

LOCUST VALLEY WATER DISTRICT

Financial Statements

December 31, 2019

LOCUST VALLEY WATER DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Locust Valley Water District
Locust Valley, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Locust Valley Water District (the "District"), a component unit of the Town of Oyster Bay, New York, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Locust Valley Water District as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 10 to the financial statements, the District has adopted the requirements of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 27-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Raich Ende Malter & Co. LLP

RAICH ENDE MALTER & CO. LLP
Melville, New York
May 1, 2020

LOCUST VALLEY WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2019

Our discussion and analysis of the Locust Valley Water District (the "District"), a component unit of the Town of Oyster Bay, New York (the "Town"), financial performance provides an overview of the District's financial activities for the year ended December 31, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's general fund.

Condensed Financial Information

Our analysis below focuses on the net position and changes in net position as set forth in the following condensed financial statements:

	<i>In Thousands</i>	
	<i>December 31,</i>	
	<u>2019</u>	<u>2018</u>
Condensed Statements of Net Position		
Assets		
Current assets	\$ 1,959	\$ 2,674
Capital assets	<u>14,899</u>	<u>14,467</u>
	<u>16,858</u>	<u>17,141</u>
Deferred Outflows of Resources		
Pensions	219	301
Other postemployment benefits	<u>446</u>	<u>-</u>
	<u>665</u>	<u>301</u>
Liabilities		
Current liabilities	876	694
Non-current liabilities	<u>13,668</u>	<u>14,056</u>
	<u>14,544</u>	<u>14,750</u>
Deferred Inflows of Resources		
Deferred rental income	36	48
Pensions	56	210
Other postemployment benefits	<u>624</u>	<u>221</u>
	<u>716</u>	<u>479</u>
Net Position		
Net investment in capital assets	4,111	3,040
Restricted for encumbrances	2,077	191
Unrestricted (deficit)	<u>(3,925)</u>	<u>(1,018)</u>
	<u>\$ 2,263</u>	<u>\$ 2,213</u>

Continued

		<i>In Thousands</i>	
		<i>For the Years Ended</i>	
		<i>December 31,</i>	
		<u>2019</u>	<u>2018</u>
Condensed Statements of Activities			
Program Revenues			
Water supply services	\$	1,765	\$ 1,660
Real property taxes		1,036	770
Capital grants and contributions		148	-
 General Revenues			
Interest		35	16
Rental income		265	272
Other		35	99
Program Expenses		(3,234)	(2,934)
Cumulative Effect of Change in Accounting Principle		<u>-</u>	<u>(1,506)</u>
Changes in Net Position	\$	<u>50</u>	\$ <u>(1,623)</u>

Financial Highlights

With a cool, wet weather pattern throughout most of the year, as with 2018, demand for irrigation water was significantly below average throughout 2019. Overall, the District had another below average year for pumpage, however, with the combination of a decrease in unbilled water and an increase in water rates, water revenue slightly increased from 2018.

The following table indicates the District's pumpage and revenue figures for the last three years.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gallons pumped (in millions)	629	641	631
Water supply services revenue (in thousands)	\$ 1,765	\$ 1,660	\$ 1,632

The District receives a majority of its funding from water revenue. However, the District also receives funds from taxation, tank and cottage rentals, sales of supplies, new service taps, fire hydrant rental, backflow testing, and interest. Seasonal and annual fluctuations in water rates caused by varying climatic conditions are common, as over 50% of the water consumed in the District is used for irrigation purposes. The real property tax rate levied on behalf of the District, collected by the Town of Oyster Bay for 2019, was \$1,036,065, an increase of 34.5% from 2018. During 2019, in addition to the increase in water revenue and property taxes, revenue increased by \$147,669 from a new grant secured by the District from New York State for a new filtration system.

The District has five capital projects, which were still not completed by the end of 2019, encumbering the District with \$2,076,927 in contracted work as of December 31, 2019.

In February 2019, a tree fell on the Cottage and destroyed the building. The District received approximately \$120,000 of insurance reimbursements for repairs and five months of rent reimbursements which were offset with cottage repair expenses and rental income, respectively. The tenant has decided not to renew the lease.

Budgetary Highlights

Due to cost overruns, the District was compelled to make several line item adjustments to its original annual operating budget.

The District's actual results were approximately \$64,000 better than budgeted during the year due to the following:

	<u><i>In Thousands</i></u>
Metered water sales less than budget	\$ (56)
Pumping and distribution costs in excess of budget	71
Office and general costs in excess of budget	24
Other revenue more than budget	24
Debt service costs more than budget	<u>1</u>
	<u>\$ 64</u>

Capital Assets

At December 31, 2019, the District had approximately \$14,899,000 invested in capital assets, including land, pump stations, transmission and distribution pipeline, and storage tanks (see below). This represents an increase of approximately \$688,000.

Capital assets, net of depreciation, at December 31, 2019, consist of the following:

	<u><i>In Thousands</i></u>
Land	\$ 1,953
Water tanks	4,871
Buildings	455
Wells and pumphouses	6,489
Automobiles	28
Infrastructure	<u>1,103</u>
	<u>\$ 14,899</u>

Major capital additions and improvements for 2019 included:

	<u><i>In Thousands</i></u>
Partial Completion of Well # 5 Rehabilitation	\$ 191
Completion of District-Wide Supervisory Control and Data Acquisition ("SCADA")	69
Partial Completion of Well #6 GAC Filter	<u>428</u>
	<u>\$ 688</u>

According to the Nassau County Assessment Office, the total estimated value of District property included above is \$26,034,200.

Debt

The District currently has bonded debt in the amount of \$10,374,000. The debt service cost for the District was \$1,034,223 in 2019 and is projected to be \$1,026,378 in 2020. Encumbrances for contractual items as of December 31, 2019 were \$2,076,927. The District will pay these debts through its current operating budget and bonded debt.

Economic Factors and Next Year's Budget

Since weather cannot be predicted in the long-term and irrigation accounts for over 50% of the water consumed in the District, it is difficult to estimate future annual water supply revenue. The District expects basic increases in all areas of operation. While energy and chemical costs have stabilized and construction projects in long-term planning are expected to be paid for through bonding, basic maintenance issues for the water system remain. With a number of capital projects to be completed through bonded debt, the District's capital improvement budget for 2020 was increased from 2019. Major capital improvements planned for 2020 include:

- Completion of Well # 5 Rehabilitation
- Completion of GAC filters for Well #6

Having conducted water quality engineering studies, the District continues to closely monitor several contaminants in Wells #6 and #8. Effective January 9, 2020, the District was approved for an additional grant related to the perchlorate filter removal project at Well #8. The District has not yet received these funds.

The increase in annual debt service, as well as operating and maintenance costs associated with filtration, will negatively impact the overall cost of water to consumers.

In order to pay the bonds necessary for the new facilities outlined in the engineering reports, the Board adopted a new water rate schedule in 2020 and anticipates continued regular water and tax rate increases. The real property tax amount for 2020 has been set at \$1,159,744. This is an increase above the prior budget in tax revenue of 11.9%, or \$123,679, above the property tax cap set by New York State.

Contacting the District's Financial Management

This financial report is designed to provide our consumers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent at the District Office, 226 Buckram Road, Locust Valley, New York, or at (516) 671-1783.

LOCUST VALLEY WATER DISTRICT

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position

December 31, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 450,615
Certificates of deposits	275,907
Accounts receivable	632,326
Due from other governments - net	342,422
Inventory of materials and supplies	116,357
Prepaid expenses	<u>141,714</u>
	<u>1,959,341</u>

Non-Current Assets

Non-depreciable capital assets	1,953,014
Depreciable capital assets - net of depreciation	<u>12,946,171</u>
	<u>14,899,185</u>
	<u>16,858,526</u>

DEFERRED OUTFLOWS OF RESOURCES

Other postemployment benefits	445,564
Pensions	<u>219,041</u>
	<u>664,605</u>

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	461,759
Unamortized bond premium	<u>414,638</u>
	<u>876,397</u>

Non-Current Liabilities

General obligation bonds payable	10,374,000
Accrued compensated absences	388,639
Other postemployment benefits obligation	2,779,552
Net pension liability - proportionate share	<u>126,234</u>
	<u>13,668,425</u>
	<u>14,544,822</u>

DEFERRED INFLOWS OF RESOURCES

Deferred rental income	36,000
Pensions	55,952
Other postemployment benefits	<u>623,709</u>
	<u>715,661</u>

NET POSITION

Net investment in capital assets	4,110,547
Restricted	2,076,927
Unrestricted (deficit)	<u>(3,924,826)</u>
	<u>\$ 2,262,648</u>

LOCUST VALLEY WATER DISTRICT

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Activities

Year Ended December 31, 2019

Governmental Activities

Water supply services

Revenue:

Charges for services

\$ 1,765,455

Shared revenue - property taxes

1,036,065

Capital grants and contributions

147,669

Expenses

(3,233,379)

(284,190)

General Revenues

Interest

34,701

Rental income

264,713

Other

35,259

334,673

Changes in Net Position

50,483

Net Position - beginning

2,212,165

Net Position - end

\$ 2,262,648

LOCUST VALLEY WATER DISTRICT

FUND FINANCIAL STATEMENTS

Balance Sheet - Governmental Fund

December 31, 2019

	<i>General Fund</i>	<i>Capital Projects Fund</i>	<i>Agency Fund</i>	<i>Eliminations</i>	<i>Total</i>
ASSETS					
Cash and cash equivalents	\$ 450,615	\$ -	\$ -		\$ 450,615
Certificates of deposit	275,907	-	-	-	275,907
Accounts receivable	598,326	-	-	-	598,326
Due from Town of Oyster Bay - net	14,029	180,724	-	-	194,753
Due from other governments	-	147,669	-	-	147,669
Due from General Fund	-	315,000	-	(315,000)	-
Inventory of materials and supplies	116,357	-	-	-	116,357
Prepaid expenses	141,714	-	-	-	141,714
	<u>\$ 1,596,948</u>	<u>\$ 643,393</u>	<u>\$ -</u>	<u>\$ (315,000)</u>	<u>\$ 1,925,341</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 204,106	\$ 276,393	\$ -	\$ -	\$ 480,499
Due to Capital Projects Fund	315,000	-	-	(315,000)	-
Bond anticipation notes	-	-	-	-	-
Deposits payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
	<u>519,106</u>	<u>276,393</u>	<u>-</u>	<u>(315,000)</u>	<u>480,499</u>
FUND BALANCE					
Nonspendable	256,752	-	-	-	256,752
Restricted	-	2,076,927	-	-	2,076,927
Assigned	404,191	-	-	-	404,191
Unassigned	416,899	(1,709,927)	-	-	(1,293,028)
	<u>1,077,842</u>	<u>367,000</u>	<u>-</u>	<u>-</u>	<u>1,444,842</u>
	<u>\$ 1,596,948</u>	<u>\$ 643,393</u>	<u>\$ -</u>	<u>\$ (315,000)</u>	<u>\$ 1,925,341</u>

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position:

Total governmental fund balance	\$ 1,444,842
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Capital assets- non-depreciable	1,953,014
Capital assets- depreciable	18,219,696
Accumulated depreciation	(5,273,525)
	<u>14,899,185</u>
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Accounts receivable	34,000
Amounts reported for the District's deferred outflows for pensions and other postemployment benefits are not considered a current available resource and is therefore not reported in the funds	664,605
Long-term liabilities are not due and payable in the current period and, therefore, are not included in the funds:	
General obligation bonds payable	(10,374,000)
Unamortized bond premium	(414,638)
Accrued compensated absences	(388,639)
Other postemployment benefits obligation	(2,779,552)
Net pension liability - proportionate share	(126,234)
Accrued interest payable	18,740
Deferred inflows of resources related to pensions plans and other postemployment benefits payable are included in the Statement of Net Position	(679,661)
Deferred revenue in the Statement of Net Position does not provide current financial resources and, therefore, is not reported in the funds	(36,000)
Net Position of Governmental Activities	<u>\$ 2,262,648</u>

See notes to financial statements.

LOCUST VALLEY WATER DISTRICT

FUND FINANCIAL STATEMENTS

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund

Year Ended December 31, 2019

	<i>General Fund</i>	<i>Capital Projects Fund</i>	<i>Total</i>
Revenues			
Real property taxes	\$ 1,036,065	\$ -	\$ 1,036,065
Metered water sales	1,704,310	-	1,704,310
Hydrant rentals	43,534	-	43,534
Sales of meters and supplies	17,611	-	17,611
State aid	-	147,669	147,669
Miscellaneous:			
Interest	34,701	-	34,701
Rental income - cottage and tank	252,713	-	252,713
Other	35,259	-	35,259
	<u>3,124,193</u>	<u>147,669</u>	<u>3,271,862</u>
Expenditures			
Pumping and distribution	1,609,334	-	1,609,334
Office and general	941,794	-	941,794
Debt service	1,034,223	-	1,034,223
Capital outlay	-	687,504	687,504
	<u>3,585,351</u>	<u>687,504</u>	<u>4,272,855</u>
(Deficiency) of Revenues Over Expenditures	<u>(461,158)</u>	<u>(539,835)</u>	<u>(1,000,993)</u>
Other Sources (Uses)			
Transfers in	12,436	-	12,436
Transfers out	-	(12,436)	(12,436)
Increase in inventory of materials and supplies	748	-	748
	<u>13,184</u>	<u>(12,436)</u>	<u>748</u>
Total Other Financing Sources (Uses)	<u>13,184</u>	<u>(12,436)</u>	<u>748</u>
Net Change in Fund Balances	<u>(447,974)</u>	<u>(552,271)</u>	<u>(1,000,245)</u>
Fund Balance - beginning	<u>1,525,816</u>	<u>919,271</u>	<u>2,445,087</u>
Fund Balance - end	<u>\$ 1,077,842</u>	<u>\$ 367,000</u>	<u>\$ 1,444,842</u>

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities:

(Deficiency) of revenues over expenditures	\$ (1,000,993)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the lives of the assets:	
Capital assets purchases capitalized	687,504
Depreciation expense	(255,328)
The issuance of long-term debt provides current financial resources, while the repayment of bond principal consumes the current financial resources in the governmental funds:	
Repayment of bond principal	638,000
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:	
Deferred revenue received is recorded in the governmental funds, but not in the Statement of Activities	12,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Accrued compensated absences	(31,104)
Other postemployment benefits	(113,472)
Other - decrease in inventory of supplies	748
Contingency expense	38,000
Pension expense	9,413
Accrued interest cost	65,715
Change in Net Position of Governmental Activities	<u>\$ 50,483</u>

LOCUST VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Locust Valley Water District (the "District") supplies water to the residents of the Locust Valley water district. The District's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies established in GAAP and used by the District are discussed below.

- a. **Financial Reporting** - The Town of Oyster Bay, New York (the "Town") is financially accountable, as a result of fiscal dependency, for the District. Long-term debt of the District, which is backed by the full faith and credit of the Town, and other fiscal matters, results in a fiscal interdependency with the Town. Accordingly, the District is a component unit of the Town of Oyster Bay, New York.
- b. **Basic Financial Statements - Government-Wide Statements** - The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities, which consist of the water supply services and general administrative services, as governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

In the government-wide Statement of Net Position, the District's governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets; restricted net position; and unrestricted net position.

The government-wide Statement of Activities reports both the gross and net costs of the District's function (water supply services). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues. Program revenues are directly associated with the function. The net costs (by function) are normally covered by general revenues.

This government-wide focus is centered on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Net positions represent the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- c. **Basic Financial Statements - Fund Financial Statements** - The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

- 1) *Governmental Funds* - The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources), rather than upon net income. The following is a description of the governmental funds of the District:

General Fund - is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

- 2) *Fiduciary Fund* - The fiduciary fund is used to report assets held in a trustee or agency capacity for others and, therefore, is not available to support the District's function. The reporting focus is on net assets, and changes in net assets are reported using accounting principles similar to those used for proprietary funds.

The District's fiduciary fund is presented in the fiduciary fund financial statement by agency. Since by definition these assets are being held for the benefit of a third party (other local governments) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

- d. **Measurement Focus/Basis of Accounting** - Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

- 1) *Accrual* - Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when incurred.

- 2) *Modified Accrual* - The governmental funds' financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after the financial statement date. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

- 3) *Use of Estimates* - The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- e. **Financial Statement Amounts** - Financial statement amounts include the following:

- 1) *Cash and Cash Equivalents* - Cash and cash equivalents include cash in banks and liquid investments with maturities of three months or less at time of purchase.

- 2) *Inventory of Materials and Supplies* - Inventory of materials and supplies consists of meters, parts, and supplies held for consumption, and are valued at the lower of cost or net realizable value using the first-in, first-out ("FIFO") method. Inventory is accounted for under the consumption method, whereby cost is recorded as expenditure at the time of consumption.

3) *Capital Assets* - The accounting treatment depends on whether the assets are reported in the government-wide or fund financial statements.

a) *Government-Wide Financial Statements* - In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible fixed assets is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives and salvage values by type of asset is as follows:

<i>Assets</i>	<i>Life</i>	<i>Salvage Values</i>
Water tanks	40 years	25%
Buildings	40 years	25%
Wells and pumphouses	40 years	25%
Transportation and maintenance equipment	3-5 years	-
Office equipment	5 years	-
Infrastructure	40 years	25%

b) *Fund Financial Statements* - In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

4) *Compensated Absences* - The District allows employees to accumulate unused sick leave and vacation time to a maximum of 260 days. Upon termination, vacation leave is paid at 100% and sick time is paid at 50% to 100%, depending on length of service. The liability for these compensated absences is recorded in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

5) *Postemployment Benefits* – In addition to providing pension benefits, the District, per its contract with employees, will pay full premium costs for the medical coverage for an employee of the District at retirement, provided the employee has been employed with the District for more than 10 years prior to the date of retirement.

The District recognized the cost of providing benefits by recording its share of insurance premiums as an expenditure in the governmental funds in the year paid. The liability for these other postemployment benefits is recorded as long-term debt in the government-wide statements.

6) *Property Taxes* - Revenues from property taxes are recorded when received from the Town of Oyster Bay, which corresponds substantially with the year to which assessments relate.

7) *Net Position and Fund Equity Classification* - In the government-wide financial statements, equity is classified as net position and displayed in three components:

a) *Net Investment in Capital Assets* - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b) *Restricted* - Consists of net assets with constraints placed on the use either by (1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law, through constitutional provisions or enabling legislation.

- c) *Unrestricted* - Consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”
- 8) *Fund Financial Statements* - In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources; they are nonspendable, restricted, committed, assigned, or unassigned.
- a) *Nonspendable Fund Balance* - includes amounts that cannot be spent because they are either not in spendable form, not available within a year, or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory of materials and supplies recorded in the General Fund.
- b) *Restricted Fund Balance* - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- c) *Committed Fund Balance* - includes amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority. The Board of Commissioners is not empowered to establish local law; accordingly, the District will not have committed fund balances.
- d) *Assigned Fund Balance* - includes amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. The District’s assigned fund balance for expenditures in subsequent years includes next year’s budget and employee benefits accrued liability and retirement contributions. The Board of Commissioners has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are not reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.
- e) *Unassigned Fund Balance* - includes all other General Fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the District. It is also used to report negative fund balances in other governmental funds.

In circumstances where expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves), the Board of Commissioners will assess the current financial condition of the District and then determine the order of application of expenditures to which fund balance classification will be charged. It is the intention of the Board of Commissioners that the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget or board approved budget revision, and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the committed fund balance to the extent that there is a commitment, to assigned fund balance to the extent that there is an assignment, and then to the unassigned fund balance.

- f) *Fund Deficit* - The Capital Projects Fund deficit resulted from differences in timing between capital project expenditures and the recognition of corresponding permanent financing sources. The deficit will be eliminated in subsequent years with the issuance of long-term bonds.

The District’s fund balance policy, adopted by the Board, recommends that the District maintain an unassigned fund balance no greater than 25% of the general fund operating budget.

9) *New Pronouncements* - The following are newly effective accounting pronouncements:

Statement No. 87, "Leases," the objective of which is to improve accounting and financial reporting for leases by governments. This Statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019.

Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, the objective of which is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019.

Statement No. 91, Conduit Debt Obligations, the objective of which are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020.

The District is currently evaluating the impact of the above pronouncements.

Due to the COVID-19 outbreak, the Governmental Accounting Standards Board proposed deferral of effective dates of the above accounting pronouncements. As of May 1, 2020, final guidance has not been implemented.

2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data - The District's budget policies are as follows:

The District prepares an annual budget for the General Fund, which is approved by the Board of Commissioners. The budget is then submitted to the Town of Oyster Bay for inclusion in the Town budget and a public hearing is held thereon. The budget is not subject to referendum. Any revisions to the annual budget are adopted by resolution of the Board of Commissioners.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the General and Capital Projects Funds. Expenditures for such commitments are recorded in the period in which the liability is incurred.

The budget is adopted annually on a basis consistent with GAAP. Appropriations authorized for the current year are increased by the amount of encumbrances, if any, carried forward from the prior year.

New York State has enacted Chapter 97, Laws of 2011 Real Property Tax Levy Cap and Mandate Relief Provisions, which includes a 2% property tax cap for municipalities. No local government is authorized to increase its property tax levy by more than 2% or the rate of inflation (whichever is less); however, local governments can exceed the tax levy limit by a 60% vote of the governing body and annually adopting a local law.

For the 2019 budget, the District has been approved to increase its property tax levy by 34.5%.

Fund Balance - The following table provides the detail regarding fund balance categories and classifications for the governmental funds that show components of nonspendable fund balances, as well as the purposes for restricted and assigned fund balance. The unassigned fund balance is also shown.

	<i>General Fund</i>	<i>Capital Projects Fund</i>	<i>Total</i>
Nonspendable:			
Prepaid items	\$ 140,395	\$ -	\$ 140,395
Inventory of material and supplies	<u>116,357</u>	<u>-</u>	<u>116,357</u>
Total Nonspendable	<u>256,752</u>	<u>-</u>	<u>256,752</u>
Restricted for:			
Encumbrances	<u>-</u>	<u>2,076,927</u>	<u>2,076,927</u>
Total Restricted	<u>-</u>	<u>2,076,927</u>	<u>2,076,927</u>
Assigned:			
Subsequent year's budget	<u>404,191</u>	<u>-</u>	<u>404,191</u>
Total Assigned	<u>404,191</u>	<u>-</u>	<u>404,191</u>
Unassigned	<u>416,899</u>	<u>(1,709,927)</u>	<u>(1,293,028)</u>
Total Fund Balances	<u>\$ 1,077,842</u>	<u>\$ 367,000</u>	<u>\$ 1,444,842</u>

3 - CASH AND INVESTMENTS

The District's funds are deposited in Federal Deposit Insurance Corporation ("FDIC") insured commercial banks. These deposits consist of both demand and time deposit accounts. It is the District's policy to require collateral for bank deposits above the FDIC limit of \$250,000 per institution.

The District invests its excess funds in certificates of deposit with maturities between one and two years. At December 31, 2019, the aggregate fair value of the investments amounted to \$275,907.

At December 31, 2019, the carrying amount of the District's deposits, including certificates of deposit, was \$726,522, and the bank balance was \$735,481. Of the total bank balance, \$564,514 was insured by the FDIC and the remaining \$170,967 is collateralized by bonds held by a financial institution, in the District's name.

All investments were held by the District's agent in the District's name.

4 - CAPITAL ASSETS

Capital assets for the year ended December 31, 2019 are as follows:

<i>Government</i>	<i>January 1, 2019</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2019</i>
Cost				
Land	\$ 1,953,014	\$ -	\$ -	\$ 1,953,014
Water tanks	5,697,828	-	-	5,697,828
Buildings	711,074	-	-	711,074
Wells and pumphouses	8,102,192	687,504	-	8,789,696
Transportation and maintenance equipment	164,157	-	-	164,157
Office equipment	105,155	-	-	105,155
Infrastructure	<u>2,751,786</u>	<u>-</u>	<u>-</u>	<u>2,751,786</u>
	<u>19,485,206</u>	<u>687,504</u>	<u>-</u>	<u>20,172,710</u>
Accumulated Depreciation				
Water tanks	710,386	115,957	-	826,343
Buildings	244,929	11,523	-	256,452
Wells and pumphouses	2,194,179	106,594	-	2,300,773
Transportation and maintenance equipment	129,450	6,942	-	136,392
Office equipment	104,415	740	-	105,155
Infrastructure	<u>1,634,838</u>	<u>13,572</u>	<u>-</u>	<u>1,648,410</u>
	<u>5,018,197</u>	<u>255,328</u>	<u>-</u>	<u>5,273,525</u>
	<u>\$14,467,009</u>	<u>\$ 432,176</u>	<u>\$ -</u>	<u>\$ 14,899,185</u>

Depreciation expense was charged to water supply services.

5 - PENSION PLANS

- a. **Plan Description** - The District participates in the New York State and Local Employees' Retirement System (the "ERS"). This is a cost-sharing multi-employer retirement system. The ERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (the "NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds. The ERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.
- b. **Benefits Provided** - The System provides retirement benefits as well as death and disability benefits.

Tiers 1 and 2

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

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

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

Tiers 3, 4, and 5

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

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

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

Tier 6

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

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

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

Ordinary Disability Benefits

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

Accidental Disability Benefits

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

Ordinary Death Benefits

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

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: 1) all pensioners who have attained age 62 and have been retired for five years; 2) all pensioners who have attained age 55 and have been retired for ten years; 3) all disability pensioners, regardless of age, who have been retired for five years; 4) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and 5) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual consumer price index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

- c. **Funding Policy** - The ERS is noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010, who contribute 3% of their salary for their entire length of service. In addition, employees that joined after April 1, 2012 are required to contribute between 3% and 6%, depending upon their salary, through active membership. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

The required contributions for the current year and the two preceding years were as follows:

***For the Years Ended
December 31,***

2019	\$ 108,865
2018	103,857
2017	102,620

- d. **Pension Assets, Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pension** - At December 31, 2019, the District reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for the ERS. The net pension asset/(liability) was

measured as of March 31, 2019 for ERS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the ERS relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS Systems in reports provided to the District.

	<u>ERS</u>
Actuarial valuation date	April 1, 2018
Net pension asset/(liability)	\$(126,234)
District's portion of the Plan's total net pension assets net pension asset/(liability)	0.0017816%
Change in allocation of the ERS System's total net pension liability since the prior measurement date	-0.000178%

For the year ended December 31, 2019, the District's recognized pension expense is \$99,451. At December 31, 2019, the District's reported deferred outflows of resources related to pension from the following sources are as follows:

	<u>ERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,858	\$ 8,474
Changes in assumptions	31,730	-
Net difference projected and actual earnings on pension Plan investments	-	32,399
Changes in proportion and differences between the District's contributions and proportionate share of contributions	53,588	15,079
Districts' contributions subsequent to the measurement date	<u>108,865</u>	<u>-</u>
	<u>\$ 219,041</u>	<u>\$ 55,952</u>

The District's contribution, subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in *pension expense* as follows:

<u>For the Years Ending December 31,</u>	<u>ERS</u>
2019	\$ 25,336
2020	19,761
2021	(40,346)
2022	(17,934)
2023	21,892

- e. **Actuarial Assumptions** - The total pension liability as of the measurement date of March 31, 2019 was determined by using an actuarial valuation as of April 1, 2018 with update procedures used to roll forward the total pension liability to the measurement date.

	<u>ERS</u>
Measurement date	March 31, 2019
Actuarial valuation date	April 1, 2018
Interest rate	7.0%
Salary scale	4.2%
Decrement tables	April 1, 2010 - March 31, 2015
System's experience cost of living adjustment	1.3%
Inflation rate	2.5%

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

The actuarial assumptions used in the April 1, 2015 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 as of March 31, 2019 are summarized below:

Asset Type	<u>ERS</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	36.0%	4.55%
International equity	14.0%	6.35%
Private equity	10.0%	7.50%
Real estate	10.0%	5.55%
Absolute return strategies	2.0%	3.75%
Opportunistic portfolio	3.0%	5.68%
Real assets	3.0%	5.29%
Bonds and mortgages	17.0%	1.31%
Cash	1.0%	-0.25%
Inflation indexed bonds	4.0%	1.25%
	<u>100.0%</u>	

- f. **Discount Rate** - The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily

required rates, actuarially. Based upon the assumptions, the Systems' 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.

- g. **Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption** - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the District's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1% point lower (6.00%) or 1% point higher (8.0%) than the current rate:

	<i>1% Decrease (6.00%)</i>	<i>Current Assumption (7.00%)</i>	<i>1% Increase (8.00%)</i>
Employer's proportionate share of the net pension asset/(liability)	\$ 551,917	\$ 126,234	\$ (231,369)

- h. **Pension Plan Fiduciary Net Position** - The components of the current-year net pension liability of the employers participating in the System's as of March 31, 2019 were as follows (In thousands):

	<u>ERS</u>
Valuation date	March 31, 2019
Employers' total pension liability	\$ 189,803,429
Plan fiduciary net position	<u>(182,718,124)</u>
Employers' net pension asset/(liability)	<u>\$ 7,085,305</u>
Ratio of plan fiduciary net position to the Employers' total pension liability	96.27%

Detailed information about the pension plan's fiduciary net position is available in the System's separately issued financial statements.

6 - LEASES

The District leases space on its tank to cellular telephone companies for their antennas, with expiration dates in December 2023, April 2022, and December 2021. The District also leases the cottage on its property, under a lease expiring in January 2019, which was renewed to January 2020. This lease was voided in February 2019, after a tree fell on the cottage and destroyed the building.

Future minimum rentals to be received under these leases are as follows:

<u>For the Years Ending December 31,</u>	
2020	\$ 256,739
2021	268,071
2022	153,379
2023	<u>130,750</u>
	<u>\$ 808,939</u>

The District leases land to the Locust Valley Fire District for its headquarters. The lease extends through October 2025 and calls for rent of \$1 per year. The lease also called for a payment of \$240,000 within 30 days after the Fire District received a building permit from the Town of Oyster Bay for the construction of an addition to its headquarters building. The District received \$120,000 in 2002 and \$120,000 in 2004.

This \$240,000 payment was intended to compensate the District for a portion of its costs to expand its garage and parking facilities, necessitated by the expansion of the fire headquarters building. On the District's Statement of Activities, the rental income is being recorded over the remaining life of the lease at \$12,000 per year. On the Statement of Net Position, the advanced collection and billing of this rental income is shown as *deferred revenue*. On the Fund financial statements, the payments were recorded as revenue when they became available.

The rental income received for the year ended December 31, 2019 is as follows:

	<u>Government-Wide</u>	<u>Fund</u>
Tank	\$ 237,313	\$ 237,313
Cottage	15,400	15,400
Fire District	<u>12,000</u>	<u>-</u>
	<u>\$ 264,713</u>	<u>\$ 252,713</u>

7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; health care; and workers' compensation, for which the District carries commercial insurance. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded coverage in the past three years.

8 - OTHER POSTEMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)

In the government-wide financial statements, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. The District recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. Recognition of the liability accumulated from prior years is being phased in over 30 years, commencing with the 2007 liability. No assets are accumulated in a trust that meets the criteria for paragraph 4 of GASB Statement No. 75.

Plan Description - The District administers a single-employer Other Postemployment Benefits ("OPEB") plan ("the Retiree Medical, Dental, Vision, and Medicare Part B Insurance" or "the Plan"). The Plan provides medical through the Empire Core Plan Enhancement; dental through the Group Health Insurance Plan; vision through the Davis Optical Plan; and Medicare Part B insurance. Benefit provisions are established at the District's discretion. The Plan does not issue a publicly available financial report.

The OPEB valuation is based on census data as of January 1, 2019. The number of participants as of this date is as follows:

Active employees	11
Retired employees	<u>2</u>
	<u>13</u>

There have been no significant changes in the number of participants or the type of coverage since that date.

Total OPEB Liability – The District’s total liability of \$2,779,552 was measured as of December 31, 2019 and was determined by an actuarial valuation as of January 1, 2019, with update procedures used to roll forward the OPEB liability to the measurement date.

Funding Policy - The District funds the Plan at its own discretion, on a pay-as-you-go basis.

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

The Total OPEB liability in the January 1, 2019 valuation was determined using the following actuarial assumptions and other inputs:

Salary increases	- 2.50%
Discount rate	- 2.74%
Healthcare cost trend rates	- 7.0% in 2019, grading down 0.5% per annum to an ultimate rate of 5.0% in years 2023 and later

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Index as of January 1, 2019.

Sex-distinct mortality rates from Tables 1 through 4, with a 60% weight to the white-collar experience and 40% to the labor experience. Future mortality improvements were projected using the Society of Actuaries Mortality Projection Scale MP-2018. Disability rates were based on Tables 5 and 6 with similar projections of future mortality improvements.

The decrement tables used for this valuation are based on the New York State Employees’ Retirement System (ERS).

In the January 1, 2019 actuarial valuation, the liabilities were computed using the entry age normal method, the Actuarial Present Value of Projected Benefits of each individual included in the Actuarial Valuation is allocated on a level basis over future earnings of the individual between entry age and assumed exit age(s).

Other changes impacting the valuation were due to updated mortality tables to reflect an updated projection scale. The healthcare cost trend rate was reset to 7.0% in 2019, grading down 0.5% per annum to an ultimate rate of 5.0% in years 2023 and later. The MP 2018 mortality improvement projection scale was applied.

Annual OPEB Cost and Net OPEB Obligation - The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan:

Net OPEB obligation - beginning of year	<u>\$ 2,623,452</u>
Changes for the year:	
Service cost	100,454
Interest on net OPEB obligation	91,581
Differences between expected and actual experience	(561,606)
Changes in assumptions and other inputs	539,964
Benefit payments	<u>(14,293)</u>
Increase in net OPEB obligation	<u>156,100</u>
Net OPEB obligation - end of year	<u>\$ 2,779,552</u>

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the District, as was as the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.74%) or 1-percentage-point higher (3.74%) than the current discount rate:

	<i>One Percent Decrease (1.74%)</i>	<i>Current Discount Rate (2.74%)</i>	<i>One Percent Increase (3.74%)</i>
Total OPEB Liability	\$3,277,781	\$2,779,552	\$2,381,234

Sensitivity of the total OPEB liability to changes in the Healthcare cost trend rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current healthcare cost trend rates:

	<i>One Percent Decrease (6.00% to 4.00%)</i>	<i>Healthcare Cost Trend Rates (7.00% to 5.00%)</i>	<i>One Percent Increase (8.00% to 6.00%)</i>
Total OPEB Liability	\$2,323,975	\$2,779,552	\$3,371,591

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

For the year ended December 31, 2019, the District recognized OPEB expense of \$125,491. The District reported deferred outflows or inflows of resources related to OPEB from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ -	\$ 463,423
Change of assumptions or other inputs	<u>(445,564)</u>	<u>160,286</u>
	<u>\$ (445,564)</u>	<u>\$ 623,709</u>

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

<i>For the Years Ending December 31,</i>	
<hr/>	
2020	\$ 64,270
2021	64,270
2022	<u>49,605</u>
	<u>\$ 178,145</u>

9 - GENERAL OBLIGATION BONDS

The District periodically borrows money in order to acquire land or equipment or construct building and improvements. This enables the cost of these assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are backed by the full faith and credit of the Town of Oyster Bay, bear interest at rates ranging from 2.0%-4.0%, and have maturity dates ranging from 2027 to 2033.

10 - CHANGES IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2019, the District implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of this GASB did not have an impact of the District's financial statements.

11 - SUBSEQUENT EVENTS

The World Health Organization characterized the COVID-19 virus as a global pandemic on March 11, 2020. The duration and economic impact of this pandemic are uncertain. At this time, management is unable to quantify its potential effects on the operations and financial performance of the District.

Subsequent events have been evaluated through May 1, 2020, the date the financial statements were available to be issued.

LOCUST VALLEY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Governmental Fund - General Fund
Year Ended December 31, 2019

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
Revenues				
Real property taxes	\$ 1,036,071	\$ 1,036,071	\$ 1,036,065	\$ (6)
Metered water sales	1,760,000	1,760,000	1,704,310	(55,690)
Hydrant rentals	42,615	42,615	43,534	919
Sales of meters and supplies	20,000	20,000	17,611	(2,389)
Miscellaneous:				
Interest	10,000	10,000	34,701	24,701
Rental income - cottage and tank	267,400	267,400	252,713	(14,687)
Other	20,000	20,000	35,259	15,259
	<u>3,156,086</u>	<u>3,156,086</u>	<u>3,124,193</u>	<u>(31,893)</u>
Expenditures				
Current:				
Pumping and distribution	1,398,000	1,680,000	1,609,334	70,666
Office and general	973,000	966,000	941,794	24,206
Debt service	1,035,000	1,035,000	1,034,223	777
Capital improvements	95,000	-	-	-
	<u>3,501,000</u>	<u>3,681,000</u>	<u>3,585,351</u>	<u>95,649</u>
(Deficiency) of Revenues Over Expenditures	<u>\$ (344,914)</u>	<u>\$ (524,914)</u>	<u>\$ (461,158)</u>	<u>\$ 63,756</u>

LOCUST VALLEY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Pumping and Distribution Expenditures - Budget and Actual - Governmental Fund - General Fund
Year Ended December 31, 2019

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Pumping and Distribution Expenditures				
Salaries	\$ 596,000	577,000	\$ 594,283	\$ (17,283)
Power and fuel for pumps	300,000	314,000	313,599	401
Water treatment and analysis	105,000	104,000	106,325	(2,325)
Engineering	30,000	49,000	48,298	702
Automobile	33,000	33,000	32,729	271
Maintenance - grounds	45,000	50,000	49,725	275
Maintenance - building	7,000	4,000	3,399	601
	<u>1,116,000</u>	<u>1,131,000</u>	<u>1,148,358</u>	<u>(17,358)</u>
Repairs:				
Pump station	65,000	65,000	93,979	
Hydrants and mains	73,000	169,000	173,987	
Cottage	3,000	178,000	63,846	
	<u>141,000</u>	<u>412,000</u>	<u>331,812</u>	<u>80,188</u>
Equipment and supplies:				
Tools	6,000	3,000	2,958	
Vehicle and plant equipment	50,000	17,000	19,546	
Hydrant parts	10,000	10,000	5,182	
	<u>66,000</u>	<u>30,000</u>	<u>27,686</u>	<u>2,314</u>
Purchase of meters and supplies	<u>75,000</u>	<u>107,000</u>	<u>101,478</u>	<u>5,522</u>
	<u>\$1,398,000</u>	<u>\$1,680,000</u>	<u>\$1,609,334</u>	<u>\$ 70,666</u>

LOCUST VALLEY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Office and General Expenditures - Budget and Actual - Governmental Fund - General Fund
Year Ended December 31, 2019

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
	<i>Original</i>	<i>Final</i>		
Office and General Expenditures				
Health insurance	\$ 212,000	\$ 171,000	\$ 174,319	\$ (3,319)
Retirement system	109,000	109,000	108,865	135
Office salaries	147,000	146,000	145,395	605
Insurance	115,000	127,000	115,485	11,515
Other postemployment obligations	64,000	64,000	60,487	3,513
Taxes - Social Security and Medicare	57,000	57,000	56,069	931
Legal services	39,000	48,000	47,045	955
Audit and accounting services	40,000	56,000	47,969	8,031
Dental and optical insurance	26,000	20,000	19,800	200
Commissioners' fees	19,000	18,000	13,900	4,100
Notices, advertising, and election costs	19,000	19,000	18,727	273
Stationery, office, and miscellaneous	17,000	12,000	17,115	(5,115)
Communications	30,000	29,000	28,681	319
Consultants	7,000	16,000	15,150	850
Utilities	10,000	16,000	13,062	2,938
Uniforms	5,000	4,000	3,435	565
Postage	11,000	9,000	8,992	8
Educational	8,000	7,000	6,631	369
Permits	3,000	3,000	2,668	332
Contingency	35,000	35,000	37,999	(2,999)
	<u>\$ 973,000</u>	<u>\$ 966,000</u>	<u>\$ 941,794</u>	<u>\$ 24,206</u>

LOCUST VALLEY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

December 31, 2019

<i>NYSERS</i>	<i>2019</i>	<i>2018</i>
District's portion of the pension liability (asset)	0.0017816%	0.0019592%
District's proportionate share of the net pension liability (asset)	\$ 126,234	\$ 63,232
District's covered-employee payroll	\$ 660,053	\$ 632,584
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	19.12%	10.00%
Plan fiduciary net position as a percentage of the total pension liability coming for the plan	96.27%	98.24%

LOCUST VALLEY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of District's Contributions

Year Ended December 31, 2019

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 108,865	\$ 103,857	\$ 102,620	\$ 99,602	\$ 118,644	\$ 123,366	\$ 123,613	\$ 106,405	\$ 82,396	\$ 58,793	\$ 36,001
Contributions in relation to the contractually required contribution	<u>108,865</u>	<u>103,857</u>	<u>102,620</u>	<u>99,602</u>	<u>118,644</u>	<u>123,366</u>	<u>123,613</u>	<u>106,405</u>	<u>82,396</u>	<u>58,793</u>	<u>36,001</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 685,807	\$ 639,698	\$ 621,829	\$ 623,792	\$ 642,549	\$ 626,041	\$ 610,945	\$ 592,425	\$ 586,252	\$ 546,997	\$ 529,858
Contributions as a percentage of covered-employee payroll	15.87%	16.24%	16.50%	15.97%	18.46%	19.71%	20.23%	17.96%	14.05%	10.75%	6.79%

LOCUST VALLEY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the District's Total Other Postemployment Benefit (OPEB) Liability and Related Ratios

December 31, 2019

<i>Period</i>	<i>Total OPEB Liability - beginning of the period</i>	<i>Service cost</i>	<i>Interest on total OPEB liability</i>	<i>Differences between expected and actual experience</i>	<i>Changes in benefit terms</i>	<i>Changes of assumptions or other inputs</i>	<i>Benefit payments</i>	<i>Total OPEB liability - end of the period</i>	<i>Covered-employee payroll</i>	<i>Total OPEB liability as a percentage of covered-employee payroll</i>
January 1, 2019 - December 31, 2019	\$ 2,623,452	\$ 100,454	\$ 91,581	\$ (561,606)	\$ -	\$ 539,964	\$ (14,293)	2,779,552	\$ 771,333	360.00%
January 1, 2018 - December 31, 2018	2,777,450	88,394	97,584	-	-	(281,260)	(58,716)	2,623,452	632,584	415.00%

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4, to pay other postemployment benefits (OPEB).

The District currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis.

Changes of assumptions.

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period.

The following are the discount rates used in each period:

2019	2.74%
2018	4.10%
2017	3.44%