Drinking Water Bonds, 2009 Series A were issued in the maximum principal amount of \$33,000,000. During 2012, the Authority received \$5,696,270 in ARRA principal forgiveness and the bond purchase agreement was amended to reflect the new principal amount of \$23,952,835. The bonds have a final maturity date of June 15, 2038 and bear interest at a rate of 4.8721%.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 – LONG-TERM DEBT – Continued

Environmental Facilities Corporation Revenue Bonds (“E.F.C. Drinking Water Installment Bonds”) – Continued

Debt service over the remaining term of the bonds is summarized as follows:

	Principal on Bonds	Interest Payable	Total Debt Service
2019	\$ 3,270,000	\$ 2,184,474	\$ 5,454,474
2020	3,385,000	2,075,546	5,460,546
2021	3,525,000	1,945,909	5,470,909
2022	3,680,000	1,810,619	5,490,619
2023	3,840,000	1,656,229	5,496,229
2024 - 2028	18,230,000	5,953,948	24,183,948
2029 - 2033	8,665,000	3,051,508	11,716,508
2034 - 2038	<u>9,170,000</u>	<u>1,304,627</u>	<u>10,474,627</u>
	53,765,000	<u>\$ 19,982,860</u>	<u>\$ 73,747,860</u>
Less: Current Portion	3,270,000		
Add: Premium on Long-Term Debt	<u>2,144,914</u>		
 Bonds Payable - Long-Term	 <u>\$ 52,639,914</u>		

Changes in long-term liabilities in 2018 are as follows:

	December 31, 2017	Additions	Reductions	December 31, 2018
Bonds Payable:				
Water Revenue Bonds	\$ 25,800,000	\$ 0	\$ 2,075,000	\$ 23,725,000
E.F.C. Drinking Water Installment Bonds	<u>31,190,000</u>	<u>0</u>	<u>1,150,000</u>	<u>30,040,000</u>
Total Bonds Payable	<u>\$ 56,990,000</u>	<u>\$ 0</u>	<u>\$ 3,225,000</u>	<u>\$ 53,765,000</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 5 – LONG-TERM DEBT – Continued

Environmental Facilities Corporation Revenue Bonds (“E.F.C. Drinking Water Installment Bonds”) – Continued

Changes in long-term liabilities in 2017 are as follows:

	December 31, 2016	Additions	Reductions	December 31, 2017
Bonds Payable:				
Water Revenue Bonds	\$ 27,820,000	\$ 0	\$ 2,020,000	\$ 25,800,000
E.F.C. Drinking Water Installment Bonds	<u>32,295,000</u>	<u>0</u>	<u>1,105,000</u>	<u>31,190,000</u>
Total Bonds Payable	<u>\$ 60,115,000</u>	<u>\$ 0</u>	<u>\$ 3,125,000</u>	<u>\$ 56,990,000</u>

Capital Leases

The Authority leases certain water facilities under capital lease obligations. Water facilities included in capital assets amounted to \$23,169,890 for both years ending December 31, 2018 and 2017. Accumulated amortization related to these water facilities was \$14,652,925 and \$14,179,275 for the years ending December 31, 2018 and 2017, respectively.

Amortization expense related to water facilities under capital leases was \$473,650 and \$481,443 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, amounts remaining to be paid under long-term lease obligations are as follows:

2019	\$ 18,200
Less: Current Portion	<u>18,200</u>
Lease Obligations – Long-Term	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

Contributions

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

	Annual Contributions
2018	<u>\$ 1,750,314</u>
2017	<u>\$ 1,543,843</u>
2016	<u>\$ 1,467,536</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

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

At December 31, 2018 and 2017, the Authority reported a liability of \$1,208,617 and \$3,378,779, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2018 and March 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2018 and 2017, the Authority's proportion was .0374% and .0360%, respectively.

At December 31, 2018 and 2017, the Authority reported deferred outflows/inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 431,074	\$ 356,224
Changes of Assumptions	801,413	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,755,420	3,465,024
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	271,387	0
Authority Contributions Subsequent to the Measurement Date	<u>1,750,314</u>	<u>0</u>
Total	<u>\$ 5,009,608</u>	<u>\$ 3,821,248</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

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

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 84,669	\$ 513,087
Changes of Assumptions	1,154,315	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	674,879	0
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	238,834	0
Authority Contributions Subsequent to the Measurement Date	<u>1,543,843</u>	<u>0</u>
Total	<u>\$ 3,696,540</u>	<u>\$ 513,087</u>

Authority contributions subsequent to the measurement date of \$1,750,314, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended:

2019	\$ 372,806
2020	280,801
2021	(838,218)
2022	<u>(377,352)</u>
Total	<u>\$ (561,963)</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

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

Deferred outflows of resources of \$1,543,540 at December 31, 2017 resulting from the Authority’s contributions subsequent to the measurement date, were recognized as a reduction of the net pension liability in the year ended December 31, 2018.

The Authority recorded pension expense for the years ending December 31, 2018 and 2017 in the amounts of \$1,575,245 and \$2,019,613, respectively.

Actuarial Assumptions

The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017 with update procedures used to roll forward the total pension liability to March 31, 2018. The total pension liability for the March 31, 2017 measurement date was determined using an actuarial valuation as of April 1, 2016, with update procedures to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions.

	2018	2017
Inflation Rate	2.5%	2.5%
Salary Increases	3.8%	3.8%
Investment Rate of Return (Net of Investment Expense, Including Inflation)	7.0%	7.0%
Cost of Living Adjustments	1.3%	1.3%

Annuitant mortality rates are based on April 1, 2010 to March 31, 2015 System experience with adjustments for mortality improvements based on the Society of Actuaries’ Scale MP-2014.

The actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

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

Expected Rate of Return on Investments

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 expense 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.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 and 2017 are summarized below:

Asset Class	Expected Real Rate of Return	
	2018	2017
Domestic Equities	4.6%	4.6%
International Equities	6.4%	6.4%
Real Estate	5.8%	5.8%
Private Equity/Alternative Investments	7.5%	7.8%
Absolute Return Strategies	4.0%	4.0%
Opportunistic Portfolio	5.7%	5.9%
Real Assets	5.3%	5.5%
Cash	-0.3%	-0.3%
Inflation-Indexed Bonds	1.3%	1.5%

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

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

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% at both December 31, 2018 and 2017. 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 these assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority’s December 31, 2018 proportionate share of the net pension liability 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 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease 6.00%	Current Discount 7.00%	1% Increase 8.00%
Authority's Proportionate Share of the Net Pension (Asset) Liability	<u>\$ 9,144,721</u>	<u>\$ 1,208,617</u>	<u>\$ (5,505,010)</u>

The following presents the Authority’s December 31, 2017 proportionate share of the net pension liability 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 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% Decrease 6.00%	Current Discount 7.00%	1% Increase 8.00%
Authority's Proportionate Share of the Net Pension (Asset) Liability	<u>\$ 10,791,151</u>	<u>\$ 3,378,779</u>	<u>\$ (2,888,367)</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 – EMPLOYEE RETIREMENT SYSTEM – Continued

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

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2018 and 2017 were as follows:

	(Dollars in Thousands)	
	2018	2017
Employer Total Pension Liability	\$ 183,400,590	\$ 177,400,856
Plan Net Position	<u>(180,173,142)</u>	<u>(168,004,363)</u>
Employer Net Pension Liability	<u>\$ 3,227,448</u>	<u>\$ 9,396,493</u>
Ratio of Plan Net Position to the Employers' Total Pension Liability	<u>98.2%</u>	<u>94.7%</u>

Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As required by Federal regulations, these plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. The Authority does not make contributions to this plan.

The Authority has no fiduciary relationship with the trust. In accordance with the provisions of the Statement of Governmental Accounting Standards No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the plan assets are not reported in the Authority's financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description – The Authority provides continuation of health insurance coverage under a single-employer defined benefit healthcare plan to its employees that retire under the New York State Employee Retirement Systems at the same time they end their service to the Authority. Based on the provisions of the employment contract negotiated between the Authority and its employee groups, the retiree and his or her beneficiaries, receive this coverage for the life of the retiree. Healthcare benefits for non-bargaining employees are similar to those of union employees. For family coverage the retirees share amounts to 50% of the difference between the family and individual coverage. Spousal benefits continue until the death of the retiree. Surviving spouses are permitted to continue coverage after the death of the retiree, but are responsible for 100% of the premium. The Authority does not issue a publicly available financial report for the plan.

Funding Policy – The obligations of the plan are established by action of the Authority pursuant to applicable collective bargaining and employment agreements which will be renegotiated at various times in the future. The Authority, per its contracts with employee units, will pay the full premium costs for the individual health insurance coverage provided by NYSHIP – Empire Plan for an employee of the Authority at retirement and until the employee attains age 65, provided the employee is eligible for retirement and has been employed with the Authority for at least ten consecutive years prior to the date of retirement. After the employee attains the age of 65, the Authority will pay the full premium costs for individual health insurance coverage provided by Medicare Supplemental Plan F and prescription coverage provided by Simply Prescriptions. Teamster employees retiring on or after July 1, 2010 and CSEA employees retiring on or after January 1, 2012 shall be required to pay 10% of the premium cost.

For family coverage the retirees share amounts to 50% of the difference between the family and individual coverage until the age of 65. After the age of 65, the Authority will no longer pay any premium costs of the spouse. Surviving spouses are permitted to continue coverage after the death of the retiree, but are responsible for 100% of the premium. The Authority currently pays for post-employment health care benefits on a pay-as-you-go basis.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)–

Continued

General Information about the OPEB Plan – Continued

Employees Covered by Benefit Terms – At December 31, 2018 and 2017, the following employees were covered by the benefit terms:

	2018	2017
Inactive Employees or Beneficiaries Currently		
Receiving Benefit Payments	169	169
Inactive Employees Entitled to But Not Yet		
Receiving Benefit Payments	0	0
Active Employees	<u>59</u>	<u>59</u>
Total	<u><u>228</u></u>	<u><u>228</u></u>

Total OPEB Liability

The Authority's total OPEB liability of \$31,746,682 as of December 31, 2018 was measured as of June 30, 2018 and determined by an actuarial valuation as of January 1, 2018.

The Authority's total OPEB liability of \$31,466,926 as of December 31, 2017 was measured as of June 30, 2017 and determined by an actuarial valuation as of January 1, 2017.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the December 31, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	2018	2017
Inflation Rate	2.20%	2.90%
Salary Increases	3.00%	3.00%
Discount Rate	3.87%	3.58%
Healthcare Cost Trends Rates	7.00%	6.20%

The discount rate was based on Bond Buyer Weekly 20-Bond Go Index as of June 30, 2018 and 2017.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)–

Continued

Total OPEB Liability – Continued

Mortality – Actives for December 31, 2018: The RPH-2014 mortality tables for employees, sex distinct, with generational mortality adjusted to 2006 with using scale MP-2014, and projected forward with scale MP-2017.

Mortality – Retirees for December 31, 2018: The RPH-2014 mortality tables for healthy annuitants, sex distinct, with generational mortality adjusted to 2006 with using scale MP-2014, and projected forward with scale MP-2017.

Mortality – Actives for December 31, 2017: The RPH-2014 mortality tables for employees, sex distinct, with generational mortality adjusted to 2006 with using scale MP-2014, and projected forward with scale MP-2015.

Mortality – Retirees for December 31, 2017: The RPH-2014 mortality tables for healthy annuitants, sex distinct, with generational mortality adjusted to 2006 with using scale MP-2014, and projected forward with scale MP-2015.

Changes in Total OPEB Liability

	2018	2017
Balance at January 1	\$ 31,466,926	\$ 30,606,548
Changes for the Year:		
Service Cost	1,250,056	1,236,431
Interest	1,161,107	899,723
Differences Between Expected and Actual Experience	0	3,416,222
Changes on Assumptions and Other Inputs	(1,563,729)	(4,144,457)
Benefit Payments	<u>(567,678)</u>	<u>(547,541)</u>
Net Changes	<u>279,756</u>	<u>860,378</u>
Balance at December 31	<u>\$ 31,746,682</u>	<u>\$ 31,466,926</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.85 percent in 2016 to 3.58 percent in 2017 to 3.87 percent in 2018.

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)–

Continued

Changes in Total OPEB Liability – Continued

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Authority as of December 31, 2018, as well as what the Authority’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 %) or 1 percentage point higher (4.87 %) than the current discount rate:

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Total OPEB Liability	<u>\$ 37,631,097</u>	<u>\$ 31,746,682</u>	<u>\$ 27,095,912</u>

The following presents the total OPEB liability of the Authority as of December 31, 2017, as well as what the Authority’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 %) or 1 percentage point higher (4.58 %) than the current discount rate:

	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
Total OPEB Liability	<u>\$ 37,299,489</u>	<u>\$ 31,466,926</u>	<u>\$ 26,857,139</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 of December 31, 2018, 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 rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB Liability	<u>\$ 26,204,600</u>	<u>\$ 31,746,682</u>	<u>\$ 38,994,249</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)–

Continued

Changes in Total OPEB Liability – Continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – Continued

The following presents the total OPEB liability of the Authority as of December 31, 2017, 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 rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB Liability	<u>\$ 25,973,684</u>	<u>\$ 31,466,926</u>	<u>\$ 38,650,626</u>

OPEB Expense and Deferred Outflows of Resources

For the year ended December 31, 2018, the Authority recognized OPEB expense of \$2,828,292. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,440,158	\$ 0
Changes of Assumptions or Other Inputs	2,680,390	4,300,666
Employer Contributions Subsequent to Measurement Date	<u>297,905</u>	<u>0</u>
Total	<u>\$ 5,418,453</u>	<u>\$ 4,300,666</u>

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)–

Continued

OPEB Expense and Deferred Outflows of Resources – Continued

For the year ended December 31, 2017, the Authority recognized OPEB expense of \$2,776,673. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,928,190	\$ 0
Changes of Assumptions or Other Inputs	3,424,942	3,552,392
Employer Contributions Subsequent to Measurement Date	<u>298,322</u>	<u>0</u>
Total	<u>\$ 6,651,454</u>	<u>\$ 3,552,392</u>

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

2019	\$ 417,129
2020	417,129
2021	417,129
2022	119,311
2023 and Thereafter	(550,816)

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 8 – SERVICE CONCESSION ARRANGMENT FOR WATER
TREATMENT PLANT – MWB**

Beginning January 1, 2017, the operations of Onondaga County Metropolitan Water Board were consolidated into the OCWA system. The MWB's main function is to treat and wholesale water from Lake Ontario to three customers, one being OCWA.

The terms of the consolidation agreement require OCWA to assume operation of and maintain the MWB system for a 30 year operations period which includes running a water treatment plant, five pump stations, one chlorine booster facility and five water storage tanks. In addition, OCWA is expected to design, build and finance a major upgrade of the 50-year-old Lake Ontario water treatment plant over the next three to four years, which is estimated to be a \$40 million project.

OCWA will be entitled to all water revenues during the 30-year operations period. At the end of the arrangement, operation of the Lake Ontario water treatment plant will be transferred to Onondaga County. OCWA entered into this agreement to reduce its costs historically paid for purchased water from MWB.

As of December 31, 2018, OCWA incurred costs of \$1,956,493 in connection with this upgrade which are reported as construction in progress. These costs are related to a component of the upgrade which was in process prior to the consolidation date. OCWA is managing the completion of this project pursuant to the terms of the agreement. At the conclusion of construction and when the asset is placed in service OCWA will recognize an intangible asset for its right to access and operate the water treatment plant for 30 years pursuant to the service concession arrangement. As of December 31, 2018 and 2017, \$78,115 and \$-0- were recognized as an intangible asset, respectively. Amortization on the intangible assets was \$2,694 and \$-0- for 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 – RECENT AND UPCOMING PRONOUNCEMENTS

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

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The primary objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2019.

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

ONONDAGA COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 – RECENT AND UPCOMING PRONOUNCEMENTS –

Continued

GASB Statement No. 88, “*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*”, was issued in April 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2019.

GASB Statement No. 89, “*Accounting for Interest Cost Incurred before the End of a Construction Period*”, was issued in June 2018. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. The Authority is required to adopt the provisions of this Statement for the year ending December 31, 2020.

The Authority’s management is in the process of evaluating the impact of these statements on its future financial statements.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended December 31, 2018, the Authority adopted GASB Statement No. 75, “*Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*”. The implementation of the Statement requires Authority’s to report Other Post-Employment Benefits (OPEB) liabilities, OPEB expenses, deferred outflow of resources and deferred inflow of resources related to OPEB.

The Authority determined that a restatement to the December 31, 2016 ending net position was required to recognize the change in accounting principle. The Authority’s net position has been restated as follows:

Net Position, December 31, 2016	\$ 186,946,059
GASB Statement No.75 Implementation	<u>(9,147,341)</u>
Restated Net Position, December 31, 2016	<u><u>\$ 177,798,718</u></u>

ONONDAGA COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**SCHEDULE OF FUNDING PROGRESS – OTHER
POST-EMPLOYMENT BENEFITS PLAN**

Year Ended December 31, 2018

Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016
Total OPEB Liability			
Service Cost	\$ 1,250,056	\$ 1,236,431	\$ 956,419
Interest	1,161,107	899,723	938,497
Difference Between Expected and Actual Experience	0	3,416,222	0
Changes in Assumptions and Other Inputs	(1,563,729)	(4,144,457)	4,914,046
Benefit Payments	<u>(567,678)</u>	<u>(547,541)</u>	<u>(545,162)</u>
Net Change in Total OPEB Liability	279,756	860,378	6,263,800
Total OPEB Liability- Beginning - Restated	<u>31,466,926</u>	<u>30,606,548</u>	<u>24,342,748</u>
Total OPEB Liability- Ending	<u>\$ 31,746,682</u>	<u>\$ 31,466,926</u>	<u>\$ 30,606,548</u>
Covered Payroll	<u>\$ 11,959,693</u>	<u>N/A</u>	<u>N/A</u>
Total OPEB Liability as a Percentage of Covered Payroll	<u>265%</u>	<u>N/A</u>	<u>N/A</u>

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

SCHEDULE OF AUTHORITY'S CONTRIBUTIONS

Year Ended December 31, 2018

	2018	2017	2016	2015	2014
NYSLRS Pension Plan					
Contractually Required Contributions	\$ 1,750,314	\$ 1,543,843	\$ 1,467,536	\$ 1,751,828	\$ 1,824,822
Contributions in Relation to Contractually Required Contributions	<u>(1,750,314)</u>	<u>(1,543,843)</u>	<u>(1,467,536)</u>	<u>(1,751,828)</u>	<u>(1,824,822)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Employer's Covered - Employee Payroll	<u>\$ 12,422,877</u>	<u>\$ 11,882,056</u>	<u>\$ 9,495,344</u>	<u>\$ 9,239,591</u>	<u>\$ 8,823,689</u>
Contribution as a Percentage of Covered - Employee Payroll	<u>14.1%</u>	<u>13.0%</u>	<u>15.5%</u>	<u>19.0%</u>	<u>20.7%</u>

The Authority is required to present information in this schedule for a ten year period. Data for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

See notes to financial statements.

ONONDAGA COUNTY WATER AUTHORITY

**SCHEDULE OF AUTHORITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Year Ended December 31, 2018

	2018	2017	2016	2015
NYSLRS Pension Plan				
Authority's Proportion of the Net Pension Liability	0.0374481%	0.0359589%	0.0356959%	0.0345407%
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 1,208,617</u>	<u>\$ 3,378,779</u>	<u>\$ 5,729,286</u>	<u>\$ 1,166,871</u>
Authority's Covered-Employee Payroll During Measurement Period	<u>\$ 12,422,877</u>	<u>\$ 11,882,056</u>	<u>\$ 9,495,344</u>	<u>\$ 9,239,591</u>
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	<u>9.7%</u>	<u>28.4%</u>	<u>60.3%</u>	<u>12.6%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>98.2%</u>	<u>94.7%</u>	<u>90.7%</u>	<u>97.9%</u>

The Authority is required to present information in this schedule for a ten year period. Data for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as it becomes available.

See notes to financial statements.



Dermody, Burke & Brown, CPAs, LLC

**INDEPENDENT AUDITORS' 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***

**BOARD OF DIRECTORS
ONONDAGA COUNTY WATER 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Onondaga County Water Authority (the Authority), which comprise the statement of net position as of December 31, 2018, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2019.

Internal Control Over Financial Reporting

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

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

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

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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.

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 20, 2019



Dermody, Burke & Brown, CPAs, LLC

**INDEPENDENT ACCOUNTANTS' REPORT ON
COMPLIANCE WITH INVESTMENT GUIDELINES
FOR PUBLIC AUTHORITIES**

**BOARD OF DIRECTORS
ONONDAGA COUNTY WATER AUTHORITY**

We have examined Onondaga County Water Authority's (the Authority) compliance with Section 2925(3) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended December 31, 2018. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2018.

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

Dermody, Burke & Brown

DERMODY, BURKE & BROWN, CPAs, LLC

Syracuse, NY

March 20, 2019