



Annual Investment Report 2018

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1. Summary

In accordance with Section 2925 of Public Authorities Law (PAL), the Livingston County Water & Sewer Authority (“Authority”) has prepared this annual investment report.

For Year 2018, the Authority did not have any investments that triggered the requirement of a separate independent audit of investment practices.

The Authority Board re-adopted its Investment Policy, with no revisions/amendments, at its December 21st, 2018 Board meeting (see Appendix A).

The Authority Board approved this report at its March 27th, 2019 Board Meeting. A copy of the Investment Compliance Letter, prepared by the Authority’s auditors, Bonadio & Co., LLP, has been included as Appendix B.



INVESTMENT POLICY

F10-000

Review	Additions	Deletions	Amended
01/2011	None	None	None
01/2012	None	None	None
01/2013	None	None	None
01/2014	None	None	None
01/2015	None	None	None
01/2016	None	None	None
3/28/2018	None	None	None
12/21/2018	None	None	None

SCOPE

This investment policy applies to all monies and other financial resources available for investment on its own behalf or on behalf of any other entity or individual.

OBJECTIVES

The primary objectives of the local government’s investment activities are, *in* priority order,

- to conform with all applicable federal, state and other legal requirements (legal);
- to adequately safeguard principal (safety);
- to provide sufficient liquidity to meet all operating requirements (liquidity); and
- to obtain a reasonable rate of return (yield).

DELEGATION OF AUTHORITY

The governing board’s responsibility for administration of the investment program is delegated to the Treasurer who shall establish written procedures for the operation of the investment program consistent with these investment guidelines. Such procedures shall include an adequate internal control structure to provide a satisfactory level of accountability based on a data base or records incorporating description and amounts of investments, transaction dates, and other relevant information and regulate the activities of subordinate employees.

PRUDENCE

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Livingston County Water and Sewer Authority to govern effectively.

Investments shall be made with judgment and care, under circumstances then prevailing~ which persons of prudence discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.

All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

DIVERSIFICATION

It is the policy of the Livingston County Water and Sewer Authority to diversify its deposits and investments by financial institution, by investment instrument, and by security scheduling.

INTERNAL CONTROLS

The Treasurer is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and are managed in compliance with applicable laws and regulations.

DESIGNATION OF DEPOSITARIES

The banks and trust companies authorized for the deposit of monies to the maximum amounts are selected annually at the annual meeting of the Livingston County Water & Sewer Authority.

COLLATERALIZING OF DEPOSITS

In accordance with the provisions of General Municipal Law #10, all deposits of the Livingston County Water and Sewer Authority, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured:

1. By a pledge of "eligible securities" with an aggregate "market value" as provided by GMI #10, equal to the aggregate amount of deposits from the categories designated in Appendix A to the policy.
2. By an eligible "irrevocable letter of credit" issued by a qualified bank other than the bank with the deposits in favor of the government for a term not to exceed 90 days with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest, if any. A qualified bank is one whose commercial paper and other unsecured

short-term debt obligations are rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization or by a bank that is in compliance with applicable federal minimum risk-based capital requirements.

3. By an eligible surety bond payable to the government for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claims - paying ability is rated in the highest rating category by at least *two* nationally recognized statistical rating organizations.

SAFEKEEPING AND COLLATERALIZATION

Eligible securities used for collateralizing deposits shall be held by the bank or trust company subject to security and custodial agreements.

The security agreement shall provide that eligible securities are being pledged to secure local government deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released and the events which will enable the local government to exercise its rights in the name of the local government, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the Treasurer or its custodial bank.

The custodial agreement shall provide that securities held by the bank or trust company, or agent of the custodian for, the local government, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be comingled with or become part of the backing for any other deposit or other liabilities. The agreement should also describe that the custodian shall confirm the receipt, substitution or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the local government a perfected interest in the securities.

PERMITTED INVESTMENTS

As authorized by General Municipal Law #11, the Livingston County Water and Sewer Authority authorizes the Treasurer to invest moneys not required for immediate expenditure for terms not to exceed its projected cash flow needs in the following types of investments:

Special time deposit accounts;

Certificates of deposit;

Obligations of the United States of America (includes Treasury Bills);

Obligations guaranteed by agencies of the United States of America where the payment

of principal and interest are guaranteed by the United States of America;

Obligations of the State of New York;

Obligations issued pursuant to LFL #24.00 or 25.00 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the Livingston County Water and Sewer Authority;

Obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments.

All investment obligations shall be payable or redeemable at the option of the Livingston County Water and Sewer Authority within such times as the proceeds will be needed to meet expenditures for purpose for which the moneys were provided.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Livingston County Water & Sewer Authority shall maintain a list of financial institutions and dealers approved for investment purposes. The Treasurer is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians.

PURCHASE OF INVESTMENTS

The Treasurer is authorized to contract for the purchase of investments:

1. Directly, including through a repurchase agreement, from an authorized trading partner.
2. By participation in a cooperative investment program with another authorized governmental entity pursuant to Article 5G of the General Municipal Law where such program meets all requirements set forth in the Office of the State Comptroller Opinion No. 8 8-46, and the specific program has been authorized by the governing board.
3. By utilizing an ongoing investment program with an authorized trading partner pursuant to a contract authorized by the governing board.

All purchased obligations, unless registered or inscribed in the name of the local government, shall be purchased through, delivered to and held in the custody of a bank or trust company. Such obligations shall be purchased, sold or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the Treasurer by the bank or trust company. Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law. #10. The custodial agreement shall provide that securities held by the bank or trust company, as agent

of and custodian for, the local government, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be comingled with or become part of the backing for any other deposit or other liabilities. The agreement shall describe how the custodian shall confirm the receipt and release of the securities. Such agreement shall include all provisions necessary to provide the local government a perfected interest in the securities.

OPERATING PROCEDURES

The Treasurer is responsible for the investment of Livingston County Water and Sewer Authority funds. In the absence of the Treasurer, the Chairman or Vice Chairman is authorized to invest the funds. Investments will be based upon projections of the Livingston County Water and Sewer Authority's cash flow needs, so that investments shall mature at such time when funds are estimated to be needed for the orderly payment of Livingston County Water and Sewer Authority obligations.

Investments will generally be made based upon competitive bids solicited by telephone by the Treasurer and shall be awarded to the highest bidder who has and is willing and able to pledge sufficient and acceptable collateral.

Funds will only be transferred between institutions in the name of the Livingston County Water and Sewer Authority by using the Federal Reserve Wire Transfer (FedWire) system, or by Treasurer designee. Funds may be transferred within the same institution only between Livingston County Water and Sewer Authority accounts and by authorized staff.

The Treasurer will maintain an investment log detailing the specific information relative to each investment. All investment transactions will be promptly entered into the Livingston County Water and Sewer Authority accounting system. Comparisons of the existing investments to those recorded in the accounting system will be performed routinely.

INTERNAL CONTROLS

Independent Certified Public Accountants shall, in conjunction with the annual audit, at least annually review the Investment Policies and Procedures of the Livingston County Water and Sewer Authority to be certain they are in conformance with all applicable laws, and regulations.

DESIGNATION OF INVESTMENT INSTITUTIONS

The bank and trust companies that are designated as institutions with whom the Livingston County Water and Sewer Authority may make investments, are selected annually at the Livingston County Water & Sewer Authority annual meeting.

Repurchase Agreements - Underlying Security

Securities purchased under Repurchase Agreements (Repos) shall be limited to obligations of the United States of America, or obligations whose principal and interest are guaranteed, or insured

by the United States of America. The term of Repos shall generally not exceed 180 days. Each Repo shall be specifically identified, segregated from the assets of the seller and delivered for safekeeping into an account designated and controlled by the Livingston County Water and Sewer Authority. Each seller shall enter into a master repurchase agreement with the Livingston County Water and Sewer Authority which shall specify the rights and obligations of the Livingston County Water and Sewer Authority and the seller in all Repo transactions.

REPURCHASE AGREEMENT

Repurchase agreements are authorized subject to the following restrictions:

All repurchase agreements must be entered into subject to a Master Repurchase Agreement.

Trading partners are limited to banks or trust companies authorized to do business in New York State and primary reporting dealers.

Obligations shall be limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America

No substitution of securities will be allowed.

The custodian shall be a party other than the trading partner.

March 27, 2019

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Public Authorities, which are authorized under the Not-for-Profit Corporation Law fall under the Public Authorities Accountability Act (PAAA) and Public Authorities Reform Act (PARA) definition if they are affiliated with, sponsored by, or created by a municipal government.

One of the specific requirements of the PAL is Section 2925, subdivision 6 that indicates:

“Each corporation shall annually prepare and approve an investment report which shall include the investment guidelines, as specified in subdivision three of this section, amendments to such guidelines since the last investment report, an explanation of the investment guidelines and amendments, the results of the annual independent audit, the investment income record of the corporation and a list of the total fees, commissions, or other charges paid to each investment banker, broker, dealer, agent, dealer and adviser rendering investment associated services to the corporation since the last investment report. Such investment report may be a part of any other annual report that the corporation is required to make.”

In discussions with the Authorities Budget Office (ABO), they have indicated that the annual financial statement audit does not satisfy the requirement above. Furthermore, the requirement extends to not only investments in the conventional sense, but all funds available for deposit in the organization, except for traditional checking and savings type deposits, or trustee directed investments in association with bond issuances. Certificates of deposits would qualify as investments under the regulations.

The complexity of the audit is based primarily on the nature of the organization's investments. Organizations with certificates of deposit or other non-complex investments may be able satisfy the requirements by having an agreed-upon procedures review of its investment policy performed to ensure that the organization is in compliance with said policy.

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Since the Livingston County Water and Sewer Authority does not have investments that meet the criteria as defined above, there is no filing requirement for December 31, 2018.

We can assist you with the requirements of this legislation and provide the reports required to satisfy the objectives, going forward. As necessary, we can perform these concurrently with our annual financial statement audits at an estimated hour basis. Please contact me to discuss the specifics of your needs.

Very truly yours,

A handwritten signature in black ink, appearing to read "R. Shepard", written in a cursive style.

Randall R. Shepard, CPA
Partner