

BUFFALO SEWER AUTHORITY

*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Federal
Awards Information for the Year Ended June 30, 2020 and
Independent Auditors' Reports*

BUFFALO SEWER AUTHORITY
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Year Ended June 30, 2020

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The General Manager and Members
of the Buffalo Sewer Authority Board
Buffalo, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Buffalo Sewer Authority, New York (the "Authority"), as of and for the year ended June 30, 2020, 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

The Authority's 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

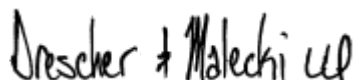
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards 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 Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



September 30, 2020

BUFFALO SEWER AUTHORITY
Management's Discussion and Analysis
Year Ended June 30, 2020

As management of the Buffalo Sewer Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2020. This document should be read in conjunction with additional information that we have furnished in the Authority's financial statements and notes to the financial statements, which follow this narrative.

Financial Highlights

- ◆ The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources as of June 30, 2020 by \$285,292,674 (*net position*). This consists of \$290,093,932 net investment in capital assets and unrestricted net position of \$(4,801,258).
- ◆ The Authority's net position increased by \$4,485,878 for the year ended June 30, 2020.
- ◆ At the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$76,302,567, a decrease of \$8,629,255 in comparison with the prior year's fund balance of \$84,931,822.
- ◆ At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$10,000,000, or approximately 17.3 percent of total General Fund expenditures and transfers out. This total amount is *available for spending* at the Authority's discretion and constitutes approximately 31.5 percent of the General Fund's total fund balance of \$31,727,749 at June 30, 2020.
- ◆ The Authority's total bonded indebtedness decreased by \$1,770,000, as a result of scheduled principal payments.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements—The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a matter similar to private-sector business.

The *statement of net position* presents information on all of the Authority's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected charges and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Authority include general administration, wastewater treatment facilities, industrial waste, engineering, sewer maintenance and interest and fiscal charges. The Authority does not engage in any business-type activities.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements—A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds—*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General Projects Fund, and Debt Service Fund, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 13-16 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the Authority. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Authority's own programs. The Authority is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Authority maintains one fiduciary fund, the Agency Fund.

The fiduciary fund statement can be found on page 17 of this report.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-45 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* concerning the Authority’s net pension liability, the changes in the Authority’s total other postemployment benefits (“OPEB”) obligation, and the Authority’s budgetary comparison for the General Fund. Required Supplementary Information can be found on pages 46-50 of this report.

The Schedule of Investments is presented immediately following the Required Supplementary Information in the Supplementary Information section of this report on page 51.

Finally, the Federal Award Information section presents the Authority’s Schedule of Expenditures of Federal Awards. This section can be found on pages 52-59 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government’s financial position. In the case of the Authority, assets and deferred outflows exceeded liabilities and deferred inflows by \$285,292,674 at June 30, 2020 as compared to \$280,806,796 at the close of the fiscal year ended June 30, 2019.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

Table 1—Condensed Statements of Net Position

	June 30,	
	2020	2019
Current assets	\$ 97,434,415	\$ 99,998,770
Capital assets	333,077,762	323,497,592
Total assets	430,512,177	423,496,362
Deferred outflows of resources	19,373,213	13,089,392
Current liabilities	22,438,080	16,300,057
Noncurrent liabilities	130,445,179	127,285,574
Total liabilities	152,883,259	143,585,631
Deferred inflows of resources	11,709,457	12,193,327
Net Position:		
Net investment in capital assets	290,093,932	285,382,764
Unrestricted	(4,801,258)	(4,575,968)
Total net position	\$ 285,292,674	\$ 280,806,796

The largest portion of the Authority’s net position, \$290,093,932, reflects its investment in capital assets (such as land, buildings, machinery and equipment, etc.), less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the Authority’s investment in capital assets is

assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining portion of the Authority's net position, \$(4,801,258), is considered to be unrestricted. This deficit is the result of having long-term commitments, including bonds payable, compensated absences, net pension liability, and other postemployment benefit obligations that are greater than currently available resources. Payments for these liabilities will be budgeted in the year that actual payment will be made.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2020 and June 30, 2019.

Table 2—Condensed Statement of Changes in Net Position

	Year Ended June 30,	
	2020	2019
Program revenues:		
Charges for services	\$ 51,083,531	\$ 54,353,821
Capital grants and contributions	2,153,231	1,535,958
General revenues	2,169,438	2,378,267
Total revenues	<u>55,406,200</u>	<u>58,268,046</u>
Program expenses	<u>50,920,322</u>	<u>48,827,418</u>
Change in net position	4,485,878	9,440,628
Net position—beginning	280,806,796	271,366,168
Net position—ending	<u>\$ 285,292,674</u>	<u>\$ 280,806,796</u>

Overall revenues decreased 4.9 percent from the year ended June 30, 2019 due to a decrease in charges for services related to the billings from outside districts. Total expenses increased 4.3 percent from the year ended June 30, 2019, due to increases to wastewater treatment facilities related to increased maintenance expenditures.

A summary of sources of revenues for the years ended June 30, 2020 and June 30, 2019 is presented below in Table 3.

Table 3—Summary of Sources of Revenues

	Year Ended June 30,		Increase/(decrease)	
	2020	2019	Dollars	Percent
Charges for services	\$ 51,083,531	\$ 54,353,821	\$ (3,270,290)	(6.0)
Capital grants and contributions	2,153,231	1,535,958	617,273	40.2
Unrestricted investment earnings	2,070,426	2,297,237	(226,811)	(9.9)
Miscellaneous	99,012	81,030	17,982	22.2
Total revenues	<u>\$ 55,406,200</u>	<u>\$ 58,268,046</u>	<u>\$ (2,861,846)</u>	(4.9)

For the year ended June 30, 2020, the most significant source of revenues was charges for services, which accounted for \$51,083,531, or 92.2 percent of total revenues. The next largest source of revenue was capital grants and contributions of \$2,153,231, or 3.9 percent of total revenues. For the year ended June 30, 2019, the most significant source of revenues was charges for services, which accounted for \$54,353,821, or 93.3 percent of total revenues. The next largest source of revenue was unrestricted investments earnings of \$2,297,237, or 3.9 percent of total revenues.

A summary of program expenses for the years ended June 30, 2020 and June 30, 2019 is presented below in Table 4.

Table 4—Summary of Program Expenses

	Year Ended June 30,		Increase/(decrease)	
	2020	2019	Dollars	Percent
General administration	\$ 2,809,113	\$ 2,528,731	\$ 280,382	11.1
Wastewater treatment facilities	39,206,343	37,505,923	1,700,420	4.5
Industrial waste	941,024	795,388	145,636	18.3
Engineering	1,638,798	1,483,986	154,812	10.4
Sewer maintenance	4,670,600	4,780,979	(110,379)	(2.3)
Interest and other fiscal charges	1,654,444	1,732,411	(77,967)	(4.5)
Total program expenses	<u>\$ 50,920,322</u>	<u>\$ 48,827,418</u>	<u>\$ 2,092,904</u>	4.3

For the year ended June 30, 2020, the Authority's most significant expense items were wastewater treatment facilities of \$39,206,343, or 77.0 percent of total expenses (primarily sewer, water, and sanitation services) and sewer maintenance costs of \$4,670,600, or 9.2 percent of total expenses. For the year ended June 30, 2019, the Authority's most significant expense items were wastewater treatment facilities of \$37,505,923, or 76.8 percent of total expenses (primarily sewer, water, and sanitation services) and sewer maintenance costs of \$4,780,979, or 9.8 percent of total expenses.

Financial Analysis of the Authority's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the Authority itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the Board.

At June 30, 2020, the Authority's governmental funds reported combined ending fund balances of \$76,302,567, a decrease of \$8,629,255 from the prior year. Approximately 13.1 percent of this amount, \$10,000,000, constitutes *unassigned fund balance*, which is available for spending at the Authority's discretion. The remainder of fund balance is either *nonspendable*, *restricted* or *committed* to indicate that it is 1) not in spendable form, \$179,925, 2) restricted for particular purposes, \$4,352,946 or 3) committed for particular purposes \$61,769,696.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$10,000,000, while the total fund balance decreased by \$2,948,449 to \$31,727,749. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total General Fund expenditures and transfers out. Unassigned fund balance represents approximately 17.3 percent of total General Fund expenditures and transfers out, while total fund balance represents approximately 54.8 percent of that same amount.

As stated, the Authority's total fund balance in the General Fund decreased by \$2,948,449 during the current year, which compares to an anticipated use of \$6,254,871 of fund balance from funds re-appropriated by prior year's encumbrances. Normal operational efficiencies provided budgetary savings with regards to expenditures, these savings helped to fund additional transfers to the General Projects Fund.

The General Projects Fund has a total fund balance of \$40,221,872 a decrease of \$5,680,813 from the prior year. During the year ended June 30, 2020, the Authority's General Fund transferred \$13,275,656 to the General Projects Fund to support ongoing capital projects. The Authority spent \$19,426,726 from the General Projects Fund for capital outlay. The committed fund balance represents \$40,221,872 to fund future capital projects.

Fund balance in the Debt Service Fund at June 30, 2020 is \$4,352,946. All of the fund balance within the Debt Service Fund is restricted for future debt payments.

General Fund Budgetary Highlights

The Authority adopts an annual appropriated budget for the General Fund. The adopted budget is allowed to be amended upward (increase) for prior year's encumbrances since the funds were allocated under the previous year's budget, and the Authority has appropriately committed an equal amount of fund balance at year-end for this purpose. A budgetary comparison schedule within the Required Supplementary Information section of this report has been provided to demonstrate compliance with the budget.

A summary of the General Fund results of operations for the year ended June 30, 2020 is presented in Table 5 below:

Table 5—Summary of General Fund Results of Operations for the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Budgetary</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Revenues and other financing sources	\$ 57,950,000	\$ 57,959,551	\$ 54,935,936	\$ (3,023,615)
Expenditures and other financing uses	<u>64,204,871</u>	<u>86,856,275</u>	<u>68,112,355</u>	<u>18,743,920</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (6,254,871)</u>	<u>\$ (28,896,724)</u>	<u>\$ (13,176,419)</u>	<u>\$ 15,720,305</u>

Original budget compared to final budget—During the fiscal year, budgeted appropriations increased through budget amendments by \$22,767,805. Appropriations were increased primarily to increase transfers to the General Projects Fund, the amount for which was not known when the budget was adopted. These amendments were supported by the use of available fund balance.

Final budget compared to actual results—Actual expenditures during the year were significantly lower as a result of savings in wastewater treatment facilities largely related to utility efficiencies and savings realized within repairs and maintenance.

Capital Asset and Debt Administration

Capital Assets—The Authority’s investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$333,077,762 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, building improvements, machinery and equipment, and sanitary and storm relief systems.

All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the Authority’s capital asset policy.

Capital assets net of depreciation for the governmental activities at the years ended June 30, 2020 and 2019 are presented in Table 6 below.

Table 6—Summary of Capital Assets (Net of Depreciation)

	June 30,	
	2020	2019
Land	\$ 10,586,171	\$ 10,586,171
Construction in progress	43,509,061	66,198,771
Buildings	133,810,917	121,936,450
Building improvements	4,967,218	5,359,876
Machinery & equipment	2,851,542	2,780,527
Sanitary & storm relief systems	137,352,853	116,635,797
Total	<u>\$ 333,077,762</u>	<u>\$ 323,497,592</u>

Additional information on the Authority’s capital assets can be found in Note 4 of this report.

Long-term liabilities—At June 30, 2020, the Authority had bonded debt outstanding of \$35,015,713, as compared to \$36,785,713 in the prior year.

A summary of the Authority’s long-term liabilities at June 30, 2020 and June 30, 2019 is presented in Table 7 below.

Table 7—Summary of Long-Term Liabilities

	June 30,	
	2020	2019
Bonds payable	\$ 35,015,713	\$ 36,785,713
Compensated absences	1,104,464	1,080,487
OPEB obligation	81,502,059	85,015,555
Judgments and claims	1,566,127	1,570,979
Net pension liability	11,256,816	2,832,840
	<u>\$ 130,445,179</u>	<u>\$ 127,285,574</u>

Additional information on the Authority’s long-term liabilities can be found in Note 10 of this report.

Economic Factors and Next Year's Budget and Rates

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. The extent of the impact of COVID-19 on the Authority's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, impact on patients, employees and vendors all of which cannot be predicted.

Largely as a result of the pandemic the unemployment rate, not seasonally adjusted, for the region at June 30, 2020 was 13.7 percent. This compares to New York State's average unemployment rate of 15.7 percent. These factors are considered in preparing the Authority's budget.

Considering the condition of the General and General Projects Funds, respectively, the Authority's overall financial position decreased during the fiscal year ended June 30, 2020. Total appropriations within the 2020-2021 adopted budget are \$59,750,000, an increase of 3.1 percent from the 2019-2020 adopted budget, and are projected to be funded solely by revenues. Consequently, the Authority is not required to designate any of the unassigned General Fund fund balance for spending in the subsequent year.

The Authority's five-year capital plan requires \$387 million of future appropriations. Management anticipates financing the aforementioned plan through the current designation, future contributions from operations and/or debt financing.

The Authority's primary source of revenues is derived from sewer rents. There are two types of sewer rents. Sewer rents based on assessed valuation of real estate and the other based on the use of water. All real property, both developed and undeveloped, must pay the sewer rent based on assessed valuation.

The levy of Sewer Rents based on assessed value will be \$12,050,000 for the 2020-2021 budget. This represents the amount of Sewer Rent that the Authority will collect from all real property in the City of Buffalo except those properties exempt by law. This amount, when spread over the total estimated assessment for sewer purposes from the Department of Assessment, will result in an annual sewer rent of \$0.94552260 for each for each \$1,000 of assessed valuation.

Sewer rents based on water use are billed as flat rate or metered accounts. Flat rate sewer rents continue to be charged based on property characteristics (i.e. number of stories, front footage, etc.). There will be no increases to those charges. The sewer rent meter charges will continue at the same rate of \$11.09 per 1,000 cubic feet. All flat and meter accounts will continue to be assessed a capacity/drainage charge at a minimum of \$6.00 per month

Contacting the Authority's Financial Management

This financial report is designed to provide citizens, ratepayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability. Questions concerning this report or requests for additional financial information should be directed toward the Buffalo Sewer Authority, General Manager, 1038 City Hall, Buffalo, New York 14202.

BASIC FINANCIAL STATEMENTS

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BUFFALO SEWER AUTHORITY
Statement of Net Position
June 30, 2020

	Primary Government Governmental Activities
ASSETS	
Cash, cash equivalents and investments	\$ 26,200,169
Designated cash, cash equivalents and investments	54,902,669
Restricted cash, cash equivalents and investments	4,563,718
Receivables (net of allowance for uncollectibles)	11,587,764
Intergovernmental receivables	170
Prepaid items	179,925
Capital assets not being depreciated	54,095,232
Capital assets, net of accumulated depreciation	278,982,530
Total assets	<u>430,512,177</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows—relating to pension plans	7,326,860
Deferred outflows—relating to OPEB	12,046,353
Total deferred outflows of resources	<u>19,373,213</u>
LIABILITIES	
Accounts payable	7,036,697
Interest payable	343,046
Accrued liabilities	1,092,398
Intergovernmental payables	412,642
EFC note payable	12,321,063
Retainages payable	1,021,462
Unearned revenues	210,772
Noncurrent liabilities:	
Due within one year	1,943,529
Due within more than one year	128,501,650
Total liabilities	<u>152,883,259</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows—relating to pension plans	339,553
Deferred inflows—relating to OPEB	11,369,904
Total deferred inflows of resources	<u>11,709,457</u>
NET POSITION	
Net investment in capital assets	290,093,932
Unrestricted	(4,801,258)
Total net position	<u><u>\$ 285,292,674</u></u>

The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Statement of Activities
Year Ended June 30, 2020

Functions/programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Capital Grants and Contributions	Revenue and Changes in Net Position
				Primary Government Governmental Activities
Governmental activities:				
General administration	\$ 2,809,113	\$ 2,912,754	\$ -	\$ 103,641
Wastewater treatment facilities	39,206,343	40,652,852	-	1,446,509
Industrial waste	941,024	975,743	-	34,719
Engineering	1,638,798	1,699,261	-	60,463
Sewer maintenance	4,670,600	4,842,921	2,153,231	2,325,552
Interest and fiscal charges	1,654,444	-	-	(1,654,444)
Total governmental activities	<u>\$ 50,920,322</u>	<u>\$ 51,083,531</u>	<u>\$ 2,153,231</u>	<u>2,316,440</u>
General revenues:				
Unrestricted investment earnings				2,070,426
Miscellaneous				99,012
Total general revenues				<u>2,169,438</u>
Change in net position				4,485,878
Net position—beginning				<u>280,806,796</u>
Net position—ending				<u>\$ 285,292,674</u>

The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Balance Sheet—Governmental Funds
June 30, 2020

	<u>General</u>	<u>General Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash, cash equivalents and investments	\$ 26,200,169	\$ -	\$ -	\$ 26,200,169
Designated cash, cash equivalents and investments	11,319,854	43,582,815	-	54,902,669
Restricted cash, cash equivalents and investments	210,772	-	4,352,946	4,563,718
Receivables (net of allowance for uncollectibles)	11,587,764	-	-	11,587,764
Due from other funds	8,209	13,275,656	-	13,283,865
Intergovernmental receivables	170	-	-	170
Prepaid items	179,925	-	-	179,925
Total assets	<u>\$ 49,506,863</u>	<u>\$ 56,858,471</u>	<u>\$ 4,352,946</u>	<u>\$ 110,718,280</u>
LIABILITIES				
Accounts payable	\$ 2,787,646	\$ 4,249,051	\$ -	\$ 7,036,697
Accrued liabilities	1,092,398	-	-	1,092,398
Due to other funds	13,275,656	8,209	-	13,283,865
Intergovernmental payables	412,642	-	-	412,642
EFC note payable	-	12,321,063	-	12,321,063
Retainages payable	-	58,276	-	58,276
Unearned revenue	210,772	-	-	210,772
Total liabilities	<u>17,779,114</u>	<u>16,636,599</u>	<u>-</u>	<u>34,415,713</u>
FUND BALANCES				
Nonspendable	179,925	-	-	179,925
Restricted	-	-	4,352,946	4,352,946
Committed	21,547,824	40,221,872	-	61,769,696
Unassigned	10,000,000	-	-	10,000,000
Total fund balances	<u>31,727,749</u>	<u>40,221,872</u>	<u>4,352,946</u>	<u>76,302,567</u>
Total liabilities and fund balances	<u>\$ 49,506,863</u>	<u>\$ 56,858,471</u>	<u>\$ 4,352,946</u>	<u>\$ 110,718,280</u>

The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2020

Amounts reported for governmental activities in the statement of net position (page 11) are different because:

Total fund balances—governmental funds (page 13)	\$	76,302,567
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of these assets is \$621,873,767 and the accumulated depreciation is \$288,296,005.		333,077,762
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows related to employer contributions	\$	411,059	
Deferred outflows related to experience, changes of assumptions, and changes in proportion of contributions		6,915,801	
Deferred inflows related to pension plans		(339,553)	6,987,307

Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the fund statements:

Deferred outflows related to experience, changes of assumptions or other inputs	\$	12,046,353	
Deferred outflows related to experience, changes of assumptions or other inputs		(11,369,904)	676,449

Net accrued interest expense for bonds, notes and special program bonds not reported in the funds.	(343,046)
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Retainages payable are not a current liability and, therefore, are not reported in the funds.	(963,186)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effect of these items are:

Bonds payable	\$	(35,015,713)	
Compensated absences		(1,104,464)	
OPEB obligation		(81,502,059)	
Judgments and claims		(1,566,127)	
Net pension liability		(11,256,816)	(130,445,179)

Net position of governmental activities	\$	285,292,674
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The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Statement of Revenues, Expenditures, and Changes in
Fund Balances—Governmental Funds
Year Ended June 30, 2020

	<u>General</u>	<u>General Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES				
Sewer rents—general consumers	\$ 50,251,558	\$ -	\$ -	\$ 50,251,558
Interest on delinquent sewer rents	831,973	-	-	831,973
Interest on cash and investments	1,961,380	-	109,046	2,070,426
Miscellaneous	1,781,986	70,257	-	1,852,243
Federal aid	-	400,000	-	400,000
Total revenues	<u>54,826,897</u>	<u>470,257</u>	<u>109,046</u>	<u>55,406,200</u>
EXPENDITURES				
Current:				
General administration	1,944,811	-	-	1,944,811
Wastewater treatment facilities	19,781,028	-	-	19,781,028
Industrial waste	651,492	-	-	651,492
Engineering	1,134,576	-	-	1,134,576
Sewer maintenance	3,778,964	-	-	3,778,964
Miscellaneous	4,026,708	-	-	4,026,708
Employee benefits	9,850,818	-	-	9,850,818
Debt service:				
Principal	-	-	1,770,000	1,770,000
Interest and fiscal charges	-	-	1,670,332	1,670,332
Capital outlay	-	19,426,726	-	19,426,726
Total expenditures	<u>41,168,397</u>	<u>19,426,726</u>	<u>3,440,332</u>	<u>64,035,455</u>
Excess (deficiency) of revenues over expenditures	<u>13,658,500</u>	<u>(18,956,469)</u>	<u>(3,331,286)</u>	<u>(8,629,255)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	109,039	13,275,656	3,440,332	16,825,027
Transfers out	(16,715,988)	-	(109,039)	(16,825,027)
Total other financing sources (uses)	<u>(16,606,949)</u>	<u>13,275,656</u>	<u>3,331,293</u>	<u>-</u>
Net change in fund balances	(2,948,449)	(5,680,813)	7	(8,629,255)
Fund balances—beginning	34,676,198	45,902,685	4,352,939	84,931,822
Fund balances—ending	<u>\$ 31,727,749</u>	<u>\$ 40,221,872</u>	<u>\$ 4,352,946</u>	<u>\$ 76,302,567</u>

The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances—Governmental Funds to the Government-wide Statement of Activities
Year Ended June 30, 2020

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances—total governmental funds (page 15) \$ (8,629,255)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which net capital outlays exceeded loss on disposal of assets and depreciation expense in the current period.

Capital asset additions, net	\$ 20,319,504	
Loss on disposal of assets	(104,989)	
Depreciation expense	<u>(10,634,345)</u>	9,580,170

Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:

Direct pension contributions	\$ 1,571,827	
Cost of benefits earned net of employee contributions	<u>(3,915,941)</u>	\$ (2,344,114)

Deferred outflows and inflows of resources relating to OPEB result from actuarial changes in the census and changes in medical premiums that are different than expected healthcare cost trend rates and due to changes in assumptions and other inputs. These amounts are shown net of the current year's amortization. 687,829

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 15,888

Governmental funds report retained percentages expenditures on construction contracts when such retained percentage is paid. However, in the statement of activities, retained percentages on construction contracts are reported as expenses as they accrue. (89,011)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Repayment of bonds payable	\$ 1,770,000	
Changes in compensated absences	(23,977)	
Changes in OPEB obligation	3,513,496	
Changes in judgments and claims	<u>4,852</u>	<u>5,264,371</u>
Change in net position of governmental activities		<u>\$ 4,485,878</u>

The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Statement of Fiduciary Net Position—Agency Fund
June 30, 2020

	<u>Agency Fund</u>
ASSETS	
Restricted cash and cash equivalents	\$ 5,746
Total assets	<u>\$ 5,746</u>
 LIABILITIES	
Bankruptcy funds held	\$ 5,746
Total liabilities	<u>\$ 5,746</u>

The notes to the financial statements are an integral part of this statement.

BUFFALO SEWER AUTHORITY
Notes to the Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Buffalo Sewer Authority, New York (the “Authority”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by sewer rents and taxes, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Authority reports no business-type activities or component units.

Reporting Entity

The Authority, a public benefit corporation, was created in 1935, by an Act of the State Legislature. The Authority is managed by a five-member board appointed by the Mayor of the City of Buffalo, New York (the “City”) subject to confirmation by the Common Council, and is regulated by the Public Authorities Law. It has such powers as to fix and collect rates, to borrow money and to issue negotiable bonds, to sue and be sued, and to acquire, hold and dispose of personal property for its corporate purpose. The bonds and other obligations of the Authority are not a debt of the City and are payable only from the funds of the Authority. The Authority is legally and financially independent of the City. There are no other entities covered in this report.

The Authority provides sewage collection, treatment and disposal services for the City and neighboring communities.

All activities and functions performed by the Authority are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The budgetary and fiscal operations of the Authority are comparable to that of a governmental rather than a proprietary unit and, therefore, the Board has opted to record such activity in a governmental fund type (General Fund) rather than in a proprietary fund type (Enterprise Fund).

Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the fiduciary funds are excluded from government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exception to this general rule are chargeback for services, such as printing and computer services. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Authority's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Authority reports the following major governmental funds:

- ◆ *General Fund*—The General Fund constitutes the primary operating fund of the Authority and includes all operations not required to be recorded in other funds. The principal source of revenues for the General Fund is sewer rents.
- ◆ *General Projects Fund*—The General Projects Fund accounts for the acquisition and construction of major capital facilities and capital assets financed primarily with proceeds of both long and short-term debt and transfers from the General Fund.
- ◆ *Debt Service Fund*—The Debt Service Fund is used to maintain a debt service reserve required under the sewer system bond resolutions and related amendments. The Debt Service Fund also accounts for payments made for principal and interest on long-term general obligation debt of governmental funds. Investment earnings are considered revenues of the General Fund.

Additionally, the Authority reports the following fund type:

Fiduciary Funds—These funds are used to account for assets held by the Authority in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units. Fiduciary Funds include an *Agency Fund*.

- ◆ *Agency Fund*—The Agency Fund is used to account for assets held by the Authority as an agent for individuals and includes amounts held from bankruptcies.

During the course of operations the Authority has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Sewer rents and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for measuring its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances

Cash, Cash Equivalents and Investments—The Authority's cash and cash equivalents consist of cash on hand, demand deposits, and short-term highly liquid investments with original maturities of three months or less from date of acquisition. New York State law governs the Authority's investment policies. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. It is the Authority's policy to state investments at fair value when applicable. Temporary investments are carried at fair value and include Money Market Funds and Treasury Notes. Certain interest earned on investments in the Debt Service Fund is transferred to the General Fund in accordance with Authority policy.

Designated Cash, Cash Equivalents, and Investments—Designated cash, cash equivalents, and investments represents cash set aside by management for future capital projects and loss contingencies.

Restricted Cash, Cash Equivalents, and Investments—Restricted cash represents unearned revenues and amounts to support restricted fund balance and amounts held on behalf of others.

Prepaid Items—Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets—Capital assets, which include land, construction in progress, land improvements, buildings and improvements, machinery and equipment and sanitary and storm relief systems, are reported in the government-wide financial statements. The Authority’s capitalization policy requires the Authority to record capital assets purchased or constructed having a useful life of two or more years and a cost in excess of \$10,000. Capital assets are reported in the government-wide financial statements at cost (or estimated historical cost). Donated capital assets are recorded at acquisition cost of the item at the date of its donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend to an asset’s useful life is not capitalized.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the estimated useful lives as shown below:

	Estimated Useful Life (Years)
Land	n/a
Land improvements	20
Buildings	40
Building improvements	20
Machinery & equipment	3-10
Sanitary & storm relief system	20-50

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2020, the Authority has two items that qualify for reporting in this category. The first item, related to pension plans, is reported in the government-wide financial statements. This represents the effect of the net change in the Authority’s proportion of the collective net pension liability, the difference during the measurement period between the Authority’s contributions, its proportionate share of the total contribution to the pension system not include in the pension expense, and any contributions to the pension system made subsequent to the measurement date. The second item is related to OPEB reported in the government-wide financial statements and represents the effects of the change in the Authority’s proportion of the collective net OPEB liability and the difference during the measurement period between certain of the employer’s contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2020, the Authority reports two deferred inflows of resources on the government-wide financial statements related to pension plans and OPEB, respectively. The first item represents the effect of the net change in the Authority's proportion of the collective net pension liability and the difference during the measurement periods between the Authority's contributions, and its proportionate share of the total contributions to the pension systems not included in pension expense. The second item represents the effects of the change in the Authority's proportion of the collective net OPEB liability and difference during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability.

Net Position Flow Assumption—Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted–net position and unrestricted–net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted–net position to have been depleted before unrestricted–net position is applied.

Fund Balance Flow Assumptions—Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purposes, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Authority itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purpose determined by a formal action of the Authority's highest level of decision-making authority. The Board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as committed. The Board has by resolution authorized the General Manager to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Program Revenues—Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General revenues are those that cannot be associated directly with program activities.

The Authority raises revenues from sewer rents from a variety of sources including assessed valuation of real property, water use, industrial waste charges and sewer connection agreements with neighboring communities.

The City's Department of Assessment bills sewer rents based on assessed valuation for the Authority in the same manner as that used for billing of City taxes.

The Authority contracts with an outside agency to act as the managers of the City's Division of Water. The agency bills sewer rents based on water use for the Authority as a separate item on each water bill. Such sewer rents are based on water consumption for metered accounts or a percent of water billings for unmetered accounts.

Agreements between neighboring communities and the Authority provide for charges based on the actual cost of receiving and treating sewage discharged into the Authority's facilities or based upon the rated capacity of the respective connections as apportioned to the total capacity of the Sewage Treatment Plant.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2020, the Authority reported \$210,772 of unearned revenues in the General Fund. The Authority has collected sewer rent money in advance, but has not performed the services and therefore recognizes a liability.

Compensated Absences—The Authority's two labor agreements provide for sick leave, vacations and miscellaneous other paid absences. Upon retirement certain eligible employees qualify for payment for unused vacation and fractional values of unused sick leave. Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore timing of future payment is not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

Pension Plans—The Authority is mandated by New York State law to participate in the New York State Local Employees' Retirement System ("ERS"). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plan, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 6.

Other Postemployment Benefits—In addition to providing pension benefits, the Authority provides health insurance coverage for certain retired employees, as disclosed in Note 7.

Other

Estimates—The preparation of the 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 reported amounts of revenues, expenditures, assets, liabilities, deferred outflows/inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements during the reported period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement—During the year ended June 30, 2020, the Authority implemented GASB Statements No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* and GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing effective dates of certain provisions in Statements. The implementation of GASB Statements No. 90 and 95 did not have a material impact on the Authority’s financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 84, *Fiduciary Activities*; and No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for the year ending June 30, 2021, No. 87, *Leases*; No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, No. 92, *Omnibus 2020*; and No. 93, *Replacement of Interbank Offered Rates*, effective for the year ending June 30, 2022, No. 91, *Conduit Debt Obligations*, effective for the year ending June 30, 2023, and No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; and No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending June 30, 2024. The Authority is, therefore, unable to disclose the impact that adopting GASB Statements No. 84, 87, 89, 91, 92, 93, 94, 96, and 97 will have on its financial position and results of operations when such statements are adopted.

Stewardship, Compliance and Accountability

Legal Compliance—Budgets—The Authority follows these procedures in establishing most of the budgetary data reflected in the financial statements:

- ◆ In accordance with bond resolutions and related amendments, prior to the forty-fifth day before the beginning of the next fiscal year, the Authority files an adopted budget with the Trustee for the fiscal year to commence July 1. This budget includes appropriations, estimated revenues and amounts necessary for the payment of subordinated indebtedness incurred by the Authority.
- ◆ On or before July 1 of each fiscal year, the Authority adopts the annual budget for such fiscal year. The budget is adopted at the activity level.
- ◆ During the fiscal year, management can transfer appropriations within the activity level without the approval of the Authority Board. The Authority Board can legally amend the operating budget and is empowered to implement supplemental appropriations. Budget amendments beyond the activity level of control require Board approval.

- ◆ Formal annual budgetary accounts are employed as a management control device for the General Fund. This budget is adopted on a budgetary basis which takes into consideration encumbrances. The budgeted funds of the General Fund lapse at the end of the fiscal year. However, a five-year plan does exist for capital projects.
- ◆ The Authority's legal level of budgetary control is at the activity level. Total expenditures for each department may not legally exceed the total appropriations at the activity level. Encumbrances outstanding at year end are accounted for by a commitment of fund balance. All encumbered appropriations lapse and revert to fund balance at the end of the fiscal year.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Authority has its own written investment policy in accordance with Title 7, Section 2925 of the Public Authorities Law. Monies in any fund held by a Trustee, or the Authority provide reasonable liquidity in the highest yield investment securities. Permissible investments include:

- ◆ Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledge to any such direct obligation or guarantee;
- ◆ Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies: Export-Import Bank of the United States; Federal Home Loan Banks; Federal Home Loan Mortgage Corporation, Federal Housing Administration; Federal National Mortgage Association; General Services Administration; Government National Mortgage Association; Small Business Administration; Student Loan Marketing Association; U.S. Department of Housing of Urban Development; U.S. Maritime Administration; the Washington Metropolitan Area Transit Authority; or the Resolution Funding Corporation.
- ◆ Direct obligations of any State of the U.S. or any subdivision or agency thereof whose unsecured, uninsured, and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's Investors Service and "A" or better by Standard and Poor's Corporation, or any obligation fully and unconditionally guaranteed by any state, subdivision, or agency whose unsecured, uninsured, and unguaranteed general obligation debt is rated, at the time of purchase "A" or better by Moody's Investors Service and "A" or better by Standard & Poor's Corporation;
- ◆ Federal funds, unsecured certificates of deposit, time deposits or bankers acceptances (in each case having maturities of not more than 365 days) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that fully and timely payment of such deposit or similar obligation is enforceable against the principle office or any branch of such bank, which, at the time of purchase, has a short-term "Bank Deposit" rating of "P-1" by Moody's Investor Service and a "Short-Term CD" rating of "A-1" or better by Standard & Poor's Corporation;
- ◆ Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

- ◆ Investments in money-market funds rated “AAAm” or “AAAM-G” by Standard & Poor’s Corporation;
- ◆ Repurchase agreements collateralized by Direct Obligations, GNMA’s, FNMA’s or FHLMC’s with any registered broker/dealer subject to the Securities Investors’ Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated “P-1” or “A3” or better by Moody’s Investors Service, and “A-1” or “A-” or better by Standard & Poor’s Corporation, provided a master repurchase agreement or specific written repurchase agreement governs the transaction;
- ◆ Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, “P-1” by Moody’s Investors Service and “A-1” or better by Standard and Poor’s Corporation.

Collateral is required for demand deposits, time deposits and certificates of deposit at 100 percent of all deposits not covered by Federal deposit insurance. The Authority has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York. Cash, cash equivalents, and investments at June 30, 2020 are shown below.

	Governmental Funds	Fiduciary Fund	Total
Petty cash (uncollateralized)	\$ 2,250	\$ -	\$ 2,250
Deposits	6,734,277	5,746	6,740,023
Other cash and cash equivalents	79,066	-	79,066
Investments	78,850,963	-	78,850,963
Total	<u>\$ 85,666,556</u>	<u>\$ 5,746</u>	<u>\$ 85,672,302</u>

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at June 30, 2020 as follows:

	Bank Balance	Carrying Balance
FDIC insured	\$ 500,000	\$ 500,000
Uninsured:		
Collateral held by pledging bank's agent in the Authority's name	3,783,016	6,240,023
Total	<u>\$ 4,283,016</u>	<u>\$ 6,740,023</u>

Custodial Credit Risks—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At June 30, 2020, the Authority’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the Authority’s name.

Other Cash and Cash Equivalents—Other cash and cash equivalents are held as money market investments at their amortized cost of \$79,066.

Restricted Cash, Cash Equivalents and Investments—At June 30, 2020, the Authority reported \$210,772 of restricted cash and cash equivalents in the General Fund to support unearned revenues and \$64,466 of restricted cash and cash equivalents and \$4,288,480 of restricted investments in the Debt Service Fund to support restricted fund balance.

Designated Cash, Cash Equivalents, and Investments—The Authority reports amounts as designated cash, cash equivalents, and investments to support fund balances committed to capital projects and future loss contingencies. At June 30, 2020, the Authority reported \$11,319,854 and \$43,582,815 of designated cash, cash equivalents, and investments within the General Fund and General Projects Fund, respectively.

Restricted Investments—All investments are reported using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- ◆ Level 1. Quotes prices for identical assets or liabilities in active markets to which the Authority has access at the measurement date.
- ◆ Level 2. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - ◆ Quoted prices for similar assets or liabilities in active markets;
 - ◆ Quoted prices for identical or similar assets in markets that are not active;
 - ◆ Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - ◆ Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- ◆ Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure fair value to the extent that observable inputs are not available.

The Authority has invested in U.S. Treasury Notes of \$4,288,480 at June 30, 2020, which are considered to be Level 1 investments. At June 30, 2020, the Authority reported \$30,979,668 and \$43,582,815 of commercial paper within the General Fund and General Projects Fund, respectively, which are considered to be Level 1 investments.

Credit Ratings—The aforementioned U.S. Treasury notes mature April 15, 2032, February 15, 2033, November 15, 2033, October 1, 2035 and May 1, 2044. All of these investments have an S&P credit rating of A-1+ and a Moody's credit rating of P-1.

Credit Risk-Investments—In compliance with State law, the Authority's investments are limited to obligations of the United States of America, obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America, obligations of the State, time deposit accounts, and certificates of deposit issued by a bank or trust company located in, and authorized to do business in, the State, and certain joint ventures or cooperative investment programs.

Interest Rate Risk—In the case of investments, this is the risk that potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. There is the prospect of a loss should those securities be sold prior to maturity. The Authority follows a policy to specifically identify the maturity for each individual investment and evaluate risk accordingly. There are no requirements limiting maturity of investments.

3. RECEIVABLES

Receivables—Primarily represents amounts due from customers and outside districts. A summary of receivables follows:

Flat rate receivables	\$ 2,584,381	
Allowance: flat rate receivables	<u>(2,246,048)</u>	\$ 338,333
Metered receivables	8,431,157	
Allowance: metered receivables	<u>(4,697,761)</u>	3,733,396
Industrial waste receivables	934,585	
Allowance: industrial waste receivables	<u>(17,861)</u>	916,724
Outside district receivables	6,286,950	
Allowance: outside district receivables	<u>(1,139)</u>	6,285,811
Other miscellaneous receivables		<u>313,500</u>
		<u><u>\$ 11,587,764</u></u>

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2020 was as follows:

	Balance 7/1/2019	Increases	Decreases	Balance 6/30/2020
Capital assets, not being depreciated:				
Land	\$ 10,586,171	\$ -	\$ -	\$ 10,586,171
Construction in progress	66,198,771	19,325,115	(42,014,825)	43,509,061
Total capital assets, not being depreciated	76,784,942	19,325,115	(42,014,825)	54,095,232
Capital assets, being depreciated:				
Land improvements	455,703	-	-	455,703
Buildings	268,642,176	17,267,197	-	285,909,373
Building improvements	12,707,216	-	-	12,707,216
Machinery & equipment	31,770,527	785,351	(786,817)	31,769,061
Sanitary & storm relief systems	211,980,516	24,956,666	-	236,937,182
Total capital assets, being depreciated	525,556,138	43,009,214	(786,817)	567,778,535
Less accumulated depreciation for:				
Land improvements	(455,703)	-	-	(455,703)
Buildings	(146,705,726)	(5,392,730)	-	(152,098,456)
Building improvements	(7,347,340)	(392,658)	-	(7,739,998)
Machinery & equipment	(28,990,000)	(609,347)	681,828	(28,917,519)
Sanitary & storm relief systems	(95,344,719)	(4,239,610)	-	(99,584,329)
Total accumulated depreciation	(278,843,488)	(10,634,345)	681,828	(288,796,005)
Total capital assets, being depreciated, net	246,712,650	32,374,869	(104,989)	278,982,530
Governmental activities capital assets, net	\$ 323,497,592	\$ 51,699,984	\$ (42,119,814)	\$ 333,077,762

Significant construction in progress expenditures are incurred as the Authority continues to make an effort to improve its infrastructure. Depreciation expense totaling \$10,634,345 is reported within the government-wide statements and has been allocated to wastewater treatment plant expenses of \$9,952,517 and sewer maintenance expenses of \$681,828.

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2020, were as follows:

	General Fund
Salary and other employee benefits	\$ 1,092,398
Total accrued liabilities	\$ 1,092,398

6. PENSION PLANS

The Authority participates in the New York State and Local Employee's Retirement System ("ERS") and the Public Employee's Group Life Insurance Plan (the "System"). These cost-sharing multiple-employer public employee retirement systems compute contribution requirements based on the New York State Retirement and Social Security Law ("NYSRSSL").

Plan Description and Benefits Provided

Employees' Retirement System ("ERS")—ERS provides retirement benefits as well as death and disability benefits. The net position of ERS is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all net assets and record changes in plan net position allocated to ERS. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of ERS. ERS benefits are established under the provision of the New York State Retirement and Social Security Law ("RSSL"). Once a public employer elects to participate in ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees' Group Life Insurance (the "System"), which provides death benefits in the form of life insurance. ERS is included in the State's financial report as a pension trust fund. The 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.

ERS is noncontributory, except for employees who joined after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute three (3.0%) to three and one half (3.5%) percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—The net pension liability was measured as of March 31, 2020 for ERS. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of April 1, 2019, with update procedures used to roll forward the total pension liability to the measurement 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 System relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS System in a report provided to the Authority.

	ERS
Measurement date	March 31, 2020
Net pension liability	\$ 11,256,816
Authority's portion of the Plan's total net pension liability	0.0425097%

As of the March 31, 2020 measurement date, the Authority's portion of the Plan's total net pension liability had increased 0.0025278% from their portion of the Plan's total net pension liability of 0.0399819% on the March 31, 2019 measurement date.

For the year ended June 30, 2020, the Authority recognized a pension expense of \$3,915,942 for ERS. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 662,509	\$ -
Change of assumptions	226,659	195,716
Net difference between projected and actual earnings on pension plan investments	5,770,791	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	255,842	143,837
Authority contributions subsequent to the measurement date	411,059	-
Total	<u>\$ 7,326,860</u>	<u>\$ 339,553</u>

Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2021	\$ 1,151,913
2022	1,665,232
2023	2,073,173
2024	1,685,930

Actuarial Assumptions—The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuation used the following actuarial assumptions:

	ERS
Measurement date	March 31, 2020
Actuarial valuation date	April 1, 2019
Discount rate	6.80%
Salary scale	4.20%
Decrement tables	April 1, 2011- March 31, 2015
Inflation rate	2.5%
Cost-of-living adjustments	1.3%

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

The actuarial assumptions used in the April 1, 2019 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long term 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 returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation for ERS are summarized below:

Measurement date	ERS	
	March 31, 2020	
	Target Allocation	Long-Term Expected Real Rate of Return
Asset class:		
Domestic equities	36.0 %	4.1 %
International equities	14.0	6.2
Private equity	10.0	6.8
Real estate	10.0	5.0
Absolute return strategies	2.0	3.3
Opportunistic portfolio	3.0	4.7
Real assets	3.0	6.0
Bonds and mortgages	17.0	0.8
Cash	1.0	0.0
Inflation-indexed bonds	4.0	0.5
Total	100.0 %	

Discount Rate—The discount rate used to calculate the total pension liability was 6.8%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart on the following page presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 6.8% for ERS, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (5.8%) or one percentage-point higher (7.8%) than the current assumption.

ERS	1% Decrease (5.8%)	Current Assumption (6.8%)	1% Increase (7.8%)
Employer's proportionate share of the net pension liability/(asset)	\$ 20,659,436	\$ 11,256,816	\$ (2,596,964)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liability/(asset) of all of the employers participating in the state-wide System as of the valuation date was as follows:

	(Dollars in Thousands)
	ERS
Valuation date	April 1, 2019
Employers' System total pension liability	\$ 194,596,261
Plan fiduciary net position	168,115,682
Employers' System net pension liability	<u>\$ 26,480,579</u>
System fiduciary net position as a percentage of total pension liability	86.4%

Payables to the Pension Plan—Employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2020 represent the projected employer contribution for the period of April 1, 2020 through June 30, 2020 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2020 amounted to \$411,059.

7. OTHER POSTEMPLOYMENT BENEFITS ("OPEB")

Plan Description and Benefits Provided—In addition to pension benefits, the Authority provides health care benefits for retirees, spouses, and their covered dependents at no cost to the retirees under a single-employer postemployment benefit plan. There is no separate, audit GAAP-basis postemployment benefit plan report available for the plan. Such postemployment benefits are an included value in the exchange of salaries and benefits for services rendered. An employee's total compensation package includes not only the salaries and benefits received during service, but all compensation and benefits received for their services during postemployment. The Authority provides one traditional indemnity plan option for its retirees under 65. In addition, the Authority provides two Medicare Supplement plan options for their Medicare eligible retirees over 65. Retirees who have alternate insurance and desire to waive medical insurance through the Authority will receive an in-lieu payment from the Authority each year. These payments total \$1,200, \$1,800, and \$2,400, to waive single coverage, two-person coverage, and family coverage, respectively. The General Fund of the Authority is typically used to liquidate the OPEB obligation.

Employees Covered by Benefit Terms—At June 30, 2020, the following employees were covered by the benefit terms:

Active not eligible to retire	105
Actives eligible to retire	49
Retired and surviving spouses	205
Retiree spouses covered	<u>130</u>
	<u>489</u>

Under GASB Statement No. 75, the total OPEB liability represents the sum of expected future benefit payments which may be attributed to past service (or “earned”), discounted to the end of the fiscal year using the current discount rate. The total OPEB liability is analogous to the Unfunded Actuarial Accrued Liability (“AAL”) under GASB Statement No. 45.

Total OPEB Liability

The Authority’s total OPEB liability of \$81,502,059 was measured as of June 30, 2020, and was determined by an interim actuarial valuation as of that date.

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the June 30, 2020 actuarial valuation, the entry age normal method, over a level percent of pay was used. The single discount rate changed from 3.44% for the year ending June 30, 2019 to 2.48% for the year ending June 30, 2020. The salary scale is 3.22% effective June 30, 2020. In order to estimate the change in the cost of healthcare, the actuaries initial healthcare cost trend rate used effective June 30, 2020 is 5.20%, while the ultimate healthcare cost trend rate is 4.18%. Mortality rates effective June 30, 2020 were based on the Pub-2010 Public Retirement Plans Mortality Tables, Headcount-weighted for General employees, without separate Contingent Survivor mortality, fully generational using scale MP-2019.

Changes in the Total OPEB Liability—The following table presents the changes to the total OPEB liability during the fiscal year, by source:

	Total OPEB Liability
Balance at June 30, 2019	\$ 85,015,555
Changes for the year:	
Service cost	1,512,328
Interest	2,876,990
Differences between expected and actual experience	(18,829,962)
Changes of assumptions or other inputs	13,821,608
Benefit payments	<u>(2,894,460)</u>
Net changes	<u>(3,513,496)</u>
Balance at June 30, 2020	<u>\$ 81,502,059</u>

Sensitivity of the Total OPEB Liability to the Change in the Discount Rate and Healthcare Cost Trend Rate—The discount rate assumption can have an impact on the net OPEB liability. The following table presents the effect of a 1% change in the discount rate assumption would have on the net OPEB liability:

	1% Decrease (1.48%)	Current Discount Rate (2.48%)	1% Increase (3.48%)
Net OPEB liability	\$ 95,352,103	\$ 81,502,059	\$ 70,554,831

Additionally, healthcare costs can be subject to considerable volatility over time. The following table presents the effect on the OPEB liability of a 1% change in the initial (5.20%) and ultimate (4.18%) healthcare cost trend rates.

	1% Decrease (4.20%/3.18%)	Healthcare Cost Trend Rates (5.20%/4.18%)	1% Decrease (6.20%/5.18%)
Net OPEB liability	\$ 69,508,941	\$ 81,502,059	\$ 96,701,045

Funding Policy—Authorization for the Authority to pay all of retiree health insurance premiums was enacted by resolution of the Authority Board or through union contracts, which are ratified by the Authority Board. For an employee to be eligible for the Authority's postemployment health plan they must have been employed by the Authority for a minimum of five consecutive years prior to retirement and qualify for retirement as a member of the New York State retirement system. All current retirees, receive full health care coverage with no contribution requirements for themselves, dependents, and spouses. Authority governmental activities contributed \$2,894,460 for the fiscal year ended June 30, 2020. While for the year ended June 30, 2020, the Authority's governmental activities recognized OPEB expense of \$1,413,869. The Authority's contributions to the OPEB plan are based on negotiated contracts with two bargaining units, as discussed in Note 14. Any amendments to the employer's contributions are subject to the collective bargaining agreements.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—The Authority reports deferred outflows of resources and deferred inflows of resources due to differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. The table below presents the Authority's deferred outflows and deferred inflows at June 30, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,777,644	\$ 8,919,456
Changes of assumptions	6,547,077	2,450,448
Benefit payments subsequent to the measurement date	721,632	-
Total	<u>\$ 12,046,353</u>	<u>\$ 11,369,904</u>

The Authority's benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending June 30, 2021. The other amounts reported as deferred outflows of resources and deferred inflows of resource related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending June 30,</u>	
2021	\$ (1,804,770)
2022	567,609
2023	567,609
2024	567,609
2025	56,760
Thereafter	-

8. RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; vehicle liability, injuries to employees; health insurance, unemployment insurance, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority purchases insurance for: commercial property coverage, commercial general liability coverage, commercial automotive coverage and commercial crime coverage. Property insurance is limited based on scheduled locations. The general liability insurance is limited to \$7 million per occurrence. Real Property and Personal Property Coverage is limited to \$500 million. Automobile insurance is limited to \$4 million per accident. Crime coverage is limited to \$1 million per occurrence with a \$2 million annual aggregate limit. There were no settlements that exceeded insurance coverage in each of the past three fiscal years.

Workers' Compensation—The Authority participates in a self-insured plan for risks associated with employee workers' compensation claims through a third party. The Authority accounts for this activity in the General Fund.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNR"). Claim liabilities are calculated with consideration of the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other benefit costs.

Claim activities for the current year and the prior year are:

<u>Year Ended June 30,</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Payments and Changes in Estimates</u>	<u>Ending Balance</u>
2020	\$ 1,570,979	\$ 764,622	\$ (769,474)	\$ 1,566,127
2019	1,683,693	616,846	(729,560)	1,570,979

At June 30, 2020, \$3,000,000 of the General Fund fund balance was committed to loss contingencies for the purpose of funding the Authority's future claims liabilities.

9. SHORT TERM DEBT

Short term debt of the Authority represents a short term loan from the Environmental Facilities Corporation (“EFC”). This short-term loan is recorded as due to other governments. The Authority intends to exercise an option to convert this loan to long-term debt, however, it has not yet exercised such. The short-term debt for the fiscal year ended June 30, 2020 is shown below:

Description	Issue Date	Interest Rate	Principal Outstanding	Additions	Reductions	Principal Outstanding
			July 1, 2019			June 30, 2020
EFC loan payable	various	0.0%	<u>\$ 8,702,196</u>	<u>\$ 3,618,867</u>	<u>\$ -</u>	<u>\$12,321,063</u>

10. LONG TERM LIABILITIES

In the government-wide financial statements, long-term debt and long-term obligations are reported as noncurrent liabilities in the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The Authority’s outstanding long-term liabilities include bonds payable, compensated absences, other postemployment benefits (“OPEB”) obligation, judgments and claims and net pension liability. The bonds payable of the Authority are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in the Authority’s long-term liabilities at June 30, 2020 follows:

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Due Within One Year
Bonds payable	\$ 36,785,713	\$ -	\$ (1,770,000)	\$ 35,015,713	\$ 1,810,000
Compensated absences	1,080,487	929,688	(905,711)	1,104,464	55,223
OPEB obligation	85,015,555	18,210,926	(21,724,422)	81,502,059	-
Judgments and claims	1,570,979	764,622	(769,474)	1,566,127	78,306
Net pension liability*	2,832,840	8,423,976	-	11,256,816	-
Total	<u>\$ 127,285,574</u>	<u>\$ 28,329,212</u>	<u>\$ (25,169,607)</u>	<u>\$ 130,445,179</u>	<u>\$ 1,943,529</u>

(*additions to the net pension liability are shown net of reductions)

Bonds Payable

Series M—On July 2, 2014, the Authority refinanced short-term debt to a long-term note payable, Series M to support construction costs for a total amount of \$17,581,310. Of this amount, the portion converted from short-term debt of \$15,159,256, offset by a principal reduction in the form of grant revenue of \$9,031,991 was recorded in the year ended June 30, 2014 as the Authority had taken the legal steps to refinance the short-term EFC loans payable to long-term debt at June 30, 2014. In the year ended June 30, 2015, the additional liability, not previously recorded as short-term debt, of \$2,422,054 was recorded on the Authority's financial statements as a proceeds from issuance. Interest on the Series M bond ranges from 4.25-5.15 and the bonds mature on May 1, 2044.

Series N—On November 15, 2012, through EFC the Authority issued replacement bonds for the outstanding EFC Sewer System Revenue Bonds, Series H bonds with EFC Sewer System Revenue Bonds, Series N in the amount of \$21,671,564. Prior to issuing the replacement note, the Authority paid \$658,436 in Series H principal payments in the current year. Interest on the Series N bond ranges from 3.85%-4.90% and the bonds mature on April 15, 2032. As a result, \$21,671,564 of Series H Bonds were considered defeased and the liability for those bonds has been removed from the Authority's financial statements. The replacement bonds were issued for the same amount outstanding on the Series H Sewer System Revenue bonds at the time of issuance. The refund resulted in an estimated net present benefit of \$772,721.

Series JI—On July 2, 2014, through EFC the Authority issued replacement bonds for the outstanding EFC Sewer System Revenue Bonds, Series J bonds with EFC Sewer System Revenue Bonds, Series J1 in the amount of \$5,353,126. Interest on the Series J1 bond ranges from 4.06%-4.63% and the bonds mature on November 15, 2033. As a result, \$5,353,126 of Series J Bonds were considered defeased and the liability for those bonds has been removed from the Authority's financial statements. The replacement bonds were issued for the same amount outstanding on the Series J Sewer System Revenue bonds at the time of issuance. The refund resulted in an estimated net present benefit of \$607,254.

Series KI—On July 2, 2014, through EFC the Authority issued replacement bonds for the outstanding EFC Sewer System Revenue Bonds, Series K bonds with EFC Sewer System Revenue Bonds, Series K1 in the amount of \$3,614,143. Interest on the Series K1 bond ranges from 4.25%-5.15% and the bonds mature on February 15, 2033. As a result, \$3,614,143 of Series K Bonds were considered defeased and the liability for those bonds has been removed from the Authority's financial statements. The replacement bonds were issued for the same amount outstanding on the Series K Sewer System Revenue bonds at the time of issuance. The refund resulted in an estimated net present benefit of \$395,499.

Series LI—On August 20, 2015, through EFC the Authority issued replacement bonds for the outstanding EFC Sewer System Revenue Bonds, Series L bonds with EFC Sewer System Revenue Bonds, Series L1 in the amount of \$7,094,679. Prior to issuing the replacement note, the Authority paid \$430,321 in Series L principal payments in the current year. Interest on the Series L1 bond ranges from 4.17-4.86% and the bonds mature on October 1, 3025. As a result, \$7,094,679 of Series L Bonds were considered defeased and the liability for those bonds has been removed from the Authority's financial statements. The replacement bonds were issued for the same amount outstanding on the Series L Sewer System Revenue bonds at the time of issuance. The refund resulted in an estimated net present benefit of \$680,873.

Rate Covenant—The Authority has covenanted that from time to time and as often as it shall appear necessary, the rates, charges, rents, sewer rents, fees and assessments established for the Sewer System will be adjusted whenever necessary to cause the revenues collected in each fiscal year from the Sewer System to be at least equal to the Minimum Revenue Requirement, which shall be equal to the sum of (i) the amount estimated to be required in the current fiscal year to pay operating expenses and to meet the debt service reserve requirement and the Renewal and Extension Requirement, plus (ii) 115% of debt service for such fiscal year.

The Sewer System Revenue Bond transactions of the Authority for the year ended June 30, 2020 is presented below:

Description	Interest Rate	Year of Issue/ Maturity	Balance 7/1/2019	Additions	Payments	Balance 6/30/2020
Series M	4.25-5.15	2014/2044	\$ 7,440,000	\$ -	\$ (235,000)	\$ 7,205,000
Series N	3.85-4.90	2012/2031	16,076,564	-	(885,000)	15,191,564
Series J1	4.06-4.63	2014/2033	4,228,126	-	(240,000)	3,988,126
Series K1	4.25-5.15	2014/2033	2,914,142	-	(150,000)	2,764,142
Series L1	4.17-4.86	2015/2035	6,126,881	-	(260,000)	5,866,881
Total			<u>\$ 36,785,713</u>	<u>\$ -</u>	<u>\$ (1,770,000)</u>	<u>\$ 35,015,713</u>

Compensated Absences—The Authority records the value of compensated absences in the government wide financial statements. The liability for compensated absences consists of unpaid accumulated annual sick and vacation time. The liability has been calculated using the vesting method, in which leave amounts for both employees currently eligible to receive payments and other employees expected to become eligible in the future to receive such payments are included. The annual budgets of the operating funds provide for these benefits as they become due. At June 30, 2020, compensated absences amounted to \$1,104,464, of which \$55,223 is considered short-term.

OPEB Obligation—As explained in Note 7, the Authority provides health care benefits for retirees, spouses, and their covered dependents. Such postemployment benefits are an included value in the exchange of salaries and benefits for services rendered. An employee's total compensation package includes not only the salaries and benefits received during service, but all compensation and benefits received for their services during postemployment. The Authority's annual OPEB cost is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The estimated long-term OPEB obligation is estimated to be \$81,502,059 at June 30, 2020.

Judgments and Claims—As explained in Note 8, judgments and claims represents workers' compensation and general liability claims incurred. The value of the liability within the government-wide statements at June 30, 2020 is \$1,566,127, with \$78,306 representing the estimated amount due within one year.

Net Pension Liability—The Authority reported a liability, \$11,256,816, for its proportionate share of the net pension liability for the Employee Retirement System. Refer to Note 6 for additional information related to the Authority's net pension liability.

The maturity schedule of the Authority's indebtedness is presented below:

Year Ending June 30,	Bonds Payable	Compensated Absences*	OPEB Obligation	Judgments and Claims*	Net Pension Liability	Total
2021	\$ 1,810,000	\$ 55,223	\$ -	\$ 78,306	\$ -	\$ 1,943,529
2022	1,865,000	-	-	-	-	1,865,000
2023	1,915,000	-	-	-	-	1,915,000
2024	1,960,000	-	-	-	-	1,960,000
2025	2,015,000	-	-	-	-	2,015,000
2026-2030	10,965,000	-	-	-	-	10,965,000
2031-2035	10,058,832	-	-	-	-	10,058,832
2036-2040	2,566,881	-	-	-	-	2,566,881
2041-2045	1,860,000	-	-	-	-	1,860,000
Various	-	1,049,241	81,502,059	1,487,821	11,256,816	95,295,937
	<u>\$ 35,015,713</u>	<u>\$ 1,104,464</u>	<u>\$ 81,502,059</u>	<u>\$ 1,566,127</u>	<u>\$ 11,256,816</u>	<u>\$ 130,445,179</u>

The General Fund typically has been used to liquidate the liability for compensated absences, OPEB obligation, judgments and claims, and net pension liability.

*Payment of compensated absences and judgments and claims are dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management has estimated its current portion of such liabilities.

Interest requirements on serial bonds payable are as follows:

Year Ended June 30,	Interest
2021	\$ 1,597,147
2022	1,520,339
2023	1,439,322
2024	1,354,904
2025	1,267,327
2026-2030	4,888,636
2031-2035	2,017,425
2036-2040	614,122
2041-2045	238,876
	<u>\$ 14,938,098</u>

Defeased Debt—The Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. In each instance, the principal amount of the replacement bonds was equivalent to the amount outstanding of the old bonds at the time of issuance. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority’s financial statements. Principal balances of bonds outstanding at June 30, 2020 that are considered defeased include:

Series H	\$ 15,850,000
Series J	3,988,126
Series K	2,764,142
Series L	<u>5,886,881</u>
Total	<u>\$ 28,489,149</u>

11. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- ◆ **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construct or improvement of these assets reduce the balance in this category. The following presents a reconciliation of capital assets (net of accumulated depreciation), net of total bonded indebtedness to net investments in capital assets:

Capital assets, net of accumulated depreciation	\$ 333,077,762
Less: Outstanding bonds payable issued for capital acquisition	(35,015,713)
EFC note payable	(12,321,063)
Add: Remaining debt reserve from issuance not used for capital asset acquisition	<u>4,352,946</u>
Net investment in capital assets	<u>\$ 290,093,932</u>

- ◆ **Restricted Net Position**—This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The Authority does not report restricted net position.
- ◆ **Unrestricted Net Position**—This category represents net position of the Authority not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by Authority at June 30, 2020 includes:

- ◆ **Prepaid Items**—Representing the portion of fund balance, \$179,925 composed of prepaid expenditures. This balance is nonspendable as the balance does not represent an available resource.

In the fund financial statements, restricted fund balance are amounts constrained to specific purposes (such as grants, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance amounts are approved by the Board that will be placed in legal reserves (and thereby restricted), but at the end of the fiscal year the dollar amount is unknown. As such, the General Manager is authorized by the Board to establish a funding plan with specific dollar amounts to be determined subsequent to the Authority's fiscal year end. The amounts must be approved by the majority vote of the Board prior to the release of the audited financial statements. Restrictions of the Authority at June 30, 2020 include:

- ◆ ***Restricted for Debt Service***—Represents resources, \$4,352,946, that have been legally restricted for principal and interest payments that will be made in future periods.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a resolution of the Authority's Board, which is considered a formal action of the Authority's highest level of decision-making authority. Fund balances are committed by the Chair of the Board and approved by the Board; however, at the end of the fiscal year the dollar amount is unknown. As such, with the exception of committed to encumbrances, the amounts are to be determined by the General Manager based upon the amounts available, the planned projects and other financing sources. Commitments of the Authority at June 30, 2020 include:

- ◆ ***Committed to encumbrances***—Represents resources to cover the amount of outstanding purchase orders or encumbrances related to unperformed (executory) contracts for goods and services. At June 30, 2020, the Authority has \$10,227,970 and \$15,890,665 of fund balance committed to encumbrances within its General Fund and General Projects Fund, respectively.
- ◆ ***Committed to loss contingencies***—Representing funds, \$3,000,000, accumulated for noninsured liability and casualty losses within the General Fund.
- ◆ ***Committed to capital projects***—Representing funds set aside for the centrifuge project, incinerator rehabilitation, sewer relining and various other improvements. The Authority's five-year capital plan requires future financing. Management anticipates financing the aforementioned plan through the current designation, future contributions from operations and/or debt financing. At June 30, 2020, the Authority has \$8,319,854 and \$24,331,207 of fund balance committed to capital projects within its General Fund and General Projects Fund, respectively.

In the fund financial statements, assignments are amounts that are subject to a purpose constraint that represents an intended use established by the Board, or by their designated body or official. The Board has authorized the General Manager to make a determination of the assigned amounts of fund balance. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. As of June 30, 2020, the Authority did not report any assigned fund balance.

Unassigned fund balance represents General Fund amounts that are available for any purpose. The Authority's target is to maintain an unassigned fund balance of not less than 15% of annual operating expenditures excluding transfers, for the fiscal year.

If the Authority must use funds for emergency expenditures the Board shall authorize the Chair of the Board to expend funds first from funds classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available, the Authority will use unassigned fund balance.

12. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of June 30, 2020 is as follows:

	Interfund	
	Receivable	Payable
Governmental funds:		
General Fund	\$ 8,209	\$ 13,275,656
General Projects Fund	13,275,656	8,209
Total governmental funds	<u>\$ 13,283,865</u>	<u>\$ 13,283,865</u>

These outstanding balances between funds result from payments made on behalf of other funds, interest accruals within certain funds that are payable to other funds, or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

Fund	Transfers in:			Total
	General Fund	General Projects Fund	Debt Service Fund	
Transfers out:				
General Fund	\$ -	\$ 13,275,656	\$ 3,440,332	\$ 16,715,988
Debt Service Fund	109,039	-	-	109,039
Total	<u>\$ 109,039</u>	<u>\$ 13,275,656</u>	<u>\$ 3,440,332</u>	<u>\$ 16,825,027</u>

Transfers are routine annual events for both the budget and accounting process and are necessary to present funds in their proper fund classification or to comply with debt covenants, the release of debt reserves, the payment of debt, and to fund capital projects.

13. AGENCY FUND

An agency fund exists to account for funds held from bankruptcies. The following is a summary of changes in assets and liabilities for the fiscal year ended June 30, 2020:

	Balance 7/1/2019	Increases	Decreases	Balance 6/30/2020
ASSETS				
Restricted cash and cash equivalents	\$ 4,458	\$ 3,197	\$ 1,909	\$ 5,746
Total assets	<u>\$ 4,458</u>	<u>\$ 3,197</u>	<u>\$ 1,909</u>	<u>\$ 5,746</u>
LIABILITIES				
Bankruptcy funds held	\$ 4,458	\$ 8,817	\$ 7,529	\$ 5,746
Total liabilities	<u>\$ 4,458</u>	<u>\$ 8,817</u>	<u>\$ 7,529</u>	<u>\$ 5,746</u>

14. LABOR RELATIONS

Authority employees are represented by two bargaining units. The CWA contract and the CSEA contract have been negotiated through June 30, 2022.

15. COMMITMENTS

Encumbrances—Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The Authority considers encumbrances significant if they are in excess of \$400,000. As of June 30, 2020, the Authority reported the following significant encumbrances:

General Fund:	
Utilities	\$ 3,474,271
General Projects Fund:	
Streetwide improvements	\$ 3,042,950
Sewer improvements	3,234,261
Sewer cleaning inspections	1,708,153
Utilities	1,749,829
Consulting services	1,109,424

16. CONTINGENCIES

Litigation—The Authority is involved in various litigation arising in the ordinary course of its operations. Based on consultation with its Law Department and Counsel, it is the opinion of the Authority that the settlement of such pending litigation, if any, is adequately provided for with amounts accumulated in the designation for loss contingencies.

Pollution Remediation Obligations—On March 18, 2014, the Authority's Long Term Control Plan to reduce the amount of sewage and storm-water run-off that flow from the City's combined sewer system was approved by the U.S. Environmental Protection Agency and the New York State Department of Environmental Conservation. The Authority has committed to investing \$380 million on these projects over 20 years. The Authority plans to fund these projects with committed fund balance and long-term financing, therefore, will record a liability when such financing is obtained.

Grants—In the normal course of operations, the Authority receives grant funds from various Federal and State agencies. These grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the governmental funds. The amount of disallowance, if any, cannot be determined at this time, although the Authority expects any such amount to be immaterial.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2020, which is the date the financial statements are available for issuance, and have determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

REQUIRED SUPPLEMENTARY INFORMATION

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BUFFALO SEWER AUTHORITY
Schedule of the Authority's Proportionate Share of the
Net Pension Liability—Employees' Retirement System
Last Seven Fiscal Years*

	Year Ended June 30,						
	2020	2019	2018	2017	2016	2015	2014
Measurement date	March 31, 2020	March 31, 2019	March 31, 2018	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
Authority's proportion of the net pension liability	0.0425097%	0.0399819%	0.0410190%	0.0363879%	0.0352092%	0.0335492%	0.0335492%
Authority's proportionate share of the net pension liability	<u>\$ 11,256,816</u>	<u>\$ 2,832,840</u>	<u>\$ 1,323,865</u>	<u>\$ 3,419,086</u>	<u>\$ 5,651,170</u>	<u>\$ 1,133,375</u>	<u>\$ 1,516,043</u>
Authority's covered payroll	12,306,995	11,621,785	11,083,532	11,382,495	10,139,681	9,405,983	9,457,414
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	91.5%	24.4%	11.9%	30.0%	55.7%	12.0%	16.0%
Plan fiduciary net position as a percentage of the total net pension liability	86.4%	96.3%	98.2%	94.7%	90.7%	97.9%	97.2%

*Information prior to the year ended June 30, 2014 is not available

BUFFALO SEWER AUTHORITY
Schedule of Authority's Contributions—
Employees' Retirement System
Last Seven Fiscal Years*

	Year Ended June 30,						
	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 1,571,827	\$ 1,534,250	\$ 1,607,903	\$ 1,536,673	\$ 1,589,974	\$ 1,743,330	\$ 1,926,571
Contributions in relation to the contractually required contribution	<u>(1,571,827)</u>	<u>(1,534,250)</u>	<u>(1,607,903)</u>	<u>(1,536,673)</u>	<u>(1,589,974)</u>	<u>(1,743,330)</u>	<u>(1,926,571)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 12,654,706	\$ 11,734,497	\$ 11,548,410	\$ 11,255,586	\$ 10,255,506	\$ 6,857,982	\$ 9,825,683
Contributions as a percentage of covered payroll	12.4%	13.1%	13.9%	13.7%	15.5%	25.4%	19.6%

*Information prior to the year ended June 30, 2014 is not available.

BUFFALO SEWER AUTHORITY
Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios
Last Four Fiscal Years*

	Year Ended June 30,			
	2020	2019	2018	2017
Total OPEB Liability				
Service cost	\$ 1,512,328	\$ 1,473,888	\$ 1,462,603	\$ 1,390,270
Interest	2,876,990	3,236,846	3,205,497	2,640,860
Difference between expected and actual experience	(18,829,962)	(17,231,443)	1,170,482	9,438,760
Changes of assumptions	13,821,608	9,346,819	2,772,815	(4,841,128)
Benefit payments	(2,894,460)	(3,314,543)	(3,177,531)	(2,966,529)
Net changes in total OPEB liability	(3,513,496)	(6,488,433)	5,433,866	5,662,233
Total OPEB liability—beginning	85,015,555	91,503,988	86,070,122	80,407,889
Total OPEB liability—ending	<u>\$ 81,502,059</u>	<u>\$ 85,015,555</u>	<u>\$ 91,503,988</u>	<u>\$ 86,070,122</u>
Plan fiduciary net position				
Contributions—employer	\$ 2,894,460	\$ 3,314,543	\$ 3,177,531	\$ 2,966,529
Benefit payments	(2,894,460)	(3,314,543)	(3,177,531)	(2,966,529)
Net change in plan fiduciary net position	-	-	-	-
Plan fiduciary net position—beginning	-	-	-	-
Plan fiduciary net position—ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's net OPEB liability—ending	<u>\$ 81,502,059</u>	<u>\$ 85,015,555</u>	<u>\$ 91,503,988</u>	<u>\$ 86,070,122</u>
Plan's fiduciary net position as a percentage of the total OPEB liability	0.0%	0.0%	0.0%	0.0%
Covered-employee payroll	\$ 12,403,132	\$ 12,016,210	\$ 7,681,522	\$ 7,681,522
Authority's net OPEB liability as a percentage of covered employee payroll	657.11%	707.51%	1191.22%	1120.48%

*Information prior to the year ended June 30, 2017 is not available.

The notes to the Required Supplementary Information are an integral part of this schedule.

BUFFALO SEWER AUTHORITY
Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual (Non-GAAP Budgetary Basis)—General Fund
Year Ended June 30, 2020

	Budgeted Amounts		Budgetary	Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Sewer rents—general consumers	\$ 53,692,600	\$ 53,692,600	\$ 50,251,558	\$ (3,441,042)
Interest on delinquent sewer rents	1,010,000	1,010,000	831,973	(178,027)
Interest on investments	1,966,918	1,966,918	1,961,380	(5,538)
Miscellaneous	1,247,400	1,247,400	1,781,986	534,586
Total revenues	<u>57,916,918</u>	<u>57,916,918</u>	<u>54,826,897</u>	<u>(3,090,021)</u>
EXPENDITURES				
Current:				
General administration	1,955,958	2,134,484	1,981,768	152,716
Wastewater treatment facilities	29,879,389	34,762,462	27,693,166	7,069,296
Industrial waste	750,696	936,819	861,544	75,275
Engineering	1,609,050	1,638,997	1,207,440	431,557
Sewer maintenance	5,042,080	5,307,707	4,225,991	1,081,716
Miscellaneous	7,407,254	7,444,374	4,027,846	3,416,528
Employee benefits	12,454,062	13,499,365	11,398,612	2,100,753
Total expenditures	<u>59,098,489</u>	<u>65,724,208</u>	<u>51,396,367</u>	<u>14,327,841</u>
Excess of revenues over expenditures	<u>(1,181,571)</u>	<u>(7,807,290)</u>	<u>3,430,530</u>	<u>11,237,820</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	33,082	42,633	109,039	66,406
Transfers out	<u>(5,106,382)</u>	<u>(21,132,067)</u>	<u>(16,715,988)</u>	<u>4,416,079</u>
Total other financing sources (uses)	<u>(5,073,300)</u>	<u>(21,089,434)</u>	<u>(16,606,949)</u>	<u>4,482,485</u>
Net change in fund balances*	(6,254,871)	(28,896,724)	(13,176,419)	15,720,305
Fund balances—beginning	<u>34,676,198</u>	<u>34,676,198</u>	<u>34,676,198</u>	<u>-</u>
Fund balances—ending	<u>\$ 28,421,327</u>	<u>\$ 5,779,474</u>	<u>\$ 21,499,779</u>	<u>\$ 15,720,305</u>

* The net change in fund balance was included as a re-appropriation of prior year encumbrances.

The notes to the Required Supplementary Information are an integral part of this schedule.

BUFFALO SEWER AUTHORITY
Notes to the Required Supplementary Information
Year Ended June 30, 2020

1. OPEB LIABILITY

Changes of Assumptions—Changes of assumptions reflect the effects of changes in the long-term bond rate, the mortality rate, and the healthcare cost trend rate. The long-term bond rate is based on the Fidelity Municipal Go AA 20-Year Bond rate as of the measurement date with a rate of 2.48% for the year ended June 30, 2020, a change from 3.44% for the year ended June 30, 2019. Mortality rates effective June 30, 2020 were updated to rates based on the Pub-2010 Public Retirement Plans Mortality Tables, Headcount-weighted for General employees, without separate Contingent Survivor mortality, fully generational using scale MP-2019. Finally, the healthcare cost trend rate effective June 30, 2020 is 5.20%, while the ultimate healthcare cost trend rate is 4.18%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Basis of Accounting—An annual budget is adopted on a basis of consistent with generally accepted accounting principles for the General Fund. The General Projects Fund is appropriated on a project-length basis. No formal annual budget is adopted for the Debt Service Fund as it is maintained based on debt schedules.

The appropriated budget is prepared by fund, function, department, and object. The Authority's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e. purchase orders, contracts, and commitments). Encumbrance accounting utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations. Under this method, encumbrances outstanding at year-end are reported as commitments of fund balances since they do not constitute expenditures or liabilities. A reconciliation of General Fund fund balance on the GAAP basis to the non-GAAP budgetary basis is shown below.

General Fund fund balance—GAAP basis	\$ 31,727,749
Less: Encumbrances	<u>(10,227,970)</u>
General Fund fund balance—Non-GAAP budgetary basis	<u><u>\$ 21,499,779</u></u>

SUPPLEMENTARY INFORMATION

BUFFALO SEWER AUTHORITY
Schedule of Investments
Year Ended June 30, 2020

Annual Investment Report - §2925(6) of Public Authorities Law of the State of New York requires that each public authority must annually prepare an investment report which shall include (a) investment guidelines, (b) amendments to such guidelines since the last investment report, (c) an explanation of the investment guidelines and amendments, (d) results of the annual independent audit, (e) the investment income record of the corporation, and (f) a list of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Authority since the last investment report.

- a. Investment guidelines—The Authority's investment policies are governed by State statutes. All investments are maintained in bank deposit accounts which are federally insured. The Authority's deposits are held at quality institutions.
- b. Amendments to guidelines—None.
- c. Explanation of guidelines and investments—These guidelines restrict investment of the Authority's funds to deposits in federally insured banks. The Authority has not made any amendments to its investment policy.
- d. Results of the annual independent audit—The independent auditors have issued an unmodified opinion on the Authority's financial statements for the year ended June 30, 2020.
- e. Investment income record—Investment income for the year ended June 30, 2020 consisted of:

General Fund:	
Interest earnings	\$ 1,961,380
Total General Fund income	<u>1,961,380</u>
General Projects Fund:	
Unrealized (loss)	<u>(205,080)</u>
Total General Projects Fund income	<u>(205,080)</u>
Debt Service Fund:	
Interest earnings	<u>109,046</u>
Total Debt Service Fund income	<u>109,046</u>
Total cash and investments income	<u><u>\$ 1,865,346</u></u>

- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Agency since the last investment report—Trustee fees totaling \$7,500 were paid to M&T Bank during the year ended June 30, 2020.

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FEDERAL AWARDS INFORMATION

BUFFALO SEWER AUTHORITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Cluster Title (1a)	Federal CFDA Number (1b)	Pass-Through Entity's Identifying Number (1c)	Passed Through to Sub- Recipients	Total Federal Expenditures (1d)
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
<i>Passed through NYS Environmental Facilities Corporation:</i>				
Capitalization Grant/Loans for Clean Water State Revolving Funds	66.458	CWSRF 36000115	\$ -	\$ 3,015,723
Great Lakes Program	66.469	N/A	-	400,000
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			-	3,415,723
TOTAL EXPENDITURES OF FEDERAL AWARDS (1e)			\$ -	\$ 3,415,723

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

BUFFALO SEWER AUTHORITY
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Buffalo Sewer Authority (the "Authority") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position or changes in net position of the Authority. The following notes were identified on the schedule of expenditures of federal awards:

- (a) Includes all federal award programs of the Buffalo Sewer Authority.
- (b) Source: Catalog of Federal Domestic Assistance.
- (c) Pass-through entity identifying numbers are presented where available.
- (d) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (e) A reconciliation to the financial statements is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Authority has not elected to use the 10 percent de minimus indirect cost rate, as allowed under the Uniform Guidance.

Certified Public Accountants

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

To the General Manager and Members
of the Buffalo Sewer Authority Board
Buffalo, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Buffalo Sewer Authority, (the "Authority") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 30, 2020.

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 opinions 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 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.

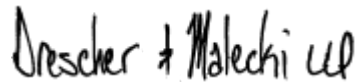
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during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

Compliance and Other Matters

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

Purpose of this Report

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

Handwritten signature of Drescher & Malecki LLP in black ink.

September 30, 2020

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the General Manager and Members
of the Buffalo Sewer Authority Board
Buffalo, New York

Report on Compliance for Each Major Federal Program

We have audited the Buffalo Sewer Authority's (the "Authority") compliance with the types of compliance requirements described in the Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2020. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

The Authority's management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 (CFR) 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 each 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 each of its major federal programs for the year ended June 30, 2020.

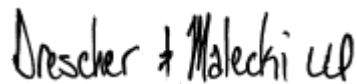
Report on Internal Control Over Compliance

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 each 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 were not 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.



September 30, 2020

BUFFALO SEWER AUTHORITY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of report the auditor issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes ✓ No

Significant deficiency(ies) identified? _____ Yes ✓ None reported

Noncompliance material to the financial statements noted? _____ Yes ✓ No

Federal Awards:

Internal control over major federal programs:

Material weakness(es) identified? _____ Yes ✓ No

Significant deficiency(ies) identified? _____ Yes ✓ None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516(a)? _____ Yes ✓ No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grant/Loans for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs? \$ 750,000

Auditee qualified as low-risk auditee? ✓ Yes _____ No

Section II. FINANCIAL STATEMENT FINDINGS

No findings noted.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

BUFFALO SEWER AUTHORITY
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2020
(Follow-up on June 30, 2019 Findings)

No findings noted.