

**DEVELOPMENT AUTHORITY OF
THE NORTH COUNTRY**

**Financial Statements as of
March 31, 2018
Together with
Independent Auditor's Report
and Single Audit Reports**

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

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INDEPENDENT AUDITOR'S REPORT

June 21, 2018

To the Board of Directors of the
Development Authority of the North Country:

Report on the Financial Statements

We have audited the accompanying financial statements of the Development Authority of the North Country (the Authority) (a public benefit corporation of the State of New York) as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 opinion.

Opinion

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

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Summarized Comparative Totals

We have previously audited the Authority's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of contributions and proportionate share of the net pension liability 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.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental schedule of revenue, expenses, and change in net position by department and the schedule of North Country Economic Development Fund Activity are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards, schedule of revenue, expenses and change in net position by department, and the schedule of North Country Economic Development Fund activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, the schedule of revenue, expenses, and change in net position by department, and the schedule of North Country Economic Development Fund activity are fairly stated in all material respects in relation to the basic financial statements as a whole.

(Continued)

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MARCH 31, 2018

The Development Authority of the North Country (the Authority) is a New York State public authority that serves the common interests of Jefferson, Lewis and St. Lawrence Counties by providing technical services and infrastructure, which will enhance economic opportunities in the region and promote the health and well-being of its communities.

As its mission states, the Authority is committed to environmental stewardship, fiscal integrity and partnerships. To achieve these objectives, the Authority works with its municipal partners through shared service solutions utilizing advanced technology and fostering municipal cooperation to achieve cost-effective services for the region. Services provided include water, wastewater, materials management, telecommunications, engineering and loans to businesses.

The Authority's Water Quality Division operates and maintains approximately 45 miles of water and sewer pipelines and associated pumping stations, with a two-mile nature trail located along the pipelines. These facilities serve Fort Drum and Western Jefferson County, and are linked to the City of Watertown water and sewer treatment facilities and the Village of Cape Vincent water treatment facility. The Authority's water and wastewater staff also provides contract operations and maintenance services to various towns and villages in Jefferson and St. Lawrence Counties.

The Materials Management Facility provides an environmentally responsible solution for waste disposal in our region. The Authority continuously looks for innovative ways to efficiently operate the facility and maintain this asset for future generations. The Authority partnered with an energy company to create a gas-to-energy plant that converts methane, a by-product of waste, into electricity using four 1.6-megawatt generators. The electricity generated is equivalent to powering over 5,000 homes.

The Authority's telecommunications network plays a vital role in supporting public institutions and rural businesses. Prior to constructing our carrier-class telecommunications network, many communities in the North Country were severely underserved by high-speed internet and other advanced telecommunications services. Today, the Authority supports telecom providers, healthcare and educational institutions, government and industry in the region with state-of-the-art telecommunications technology.

The Authority supports economic development and works to improve the economic viability and well-being of the North Country by forming strong partnerships with local, state, and federal organizations to promote business and housing development throughout the region. The Authority administers several loan programs to promote job creation and retention among small businesses. The Authority also provides funding for the development of quality, affordable housing in Jefferson, Lewis and St. Lawrence Counties through its housing programs.

The Authority's Engineering Division provides comprehensive geographic information systems (GIS) development, supervisory control and data acquisition (SCADA) services, engineering and technical assistance to communities in the North Country.

The financial statements of the Authority include the Statement of Net Position; the Statement of Revenue, Expenses and Change in Net Position; and the Statement of Cash Flows, and related notes to the financial statements. The Statement of Net Position provides information about the nature and the amounts of investments and resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net position.

The Statement of Revenue, Expenses and Change in Net Position, or income statement, shows how the Authority's net position changed during the year. It accounts for all the year's revenues and expenses, measures the financial results of the Authority's operations for the year and can be used to determine how the Authority has funded its costs.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing, and investing activities.

The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Authority's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Authority's financial position and activities. This overview is provided for the fiscal year ended March 31, 2018. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages.

Financial Highlights

- As of March 31, 2018, the assets and deferred outflows of the Authority exceeded its liabilities and deferred inflows by \$167.4 Million. Of this amount, \$6.1 Million is unrestricted and undesignated and may be used to meet the Authority's ongoing obligations.
- The Authority's total revenues (operating and non-operating) were \$27.1 Million and \$28.9 Million in 2018 and 2017, respectively.
- The Authority's total expenses (operating and non-operating) were \$28.3 Million and \$26.8 Million in 2018 and 2017, respectively.

Overview of the Financial Statements

This annual report consists of a series of two parts, management's discussion and analysis (this section) and the financial statements. The 'Statement of Net Position' and the 'Statement of Revenue, Expenses and Change in Net Position' (on pages 13 and 14, respectively), and footnotes provide both long-term and short-term information about the Authority's overall financial status.

Financial Statements

The Authority's financial statements are prepared on an accrual basis in accordance with U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Government Accounting Standards Board (GASB). The Authority is a multi-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

Budget vs. Actual

The operations of the Authority remain stable with variations between budgets and actual considered minimal. The Authority is not aware of any circumstances or situations that would significantly impair its ability to operate its facilities as a going concern.

Summary of Operations and Change in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Operating revenue	\$ 26,078,892	\$ 28,631,171	\$ (2,552,279)	(8.9%)
Operating expenses	<u>(28,008,146)</u>	<u>(26,480,068)</u>	<u>1,528,078</u>	<u>5.8%</u>
Operating income (loss)	(1,929,254)	2,151,103	(4,080,357)	(189.7%)
Non-operating revenue, net	<u>637,950</u>	<u>(36,225)</u>	<u>674,175</u>	<u>(1,861.1%)</u>
Change in net position	<u>\$ (1,291,304)</u>	<u>\$ 2,114,878</u>	<u>\$ (3,406,182)</u>	<u>(161.1%)</u>

- Operating revenues decreased \$2.6 Million during 2018. The decrease in revenue was primarily due to a one-time \$2.2 Million Public Emergency grant from New York State that was received in the prior year as well as decreased tonnage received at the Materials Management Facility. The Materials Management Facility's revenue decreased by approximately \$923 Thousand due to the decreased waste received at the facility.
- Operating expenses increased \$1.5 Million during 2018. The increase in expenses are primarily attributable to the following:
 - Operating and maintenance costs increased \$749 Thousand mainly due to recycling incentives paid to the surrounding Counties and bad debt expense for loan receivable write-offs.
 - Depreciation and amortization expense increased \$869 Thousand due to significant additions and transfers from construction in-progress in the prior year, which have now incurred a full year or depreciation expense.
- The increase in net non-operating revenue is primarily due to an increase in investment income of approximately \$719 Thousand due to an improvement in current market conditions and the requirement for the Authority to record investments at market value. The unrealized loss on investments improved to \$388 Thousand in 2018 compared to \$1.1 Million in 2017. In addition, the Authority transferred assets during the year from money market funds to certificates of deposit, which have higher yield rates.

Financial Position Summary

Net position is an indication of the Authority's financial strength. A summary of the Authority's net position is shown below.

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Current assets	\$ 16,914,243	\$ 19,922,885	\$ (3,008,642)	(15.1%)
Loans receivable, net	33,393,957	32,192,313	1,201,644	3.7%
Investments	35,954,980	32,207,836	3,747,044	11.6%
Funds held by trustee	1,265,050	2,101,945	(836,895)	(39.8%)
Other postemployment				
Benefit reserve fund	4,188,306	3,792,460	395,846	10.4%
Restricted assets	59,828,825	59,274,441	554,384	0.9%
Capital assets, net	<u>66,037,336</u>	<u>69,514,292</u>	<u>(3,476,956)</u>	<u>(5.0%)</u>
Total assets	<u>\$217,582,697</u>	<u>\$219,006,172</u>	<u>\$ (1,423,475)</u>	<u>(0.6%)</u>
DEFERRED OUTFLOWS	<u>\$ 1,644,872</u>	<u>\$ 3,011,703</u>	<u>\$ (1,366,831)</u>	<u>(45.4%)</u>
Liabilities:				
Current liabilities	\$ 4,442,991	\$ 6,413,377	\$ (1,970,386)	(30.7%)
Other liabilities (long-term)	<u>47,057,863</u>	<u>46,539,970</u>	<u>517,893</u>	<u>1.1%</u>
Total liabilities	<u>51,500,854</u>	<u>52,953,347</u>	<u>(1,452,493)</u>	<u>(2.7%)</u>
DEFERRED INFLOWS	<u>\$ 285,093</u>	<u>\$ 331,602</u>	<u>\$ (46,509)</u>	<u>(14.0%)</u>
Net Position:				
Invested in capital assets,				
net of related debt	55,535,371	59,200,990	(3,665,619)	(6.2%)
Restricted	56,877,692	55,946,972	930,720	1.7%
Unrestricted	<u>55,028,559</u>	<u>53,584,964</u>	<u>1,443,595</u>	<u>2.7%</u>
Total net assets	<u>\$167,441,622</u>	<u>\$168,732,926</u>	<u>\$ (1,291,304)</u>	<u>(0.8%)</u>

- Current assets decreased \$3.0 Million and investments increased \$3.7 Million primarily due to improvement in market conditions and the transfer of money market funds to long-term certificate of deposits, as previously discussed.
- Loans receivable, net increased \$1.2 Million primarily due to four new significant loans, offset by current year loan repayments.
- Deferred outflows of resources decreased \$1.4 Million related to the continued effect of implementation of GASB 68 and 71; Accounting and Financial Reporting for Pensions.
- Current liabilities decreased by \$1.9 Million primarily due to a reduction in the current portion of unearned revenue, as a significant amount of the Community Development Loan Fund deferred revenue was earned in the current year.

Financial Position Summary (Continued)

As a provider of essential services, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes: 1) approximately 45 miles of water and wastewater transmission pipelines and associated pumping stations servicing Fort Drum and North Country Communities, 2) a Materials Management Facility located in Rodman, New York, and 3) a state-of-the-art telecommunications network. The Authority's net assets also include funds available to pay for ongoing and future construction of replacements and/or additions to this infrastructure.

At March 31, 2018, the board of directors designated the Authority's unrestricted net position for the following uses:

Supplemental insurance reserves	\$ 7,000,000
Administrative reserve	4,000,000
Infrastructure development	223,107
Capital reserves	17,353,412
Materials Management - tip fee stabilization, carbon credit, recycling and landfill gas reserves	6,095,199
Community development loan fund	11,233,781
Affordable housing	<u>3,000,000</u>
	<u>\$ 48,905,499</u>

Revenue

The Authority sets its rates annually concurrent with the adoption of its annual operating budget.

The Materials Management Facility revenue is derived from tipping fees. The per ton tipping fee charged to customers includes certain amounts to fund replacement of major equipment, closure of the landfill and post-closure care.

Rates for telecommunications network services are authorized by the Authority's Board of Directors and filed with the New York State Public Service Commission.

Rates for water quality services are reviewed and adjusted annually based on projected operating costs.

Rates for engineering services are based on the requirements of the project being performed.

Grants from government sources include payments made to the Authority by New York State and Federal sources.

Summary of Operating Revenue

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Service and usage revenue:				
Materials Management				
Facility	\$ 9,082,293	\$ 10,004,945	\$ (922,652)	(9.2%)
Water Quality operations	5,498,383	6,271,311	(772,928)	(12.3%)
Telecommunications network	5,840,515	5,640,407	200,108	3.5%
Housing and economic development	216,281	186,015	30,266	16.3%
Engineering	<u>1,062,118</u>	<u>829,485</u>	<u>232,633</u>	28.0%
Total service and usage revenue	21,699,590	22,932,163	(1,232,573)	(5.4%)
Grants from government sources	2,662,071	3,924,890	(1,262,819)	(32.2%)
Interest received from outstanding loans	617,972	664,528	(46,556)	(7.0%)
Miscellaneous operating revenue	<u>1,099,259</u>	<u>1,109,590</u>	<u>(10,331)</u>	<u>(0.9%)</u>
Total operating revenue	<u>\$ 26,078,892</u>	<u>\$ 28,631,171</u>	<u>\$ (2,552,279)</u>	<u>(8.9%)</u>

- Materials Management Facility revenues decreased \$923 Thousand or 9.2%. The decrease was the result of a decline in tonnage received at the facility from approximately 279,000 tons in 2017 to 224,000 tons in 2018.
- Water Quality Operations revenue decreased \$773 Thousand or 12.3% in 2018. Fiscal year 2018 revenues normalized after a prior year increase related to capital projects authorized on the Army Sewer line and additional water purchases.
- Engineering revenue increased \$232 Thousand or 28.0% due to additional services provided to municipal customers.
- Grants from government sources revenue decreased \$1.3 Million or 32.2%. This decrease is primarily due to the receipt of a one-time New York State Public Emergency grant in the amount of \$2.2 Million in 2017. The grant revenue was to expand telecommunications services to support public emergency services.

Summary of Operating Expenses

The Authority's expenses are budgeted and tracked functionally by operating department. The Authority is functionally divided into the following departments: Materials Management, Water Quality, Telecommunications network, Housing and economic development, Engineering, and Administration.

The following is a breakdown of the Authority's expenses by operating department:

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Functional expenses:				
Materials Management				
Facility	\$ 12,025,548	\$ 11,214,409	\$ 811,139	7.2%
Water Quality	5,043,191	5,420,138	(376,947)	(7.0%)
Telecommunications network	7,828,348	7,217,665	610,683	8.5%
Housing and economic development	1,728,591	1,462,190	266,401	18.2%
Engineering	1,104,694	849,037	255,657	30.1%
Administration	<u>277,774</u>	<u>316,629</u>	<u>(38,855)</u>	<u>(12.3%)</u>
Total functional expenses	<u>\$ 28,008,146</u>	<u>\$ 26,480,068</u>	<u>\$ 1,528,078</u>	<u>5.8%</u>

- Materials Management Facility expenses increased \$811 Thousand or 7.2% due to: 1) an increase in Operating and Maintenance costs of \$387 Thousand related to incentive costs for single stream recycling conversion, and 2) an increase in Depreciation and Amortization cost in the amount of \$474 Thousand with the construction of capital projects and purchase of capital equipment.
- Water Quality expenses decreased \$376 Thousand or 7.0% as a result of additional water purchases from the City of Watertown in the prior year in order to meet the increased needs of Fort Drum while their wells were off line.
- Telecommunications network expenses increased \$611 Thousand or 8.5% primarily due to an increase in depreciation and amortization cost in the amount of \$392 Thousand with the construction of capital projects and purchase of capital equipment.
- Engineering expenditures increased \$256 Thousand or 30.1% primarily due to additional staff support required to meet municipal customer demands which resulted in increased wage and fringe benefit costs of \$180 Thousand. Additionally, purchases for resale to municipal customers increased \$48 Thousand over 2017.

Summary of Operating Expenses (Continued)

The following is a breakdown of the Authority's total operating expenses by natural classification:

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Operating expenses:				
Depreciation and amortization	\$ 11,014,785	\$ 10,145,898	\$ 868,887	8.6%
Salaries and fringe benefits	7,685,486	7,236,771	448,715	6.2%
Wastewater treatment	1,639,181	1,392,833	246,348	17.7%
Community benefits	765,879	905,059	(139,180)	(15.4%)
Water purchases	539,783	1,079,261	(539,478)	(50.0%)
Operating and maintenance	5,306,079	4,557,206	748,873	16.4%
General and administrative	416,092	316,251	99,841	31.6%
Closure and post-closure costs	<u>640,861</u>	<u>846,789</u>	<u>(205,928)</u>	<u>(24.3%)</u>
Total operating expenses	<u>\$ 28,008,146</u>	<u>\$ 26,480,068</u>	<u>\$ 1,528,078</u>	<u>5.8%</u>

- Depreciation and amortization expenses increased by 8.6% to approximately \$11 Million due to significant additions and transfers from construction in-progress in the prior year, which have now incurred a full year or depreciation expense, as well as significant additions during the current year.
- Operating and maintenance expenses increased \$749 Thousand or 16.4% primarily due to \$311 Thousand in incentive costs pursuant to converting to single stream recycling. In addition, there was \$245 Thousand in bad debt expense for loan receivable write-offs.
- Salaries and fringe benefits increased by \$449 Thousand or 6.2% due to a full year of expense on new positions authorized in the prior year to support additional Authority contracts as well as internal Authority operations.
- Water Purchases decreased by \$539 Thousand or 50.0%. This decrease is directly attributable to a decrease in the amount of water purchased by the Army in support of Fort Drum. In 2017, Fort Drum purchased additional water from the Authority because their wells were offline for a portion of the year.

Non-Operating Revenue (Expense)

The Authority's non-operating revenue (expense) is composed of the following:

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
Non-operating revenue (expense):				
Investment income	\$ 944,452	\$ 225,107	\$ 719,345	319.6%
Gain on sale of capital assets	29,200	82,013	(52,813)	(64.4%)
Interest expense	<u>(335,702)</u>	<u>(343,345)</u>	<u>7,643</u>	<u>2.2%</u>
Total	<u>\$ 637,950</u>	<u>\$ (36,225)</u>	<u>\$ 674,175</u>	<u>(1,861.1%)</u>

- Investment income increased \$719 Thousand or 319.6% due to current market conditions and the transfer of assets during the year from money market funds to certificates of deposit, which have higher yield rates.

Postemployment Benefits

The Authority contributes to the cost of eligible retirees' individual health care premiums after 15 years of service, provided that the employee was employed at the Authority at the time of retirement. Employees hired after April 1, 2008 require 20 years of service. The Authority recorded a liability for other postemployment benefits in the amount of \$4,278,212. The Authority has a board designated investment account in the amount of \$4,188,306 for other postemployment benefits.

Capital Assets

At the end of 2018, the Authority had \$66,037,336 (net of accumulated depreciation) invested in a broad range of capital assets, including the Materials Management Facility, Telecommunications Network, Water Quality facilities, Engineering, equipment and vehicles. This amount represents a decrease (net of disposals and depreciation) of \$3,476,956 or 5.0% over last year. The detail of capital asset activity and balances for the various categories is included in notes to the financial statements.

Long-Term Debt Administration

As of March 31, 2018, the Authority has the following revenue bond series outstanding:

<u>Development Authority of the North Country Bond Series</u>	<u>Bonds Outstanding as of March 2018</u>	<u>Bonds Outstanding as of March 2017</u>	<u>Principal Due 2019</u>
Series 2010C	\$ 765,000	\$ 1,125,000	\$ 370,000
Series 2015	<u>8,050,000</u>	<u>8,295,000</u>	<u>250,000</u>
Total	<u>\$ 8,815,000</u>	<u>\$ 9,420,000</u>	<u>\$ 620,000</u>

In addition to the bonds, the Authority had loans payable as of March 31, 2018 as follows:

<u>Loans, Contract and Capital Lease Payables</u>	<u>Outstanding as of March 2018</u>	<u>Outstanding as of March 2017</u>	<u>Principal Due 2019</u>
Loans payable	<u>\$ 3,419,679</u>	<u>\$ 3,524,257</u>	<u>\$ 106,640</u>

Credit Ratings

The Authority is the recipient of a favorable credit rating from Standard & Poor's as a result of the 2015 Materials Management Bonds issued in fiscal year 2016. The Authority received a "AA/Stable Outlook" rating from Standard and Poor's in October 2015. The Authority issues revenue bonds subject to its Trust Indentures.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or a request for additional information should be addressed in writing to the Comptroller at the Dulles State Office Building, 317 Washington Street, Watertown, New York 13601.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY**STATEMENT OF NET POSITION
FOR THE YEAR ENDED MARCH 31, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,108,190	\$ 15,888,748
Accounts receivable	2,555,764	2,798,306
Accrued unbilled revenue	537,839	467,598
Interest receivable	203,680	216,985
Inventory	13,133	9,823
Prepaid expense and other assets	<u>495,637</u>	<u>541,425</u>
Total current assets	16,914,243	19,922,885
LOANS RECEIVABLE, net	33,393,957	32,192,313
INVESTMENTS	35,954,980	32,207,836
FUNDS HELD BY TRUSTEE	1,265,050	2,101,945
OTHER POSTEMPLOYMENT BENEFITS RESERVE FUND	4,188,306	3,792,460
RESTRICTED ASSETS	59,828,825	59,274,441
CAPITAL ASSETS, net	<u>66,037,336</u>	<u>69,514,292</u>
Total assets	<u>217,582,697</u>	<u>219,006,172</u>
DEFERRED OUTFLOWS		
Pension	<u>1,644,872</u>	<u>3,011,703</u>
Total deferred outflows	<u>1,644,872</u>	<u>3,011,703</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	1,853,403	2,425,830
Current portion of long-term debt	726,640	709,579
Accrued expenses	422,824	427,707
Interest payable	100,681	104,946
Current portion of unearned revenue	<u>1,339,443</u>	<u>2,745,315</u>
Total current liabilities	4,442,991	6,413,377
FUNDS HELD FOR OTHERS	10,085,625	10,187,015
DUE TO U.S. ARMY	749,985	749,985
UNEARNED REVENUE, net of current portion	2,252,747	972,147
NET PENSION LIABILITY	1,648,794	2,709,904
LANDFILL CLOSURE AND POST-CLOSURE CARE LIABILITY	16,603,174	15,962,313
OTHER POSTEMPLOYMENT BENEFITS LIABILITY	4,278,212	3,795,741
LONG-TERM DEBT, net of current portion	<u>11,439,326</u>	<u>12,162,865</u>
Total liabilities	<u>51,500,854</u>	<u>52,953,347</u>
DEFERRED INFLOWS		
Pension	<u>285,093</u>	<u>331,602</u>
Total deferred outflows	<u>285,093</u>	<u>331,602</u>
NET POSITION		
Net investment in capital assets	55,535,371	59,200,990
Restricted	56,877,692	55,946,972
Unrestricted	<u>55,028,559</u>	<u>53,584,964</u>
Total net position	<u>\$ 167,441,622</u>	<u>\$ 168,732,926</u>

The accompanying notes are an integral part of these statements.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION FOR THE YEAR ENDED MARCH 31, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE:		
Customer billings	\$ 21,699,590	\$ 22,932,163
Grant revenue	2,662,071	3,924,890
Loan interest income	617,972	664,528
Other revenue	<u>1,099,259</u>	<u>1,109,590</u>
Total operating revenue	<u>26,078,892</u>	<u>28,631,171</u>
OPERATING EXPENSES:		
Depreciation and amortization	11,014,785	10,145,898
Salaries	5,184,046	4,842,519
Fringe benefits	2,501,440	2,394,252
Operation and maintenance	2,640,930	2,173,364
Wastewater treatment	1,639,181	1,392,833
Water purchases	539,783	1,079,261
Community benefits	765,879	905,059
Closure and post-closure costs	640,861	846,789
Grants	524,872	631,753
Office and administrative	440,090	410,289
Insurance	358,208	341,241
Automobile	255,343	201,898
Utilities	161,690	144,138
Materials and supplies	237,040	196,176
Professional fees	373,429	332,547
Computer	200,999	172,475
NYS administrative assessment	122,000	122,000
Repairs and maintenance	162,420	147,576
Bad debt	<u>245,150</u>	<u>-</u>
Total operating expenses	<u>28,008,146</u>	<u>26,480,068</u>
Total operating income	<u>(1,929,254)</u>	<u>2,151,103</u>
NON-OPERATING REVENUE (EXPENSE):		
Investment income	944,452	225,107
Gain on sale of capital assets	29,200	82,013
Interest expense	<u>(335,702)</u>	<u>(343,345)</u>
Total non-operating revenue, net	<u>637,950</u>	<u>(36,225)</u>
CHANGE IN NET POSITION	<u>\$ (1,291,304)</u>	<u>\$ 2,114,878</u>
NET POSITION - beginning of year	<u>168,732,926</u>	<u>166,618,048</u>
NET POSITION - end of year	<u>\$ 167,441,622</u>	<u>\$ 168,732,926</u>

The accompanying notes are an integral part of these statements.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2018 (With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 23,277,200	\$ 24,623,497
Receipts from grants	1,647,077	4,656,890
Cash payments to suppliers	(10,956,720)	(11,634,339)
Cash payments to employees	<u>(5,188,929)</u>	<u>(4,764,420)</u>
Net cash flow from operating activities	<u>8,778,628</u>	<u>12,881,628</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(7,537,829)	(9,199,243)
Proceeds from sale of capital assets	29,200	190,098
Proceeds from sale of timber	-	37,533
Payments on long-term debt	(709,578)	(991,190)
Interest paid	<u>(336,867)</u>	<u>(372,184)</u>
Net cash flow from capital and related financing activities	<u>(8,555,074)</u>	<u>(10,334,986)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Receipts of interest	1,345,733	1,304,095
Unrealized loss on investments	(387,976)	(1,107,775)
Net purchases of investments	(3,747,144)	(982,768)
Deposits into other postemployment benefit reserve fund	(395,846)	(857,083)
Net purchases of restricted assets	(655,774)	(3,859,924)
Change in funds held by trustee	<u>836,895</u>	<u>2,495,434</u>
Net cash flow from investing activities	<u>(3,004,112)</u>	<u>(3,008,021)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,780,558)	(461,379)
CASH AND CASH EQUIVALENTS - beginning of year	<u>15,888,748</u>	<u>16,350,127</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 13,108,190</u>	<u>\$ 15,888,748</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,929,254)	\$ 2,151,103
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	11,014,785	10,145,898
Change in Deferred outflows of resources-pension	1,366,831	(2,167,274)
Change in Deferred inflows of resources	(46,509)	331,602
Landfill closure and post-closure care costs	640,861	846,790
Postemployment benefits expense	482,471	460,522
Change in:		
Accounts receivable	242,542	(449,978)
Accrued unbilled revenue	(70,241)	(23,777)
Loans receivable	(1,201,644)	376,328
Inventory	(3,310)	(272)
Prepaid expenses and other assets	45,788	(156,776)
Accounts payable and accrued expenses	(577,310)	(1,523,450)
Unearned revenue	(125,272)	746,643
Net pension liability	<u>(1,061,110)</u>	<u>2,144,269</u>
Net cash flow from operating activities	<u>\$ 8,778,628</u>	<u>\$ 12,881,628</u>

The accompanying notes are an integral part of these statements.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2018

1. ORGANIZATION

Development Authority of the North Country (the Authority) is a public benefit corporation organized under the Public Authorities Law of the State of New York. The Authority was created to provide infrastructure services and economic development in Jefferson, Lewis and St. Lawrence Counties of New York State. The infrastructure services provided by the Authority include water, wastewater, materials management and telecommunications. The Authority assists in the economic development of these counties by financing housing and business development projects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

GASB requires the classification of net position into three components – net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted - This component of net position consists of amounts that 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 - This component of net position consists of amounts that do not meet the definition of "net investment in capital assets" or "restricted." Unrestricted net position may be designated for specific purposes by actions of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not in the same detail used for current year presentation. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended March 31, 2017, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of presenting the statement of cash flows, the Authority considers all highly liquid short-term investments (money market funds) with maturities of three months or less from the date of purchase to be cash or cash equivalents. These money market funds are stated at cost which approximates fair value.

Accounts Receivable

Accounts receivable consists primarily of amounts due from customers for services provided. Management records an allowance for doubtful accounts based on past collection experience and an analysis of outstanding amounts. No allowance for doubtful accounts was considered necessary at March 31, 2018 or 2017.

Accrued Unbilled Revenues

Accrued unbilled revenues represents revenue earned in the current year but not billed to customers until future dates, usually within three months.

Loans Receivable

Loans receivable consist primarily of amounts loaned to businesses in Northern New York in order to enhance economic development, create housing and encourage job creation and retention. Loans are stated at unpaid principal balances, less the allowance for loan losses. Loans are collateralized by related property, plant and equipment. Interest income is accrued on the unpaid balance. Interest rates charged to outstanding loans range from 0% to 6.25% and are due at various dates through December 2046.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on past collection experience and an analysis of outstanding amounts. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged to the provision for loan losses. An allowance for loan loss of \$192,737 was considered necessary at March 31, 2018 and 2017.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary because of uncertainties associated with local economic conditions and future cash flows on impaired loans.

Investments

Investments consist of certificates of deposit, and U.S. and other government obligations with maturities extending beyond a three-month period from the date of purchase. The Authority reports certificates of deposit at cost, which approximates fair value, and U.S. and other government obligations at fair value based on quoted market prices.

Funds Held by Trustee

Funds held by Bank of New York (the Trustee), as required by bond agreements, consist of certificates of deposit, U.S. and other government obligations, and money market funds. The Authority reports certificates of deposit and money market funds at cost and U.S. and other government obligations at fair value based on quoted market prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits Reserve Fund

Funds held for other postemployment benefits consist of certificates of deposit, U.S. Government obligations and money market funds. The Authority reports certificates of deposit at cost and U.S. Government obligations at fair value based on quoted market prices. Currently, New York State does not have legislation enabling the establishment of a separate trust to hold these funds. Until such enabling legislation is enacted, these funds will be reflected as unrestricted on the accompanying Statement of Net Position.

Unamortized Bond Discount

The unamortized bond discount associated with the Series 2015 bonds is recognized as interest expense on a straight-line basis over the term of the related debt.

Capital Assets

Capital assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the capital assets, which range from three (3) to fifty (50) years. The Authority capitalizes all expenditures for capital assets in excess of \$10,000 and which have useful lives greater than one year. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any unrelated gains or losses are recorded.

Deferred Outflows and Inflows of Resources

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

Unearned Revenue

Cash collected in advance of service provision is recorded as unearned revenue and is recognized as revenue in the period in which it is earned.

Revenue Recognition

Revenue from sales of services are recognized at the time of service delivery based on actual or estimated rates. Revenue from grant agreements is recognized when earned.

Operating and Non-Operating Revenues and Expenses

Operating revenue consists of sales of services performed and other related revenue. The Authority defines non-operating revenue as interest earnings on investment assets and realized/unrealized gains or losses on sales of investments. Non-operating expenditures include interest expense on long-term debt and gains/losses on disposals of capital assets and other items outside of operations.

Landfill Closure and Post-Closure Care Liability

The Authority records landfill closure and post-closure care costs as an operating expense based on the landfill capacity used as of the statement of net position date and the current estimated costs for closure and post-closure care.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits

The Authority provides certain health care benefits to its retired employees in accordance with the provisions of the personnel policy.

Estimates

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

Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

3. NET POSITION

Restricted Net Position

The Authority maintains the following in restricted net position:

	<u>2018</u>	<u>2017</u>
Community rental housing program	\$ 13,943,903	\$ 13,779,468
Community development loan fund	100,000	100,000
Affordable housing program	22,213,802	21,904,937
Army water and sewer line reserves	1,800,000	1,800,000
Regional waterline operating and debt service reserves	433,926	397,761
Wetlands mitigation	2,090,538	2,058,132
Reserve for liner expansion and replacement	6,603,974	6,328,637
Reserve for open access telecommunication networks	<u>9,691,549</u>	<u>9,578,037</u>
Total restricted net position	<u>\$ 56,877,692</u>	<u>\$ 55,946,972</u>

3. NET POSITION (continued)

Unrestricted

Unrestricted net position consists of Board designated net position and undesignated net position. Board designated net position represents amounts specified by the Authority's Board for a particular use. The Board has the authority to release these funds for other purposes.

The Authority maintains the following in unrestricted net position:

	<u>2018</u>	<u>2017</u>
Board designated net position:		
Supplemental insurance reserves	\$ 7,000,000	\$ 7,000,000
Administrative reserve	4,000,000	4,000,000
Infrastructure development	223,107	223,107
Capital reserves	17,353,412	16,323,013
Materials Management - tip fee stabilization, carbon credit, recycling and landfill gas reserves	6,095,199	5,266,333
Community development loan fund	11,233,781	9,949,479
Affordable housing	<u>3,000,000</u>	<u>3,000,000</u>
	48,905,499	45,761,932
Undesignated net position	<u>6,123,060</u>	<u>7,823,032</u>
Total unrestricted net position	<u>\$ 55,028,559</u>	<u>\$ 53,584,964</u>

4. CONTRACTUAL AGREEMENTS

Materials Management Agreement

The Authority entered into an agreement with the City of Watertown (the City) and Jefferson, Lewis and St. Lawrence Counties (collectively, the Municipalities) to construct and operate a Materials management facility. Each year, the Authority submits its actual amounts of capital, operating, maintenance and overhead costs and revenues to the Municipalities. A deficit in any year requires an adjustment charge to each municipality for its percentage of usage during the year with the deficit. Since inception of the Materials Management Facility, the Authority has not reported a deficit requiring an adjustment charge. This agreement expires on the date the Authority's obligations for the facility are fully discharged.

Host Community Agreement

In 1993, the Authority entered into an agreement with the Town of Rodman (the Town) to locate a Materials management facility within the Town. This agreement requires the Authority to pay a quarterly fee, which is adjusted each year by the consumer price index, on a per-ton of waste received basis. The agreement also requires a minimum host community fee of \$50,000 for each year the Materials Management Facility is in actual operation. This agreement was revised in fiscal year 2011. Under the terms of the revised agreement, the Town receives a 75% reduction in tipping fees. Additionally, the Authority pays the Town 50% of the first \$100,000 of the proceeds from the sale of energy at the gas-to-energy plant, 25% of the next \$100,000 of proceeds and 10% thereafter. Host community benefits expense was \$745,122 and \$884,301 in 2018 and 2017, respectively.

4. CONTRACTUAL AGREEMENTS (Continued)

Gas-to-Energy Plant Agreement

In fiscal year 2009, the Authority entered into a lease agreement with a Company for the construction and operation of a gas-to-energy plant at the Materials Management Facility. The Company constructed the plant and installed the necessary equipment on the Authority's property in order to convert the methane gas produced by the Materials Management Facility into energy. The title for the plant was transferred to the Authority. The Authority entered into a direct financing lease with the Company for the plant and equipment for \$1 per year plus 50% of revenues derived from the energy created for a period of 20 years. As this lease is a direct financing lease, the related assets are not included in the Authority's financial statements at year-end. This lease includes two five-year renewal options and a \$1 purchase agreement for the equipment at the end of the lease. The contingent rental benefits related to this agreement amounted to \$758,258 and \$679,099 in 2018 and 2017, respectively, and are recorded in other revenue on the accompanying statement of revenue, expenses and change in net position.

Water Agreement

The Authority and the U.S. Army (the Army) entered into a water supply agreement in 1990. The City of Watertown (the City) is also a party to this agreement as it provides the water to the Authority for transport to the Army. Under the terms of this agreement, the Army is entitled to use the Authority's water line at a rate that is established annually based on the combined annual capital, overhead, and operating and maintenance costs of the Authority and the City.

The agreement requires the Authority to hold a repair reserve of \$900,000. The use of these funds requires permission from the Army and has been recorded in the accompanying financial statements as restricted net position.

Wastewater Agreement

The Authority and the Army entered into a wastewater service agreement in 1986. The City is also a party to this agreement as it provides the sewage treatment services. Under the terms of this agreement, the Army is entitled to use the Authority's wastewater line at a rate that is established annually based on the combined annual capital, overhead, and operating and maintenance costs of the Authority and the City.

The agreement requires the Authority to hold a repair reserve of \$900,000. The use of these funds requires permission from the Army and has been recorded in the accompanying financial statements in restricted net position. Additionally, an administrative support advance of \$749,985 was received from the Army. These monies are to be credited against the last two months service invoices prior to the termination of the agreement and have been recorded in the accompanying financial statements as a liability to the Army.

Project Development Agreement

In 2015, the Authority entered into a Project Development Agreement with the Town of Watertown (the Town), Jefferson County and the Watertown City School District (the School District), whereby the Authority will make ten annual payments to Jefferson County and the School District from certain Community Rental Housing Program interest proceeds. If the applicable interest is not collected, no payments are required. The agreement does not provide for any payments to the Town. The payments under the terms of this agreement to Jefferson County and the School District are contingent upon payment being received from the borrower. Due to the contingent nature of this agreement, no liability has been recorded in the accompanying statement of net position.

5. ACCOUNTS RECEIVABLE

Accounts receivable are due within one year and consisted of the following at March 31:

	<u>2018</u>	<u>2017</u>
Materials Management Facility	\$ 986,692	\$ 1,021,036
Water Quality	241,848	949,462
Telecommunications network	875,892	664,306
Engineering	57,881	40,550
Other	<u>393,451</u>	<u>122,952</u>
	<u>\$ 2,555,764</u>	<u>\$ 2,798,306</u>

6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The investment guidelines established by the Authority permit the investment of funds held by the Authority and funds held in trust for the Authority to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State of New York, obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government; and in collateralized time deposits or certificates of deposit issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC). The Authority's investment policy limits its deposit and investment activity to time deposits, demand deposits, certificates of deposit, State of New York Government obligations, United States Government obligations and repurchase agreements.

The Authority's investment policy requires its deposits and investments, not controlled by the Trustee, to be collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States of America or the State of New York. Collateral must be delivered to the Authority or an authorized custodial bank.

Total deposits of cash and cash equivalents not controlled by the Trustee (including certificates of deposit and money market funds) are as follows at March 31:

	<u>2018</u>	<u>2017</u>
Demand deposits	\$ 11,936,728	\$ 14,800,929
Time deposits	<u>1,171,462</u>	<u>1,087,819</u>
	<u>\$ 13,108,190</u>	<u>\$ 15,888,748</u>

Custodial Credit Risk

For cash deposits or investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the Authority's investment policy, an investment of funds may be less than fully secured in the event that any one of the following occurs: the yield on the investment outweighs the risk, it involves an investment of less than \$25,000, it is an investment with a duration of less than a week or it is not a customary practice that the investment be fully secured. All investments were fully secured at March 31, 2018. Total investments by type are as follows at March 31:

6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

	<u>2018</u>	<u>2017</u>
United States Treasury obligations/Government agencies	\$ 15,539,050	\$ 11,093,324
Certificates of deposit	<u>20,415,930</u>	<u>21,114,512</u>
	<u>\$ 35,954,980</u>	<u>\$ 32,207,836</u>

Fair Value

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

The Authority has the following fair value measurements as of March 31, 2018:

- U.S. Treasury obligations/government agencies are valued using quoted market prices (Level 1 inputs).

Custodial Credit Risk - Deposits

At March 31, 2018, the carrying amount of the Authority's cash and cash equivalents was \$13,108,190 and was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	<u>\$ 13,452,415</u>	<u>\$ 13,108,190</u>
Covered by FDIC insurance	\$ 500,000	
Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name	<u>13,221,463</u>	
	<u>\$ 13,721,463</u>	

Collateral is required for time deposits and certificates of deposit at 102 percent of all deposits not covered by the federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States of America and its agencies and obligations of the State and its municipalities and towns.

7. RESTRICTED ASSETS

Restricted assets are held for the following purposes at March 31:

	<u>2018</u>	<u>2017</u>
Landfill closure and post-closure care	\$ 16,610,461	\$ 15,638,082
Telecommunications network	9,761,058	9,647,545
Affordable housing program	8,266,531	8,249,545
North Country Economic Development	7,694,210	8,668,405
Replacement at Materials Management Facility	6,542,310	6,475,494
Community rental housing program	5,807,271	5,543,005
Army water and sewer line	2,658,094	2,626,230
Wetlands mitigation	2,090,538	2,058,133
Regional waterline operating and debt service reserves	<u>398,352</u>	<u>368,002</u>
	<u>\$ 59,828,825</u>	<u>\$ 59,274,441</u>

For restricted assets, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the Authority's investment policy, an investment of funds may be less than fully secured in the event that any one of the following occurs: the yield on the investment outweighs the risk, it involves an investment of less than \$25,000, it is an investment with a duration of less than a week or it is not a customary practice that the investment be fully secured. All restricted assets were fully secured at March 31, 2018.

Restricted assets consisted of the following at March 31:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ 32,565,242	\$ 30,727,567
United States Treasury obligations/Government agencies	19,091,700	19,974,905
Money market funds	8,016,806	8,434,585
Accrued interest receivable	<u>155,077</u>	<u>137,384</u>
	<u>\$ 59,828,825</u>	<u>\$ 59,274,441</u>

8. LOANS RECEIVABLE

Loans receivable are summarized as follows at March 31:

	<u>2018</u>	<u>2017</u>
Loans receivable:		
Affordable Housing Program - Commercial loans	\$ 15,127,443	\$ 14,843,249
Community Rental Housing Program - Commercial loans	11,724,352	11,783,296
Community Development loan fund - Commercial loans	4,344,686	4,241,041
North County Economic Development loan fund - Commercial loans	<u>2,390,213</u>	<u>1,517,464</u>
Total loans receivable	<u>\$ 33,586,694</u>	<u>\$ 32,385,050</u>

8. LOANS RECEIVABLE (continued)

The following tables present informative data by class of loans receivable regarding their age and interest accrual status at March 31, 2018.

	<u>Current</u>	30 - 59 <u>Days</u>	60 - 89 <u>Days</u>	≥ 90 <u>Days</u>	Total <u>Past Due</u>	Non- <u>accrual</u>	Total Loans <u>Receivable</u>
Affordable Housing Program	\$ 15,065,628	\$ 57,958	\$ 3,857	\$ -	\$ 61,815	\$ -	\$ 15,127,443
Community Rental Housing Program	11,712,232	12,120	-	-	12,120	-	11,724,352
Community Development loan fund	4,327,200	3,249	-	14,237	17,486	-	4,344,686
North County Economic Development loan fund	<u>2,388,181</u>	<u>2,032</u>	<u>-</u>	<u>-</u>	<u>2,032</u>	<u>-</u>	<u>2,390,213</u>
Total	<u>\$ 33,493,241</u>	<u>\$ 75,359</u>	<u>\$ 3,857</u>	<u>\$ 14,237</u>	<u>\$ 93,453</u>	<u>\$ -</u>	<u>\$ 33,586,694</u>

The following tables present informative data by class of loans receivable regarding their age and interest accrual status at March 31, 2017.

	<u>Current</u>	30 - 59 <u>Days</u>	60 - 89 <u>Days</u>	≥ 90 <u>Days</u>	Total <u>Past Due</u>	Non- <u>accrual</u>	Total Loans <u>Receivable</u>
Affordable Housing Program	\$ 14,793,495	\$ 42,383	\$ 1,338	\$ 6,033	\$ 49,754	\$ -	\$ 14,843,249
Community Rental Housing Program	11,783,296	-	-	-	-	-	11,783,296
Community Development loan fund	4,210,333	30,708	-	-	30,708	-	4,241,041
North County Economic Development loan fund	<u>1,517,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,517,464</u>
Total	<u>\$ 32,304,588</u>	<u>\$ 73,091</u>	<u>\$ 1,338</u>	<u>\$ 6,033</u>	<u>\$ 80,462</u>	<u>\$ -</u>	<u>\$ 32,385,050</u>

Activity in the allowance for loan losses is as follows for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 192,737	\$ 192,737
Loans charged off	-	-
Allowance provisions	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 192,737</u>	<u>\$ 192,737</u>

8. LOANS RECEIVABLE (continued)

The following summarizes the ending loan receivable balances individually and collectively evaluated for impairment, as well as the allowance for loan loss allocation for each at March 31, 2018.

	<u>Ending Loan Balance</u>			<u>Allowance for Loan Losses</u>		
	Individually	Collectively	<u>Total</u>	Loans	Loans	<u>Total</u>
	Evaluated for <u>Impairment</u>	Evaluated for <u>Impairment</u>		Individually Evaluated for <u>Impairment</u>	Collectively Evaluated for <u>Impairment</u>	
Commercial loans	<u>\$ 33,586,694</u>	<u>\$ -</u>	<u>\$33,586,694</u>	<u>\$ 192,737</u>	<u>\$ -</u>	<u>\$ 192,737</u>

The following summarizes the ending loan receivable balances individually and collectively evaluated for impairment, as well as the allowance for loan loss allocation for each at March 31, 2017.

	<u>Ending Loan Balance</u>			<u>Allowance for Loan Losses</u>		
	Individually	Collectively	<u>Total</u>	Loans	Loans	<u>Total</u>
	Evaluated for <u>Impairment</u>	Evaluated for <u>Impairment</u>		Individually Evaluated for <u>Impairment</u>	Collectively Evaluated for <u>Impairment</u>	
Commercial loans	<u>\$ 32,385,050</u>	<u>\$ -</u>	<u>\$32,385,050</u>	<u>\$ 192,737</u>	<u>\$ -</u>	<u>\$ 192,737</u>

There were no impaired loans at March 31, 2018 or 2017

9. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2018 was as follows:

	Balance April 1, 2017	Additions	Transfers	Disposals	Balance March 31, 2018
Land	\$ 1,620,224	\$ -	\$ -	\$ -	\$ 1,620,224
Construction-in-progress	<u>10,394,546</u>	<u>7,537,829</u>	<u>(12,399,745)</u>	<u>-</u>	<u>5,532,630</u>
Total non-depreciable assets	<u>\$ 12,014,770</u>	<u>\$ 7,537,829</u>	<u>\$ (12,399,745)</u>	<u>\$ -</u>	<u>\$ 7,152,854</u>
Construction:					
Materials Management Facility	\$ 71,081,335	\$ -	\$ 3,652,318	\$ -	\$ 74,733,653
Water Quality	37,665,320	-	129,632	-	37,794,952
Telecommunications network	34,956,802	-	3,863,520	-	38,820,322
Engineering	96,486	-	-	-	96,486
General and administrative	112,658	-	-	-	112,658
Equipment:					
Materials Management Facility	6,476,352	-	603,187	(159,910)	6,919,629
Water Quality	1,363,975	-	673,278	-	2,037,253
Telecommunications network	14,210,397	-	3,219,381	-	17,429,778
Engineering	36,124	-	-	-	36,124
General and administrative	553,925	-	81,797	-	635,722
Vehicles:					
Materials Management Facility	18,270	-	-	(18,270)	-
Water Quality	56,470	-	-	-	56,470
General and administrative	623,208	-	176,632	(59,068)	740,772
Leasehold improvements:					
Telecommunications network	45,162	-	-	-	45,162
General and administrative	<u>30,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,119</u>
Total at cost	<u>167,326,603</u>	<u>-</u>	<u>12,399,745</u>	<u>(237,248)</u>	<u>179,489,100</u>
Less: Accumulated depreciation and amortization for:					
Construction	(93,914,257)	(8,135,953)	-	-	(102,050,210)
Equipment	(15,487,449)	(2,747,080)	-	159,910	(18,074,619)
Vehicles	(350,094)	(131,752)	-	77,338	(404,508)
Leasehold improvements	<u>(75,281)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,281)</u>
Total accumulated depreciation and amortization	<u>(109,827,081)</u>	<u>(11,014,785)</u>	<u>-</u>	<u>237,248</u>	<u>(120,604,618)</u>
Total depreciable assets, net	<u>\$ 57,499,522</u>	<u>\$ (11,014,785)</u>	<u>\$ 12,399,745</u>	<u>\$ -</u>	<u>\$ 58,884,482</u>
Total capital assets, net	<u>\$ 69,514,292</u>	<u>\$ (3,476,956)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,037,336</u>

9. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended March 31, 2017 was as follows:

	Balance <u>April 1, 2016</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance <u>March 31, 2017</u>
Land	\$ 1,620,224	\$ -	\$ -	\$ -	\$ 1,620,224
Construction-in-progress	<u>10,899,846</u>	<u>9,199,243</u>	<u>(9,604,793)</u>	<u>(99,750)</u>	<u>10,394,546</u>
Total non-depreciable assets	<u>\$ 12,520,070</u>	<u>\$ 9,199,243</u>	<u>\$ (9,604,793)</u>	<u>\$ (99,750)</u>	<u>\$ 12,014,770</u>
Construction:					
Materials Management Facility	\$ 65,524,743	\$ -	\$ 5,556,592	\$ -	\$ 71,081,335
Water Quality	37,665,320	-	-	-	37,665,320
Telecommunications network	33,156,626	-	1,800,176	-	34,956,802
Engineering	49,669	-	46,817	-	96,486
General and administrative	59,992	-	52,666	-	112,658
Equipment:					
Materials Management Facility	10,083,792	-	1,013,171	(4,620,611)	6,476,352
Water Quality	858,858	-	505,117	-	1,363,975
Telecommunications network	14,091,967	-	447,981	(329,551)	14,210,397
Engineering	36,124	-	-	-	36,124
General and administrative	553,925	-	-	-	553,925
Vehicles:					
Materials Management Facility	554,347	-	-	(536,077)	18,270
Water Quality	56,470	-	-	-	56,470
General and administrative	549,218	-	182,273	(108,283)	623,208
Leasehold improvements:					
Telecommunications network	45,162	-	-	-	45,162
General and administrative	<u>30,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,119</u>
Total at cost	<u>163,316,332</u>	<u>-</u>	<u>9,604,793</u>	<u>(5,594,522)</u>	<u>167,326,603</u>
Less: Accumulated depreciation and amortization for:					
Construction	(86,529,879)	(7,384,378)	-	-	(93,914,257)
Equipment	(17,758,455)	(2,653,247)	-	4,924,253	(15,487,449)
Vehicles	(869,709)	(104,786)	-	624,401	(350,094)
Leasehold improvements	<u>(71,794)</u>	<u>(3,487)</u>	<u>-</u>	<u>-</u>	<u>(75,281)</u>
Total accumulated depreciation and amortization	<u>(105,229,837)</u>	<u>(10,145,898)</u>	<u>-</u>	<u>5,548,654</u>	<u>(109,827,081)</u>
Total depreciable assets, net	<u>\$ 58,086,495</u>	<u>\$ (10,145,898)</u>	<u>\$ 9,604,793</u>	<u>\$ (45,868)</u>	<u>\$ 57,499,522</u>
Total capital assets, net	<u>\$ 70,606,565</u>	<u>\$ (946,655)</u>	<u>\$ -</u>	<u>\$ (145,618)</u>	<u>\$ 69,514,292</u>

10. FINANCING ARRANGEMENTS

Long-term debt revenue bond activity for the year ended March 31, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One Year</u>	<u>Ending Balance</u>
Series 1998 / 2010C revenue refunding bonds maturing in annual amounts ranging from \$340,000 to \$395,000 through 2020 bearing interest ranging from 2.28% to 3.38%.	\$ 1,125,000	\$ -	\$ (360,000)	\$ (370,000)	\$ 395,000
Series 2015 bonds maturing in annual amounts ranging from \$225,000 to \$490,000 through 2041 bearing interest ranging from 2.00% to 4.50%.	8,295,000	-	(245,000)	(250,000)	7,800,000
Less: Unamortized bond discount	<u>(71,813)</u>	<u>-</u>	<u>3,100</u>	<u>-</u>	<u>(68,713)</u>
Long-term revenue bond liabilities	<u>\$ 9,348,187</u>	<u>\$ -</u>	<u>\$ (601,900)</u>	<u>\$ (620,000)</u>	<u>\$ 8,126,287</u>

Long-term debt revenue bond activity for the year ended March 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One Year</u>	<u>Ending Balance</u>
Series 1998 / 2010C revenue refunding bonds maturing in annual amounts ranging from \$340,000 to \$395,000 through 2020 bearing interest ranging from 2.28% to 3.38%.	\$ 1,475,000	\$ -	\$ (350,000)	\$ (360,000)	\$ 765,000
Series 2015 bonds maturing in annual amounts ranging from \$225,000 to \$490,000 through 2041 bearing interest ranging from 2.00% to 4.50%.	8,520,000	-	(225,000)	(245,000)	8,050,000
Less: Unamortized bond discount	<u>(74,913)</u>	<u>-</u>	<u>3,100</u>	<u>-</u>	<u>(71,813)</u>
Long-term revenue bond liabilities	<u>\$ 9,920,087</u>	<u>\$ -</u>	<u>\$ (571,900)</u>	<u>\$ (605,000)</u>	<u>\$ 8,743,187</u>

10. FINANCING ARRANGEMENTS (Continued)

Loans and Contract Payable

In 2007, the Authority entered into a loan payable with Key Bank for \$3,250,000 with interest at 65% of the adjusted LIBOR rate, which is defined as LIBOR plus 1.15%. In order to reduce the impact of changes in interest rates on this loan the Authority entered into an interest rate swap contract (the Swap). The loan associated with the Swap was paid in full during fiscal year 2017. The Swap qualified as a cash flow hedge under generally accepted accounting principles. As such, the Authority assumed no ineffectiveness in the Swap due to the fact that, among other things, the notional amount of the Swap matched the principal amount of the related debt, the variable rate that the Authority receives under the Swap matched the variable rate of the related debt and the maturity date of the Swap matched the maturity date of the related debt.

Loans payable activity for the year ended March 31, 2018 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Due Within <u>One Year</u>	Ending <u>Balance</u>
Unsecured loan payable to the State of New York in annual payments of \$50,000 through March 2040. This loan does not bear interest.	\$ 1,114,000	\$ -	\$ (50,000)	\$ (50,000)	\$ 1,014,000
Loan payable to the U.S. Department of Agriculture Rural Development in annual payments of \$91,104, including interest at 4.50% through April 2036. The Authority's regional waterline assets secure this loan.	1,146,673	-	(39,503)	(41,281)	1,065,889
Note payable to NYS Housing Trust Fund. Principal is due in full on December 31, 2038 and is only payable upon loan repayment from ultimate loan recipient. This note does not bear interest. Funds were used to make an economic development loan.	600,000	-	-	-	600,000
Unsecured note payable to the Village of Cape Vincent requiring quarterly payments ranging from \$7,028 to \$7,100, including interest at 2.0% through March 2049.	<u>663,584</u>	<u>-</u>	<u>(15,075)</u>	<u>(15,359)</u>	<u>633,150</u>
Loans payable	<u>\$ 3,524,257</u>	<u>\$ -</u>	<u>\$ (104,578)</u>	<u>\$ (106,640)</u>	<u>\$ 3,313,039</u>

10. FINANCING ARRANGEMENTS (Continued)

Loans and Contract Payable (Continued)

Loans and contract payable activity for the year ended March 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One Year</u>	<u>Ending Balance</u>
Unsecured loan payable to the State of New York in annual payments of \$50,000 through March 2040. This loan does not bear interest.	\$ 1,164,000	\$ -	\$ (50,000)	\$ (50,000)	\$ 1,064,000
Loan payable to the U.S. Department of Agriculture Rural Development in annual payments of \$91,104, including interest at 4.50% through April 2036. The Authority's regional waterline assets secure this loan.	1,184,476	-	(37,803)	(39,504)	1,107,169
Note payable to NYS Housing Trust Fund. Principal is due in full on December 31, 2038 and is only payable upon loan repayment from ultimate loan recipient. This note does not bear interest. Funds were used to make an economic development loan.	600,000	-	-	-	600,000
Unsecured note payable to the Village of Cape Vincent requiring quarterly payments ranging from \$7,028 to \$7,100, including interest at 2.0% through March 2049.	678,373	-	(14,789)	(15,075)	648,509
Loan payable repaid in 2017	<u>313,598</u>	<u>-</u>	<u>(313,598)</u>	<u>-</u>	<u>-</u>
Loans payable	<u>\$ 3,940,447</u>	<u>\$ -</u>	<u>\$ (416,190)</u>	<u>\$ (104,579)</u>	<u>\$ 3,419,678</u>

10. FINANCING ARRANGEMENTS (Continued)

Future Minimum Payments

The future minimum payments for the Authority's financing arrangements are as follows as of March 31, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 726,640	\$ 335,378	\$ 1,062,018
2020	763,783	316,524	1,080,307
2021	376,008	295,662	671,670
2022	383,323	287,439	670,762
2023	390,726	287,020	668,746
2024 – 2028	2,124,325	1,228,137	3,352,462
2029 – 2033	2,447,997	902,255	3,350,252
2034 – 2038	2,661,121	502,485	3,163,606
2039 – 2043	2,202,609	103,931	2,306,540
2044 – 2048	130,555	10,695	141,250
2049	<u>27,590</u>	<u>552</u>	<u>28,142</u>
	<u>12,234,678</u>	<u>4,261,077</u>	<u>16,495,755</u>

Interest Paid

Interest paid on all financing arrangements during 2018 and 2017 was \$336,867 and \$372,184, respectively.

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Authority entered into a lease agreement with the New York State Office of General Services (NYSOGS) for office space effective July 1, 2017 and expiring on June 30, 2020. Under the terms of the lease, monthly payments of \$8,884 are required. Amounts due under this commitment are as follows for the years ending March 31:

2019	106,613
2020	106,613
2021	<u>26,653</u>
	<u>\$ 239,879</u>

Under the prior lease agreement with NYSOGS, the Authority made quarterly payments of \$24,463, which expired upon commencement of the new lease agreement.

Total rental expense charged to operations amounted to \$99,591 and \$99,592 during the years ended March 31, 2018 and 2017, respectively.

Contingencies

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

12. MATERIALS MANAGEMENT FACILITY

Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require the Authority to place a final cover on its Materials Management Facility (the Facility) landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure costs are incurred in phases as needed and post-closure care costs will be paid near or after the date that the landfill stops accepting waste. The Authority reports a portion of these closure and post-closure care costs as a liability in each period based on landfill capacity used as of the statement of net position date. The \$16,603,174 reported as landfill closure and post-closure care liability at March 31, 2018 represents the cumulative amount reported to date based on the use of 77% of the estimated capacity of the landfill. The Authority will recognize the remaining estimated cost of closure and post-closure care of approximately \$5,060,000 as the remaining estimated capacity is filled. These amounts are based on what it is estimated it would cost to perform all closure and post-closure care through 2057. The Authority expects to close the currently permitted landfill in 2027. Actual costs may differ due to inflation, changes in technology, or changes in regulations.

The Authority is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The Authority is in compliance with these requirements, and, at March 31, 2018, investments of \$16,610,461 are held for these purposes. These investments are reported in restricted assets on the statement of net position. The Authority expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

Replacement

The Authority charges various tipping fees depending on the type of waste accepted at the Facility. Included in the tipping fee are charges per ton for the replacement of the Facility's equipment and infrastructure. The Authority considers the funds collected from these fees as restricted net assets as the Facility needs to replace capital assets in order to meet the future revenue bonds debt service payments. In 2018 and 2017, tipping fees of approximately \$892,300 and \$1,103,500, respectively, were set aside for replacement. These charges have been recorded as revenue in the accompanying Statement of Revenue, Expenses and Change in Net Position and in restricted net position in the accompanying Statement of Net Position. As funds are expended for their specific purpose they are reclassified to capital assets.

Wetlands Mitigation

In 2015, the Authority established a wetlands mitigation account in order to fund the future expansion of the Facility. The Authority considers these to be restricted net assets as the Facility is required by law to mitigate the wetlands at the Facility in order to expand. The balance in this reserve was \$2,090,538 and \$2,058,132 at March 31, 2018 and 2017.

Investment Income

The Authority has set aside funds in order to meet the future financial obligations of the Facility including closure and post-closure costs, replacement and debt repayments. Investment income on these funds is recorded as revenue/(loss) in the accompanying Statement of Revenue, Expenses and Change in Net Position and amounted to approximately \$518,000 and \$80,900 in 2018 and 2017, respectively.

13. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

The Authority participates in the New York State and Local Employee's Retirement System (ERS) also referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer retirement system, providing retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), established to hold all net assets and record changes in plan net position allocated to the System. System benefits are established under the provisions of the New York Retirement and Social Security Law (RSSL). Once an employer elects to participate in the System, the election is irrevocable.

The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Contributions

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% 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. Under the authority of the RSSL, 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 approximately:

2018	\$684,000
2017	\$659,000
2016	\$721,000

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

At March 31, 2018, the Authority reported a liability of \$1,648,794 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2018, the Authority's proportion was 0.0175474%.

13. PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the years ended March 31, 2018 and March 31, 2017, the Authority recognized pension expense of approximately \$943,000 and \$968,000, respectively.

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

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 41,317	\$ 250,379
Changes in assumptions	563,288	-
Net difference between projected and actual earnings on pension plan investments	329,331	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	27,373	34,714
Contributions subsequent to measurement date	<u>683,563</u>	<u>-</u>
	<u>\$ 1,644,872</u>	<u>\$ 285,093</u>

At March 31, 2017, the Authority reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 13,694	\$ 321,214
Changes in assumptions	722,650	-
Net difference between projected and actual earnings on pension plan investments	1,607,664	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	8,277	10,388
Contributions subsequent to measurement date	<u>659,418</u>	<u>-</u>
	<u>\$ 3,011,703</u>	<u>\$ 331,602</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows for the Plan's year ended March 31:

2018	\$ 310,390
2019	310,390
2020	278,151
2021	<u>(222,715)</u>
	<u>\$ 676,216</u>

The Authority recognized \$683,563 as deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2018, which will be recognized as a reduction of the net pension liability in the year ended March 31, 2019.

13. PENSION PLAN (Continued)

Actuarial Assumptions

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

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Actuarial cost method	Entry age normal	Entry age normal
Inflation	2.5%	2.5%
Salary scale	3.8% indexed by service	3.8% indexed by service
Investment rate of return	7.0% compounded annually, net of investment expenses	7.0% compounded annually, net of investment expenses
Projected cost of living adjustments	1.3% compounded annually	1.3% compounded annually
Decrements	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014	Society of Actuaries Scale MP-2014

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of March 31, 2017 are summarized in the following table:

<u>Asset type</u>	<u>Target allocations</u>	<u>Long-term expected real rate of return</u>
Domestic equity	36%	4.55%
International equity	14%	6.35%
Private equity	10%	7.75%
Real estate	10%	5.80%
Absolute return	2%	4.00%
Opportunistic portfolio	3%	5.89%
Real asset	3%	5.54%
Bonds and mortgages	17%	1.31%
Cash	1%	(0.25)%
Inflation-indexed bonds	<u>4%</u>	1.50%
	<u>100%</u>	

13. PENSION PLAN (Continued)

Discount Rate

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

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

The following presents the Authority's proportionate share of the net pension (liability) asset calculated using the discount rate of 7.0% at both March 31, 2018 and 2017, respectively, as well as what the Authority's proportionate share of the net pension (liability) asset would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

	2018		
	1% Decrease (6.0%)	Current assumption (7.0%)	1% Increase (8.0%)
Proportionate share of net pension asset (liability)	\$ (5,265,921)	\$ (1,648,794)	\$ 1,409,480

	2017		
	1% Decrease (6.0%)	Current assumption (7.0%)	1% Increase (8.0%)
Proportionate share of net pension asset (liability)	\$ (6,110,636)	\$ (2,709,904)	\$ 163,570

Pension Plan Fiduciary Net Position

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

	Pension Plan's fiduciary net position	Authority's proportionate share of Plan's fiduciary assumption net position	Authority's allocation percentage as determined by the Plan
Total pension liability	\$ 177,400,586,000	\$ 31,129,210	0.0175474%
Net position	(168,004,363,000)	(29,480,416)	0.0175474%
Net pension liability (asset)	\$ 9,396,223,000	\$ 1,648,794	0.0175474%
Fiduciary net position as a percentage of total pension liability	94.7%	94.7%	

14. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Authority provides for postretirement medical benefits to retiring employees after 15 years of service. Employees hired on or after April 1, 2008 will be required to complete 20 years of service. When a retiree reaches age 65, Medicare will provide primary coverage, except as otherwise provided by law. The Plan can be amended by action of the Authority and its Board of Directors. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The Plan has 57 participants, nine of whom are retired.

Funding Policy

As of the date of these financial statements, New York State did not yet have legislation that would enable government entities to establish a Governmental Accounting Standards Board (GASB) qualifying trust for the purpose of funding other post-employment benefits (OPEB) benefits. For this reason the Authority has not funded its OPEB benefits. However, the Authority did, by Board resolution, establish a designated investment fund for this purpose. As of March 31, 2018 and 2017, this account had a market value of \$4,188,306 and \$3,792,460, respectively. Pending such legislation, the Authority intends to transfer these funds into a qualifying OPEB reserve fund.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation:

	<u>2018</u>	<u>2017</u>
Annual required contribution	\$ 469,377	\$ 469,377
Interest on net OPEB obligation	60,494	45,754
Adjustment to ARC	<u>-</u>	<u>-</u>
Annual OPEB cost	529,871	515,131
Contributions made	<u>(47,400)</u>	<u>(54,609)</u>
Increase in net OPEB obligation	482,471	460,522
Net OPEB obligation - beginning of year	<u>3,795,741</u>	<u>3,335,219</u>
Net OPEB obligation - end of year	<u>\$ 4,278,212</u>	<u>\$ 3,795,741</u>

Percentage of Annual OPEB Cost

Contributed 5.0%

14. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Accrued Liability (AAL) at March 31, 2016	<u>\$ 4,205,805</u>
Covered payroll	<u>\$ 2,768,540</u>
Ratio of unfunded AAL to covered payroll	<u>151.9%</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the March 31, 2016 actuarial valuation, the following methods and assumptions were used:

Actuarial Cost Method	Entry Age Actuarial Accrued Liability Cost Method
Discount Rate	4.0%
Medical Care Cost Trend Rate	5.0% blended rate
Unfunded Actuarial Accrued Liability (AAL)	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

Schedule of Funding Progress

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
March 31, 2016	\$ -	\$ 4,205,805	\$ 4,205,805	0.0%	\$ 2,768,540	151.9%
March 31, 2013	\$ -	\$ 3,167,367	\$ 3,167,367	0.0%	\$ 3,773,859	83.9%
March 31, 2010	\$ -	\$ 2,393,349	\$ 2,393,349	0.0%	\$ 2,609,714	91.7%

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SUPPLEMENTAL SCHEDULE OF REVENUE, EXPENSES AND CHANGE IN NET POSITION BY DEPARTMENT
FOR THE YEAR ENDED MARCH 31, 2018

	General and Administration	Solid Waste Management Facility	Water and Waste Water Operations	Telecommunications Network	Housing and Economic Development	Engineering	Total
OPERATING REVENUE:							
Customer billings	\$ -	\$ 9,082,293	\$ 5,498,383	\$ 5,840,515	\$ 216,281	\$ 1,062,118	\$ 21,699,590
Grant revenue	-	295,747	-	-	2,366,324	-	2,662,071
Loan interest income	-	-	-	-	617,972	-	617,972
Other revenue	145,899	776,810	14,394	57,321	104,835	-	1,099,259
Total operating revenues	145,899	10,154,850	5,512,777	5,897,836	3,305,412	1,062,118	26,078,892
OPERATING EXPENSES:							
Depreciation and amortization	216,299	5,616,792	772,654	4,382,518	-	26,522	11,014,785
Salaries	50,062	1,671,034	1,145,029	1,257,669	412,491	647,761	5,184,046
Fringe benefits	72,248	881,277	598,094	490,869	190,532	268,420	2,501,440
Operation and maintenance	8,118	1,252,293	65,479	1,200,699	15,982	98,359	2,640,930
Wastewater treatment	-	391,619	1,247,562	-	-	-	1,639,181
Water purchases	-	-	539,783	-	-	-	539,783
Community benefits	-	745,121	-	-	20,758	-	765,879
Closure and post-closure costs	-	640,861	-	-	-	-	640,861
Grant	-	-	-	-	524,872	-	524,872
Office and administrative	139,376	72,445	47,886	109,623	12,107	58,653	440,090
Insurance	18,274	149,906	69,790	106,750	-	13,488	358,208
Bad debt	-	-	-	-	245,150	-	245,150
Automobile	564	28,350	142,117	65,316	-	18,996	255,343
Utilities	-	63,900	94,694	3,096	-	-	161,690
Materials and supplies	-	237,040	-	-	-	-	237,040
Professional fees	72,893	20,394	2,690	22,455	254,997	-	373,429
Computer	116,032	10,916	9,415	15,686	-	48,950	200,999
NYS administrative assessment	-	50,876	32,486	33,122	-	5,516	122,000
Repairs and maintenance	-	20,033	142,387	-	-	-	162,420
Engineering allocation	-	26,709	32,981	15,008	11,184	(85,882)	-
Administrative allocation	(416,092)	145,982	100,144	125,537	40,518	3,911	-
Total operating expenses	277,774	12,025,548	5,043,191	7,828,348	1,728,591	1,104,694	28,008,146
Total operating income	(131,875)	(1,870,698)	469,586	(1,930,512)	1,576,821	(42,576)	(1,929,254)
NON-OPERATING REVENUE (EXPENSE):							
Interest income	139,364	517,956	29,843	118,268	139,021	-	944,452
Gain on sale of capital assets, net	23,100	6,100	-	-	-	-	29,200
Interest expense	-	(269,081)	(66,621)	-	-	-	(335,702)
Total non-operating revenue (expense)	162,464	254,975	(36,778)	118,268	139,021	-	637,950
CHANGE IN NET POSITION	\$ 30,589	\$ (1,615,723)	\$ 432,808	\$ (1,812,244)	\$ 1,715,842	\$ (42,576)	\$ (1,291,304)

The accompanying notes are an integral part of these schedules.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SUPPLEMENTAL SCHEDULE OF NORTH COUNTRY ECONOMIC DEVELOPMENT
FUND ACTIVITY
FOR THE YEAR ENDED MARCH 31, 2018

	<u>Total</u>
Funds held for others - beginning of year	\$ 10,187,015
Loan interest income	43,029
Investment income	99,230
Mark to market adjustment	(12,022)
Investment fees	(3,690)
Consulting expense	(8,000)
Bad debt expense	<u>(219,937)</u>
Change in fund	<u>(101,390)</u>
Funds held for others - end of year	<u>\$ 10,085,625</u>
Assets held for North County Economic Development	
Investments	\$ 7,691,710
Loan interest receivable	3,702
Loans receivable	<u>2,390,213</u>
	<u>\$ 10,085,625</u>
Funds held for others	<u>\$ 10,085,625</u>

The accompanying notes are an integral part of these schedules.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)
FOR THE YEAR ENDED MARCH 31, 2018**

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of the net pension liability (asset)	0.018%	0.017%	0.017%							
Proportionate share of the net pension liability (asset)	\$ 1,648,794	\$ 2,709,904	\$ 565,635							
Covered-employee payroll	\$ 4,620,918	\$ 4,355,501	\$ 4,052,840							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	35.68%	62.22%	13.96%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.70%	90.70%	97.90%							

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

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)
FOR THE YEAR ENDED MARCH 31, 2018

NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN	Last 10 Fiscal Years									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 683,563	\$ 659,418	\$ 601,067							
Contributions in relation to the contractually required contribution	<u>683,563</u>	<u>659,418</u>	<u>601,067</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Covered-employee payroll	\$ 4,620,918	\$ 4,355,501	\$ 4,052,840							
Contributions as a percentage of covered-employee payroll	14.79%	15.14%	14.83%							

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

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

June 21, 2018

To the Board of Directors of the
Development Authority of the North Country:

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 Development Authority of the North Country (the Authority) (a public benefit corporation of the State of New York), as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 21, 2018.

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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(Continued)

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

Compliance and Other Matters

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

Purpose of this Report

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

June 21, 2018

To the Board of Directors of the
Development Authority of the North Country

Report on Compliance for Each Major Federal Program

We have audited the Development Authority of the North Country's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended March 31, 2018. The Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2018.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(Continued)

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2018**

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grant or Pass Through Number</u>	<u>Expenditures to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through Jefferson County:				
Home Investment Partnerships Program	14.239	M17-DC360512	\$ 569,414	\$ 600,414
Passed through Ogdensburg:				
Community Development Block Grant	14.228	CDBG-836HR320-14	90,905	102,282
Passed through Town of Wilna:				
Community Development Block Grant	14.228	1259HR333-16	89,300	104,290
Passed through Massena:				
Community Development Block Grant	14.228	711HO329-16	<u>203,370</u>	<u>253,980</u>
Total Community Development Block Grants			<u>383,575</u>	<u>460,552</u>
Total U.S. Department of Housing and Urban Development:			952,989	1,060,966
U.S. DEPARTMENT OF DEFENSE:				
Direct:				
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	HQ00051610007	N/A	<u>328,620</u>
Total expenditures of federal awards				<u>\$ 1,389,586</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

General

The schedule of expenditures of federal awards presents the activity of all federal award programs of Development Authority of the North Country. The schedule includes expenditures of federal programs received directly from federal agencies, as well as federal assistance passed through other organizations. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

Basis of Accounting

The accompanying schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States of America and amounts presented are derived from the Authority's general ledger.

Indirect and Matching Costs

Indirect costs may be included in the reported expenditures to the extent that they are included in the federal financial reports used as the source for the data presented. Matching costs (the Authority's share of certain program costs) are not included in the reported expenditures.

The Authority did not elect to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED MARCH 31, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unmodified opinion on whether the financial statements of the Development Authority of the North Country (the Authority) are prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Authority, which would be required to be reported with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies related to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report expresses an unmodified opinion on compliance for the major federal award program for the Authority.
6. There were no audit findings relative to the major federal award program for the Authority.
7. The program tested as a major program was Home Investment Partnerships Program, CFDA #14.239
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Authority was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None