

Elmira Water Board

2018 Annual Report

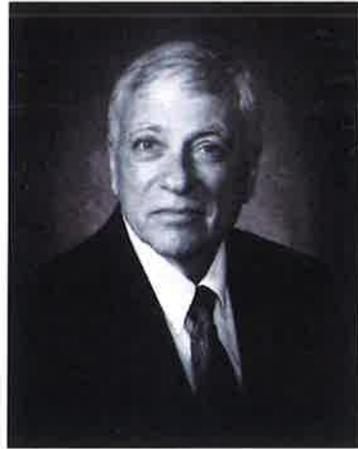


To find out more about the
Elmira Water Board, visit us at our
Website
www.elmirawaterboard.org
or email us at
waterinfo@elmirawaterboard.org

Front cover features the old Pump Station, on Winsor Ave, that still stands. The view is from the north looking south.



Martin D. Chalk, President

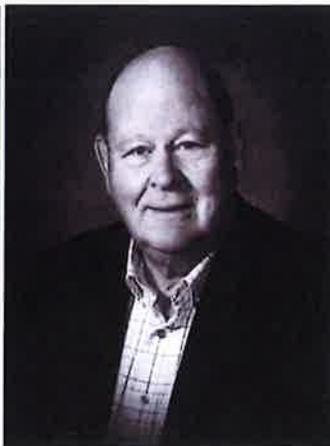


John J. Burin, Vice President

COMMISSIONERS



Danny W. Gray



William D. Roe



Charles A. Shaffer

The Elmira Water Board

| President | Term |
|-----------------------|-------------|
| Martin D. Chalk | 2017-2018 |
| | |
| Vice President | |
| John J. Burin | 2017-2022 |
| | |
| Commissioners | |
| Danny W. Gray | 2015-2020 |
| William D. Roe | 2016-2021 |
| Charles A. Shaffer | 2018-2022 |

Corporate Counsel
John J. Ryan, Jr.

General Manager
Mark D. LaDouce

Secretary-Treasurer
Alyssa L. Mack

The Commissioners of the Elmira Water Board are elected officials of the City of Elmira authorized and empowered by Charter to make, publish and enforce rules and regulations necessary for the efficient operation of the water works system.

The work done by the Commission, and authorized by the Charter, is to conduct studies essential to developing and maintaining adequate and continuous supplies of potable water and to establish water rates adequate to finance system improvements and operations.

The Board meets monthly at the Elmira Water Board Filtration Plant located at One Fountain Drive, Elmira, New York 14905. Meetings are open to the public and schedules can be obtained by visiting our website at www.elmirawaterboard.org.



The Elmira Water Board ended 2018 at 89% of our expense budget and 104.5% of our revenue budget. The slight increase in revenue was primarily due to a change in billing dates for some residential customers, in order to improve processes within the Office and Meter Departments, offset by a major decrease in usage from our largest customer. This decline in usage (of approximately 5,000 units per month) is expected to continue.

During 2018 there were several factors that resulted in fluctuations in expenditures. The Elmira Water Board changed carriers for our business insurance as well as our worker's compensation insurance, resulting in a noteworthy savings. We also budgeted conservatively for some items, which came in under budget for the year, such as: equipment maintenance, materials, legal and financial expense, utilities and chemicals. There were also several projects that we postponed until 2019, including well redevelopment and permit renewal of a wellfield.

As of December 31, 2018 the Water Board has implemented GASB Statement No. 75 which replaced the requirements of GASB Statement No. 45. The beginning net position for the Water Board has been decreased by \$939,963 as a cumulative effect of the new accounting principle.

Throughout 2018 we experienced an average number of main breaks. Ground movement caused by fluctuating temperatures will always cause breaks in an old system such as ours. However, when breaks do occur it's generally in below average weather conditions. Our employees worked diligently on leak detection; in doing so we were able to locate and repair a significant number of main breaks. We recognize all of the employees who worked tirelessly to ensure our customer base had limited interruption in water service.

Our employee health insurance cost for 2018 came in at 97.60% of the budget as a result of changes in our employees' selections for their health plan. For the 2019 budget, we estimated an average premium increase of 4.72%. Currently, employees are absorbing 10% of the total annual health insurance premium. The Water Board continues to monitor these costs and the impact they have on our total expenditures.

Our staff understands its obligation to be diligent in preventing unnecessary spending. All spending is closely monitored. In the year ahead, we remain committed to the task of fiscal responsibility.

Capital spending details are in the Board's "Letter to the Mayor" attached to this annual report.

Staff Changes:

Darryl Crans retired in May 2018. Darryl was an Operator at the Filter Plant since February 2003. We would like to congratulate Darryl on his retirement and thank him for his years of service.

Kyle Baxter and Jeffrey O'Hara filled two vacancies at the Filter Plant. Both Kyle and Jeffrey were hired as Water Treatment Plant Operator Trainees.

Congratulations to Brett Bowman on his promotion from MEO II to MEO I. This promotion was a result of Brett's hard work and willingness to go above and beyond his normal duties.

Congratulations to Trent Otis on receiving his Distribution Systems Operator Class D License.

Mark D. LaDouce, General Manager

Elmira Water Board Directory

Mark D. LaDouce, General Manager 733-9179

Main Office

Monday Through Friday 9:00 AM to 4:00 PM 733-9179
Customer Service & Billing Information

David McCarty, Chief Water Treatment Operator 732-2277

Filtration Plant

24/7 Water Quality Questions & 732-2277
To Report an Emergency

Elmira Water Board Website www.elmirawaterboard.org

Public Elmira Water Board Meetings
1 Fountain Drive, Elmira, NY 733-9179
Call Main Office for dates and times

Other Important Water Numbers

Chemung County Health Department
To answer water questions 737-2019

Chemung County Health Department Website
(click on the environmental tab to view the drinking water page) www.chemungcountyhealth.org

Environmental Protection Agency
Safe Drinking Water Hotline 1-800-426-4791

April 16, 2019

To the Honorable Mayor and Council of the City of Elmira, New York:

The legislation creating the Elmira Water Board requires that we submit an annual report to the City, which summarizes our activities and work completed during the calendar year. In addition, the Charter requires that we advise you of our financial condition. Our audited financial statement for the year ending December 31, 2018 has been included for your review.

Operational Information

The Elmira Water Board currently has a total of 43 employees in its Filtration, Meter, Billing Office, Facilities, Maintenance, and Engineering/Administration departments. We provide service to 17,374 accounts with an estimated population of 54,000. In the relatively recent past, circa 1998, we served a population of approx. 70,000. This 23% decrease in the customer base has been the largest factor in a 28% decrease in billed water volume in the same time period. Other contributing factors include the mandate for low flow fixtures, aging water meter stock, and customer conservation efforts that are partly driven by rising water prices.

Approximately 2.18 billion gallons of water were pumped, treated, and distributed to our customers in 2018. Our raw water sources are primarily the Chemung River and two well fields in close proximity to the river on Foster Island and Hudson Street. The raw water is blended and then pumped to our treatment facilities where it undergoes coagulation and sedimentation for solids removal. Gravity flow is used to move the settled water to the dual media filter beds for final treatment and disinfection.

Our distribution system contains 225 miles of water mains, 1,253 hydrants, and several thousand valves and service lines. In addition to our treatment facilities, we operate and maintain six pumping stations, four finished water reservoirs, and six wells.

Of our 225 miles of water mains, a bit more than half is in excess of 100 years old. There are two maps attached, one from 1914 by the previous owner, the Elmira Water, Light, and Railroad Co., and a second one from our hydraulic model showing the approx. full extents of our system. The 1914 map shows the water mains in red. An old map book we own has an entry from 1899 showing 51 miles of pipe, including 47.5 miles of cast iron and 3.5 miles of wooden mains; by then the wooden mains were mainly on the raw water system, and were replaced by cast iron in 1910. We have also included a map from our GIS showing the water mains color coded by age. The red mains (1915 and earlier) make up a large part of our current system.

Age is a factor in the continued serviceability of our distribution system. Water industry publications give widely varying figures for the service life of various piping materials. For cast iron (about 74% of our system) this ranges from 50 to 100 years on a nationwide basis from some sources, to 100-120 years in the northeast for small and medium systems, from an AWWA study. We are a medium sized system. These figures are an average; there is much more variability from system to system, depending on many factors such as local soil conditions, installation practices in use at the time, etc. We have had some corrosion issues. Attached are some pictures of water mains of a recent vintage, one installed in 1972 on E. Water St. across from the site of a former power plant. Corrosion was evident on other nearby conduits. The second picture on the same sheet was of a pipe installed in 1991 in a former swampland; the fill appeared to contain some ash, contributing to corrosive soil conditions.

Conditions inside a water main are also of great concern. We have extensive tuberculation problems in our mains. This is a common condition with unlined cast iron pipes and surface water sources. Cement lined pipes don't have this problem; cement lining was available from around the mid 1930's. It has been standard on ductile iron for many years.

Attached are a few pictures which show the extent of the tuberculation in our mains. This condition can greatly degrade water quality and hydraulic capacity and can negatively affect the flows available to large volume users such as the hospitals, larger factories, and the two prisons. This can also restrict flows available for fire fighting. Attached there is a black and red 8 ½ X 11 map with pictures illustrating most of the distribution system, color-coded by "C" value (roughness factor, high "C" value is smooth pipe) of the water mains. The pictures of the clogged mains are the ones that flow test at a "C" value less than 70, shown in red on the map. As can be seen from the map, this is more than half of our system, concentrated in the City of Elmira and Elmira Heights, the oldest portions of our system.

Approximately 100 miles of water main and 2500 valves are reaching or have reached the end of their useful lives. With each passing year, the risk of experiencing a significant breakdown and loss of serviceability increases. The Elmira Water Board is highly concerned about this situation and believes it needs to ramp up its replacement program to help insure the continued operation and reliability of our water distribution system. The cost of replacing this vital infrastructure will be in the tens of millions of dollars.

In addition to old water mains, we also have old valves. Even where a water main has many years of life left, a valve on that line will typically have a 40 – 60 year service life. We have approx. 5,000 valves in our system, many dating to the 1920's and 1930's. Larger valves, 16" – 20", can easily cost \$20,000-\$25,000 installed per valve. It is not unusual for a planned valve replacement to turn into the replacement of several nearby valves as ones needed for a shutdown may not be operable.

In addition to water mains, we have over 17,500 service laterals to customer premises. The majority of our service lines are copper, but we still have approx. 475 lead service lines, and about 500 wrought iron service lines. The lead lines have well-publicized problems and take priority on replacement. The wrought iron lines are subject to the same tuberculation inside as bare cast iron lines, degrading water quality and choking off flow. Externally, they are susceptible to corrosion; there is a picture attached showing some wrought iron lines we have had to replace.

Customer meters are another link in our service area. Water meters are our cash register; accurate meters are critical to accurate billing. Metered water sales were 91% of our revenue budget for 2018; meters are what pays for everything else. Of our approx. 17,500 meters, about 160 are monthly accounts, many with larger meters. The rest, 17,340, are residential, of which about 12,000 are at the end of their service life. We are starting a meter replacement project in 2019. Meters alone are expected to cost about \$1,500,000. Radio equipment for the entire stock of 17,500 meters could cost an additional \$2,200,000. Our system losses have increased over the last three years and radio read equipment will greatly enhance our ability to monitor our system, gather data, help customers detect leakage, and aid in reducing our distribution system water losses.

Residential and commercial water meters are read and billed on a bi-monthly basis; for 2018 the average annual residential bill was \$356.60. Our larger industrial and institutional accounts are billed on a monthly basis, and represent 25.5% of our total water revenue. Public and private fire service accounts are billed on a quarterly basis. The total revenue for 2018 was 104.5% of the amount budgeted.

Overall operating expenses were under budget for 2018. Efficient water production practices by our Filtration Department staff, favorable river conditions throughout the year and chemical bid prices that were beneficial to the Water Board helped to keep chemicals under budget. As gas and diesel prices, as well as usage, can fluctuate greatly over the course of a year we budgeted conservatively for 2018. Due to careful oversight and steady pricing throughout the year our fuel costs were under budget for the year. As a result of a high experience rating the 2017 Workers Compensation expense was 160% of the budgeted amount; 2018 costs were expected to increase \$200,000 over the 2017 budgeted amount. We received a lower price at mid-year from another broker, saving substantially on our workers comp and business insurance costs.

Employee wage and benefit costs were 58.07% of the total operating expenses for 2018. Employee Health Insurance was slightly under budget. In 2019, wages will increase by 3.5% for all CSEA unit employees, as agreed upon in the current contract.

Capital Projects

Water Main Replacement & Water Line Main-To-Curb Replacements

Total Cost \$77,055

Our maintenance crews are responsible for the ongoing repair, upgrade, and operation of our water distribution system. This system of water mains, valves, hydrants, and service lines encompasses the City of Elmira, the Village of Elmira Heights, and portions of the Towns of Southport, Horseheads, and Elmira.

The Elmira Water Board's construction crews are also called upon to install significant sections of replacement mains. In 2018, crews installed the following 1,587 feet of ductile iron water main and 38 feet of copper water main:

| | |
|------------------------|-----------------------------|
| W. 7 th St. | 1113 feet – 6” Ductile Iron |
| Ogden St. | 474 feet – 8” Ductile Iron |
| E. Washington Ave. | 38 feet – 1 ½” Copper |

When crews replace mains, they also evaluate the need for the installation of valves, hydrants, and service line connections and complete these upgrades as needed. In 2018, 54 main to curb service lines were replaced or added for a cost of \$78,014; which includes 38 wrought-iron services replaced in preparation for a sewer project being done in the Town of Southport. There were also 86 new/replaced valves for a total cost of \$286,272; which includes one 16”, three 20”, and one 24” valve. Additionally, there were 23 new/replaced hydrants totaling \$68,037.

In 2018 we continued our large valve replacement program. We will continue our program in 2019 and each year thereafter. In doing so, we will be better prepared for a large valve shut-down in an emergency situation. We continuously strive to update our infrastructure.

The mains and service lines replaced or added above represent Elmira Water Board's continued commitment to address problems in the distribution system. Our system has many more areas that warrant our attention and will require much needed upgrades.

Capitalized Items

During 2018 the Water Board also had the following large capital expenditures:

Filter Plant / Pump Station Improvements

| | |
|-----------------------------------|----------|
| ABB Variable Frequency Drives (2) | \$52,587 |
|-----------------------------------|----------|

Maintenance Department

| | |
|-------------------|----------|
| 2018 Case Backhoe | \$97,065 |
|-------------------|----------|

| | |
|--------------------------|----------|
| 2018 Chevrolet Silverado | \$25,144 |
|--------------------------|----------|

| | |
|-----------------------|----------|
| Rotair Air Compressor | \$15,995 |
|-----------------------|----------|

Meter Department

| | |
|--------------------------------|----------|
| 2018 Chevrolet Silverado w/cap | \$31,017 |
|--------------------------------|----------|

Facilities Improvements

| | |
|-------------------|----------|
| Roof Replacements | \$17,805 |
|-------------------|----------|

| | |
|----------------------------|----------|
| John Deere Utility Tractor | \$26,519 |
|----------------------------|----------|

Computer IT upgrades

| | |
|--------------------------------|----------|
| Computers/Laptops/Tablets (10) | \$ 8,677 |
|--------------------------------|----------|

| | |
|----------------|----------|
| SCADA Upgrades | \$ 5,698 |
|----------------|----------|

| | |
|-------------------|----------|
| Power Edge Server | \$19,739 |
|-------------------|----------|

| | |
|-------------------|----------|
| Software Upgrades | \$19,920 |
|-------------------|----------|

Other Activities

The Elmira Water Board is vigilant in its quest to discover and repair leaks. Our Maintenance and Meter crews are trained in leak detection and continually find and repair leaks.

In addition to the Elmira Water Board's efforts, in 2018 independent leak detection contractor Northeast Water Technology of Liberty, New York surveyed several miles of main throughout our distribution system. Water leaks on mains or services and several hydrant leaks, all of varying magnitude, were discovered and located through the use of electronic leak noise detectors and computerized correlators. Our maintenance crews subsequently repaired these leaks.

Village of Wellsburg

The water sold to the Village of Wellsburg amounted to \$33,754 in additional revenue.

While growth within its distribution system remains stagnant for the Elmira Water Board, opportunities to expand beyond the geographical system to help increase the revenue base are actively sought and encouraged.

Goals

The replacement of approximately 2,000-3,000 feet of pipe is scheduled for 2019. Infrastructure improvements are essential to the maintenance of the distribution system and are a top priority in budgetary planning. Reinvesting revenue funds back into the infrastructure is critical to maintaining the 140+ year old-system.

We will also be replacing lead service lines as part of the NYS Lead Service Line Replacement Grant program. We have completed a review of our main-to-curb records, resulting in the count of lead service lines decreasing from 1415 suspected lines to approx. 475 known active lines. This will allow us to better target replacement efforts, with fewer exploratory excavations.

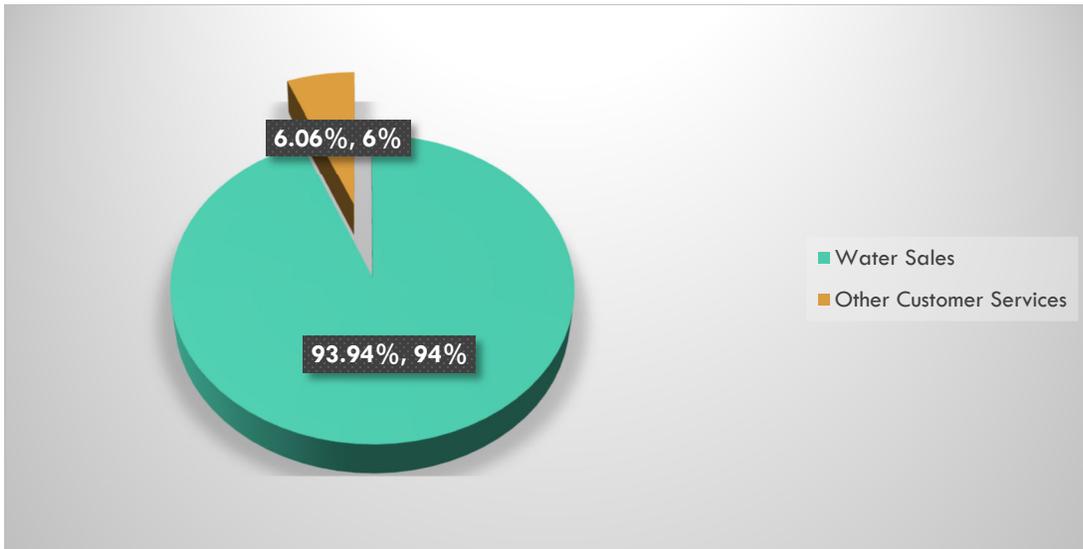
Funding for capital improvements, except for lead service line replacements, for 2019 will come from operating revenue and borrowed funds. Ultimately, all costs - operational costs, capital spending, debt service – are paid for by operating revenue. As detailed above we have substantial needs for investment in this infrastructure. The City's attempts to divert money from the water system, if successful, will leave less water funds available for water system maintenance and replacements. The Board has closely reviewed each item's necessity and will monitor all spending during the year.

In closing, the Elmira Water Board would like to thank the officials, management, and staff of the City of Elmira for your continued assistance and support during 2018.

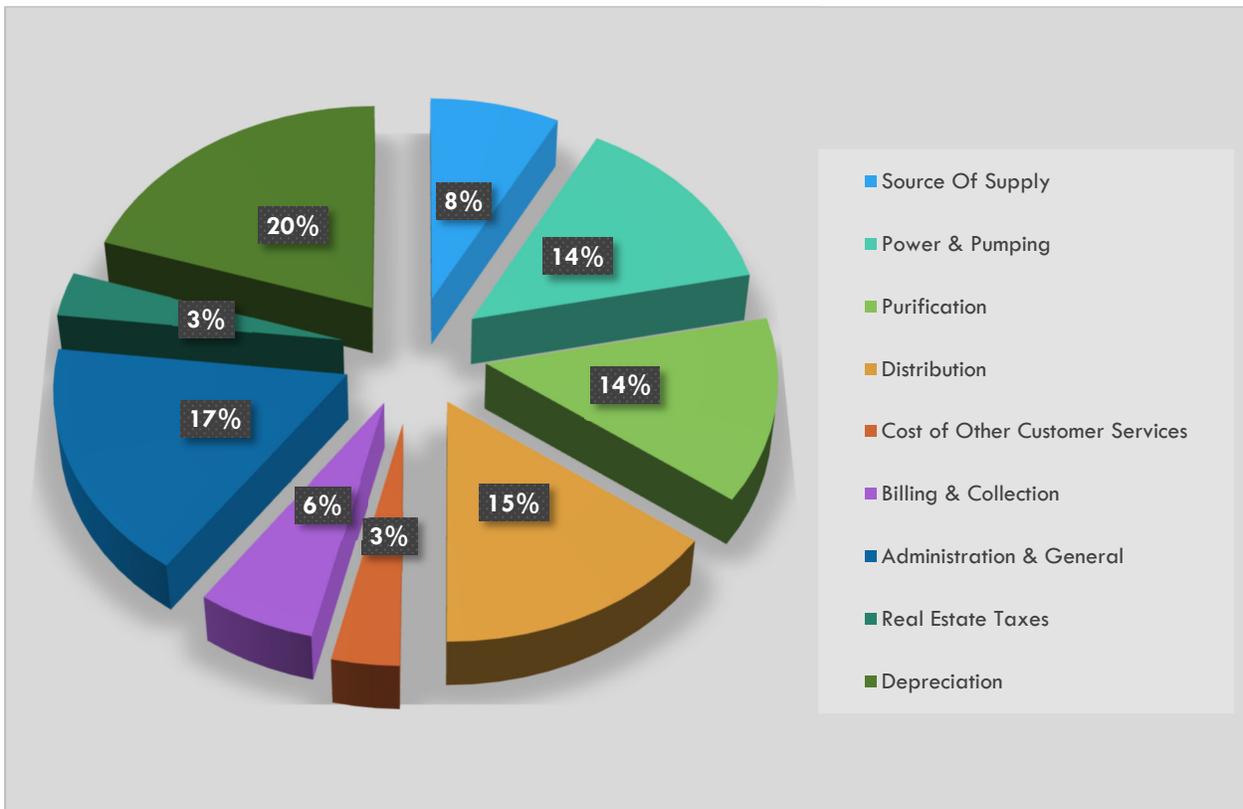
Respectfully Submitted,

A handwritten signature in cursive script that reads "Martin D. Chalk".

Martin D. Chalk,
President, Elmira Water Board



Operating Revenues 2018 Fiscal Year



Operating Expenses 2018 Fiscal Year

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

ELMIRA, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017 AND 2016



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Elmira Water Board
(An Enterprise Fund of the City of Elmira, New York)

Report on the Financial Statements

We have audited the accompanying financial statements of Elmira Water Board, which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of activities and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

As discussed in Note A, the financial statements present only the accounts of the Elmira Water Board and are not intended to present the financial position, results of operations and cash flows of the City of Elmira, New York, in conformity with accounting principles generally accepted in the United States of America.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elmira Water Board as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the Company's proportionate share of the net pension liability, and schedule of Company contributions on pages 5 through 9 and 28 through 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mengel, Metzger, Baw & Co. LLP

Elmira, New York
April 3, 2018

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

Introduction:

Our discussion and analysis of Elmira Water Board's (the "Company") financial performance provides an overview of the Company's financial activities for the fiscal year ended December 31, 2017. It also provides a description and understanding of the various financial statements and other financial and statistical information contained herein. Please read it in conjunction with the Company's basic financial statements.

Elmira Water Board is a local water company which provides water to various communities in the County of Chemung, New York.

Mission:

The Company is committed to providing the community with high quality water; to insuring the safety of our system; and to being fiscally responsible to our entire customer base.

Values:

- Water quality standards
- Customer service and satisfaction
- Fiscal responsibility
- Quality personnel
- Equitable rules and regulations

Continuing Goals:

- Maintain and upgrade infrastructure, consumer relations/outreach, consumer base expansion, and meet all Federal and State water quality standards.
- Utilize every resource available to meet all Federal and State water quality standards.
- Maintain and rehabilitate infrastructure to help ensure uninterrupted service.
- Expand consumer relations/outreach programs by educating customers on the history of the Company, expand customer payment options and provide water component and usage information.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS, Cont'd

FOR THE YEAR ENDED DECEMBER 31, 2017

Operational Information:

The Company currently provides service to 17,374 accounts with an estimated population of 54,000 residents. Our institutional/industrial customer bases represent 28.5% of our total water revenue and the residential customer base represents 71.5%.

We pumped, treated, and distributed to our customers approximately 2.1 billion gallons of water in 2017. Our total water sales amounted to \$8,380,159 in 2017. The 2017 water sales reflected a decrease of \$207,939 compared to the 2016 revenues of \$8,588,098. In 2017 the average annual residential usage, in gallons, was 46,467.

The distribution system contains 225 miles of water mains, 1,255 hydrants, and several thousand valves and service lines. The Company's Maintenance Department, consisting of 13 employees, maintains the system.

Our water treatment plant provides twenty-four/seven supervision of water production. The Filtration Department's 10 employees oversee the filtration process. In conjunction with the Filter Plant, we operate and maintain six pumping stations, four finished water reservoirs, and six wells. The Company's Facilities Department, which consists of five employees, services these structures and related equipment as well as all other Company assets.

Residential and commercial water meters are read by our Meter Department, which total over 100,000 reads per year. The five employees in the department are also responsible for installation and maintenance of meters, service line inspections, and other customer service related activities.

The Main Office, with its 5 employees, bills all residential and commercial accounts including fire lines and out-of-district hydrants, processes payments from customers, provides customer service, administers delinquent accounts, and performs all accounting functions, i.e. accounts payable, accounts receivable, and employee payroll for the Company.

Employee wage and benefit costs comprise 57.33% of the operating expenses of the Company. The mandated New York State pension costs also continues to be a financial burden to the operations of the Company. The Company makes every effort to reserve the needed contributory funds and make prepaid payments to take advantage of extended New York State pension discounts.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS, Cont'd

FOR THE YEAR ENDED DECEMBER 31, 2017

Capital Projects:

In 2017, the Company's construction crews installed 5,703 feet of ductile iron water main to replace existing mains. The total capitalized cost of this work was \$316,381.

In conjunction with main replacements, the engineering and maintenance departments also evaluate the need for the installation or replacement of valves, hydrants, and service line connections. In 2017, 70 main-to-curb service lines were replaced or added for a cost of \$93,618. There were also 64 new/replaced valves for a total cost of \$172,789, and 34 new/replaced hydrants totaling \$103,086.

During 2017, the Company also had the following capital expenditures: Water Treatment Plant roof replacement for a total cost of \$116,900, replacement of one ABB Variable Frequency Drive at the Water Treatment Plant for \$22,822 and the purchase of an Automatic Generator Switch Gear for \$43,090.

Financial Statements:

The Statement of Activities, and Changes in Net Position present information showing the change in the Company's net position during the most recent fiscal year end, December 31, 2017. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement include all items that will result in cash received or disbursed in future fiscal periods. For example, the receipts due from customers, or the payment accrued for accumulated vacation days.

The Statement of Cash Flows provides information on the major sources and uses of cash during the year. The cash flow statement portrays net cash provided or used from operating, capital and related financing activities.

Current Assets and Liabilities

Current assets include cash and cash equivalents, accounts receivable, prepaid expenses, and inventory. Accounts receivable includes amounts due from customers. Current liabilities include accounts payable, accrued liabilities, interest payable, deferred revenues, and the current portion (due within one year) of long-term liabilities.

Accounts payable are amounts due to vendors and other agencies. Accrued liabilities include accrued payroll, payroll taxes, and other payroll related liabilities such as accumulated sick and vacation. Deferred revenues represent amounts received from customers during the current fiscal year for services to be rendered in the following year.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS, Cont'd

FOR THE YEAR ENDED DECEMBER 31, 2017

Capital Assets, Net

The Company had been recording depreciation on its capital assets prior to implementing GASB Statement No. 34 at a rate of approximately 2% per year. As a result of the GASB pronouncement, the Company began recording depreciation on its capital assets at rates specific to each individual asset over its useful life, rather than applying a blanket rate to all capital assets. Depreciation expense on capital assets for the years ended December 31, 2017 and 2016 was \$1,254,306 and \$1,226,029, respectively.

In addition to recording depreciation on all capital assets using new rates specific to each individual class of assets, the Company changed its capitalization policy during 2017 to include all assets or repairs of \$1,000 or greater and/or the asset or major repair must have a useful life of more than two years or extend the useful life of an existing asset by more than two years.

The Company is continuing to replace/rehabilitate water mains, valves, hydrants and service lines throughout its entire service area. Larger capital projects of this nature are sometimes funded by bonding which is issued by the City of Elmira on behalf of the Company. Construction in progress represents the expenditure of funds during the 2017 fiscal year for an ABB Variable Frequency Drive at the Winsor Avenue Pump Station which was placed in service during 2018.

Noncurrent Liabilities

Noncurrent liabilities consist of the long-term portion of debt related to the Company facilities. Included in long-term debt are obligations of the State of New York. Other long-term liabilities include Other Post Retirement Benefits Payable and compensated absences payable (sick and vacation accruals to be paid upon departure).

Description of Expenses

- **Source of supply** includes activities related to the maintenance and operation of the raw water supply system.
- **Power and pumping** reflects activities related to powering and pumping of the water supply.
- **Purification** includes activities related to treatment and purification of the water supply.
- **Distribution** includes activities related to getting the water supply to the consumer.
- **Cost of other customer services** includes minor expenses not related to other functional categories.
- **Billing and collection** represents all support functions related to meter reading, billing, and collection of water revenues.
- **Administration and general** represents activities related to finance, personnel, and administrative functions.
- **Real estate taxes** represent property taxes paid on properties owned by the Company.
- **Depreciation** represents the cost/use of equipment, machinery and other properties in operations during the year.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS, Cont'd

FOR THE YEAR ENDED DECEMBER 31, 2017

Non-operating Expenses

This amount represents interest and bond administration payments on outstanding debt.

Looking Forward:

The Company will continue to replace/rehabilitate mains, valves, services and hydrants throughout the distribution system. In addition, the Company is analyzing Automated Meter Reading (AMR and AMI) technology. This type of technology has the potential for significant savings in the labor and equipment categories of expenses. Various funding options will be reviewed to complete this project.

Contacting the Water Board's Financial Management:

For further information, contact Mr. Mark LaDouce, General Manager, or Ms. Alyssa L. Mack, Treasurer, at 261 West Water Street, Elmira, New York 14901.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

STATEMENTS OF NET POSITION

| 1 <u>ASSETS AND DEFERRED OUTFLOWS</u> | December 31, | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| <u>CURRENT ASSETS</u> | | |
| Cash | \$ 3,204,609 | \$ 2,526,153 |
| Restricted cash | 1,833,729 | 1,566,113 |
| Accounts receivable, less allowance for doubtful accounts of \$35,000 | 864,454 | 832,617 |
| Inventories | 375,879 | 450,757 |
| TOTAL CURRENT ASSETS | 6,278,671 | 5,375,640 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Prepaid expenses | 299,836 | 178,886 |
| Related to pensions | 811,838 | 1,556,042 |
| | 1,111,674 | 1,734,928 |
| <u>CAPITAL ASSETS,</u> | | |
| net of accumulated depreciation | 34,089,844 | 34,388,756 |
| | <u>\$ 41,480,189</u> | <u>\$ 41,499,324</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Current portion of long-term debt | \$ 426,688 | \$ 432,416 |
| Accounts payable | 131,930 | 536,781 |
| Accrued expenses | 180,574 | - |
| Accrued compensation and related liabilities | 104,391 | 98,892 |
| Accrued interest payable | 32,111 | 34,824 |
| Compensated absences payable | 267,956 | 259,182 |
| TOTAL CURRENT LIABILITIES | 1,143,650 | 1,362,095 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | |
| Related to pensions | 207,103 | 167,461 |
| <u>LONG-TERM LIABILITIES</u> | | |
| Other post-employment benefits payable | 241,102 | 182,306 |
| Net pension liability | 833,377 | 1,386,640 |
| Long-term debt | 3,689,945 | 4,116,632 |
| Compensated absences payable | 410,160 | 430,930 |
| | 5,174,584 | 6,116,508 |
| <u>NET POSITION</u> | | |
| Invested in capital assets, net of related debt | 29,973,211 | 29,839,708 |
| Restricted for capital improvement | 774,297 | 802,286 |
| Unrestricted | 4,207,344 | 3,211,266 |
| | 34,954,852 | 33,853,260 |
| | <u>\$ 41,480,189</u> | <u>\$ 41,499,324</u> |

The accompanying notes are an integral part of the financial statements.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

STATEMENTS OF ACTIVITIES AND CHANGES IN NET POSITION

| | Year ended December 31, | |
|------------------------------------|-------------------------|---------------|
| | 2017 | 2016 |
| Operating revenues: | | |
| Water sales | \$ 8,380,159 | \$ 8,588,098 |
| Other customer services | 501,841 | 461,312 |
| TOTAL OPERATING REVENUES | 8,882,000 | 9,049,410 |
| Operating expenses: | | |
| Source of supply | 66,080 | 147,053 |
| Power and pumping | 855,382 | 801,139 |
| Purification | 760,371 | 727,194 |
| Distribution | 1,535,950 | 1,346,747 |
| Cost of other customer services | 150,132 | 119,812 |
| Billing and collection | 433,140 | 447,662 |
| Administration and general | 2,321,998 | 1,923,446 |
| Real estate taxes | 230,457 | 225,033 |
| Depreciation | 1,254,306 | 1,226,029 |
| TOTAL OPERATING EXPENSES | 7,607,816 | 6,964,115 |
| OPERATING INCOME | 1,274,184 | 2,085,295 |
| Non-operating revenues (expenses): | | |
| Interest income | 596 | 503 |
| Loss on disposal of capital assets | (35,057) | (176,616) |
| Interest and bond expense | (138,131) | (153,064) |
| TOTAL NON-OPERATING EXPENSES | (172,592) | (329,177) |
| CHANGE IN NET POSITION | 1,101,592 | 1,756,118 |
| Net position at beginning of year | 33,853,260 | 32,097,142 |
| NET POSITION AT END OF YEAR | \$ 34,954,852 | \$ 33,853,260 |

The accompanying notes are an integral part of the financial statements.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

STATEMENTS OF CASH FLOWS

| | Year ended December 31, | |
|--|-------------------------|---------------------|
| | 2017 | 2016 |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u> | | |
| Receipts from services | \$ 8,850,163 | \$ 9,094,445 |
| Payments to suppliers and employees | <u>(6,340,977)</u> | <u>(5,124,832)</u> |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 2,509,186 | 3,969,613 |
| <u>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</u> | | |
| Interest income received | 596 | 503 |
| Proceeds on disposal of capital assets | - | 9,901 |
| Purchase and construction of capital assets | (990,451) | (1,466,506) |
| Payment of bond principal | (432,415) | (529,066) |
| Proceeds from borrowings | - | 155,319 |
| Payment of bond interest and administrative fees | <u>(140,844)</u> | <u>(150,889)</u> |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(1,563,114)</u> | <u>(1,980,738)</u> |
| NET CHANGE IN CASH | 946,072 | 1,988,875 |
| Cash at beginning of year | <u>4,092,266</u> | <u>2,103,391</u> |
| CASH AT END OF YEAR | <u>\$ 5,038,338</u> | <u>\$ 4,092,266</u> |

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

STATEMENTS OF CASH FLOWS, Cont'd

| | Year ended December 31, | |
|---|-------------------------|--------------|
| | 2017 | 2016 |
| <u>RECONCILIATION OF CHANGE IN NET POSITION TO NET</u> | | |
| <u>CASH PROVIDED FROM OPERATING ACTIVITIES:</u> | | |
| Change in net position | \$ 1,101,592 | \$ 1,756,118 |
| Adjustments to reconcile change in net position to net cash provided from operating activities: | | |
| Interest income | (596) | (503) |
| Depreciation | 1,254,306 | 1,226,029 |
| Loss on disposal of capital assets | 35,057 | 176,616 |
| Interest and bond expense | 138,131 | 153,064 |
| Bad debts | 381 | 944 |
| Change in assets and liabilities: | | |
| Accounts receivable | (32,218) | 44,091 |
| Inventories | 74,878 | (129,460) |
| Prepaid expenses | (120,950) | 61,156 |
| Net change in deferred outflows related to pensions | 744,204 | (1,126,115) |
| Accounts payable | (404,851) | 449,983 |
| Accrued expenses | 180,574 | - |
| Accrued compensation and related liabilities | 5,499 | 18,694 |
| Deferred inflows related to pensions | 39,642 | 164,601 |
| Compensated absences payable | (11,996) | 35,505 |
| Other post-employment benefits payable | 58,796 | 51,309 |
| Net pension liability | (553,263) | 1,087,581 |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | \$ 2,509,186 | \$ 3,969,613 |
| <u>NONCASH OPERATING AND CAPITAL ACTIVITIES</u> | | |
| Transfer of capital asset to inventory | \$ - | \$ 8,388 |
| Capital asset traded in | \$ - | \$ 20,576 |

The accompanying notes are an integral part of the financial statements.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE A: THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

Elmira Water Board (the "Company") is a local water company which provides water to various communities in the County of Chemung, New York. The Company is an enterprise fund of the City of Elmira, New York (the "City"). The City has proprietary interest in all assets and the responsibility for all obligations of the Company. The Company's accounts are segregated into a separate enterprise fund.

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Revenue recognition

Revenues are recorded when billed. Residential and smaller accounts are billed bi-monthly, and all other customers are billed monthly.

Cash and cash equivalents

For purposes of cash flow reporting, cash equivalents include all temporary investments purchased with an original maturity of three months or less.

Collateral is required for cash balances not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies or obligations of New York State or its municipalities. At December 31, 2017 and 2016, the Company's cash balances were FDIC insured or collateralized with securities held by the pledging financial institution in the Company's name.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance for uncollectible accounts and a credit to the applicable accounts receivable. The allowance for uncollectible accounts at December 31, 2017 and 2016 was \$35,000. Based on the information available, the Company believes the allowance as of December 31, 2017 and 2016 is adequate. However, actual write-offs might exceed the recorded allowance.

Inventories

Inventories, consisting of supplies, parts and gasoline, are stated at the lower of cost and net realizable value.

Pensions

For purposes of measuring 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 New York State and Local Employees' Retirement System ("the System") and additions to/deductions from the System's net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE A: THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Capital assets

Capital assets are stated on the basis of cost. Expenditures for renewals and betterments are capitalized while expenditures for repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to one hundred seven years.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

New accounting pronouncement effective in future years

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be effective for the year ended December 31, 2018. GASB Statement 75 replaces the requirements of GASB Statement 45 and requires recognition of the entire postemployment benefit obligation liability and a more comprehensive measure of postemployment benefit expenses. The Company is currently evaluating the impact the future adoption of GASB Statement 75 will have on the Company's financial statements and disclosures.

Subsequent events

The Company has conducted an evaluation of potential subsequent events occurring after the statement of net position date through April 3, 2018, which is the date the financial statements are available to be issued. There were no material subsequent events that required additional disclosures in these financial statements.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE B: RESTRICTED CASH

Restricted cash represents unspent note proceeds and funds set aside for future capital expenditures, debt service, and retirement contributions. Certain restricted cash funds are restricted by grantors or by law through the Company's charter. At December 31, 2017 and 2016, these amounts totaled \$774,297 and \$802,286, respectively, and were recorded as net assets restricted for capital improvement on the balance sheets. Restricted cash balances consist of the following:

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Water System Improvement Fund | \$ 40,051 | \$ 68,262 |
| New York State Employee's Retirement Reserve Fund | 375,103 | 116,091 |
| System Wide Improvement Fund | 454,730 | 454,592 |
| Capital Reserve Fund | 279,516 | 279,432 |
| Debt Service Fund | <u>684,329</u> | <u>647,736</u> |
| | <u>\$ 1,833,729</u> | <u>\$ 1,566,113</u> |

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 follows:

| | Balance January 1, 2017 | Additions | Deletions | Balance December 31, 2017 |
|---|-------------------------------|---------------------|--------------------|---------------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-depreciable capital assets: | | | | |
| Land | \$ 510,227 | \$ - | \$ - | \$ 510,227 |
| Construction in process | <u>44,294</u> | <u>27,390</u> | <u>(44,294)</u> | <u>27,390</u> |
| TOTAL NON-DEPRECIABLE CAPITAL ASSETS | 554,521 | 27,390 | (44,294) | 537,617 |
| Depreciable capital assets: | | | | |
| Source of supply | 4,359,400 | - | - | 4,359,400 |
| Power and pumping | 3,964,440 | 65,912 | - | 4,030,352 |
| Purification and treatment | 15,965,221 | 11,143 | - | 15,976,364 |
| Distribution | 32,371,143 | 739,464 | (39,791) | 33,070,816 |
| Other | <u>4,434,938</u> | <u>190,837</u> | <u>(115,543)</u> | <u>4,510,232</u> |
| TOTAL DEPRECIABLE CAPITAL ASSETS | 61,095,142 | 1,007,356 | (155,334) | 61,947,164 |
| Less accumulated depreciation for: | | | | |
| Source of supply | (1,933,945) | (63,831) | - | (1,997,776) |
| Power and pumping | (2,800,466) | (164,180) | - | (2,964,646) |
| Purification and treatment | (9,408,145) | (456,040) | - | (9,864,185) |
| Distribution | (10,339,877) | (433,157) | 10,557 | (10,762,477) |
| Other | <u>(2,778,474)</u> | <u>(137,098)</u> | <u>109,719</u> | <u>(2,805,853)</u> |
| TOTAL ACCUMULATED DEPRECIATION | <u>(27,260,907)</u> | <u>(1,254,306)</u> | <u>120,276</u> | <u>(28,394,937)</u> |
| CAPITAL ASSETS, NET | <u>\$ 34,388,756</u> | <u>\$ (219,560)</u> | <u>\$ (79,352)</u> | <u>\$ 34,089,844</u> |

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE D: LONG-TERM DEBT

Long-term debt of the Company is summarized as follows:

| | Year ended | | December 31, | |
|--|----------------------|-----------------------|----------------|----------------|
| | December 31, 2017 | | 2017 | 2016 |
| | Interest payments | Principal payments | Amount | Amount |
| Bond payable in annual installments varying from \$90,000 to \$110,000 through November 2024 plus interest varying from 4.63% to 4.87%, payable semi-annually. | \$ 18,833 | \$ 85,000 | \$ 700,000 | \$ 785,000 |
| Bond payable in annual installments varying from \$115,000 to \$155,000 through August 2027 plus interest varying from 1.5% to 5%, payable semi-annually. (Refinanced in 2014) | 44,194 | 110,000 | 1,275,000 | 1,385,000 |
| Bond payable in annual installments varying from \$30,000 to \$35,000 through November 2024 plus interest varying from 5.85% to 6.18%, payable semi-annually. (Refinanced in 2012) | 5,233 | 25,000 | 225,000 | 250,000 |
| Bond payable in annual installments varying from \$10,000 to \$15,000 through August 2019 plus interest varying from 1.5% to 2.25%, payable semi-annually. (Refinanced in 2014) | 675 | 10,000 | 25,000 | 35,000 |
| Bond payable in annual installments varying from \$67,000 to \$107,400 through May 2029 plus interest varying from 4.13% to 5%, payable semi-annually. | 49,325 | 64,000 | 1,033,300 | 1,097,300 |
| Bond payable in annual installments varying from \$32,200 to \$39,600 through July 2027 plus interest varying from 2% to 2.63%, payable semi-annually. | 8,322 | 31,600 | 357,800 | 389,400 |
| Bond payable in annual installments varying from \$47,310 to \$54,560 through May 2025 plus interest varying from 2% to 2.125%, payable semi-annually. | <u>8,748</u> | <u>46,570</u> | <u>407,390</u> | <u>453,960</u> |
| Balance forward | 135,330 | 372,170 | 4,023,490 | 4,395,660 |

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE D: LONG-TERM DEBT, Cont'd

| | Year ended | | December 31, | |
|---|----------------------|-----------------------|---------------------|---------------------|
| | December 31, 2017 | December 31, 2016 | 2017 | 2016 |
| | Interest payments | Principal payments | Amount | Amount |
| Balance forward | \$ 135,330 | \$ 372,170 | \$ 4,023,490 | \$ 4,395,660 |
| Capital lease payable in annual installments of \$32,837 including interest at 2.855% through July 2020. Collateralized by certain equipment. | | | | |
| (1) | 3,497 | 29,339 | 93,143 | 122,482 |
| Capital lease paid in 2017. (1) | 881 | 30,906 | - | 30,906 |
| Total principal and interest | <u>\$ 139,708</u> | <u>\$ 432,415</u> | | |
| Total bonds payable | | | 4,116,633 | 4,549,048 |
| Less current portion | | | 426,688 | 432,416 |
| | | | <u>\$ 3,689,945</u> | <u>\$ 4,116,632</u> |

(1) The capital leases are for the right to use certain equipment which is included in machinery and equipment in the statement of net position in the amount of \$326,260 at both December 31, 2017 and 2016. Accumulated depreciation amounted to \$129,504 and \$82,895 for the years ended December 31, 2017 and 2016, respectively, resulting in a net book value of \$196,756 and \$243,365, respectively.

The following is a schedule of maturities of debt:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|---------------------|-------------------|
| 2018 | \$ 426,688 | \$ 154,190 |
| 2019 | 432,569 | 140,581 |
| 2020 | 427,695 | 126,655 |
| 2021 | 410,680 | 112,049 |
| 2022 | 426,740 | 97,398 |
| Thereafter | <u>1,992,261</u> | <u>247,817</u> |
| | <u>\$ 4,116,633</u> | <u>\$ 878,690</u> |

Certain bonds provide for subsidized interest payments. Escrow accounts earn interest which is used to reduce interest payments. The schedule of maturities above does not include this interest subsidy.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE E: EMPLOYEE BENEFIT PLAN

Plan description

The Company participates in the New York State and Local Employees' Retirement System ("the System"). This is a cost-sharing multiple-employer defined benefit retirement system. The net position of the System is held in the New York State Common Retirement Fund ("the Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November 2014, he was elected for a new term commencing January 1, 2015. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("RSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The System is included in the State's financial report as a pension trust fund. Separately issued financial statements for the System can be accessed on the Comptroller's website at www.osc.state.ny.us/retire/about_us/financial_statements_index.php.

Benefits provided

The system provides retirement benefits, as well as death and disability benefits. Eligibility is based on Tier membership and years of service.

Retirement

Generally, the retirement 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 services, the retirement benefit increases depending on Tier membership. Final average salary is the average of the wages earned in the three highest consecutive years of employment.

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 System members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 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.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE E: EMPLOYEE BENEFIT PLAN, Cont'd

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) System recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) 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 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

Contributions

The System is noncontributory except for employees who joined the System after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3 percent of their salary for their entire length of service. For Tier 6 members, the contribution rate varies from 3 percent to 6 percent depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. The pension contribution for each of the years ended December 31, 2017 and 2016 amounted to \$336,119 and \$355,615, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At December 31, 2017 and 2016, the Company reported a liability of \$833,377 and \$1,386,640 respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016 and 2015. The Company's proportion of the net pension liability was based on a projection of the Company's long-term share of contributions to the pension plan relative to the projected contributions of the City of Elmira, New York, actuarially determined. At December 31, 2017 and 2016, the Company's proportion was 43% and 33%, respectively.

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE E: EMPLOYEE BENEFIT PLAN, Cont'd

For the years ended December 31, 2017 and 2016, the Company recognized pension expense of \$566,702 and \$481,683, respectively. The Company reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | December 31, | | | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | 2017 | | 2016 | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 20,884 | \$ 126,553 | \$ 7,007 | \$ 164,363 |
| Changes in assumptions | 284,712 | - | 369,775 | - |
| Net difference between projected and actual earnings on pension plan | 166,459 | - | 822,631 | - |
| Changes in proportion and differences between Company contributions and proportionate share | 3,664 | 80,550 | 1,014 | 3,098 |
| Company contributions subsequent to the measurement date | 336,119 | - | 355,615 | - |
| | \$ 811,838 | \$ 207,103 | \$ 1,556,042 | \$ 167,461 |

Deferred outflows of resources related to pensions resulting from Company contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended December 31,</u> | |
|--------------------------------|------------|
| 2018 | \$ 137,929 |
| 2019 | 137,929 |
| 2020 | 123,425 |
| 2021 | (130,667) |
| | \$ 268,616 |

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE E: EMPLOYEE BENEFIT PLAN, Cont'd

Actuarial assumptions

The total pension liability for the March 31, 2017 and 2016 measurement dates were determined by using an actuarial valuation as of April 1, 2016 and 2015, respectively, with updated procedures used to roll forward the total pension liability to March 31, 2017 and 2016, respectively. The following actuarial assumptions were used in the valuation as of March 31, 2017 and 2016:

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Inflation | 2.5% |
| Salary scale | 3.8% |
| Investment rate of return, including inflation | 7.0% compounded annually, net of investment expenses |
| Cost of living adjustments | 1.3% annually |
| Decrement | Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015 |
| Mortality improvement | Society of Actuaries Scale MP-2014 |

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

| <u>Asset Class</u> | <u>Target allocation</u> | <u>Long-term expected real rate of return</u> |
|----------------------------|------------------------------|---|
| Domestic equity | 36% | 4.55% |
| International equity | 14% | 6.35% |
| Private equity | 10% | 7.75% |
| Real Estate | 10% | 5.80% |
| Absolute return strategies | 2% | 4.00% |
| Opportunistic portfolio | 3% | 5.89% |
| Real assets | 3% | 5.54% |
| Bonds and mortgages | 17% | 1.31% |
| Cash equivalents | 1% | -0.25% |
| Inflation-indexed bonds | 4% | 1.50% |
| | <u>100%</u> | |

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE E: EMPLOYEE BENEFIT PLAN, Cont'd

Discount rate

The discount rate used to calculate the total pension liability at March 31, 2017 and 2016 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 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 net pension liability to the discount rate assumption

The following presents the Company's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Company's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate at the March 31, 2017 measurement date:

| | 1% Decrease (6.0%) | Current Discount (7.0%) | 1% Increase (8.0%) |
|---|-----------------------|-------------------------------|-----------------------|
| Company's proportionate share of the Net Pension Liability (Asset) | \$ 2,661,642 | \$ 833,377 | \$ (712,417) |

Pension plan fiduciary net position

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

| | |
|---|--------------------------|
| Employers' total pension liability | \$ 177,400,586,000 |
| Plan net position | <u>(168,004,363,000)</u> |
| Employers' net pension liability | <u>\$ 9,396,223,000</u> |
| Ratio of plan net position to the employers' total pension liability | 94.70% |

ELMIRA WATER BOARD
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NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE F: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan description

The Company provides medical coverage to eligible employees, retirees and dependents through a community rated high deductible health plan with Excellus Blue Cross Blue Shield. Participants must meet a deductible ranging from \$1,300 to \$2,100 for individual coverage or \$2,600 to \$4,200 for two-person or family coverage. After the deductible is met, most inpatient and outpatient services from participating providers are covered at 100% of the allowable expense. Dental and vision coverage is also provided to pre-65 retirees.

To assist in meeting the deductible, the Company makes contributions into a Health Savings Account (HSA) for each member who enrolls in coverage at \$1,300 for individual coverage and \$2,600 for two-person or family coverage.

Eligible retirees receive medical coverage from the Company until the retiree attains full Medicare eligibility. The Company contributes 75% of the applicable plan premium until the retiree attains age 60, at which point the Company will provide 100% coverage.

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on 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 of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Based on Governmental Accounting Standards Board (GASB) Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, guidelines, an employer with fewer than 200 participants must complete a full actuarial valuation at least triennially. The Company has chosen to do triennial valuations. Therefore, the year ended December 31, 2017 interim valuation was based on the annual required contribution from January 1, 2015 valuation using a discount rate of 4%.

For the December 31, 2017 actuarial valuation, the Projected Unit Credit method was used. Under this method, each Participant's projected benefit is calculated at all possible ages based on the Plan provisions as well as the initial data and actuarial assumptions. The assumptions at December 31, 2017, included an annual healthcare cost trend rate of 8.00% for 2017, decreasing over time to a 5.6% increase in 2025. The rate included a 2.2% inflation assumption.

As of December 31, 2017, the Plan was not funded. The actuarial accrued liability for benefits as of December 31, 2017 was approximately \$1,232,778 for the Company and there were no assets legally separated for the Plan. Pursuant to GASB Statement 45, the Company has elected to record this liability over a thirty-year period.

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

NOTES TO FINANCIAL STATEMENTS, Cont'd

DECEMBER 31, 2017 AND 2016

NOTE F: POSTEMPLOYMENT HEALTHCARE BENEFITS, Cont'd

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

| | December 31, | |
|--|--------------|------------|
| | 2017 | 2016 |
| Annual required contribution | \$ 153,435 | \$ 147,040 |
| Interest on net OPEB obligation | 7,292 | 5,240 |
| Adjustment to annual required contribution | (12,130) | (8,478) |
| Annual OPEB cost | 148,597 | 143,802 |
| Expected employer contributions | (89,801) | (92,493) |
| Change in OPEB obligation | 58,796 | 51,309 |
| Net OPEB obligation - beginning of year | 182,306 | 130,997 |
| NET OPEB OBLIGATION - END OF YEAR | \$ 241,102 | \$ 182,306 |

NOTE G: LEGAL CONTINGENCIES

The Company is a party to various legal actions arising in the ordinary course of business, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of the Elmira Water Board.

ELMIRA WATER BOARD
(An Enterprise Fund of the City of Elmira, New York)

OTHER FINANCIAL INFORMATION

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

SCHEDULE OF THE COMPANY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY

| | Year ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 2017 | 2016 | 2015 |
| Company's proportion of the net pension liability of the City of Elmira, NY | 43.0% | 33.0% | 34.0% |
| Company's proportionate share of the net pension liability | \$ 833,377 | \$ 1,386,640 | \$ 299,059 |
| Company's covered payroll | \$ 2,497,273 | \$ 2,349,599 | \$ 2,218,205 |
| Company's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 33.4% | 59.0% | 13.5% |
| Plan fiduciary net position as a percentage of the total pension liability | 94.70% | 90.68% | 97.95% |

The amounts presented for each fiscal year were determined as of the System's measurement

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

SCHEDULE OF COMPANY CONTRIBUTIONS

| | Year ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Contractually required contribution | \$ 336,119 | \$ 355,615 | \$ 368,411 |
| Contribution in relation to the contractually required contribution | <u>336,119</u> | <u>355,615</u> | <u>368,411</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Company's covered-employee payroll | \$ 2,497,223 | \$ 2,349,599 | \$ 2,218,205 |
| Contributions as a percentage of covered-employee payroll | 13.5% | 15.1% | 16.6% |

The amounts presented for each fiscal year were determined as of the fiscal year end.

ELMIRA WATER BOARD
 (An Enterprise Fund of the City of Elmira, New York)

SCHEDULE OF FUNDING PROGRESS FOR
OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS

YEAR ENDED DECEMBER 31, 2017

| <u>Year Ended</u> | <u>Actuarial Valuation Date</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|-------------------|---------------------------------|--|----------------------------|---------------------|------------------------|--|
| 12/31/2017 | 1/1/2015 | \$ 1,232,778 | \$ 1,232,778 | 0% | \$ 2,467,626 | 50% |
| 12/31/2016 | 1/1/2015 | 1,211,310 | 1,211,310 | 0% | 2,382,020 | 51% |
| 12/31/2015 | 1/1/2015 | 1,188,913 | 1,188,913 | 0% | 2,399,519 | 50% |
| 12/31/2014 | 1/1/2012 | 1,397,940 | 1,397,940 | 0% | 2,330,872 | 60% |
| 12/31/2013 | 1/1/2012 | 1,402,520 | 1,402,520 | 0% | - | - |
| 12/31/2012 | 1/1/2012 | 1,419,530 | 1,419,530 | 0% | - | - |
| 12/31/2011 | 1/1/2009 | 1,264,661 | 1,264,661 | 0% | - | - |
| 12/31/2010 | 1/1/2009 | 1,290,027 | 1,290,027 | 0% | - | - |
| 12/31/2009 | 1/1/2009 | 1,298,280 | 1,298,280 | 0% | - | - |

Elmira Water Board Organizational Structure

