

**DUTCHESS COUNTY WATER &
WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors
Dutchess County Water & Wastewater Authority
27 High Street
Poughkeepsie, New York 12601

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Dutchess County Water & Wastewater Authority ("Authority"), a component unit of Dutchess County, New York, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and Schedule of Funding Progress for Other Post-employment Benefits Plan on pages 6-17 and 42 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2015, on our consideration of the Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York's internal control over financial reporting and compliance.

Sedace & Company, CPA's

Poughkeepsie, New York
March 13, 2015

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

Members of the Board of Directors
Dutchess County Water & Wastewater Authority
27 High Street
Poughkeepsie, New York 12601

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York's basic financial statements, and have issued our report thereon dated March 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dutchess County Water & Wastewater Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dutchess County Water & Wastewater Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Dutchess County Water & Wastewater Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Sedall & Company, CPA's

Poughkeepsie, New York
March 13, 2015

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

The following Management Discussion and Analysis of the Dutchess County Water and Wastewater Authority's activities and financial performance provides an introduction and overview to the financial statements of the Dutchess County Water and Wastewater Authority (Authority) for the fiscal year ended December 31, 2014. This information should be considered in conjunction with the information contained in the Authority's Audited Financial Statements included with this report.

The mission of the Dutchess County Water and Wastewater Authority is to protect and enhance the health, environmental sustainability and economic stability of Dutchess County and its residents through the provision of clean drinking water and proper treatment of wastewater, acting at all times with a commitment to accountability and transparency.

The Authority was established in 1991 under the Dutchess County Water and Wastewater Authority Act. This act authorizes the Authority, among other things, to provide for the supply and sale of water for domestic, commercial and public purposes at retail to individual customers within the County or wholesale to municipalities, water districts or district corporations within the County and for the collection, treatment and disposal of sewage within the County. As of December 31, 2014, the Authority owned and operated a total of eleven water systems and three sewer systems and, in addition, operates a 13 mile water transmission line.

The Authority provides service in the aggregate to 2,982 separate water accounts and 1,178 separate sewer accounts. The Hyde Park Regional Water System provides water from the Authority's Hyde Park Water Treatment Plant on South Drive in the Town of Hyde Park to the Hyde Park service area (Zones A and B), the Staatsburg service area (Zone C) and the Zone D and Zone L service areas. The source of water for this conventional filtration treatment facility is the Hudson River. The remaining seven water systems, Birch Hill, Dalton Farms, Fairways, Rokeby, Schreiber, Shore Haven and Valley Dale, each utilize groundwater wells and pumping and chlorination facilities, which are located within their respective service areas, with the Dalton Farms Water and Valley Dale Water plants also having cartridge filtration systems. The three sewer systems each have rotating biological contact (RBC) treatment plants with tertiary treatment located on property within their service areas. The Central Dutchess Water Transmission Line is a 13 mile water pipeline whereby the Authority purchases water from the Poughkeepsie Joint Water Board to serve areas south to the Town of East Fishkill. The water is received at a connection point in the Town of Poughkeepsie. The Authority currently serves two customers at the southernmost end of the line, International Business Machines Corporation (IBM) and the Hopewell Glen Water District in the Town of East Fishkill. In aggregate, the two customers have "take or pay" contracts with the Authority for a total of two million fifty thousand gallons per day, with a rate accommodation for water not taken.

FINANCIAL OPERATIONS HIGHLIGHTS

Although all but two of the systems are billed based on use, a large portion of the budgets (anywhere from 50-70%) is comprised of costs that would realize their budgeted expectations

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

due to their classification as “State of Readiness” costs, regardless of customer water (or sewer) use. As a result, budgets are prepared based on history and a conservative expectation of the coming fiscal year; determining a fiscally sound blend of Monthly Service Charges or Minimum Use Charges, in conjunction with water or sewer use charges. Although most of the systems have single-tiered usage rates, the Rokeby Water System has a two-tiered usage rate. The Chelsea Cove Sewer System and the Valley Dale Sewer System are both billed with Flat Rate Fixed charges. The systems for which the billing quarters do not coincide with the Authority’s fiscal year (Birch Hill Water, Dalton Farms Water and Sewer, Fairways Water, Rokeby Water, Schreiber Water, Shore Haven Water, and portions of the Hyde Park Regional Water System) use estimates for those remaining months in the fiscal year which have not yet been billed. Customer rates were increased in all systems, with the exception of the Staatsburg service area in the Hyde Park Regional Water System, for the 2014 budget year. These increases reflected a change to the overall annual costs of the average water user from 0.16% to 1.88%. Those increases that were above CPI for September 2013 (1.7%) were the result of decreased water use or budget increases working towards planned improvements to the system. The 2014 budgets were based on conservative numbers evaluating the average use of the prior two year’s billing history and any and all other field knowledge we were able to gather concerning changes to the customer base, including an evaluation of precipitation levels, which were more than 26% below normal and more than 13% less than 2013.

Water and Sewer use revenues increased in 2014 in the majority of the Authority systems, in spite of an economy affecting commercial use and increased vacancy in single family homes across a number of our systems. The three sewer systems showed varied increases ranging from 1.53% to 2.71%, primarily as a result of rate increases and increased collection of late charges. Water revenue results were mixed. Zones C and L in Hyde Park and the Valley Dale Water System had decreased revenues of less than 1%, driven by reductions in water demand. The reduction in the Schreiber Water System revenues was due to an accounting correction from a prior year, rather than an actual reduction in use. The Zone D service area of the Hyde Park system saw the most significant reduction in revenues, 7.4%, primarily due to a major commercial user upgrading facility equipment, causing less water to be used. The Central Dutchess Water Transmission Line (CDWTL) is reflecting 2014 revenue numbers less than 2013. However, there is a contractual arrangement associated with the sale of this water that causes an accounting debit entry against revenues for any funds remaining after expenses have been closed out for the year. So although 2014 water sales were higher than the previous year, expenses were less than budgeted expectations. This credit is then held to be used against water sales for the following fiscal year. Revenue increases in the Birch Hill and Fairways Water Systems were less than 1%. Increases in the Rokeby and Shore Haven Water Systems were slightly larger, the former due to the rate change and the latter primarily due to the change in billing from flat rate fixed to metered use. The largest revenue increase occurred in the Hyde Park section of that regional water system, an increase of 4.82% over the prior year. However, 3.18% of this increase was due to a meter/billing correction to a commercial user against 2013 water use.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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	<u>2014</u>	<u>2013</u>
<u>Sewer Revenues</u>		
Chelsea Cove	\$340,690	\$333,873
Dalton Farms	302,535	294,553
Valley Dale	<u>122,696</u>	<u>120,848</u>
Subtotal	<u>765,921</u>	<u>749,274</u>
<u>Water Sale Revenues</u>		
Birch Hill	58,143	58,124
CDWTL	2,045,750	2,074,448
Dalton Farms	170,428	163,351
Fairways	36,452	36,268
Hyde Park	1,204,328	1,149,003
Rokeby	26,881	26,307
Schreiber	15,586	16,520
Staatsburg	271,858	272,633
Shore Haven	67,893	65,590
Valley Dale	70,012	70,530
Zone D	188,236	203,279
<u>Zone L</u>	<u>75,157</u>	<u>75,714</u>
Subtotal	<u>4,230,724</u>	<u>4,211,767</u>
Total Sales Revenues	<u>\$4,996,645</u>	<u>\$4,961,041</u>

In addition, the Authority derives income from Rental Fees for fire hydrants in the Hyde Park Regional System, and space for a cell tower located on its South water tank.

	<u>2014</u>	<u>2013</u>
Rental Fees		
And Other Operating Revenue	\$114,582	\$115,221

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
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2014 AUTHORITY OPERATIONS

In 2014 the Authority continued its successful management and operation of all systems and currently provides services to over 4,160 customer accounts located in seven towns within the County.

The Authority uses staff for operation and maintenance of the Hyde Park Regional Water System and the Central Dutchess Water Transmission Line. Contract operators are hired for the remaining water and sewer systems. The Authority also maintains an office staff for the purpose of administration of the systems and further developmental activities. All systems' operation and maintenance expenses for 2014 ended the fiscal year within their budgeted amounts, with the exception of the Shore Haven Water System. This system experienced significant deposits of an iron bacteria on a well pump, causing restricted water flow. This required engineering evaluation and replacement of key components, including the well pump. This additional expense was offset by system fund balance. Funds remaining in other systems were evaluated for use to either offset rate increases for 2015 or to remain in fund balance for contingency and anticipated improvement expenses.

Below are some of the system operational highlights from 2014:

- As a result of the installation of a chloramine -based disinfection system for the Shore Haven Water System as an interim means of controlling Disinfection By-Products levels, the water system has remained in compliance with Disinfection By-Products drinking water standards throughout 2014,
- Construction was completed on the \$0.3 million Valley Dale Sewer Collection System Improvement Project to reduce inflow and infiltration into the sewer system.
- A source water blending strategy was successfully instituted at the Schreiber Water System that reduced iron levels in the system to below the drinking water standard.
- A storage structure was installed at the Schreiber Water System to house the emergency generator.
- A phosphate-based corrosion inhibitor feed system was installed and put into service at the Birch Hill Water System to control lead and copper levels at the point of use.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

MAJOR CAPITAL PROJECTS

In 2014, the Authority continued the process of annually reviewing and updating a Five Year Capital Plan. The 2014-2018 Capital Plan included \$11.1 million in funded capital project work. Below are the capital project highlights for 2014:

Chelsea Cove Treatment Plant – The design and permitting of an extensive rehabilitation of the treatment plant to replace aging infrastructure and improve plant efficiency was completed. Construction will commence in 2015. Also during 2014, an award of reduced interest financing was received for this project from the NYS Clean Water State Revolving Fund. At the same time, outstanding bonds from 2007 were refinanced, achieving a 13% reduction in debt service expenses.

Shore Haven Water System Improvements - Design and permitting work continues for the Shore Haven Water System Permanent Water Treatment Improvements, Booster Pump Station Installation and Distribution System Improvement Project.

Staatsburg Area Distribution System – The design and permitting of a pipe replacement project was completed. The purpose of this project was to replace aging pipe, known to be leaking, beneath NYS Route 9 in the Town of Hyde Park. Substantial completion of construction was achieved in December, 2014.

Valley Dale Sewer Treatment System Improvements – The design and permitting of an extensive rehabilitation of the treatment plant to replace aging infrastructure and improve plant efficiency was completed. Construction will commence in 2015. During this same time, an award of reduced interest financing was received for this project from the NYS Clean Water State Revolving Fund. In addition, outstanding bonds from 2007 were refinanced, achieving an 8% reduction in debt service expenses.

NEW SYSTEM ACQUISITIONS AND SYSTEM EXPANSIONS

The Authority continues to respond to numerous requests to acquire existing or proposed systems and to expand existing systems to provide service to new areas. Active projects in 2014 included the following:

During 2014, the Authority continued assisting the Fairways at Red Hook Homeowner's Association, in evaluating a transfer of ownership of the Fairways community sewer system, serving 36 townhouses, to the Authority. Dependent on the Homeowner's Association's decision to proceed, acquisition would be completed in 2015.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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INTER-MUNICIPAL COOPERATION

The Authority receives annually from the Dutchess County Division of Water Resources an allocation of funds to support project initiation and community assistance activities. These funds are utilized to support activities related to regional and community water and wastewater planning, and preliminary evaluation and development of potential Authority water and wastewater projects. The project and community assistance activities in 2014 included the following:

Town of Hyde Park – Utilizing grant funding from the NYS Department of State's Local Government Efficiency Grant Program, Authority staff assisted the Town of Hyde Park in obtaining engineering consulting services to complete an evaluation of the eight Town-owned water and sewer districts. Reorganization Study Reports, to assess the potential transfer of ownership of the water and sewer systems to the Authority, were completed in 2014.

Village and Town of Red Hook - Work continued to assist the Village and Town in improving coordination between the two water systems, including assessment of options to provide water service to a proposed 70 unit residential development on the Hoffman Farm property in the Town of Red Hook, and negotiations began for Authority ownership of the project's proposed sewer system.

Town of Rhinebeck – In response to a request from the Town, the Authority began the process of evaluating the potential transfer to the Authority of the Town's Vanderburgh Cove Sewer System.

Village of Tivoli – In response to a request from the Village, the Authority began the process of evaluating the potential transfer to the Authority of the Village's water and sewer systems. The Authority also assisted the Village in preparing an application for grant funding through the Dutchess County Municipal Consolidation and Shared Services Grant program in order to complete the evaluation.

Dutchess County – The Authority provided support to the Dutchess County Department of Public Works towards the completion of environmental reviews for, and obtaining bonding resolution approval of, a project to extend water service from the Authority's Central Dutchess Water Transmission Line to the Dutchess County Airport.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

LONG-TERM DEBT ADMINISTRATION

The Authority has no taxing power, and its bonds are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including payments from Dutchess County under the Service Agreements between the County and the Authority. These Service Fees include amounts sufficient to pay when due, all installments of principal of, premium, if any, and interest on all 1998, 2000, 2001, 2002, 2004, 2009, 2010, 2011 and 2014 Bonds issued by the Authority.

We currently have one Service Agreement with Dutchess County that covers all County Water District Zones of Assessment and three Service Agreements with the County, on behalf of Part-County Sewer Districts #1, 2 and 3 (Chelsea Cove, Valley Dale and Dalton Farms), respectively. These Service Agreements require the Authority to provide service to established Zones of Assessment within the districts. The County has covenanted and agreed during the Service Agreement Term to annually levy benefit assessments to raise monies which, together with County monies to be appropriated, are sufficient to pay all Service Fees due under the Service Agreement. The Authority, under the Service Agreement, has agreed to raise monies sufficient to pay Operating Expenses through the fixing, charging and collection of Water and Sewer Rates.

Through the establishment of the County Water District Zones of Assessment and the Part-County Sewer Districts, the County has the ability to relevel any unpaid water or sewer bills. The Authority annually provides the County with a list and dollar amount for those properties in arrears. The County then places these amounts on the property tax bills for the following fiscal year and these amounts are then paid to the Authority. This places the Authority in the position of being at 100% collection of its water and sewer sales revenues.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	December 31, 2014	December 31, 2013
<u>Operating Revenues:</u>		
Water Sales	\$4,230,724	\$4,211,767
Sewer Charges	765,921	749,274
Rental Fees, Other Operating Revenue	114,582	115,221
Total Operating Revenues	5,111,227	5,076,262
<u>Operating Expenses:</u>		
Operation and Maintenance	3,422,701	3,482,068
Administration and General	1,383,551	1,404,472
Depreciation	1,287,217	1,265,184
Total Operating Expenses	6,093,469	6,151,724
Operating (Loss)	(982,242)	(1,075,462)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	143,642	141,254
Projects Grants and Capital-Related Funding		
Dutchess County	2,794,831	2,762,238
Other – Customer Provided	67,968	15,795
Project Administration and General	(140,907)	(128,082)
Other Revenues	13,365	13,329
Interest Expense	(1,427,936)	(1,506,292)
Bond Financing Costs	(95,088)	(41,612)
Net Non-Operating (Revenues)	1,355,875	1,256,630
Changes in Net Assets	\$373,633	\$181,168

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

FINANCIAL POSITION SUMMARY

Net position can serve over time as a useful indicator of the Authority's financial position. Several factors played a role in the 2014 change in Net Assets. Increasing revenues and decreasing expenses have contributed to the 2014 operating loss being \$93,000 less than the 2013 operating loss. Decreasing bond interest and financing costs, along with increased project and other grant funding have resulted in a net increase in Net non-operating revenues. The Authority's net position is currently increasing as a result of these factors, from \$(98,724) to \$274,909.

	December 31, 2014	December 31, 2013
ASSETS:		
Current and other assets	\$9,454,921	\$8,925,957
Capital assets	54,399,296	54,113,502
TOTAL ASSETS	63,854,217	63,039,459
DEFERRED OUTFLOW OF RESOURCES:		
Loss on refunding	282,994	72,788
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$64,137,211	\$63,112,247
LIABILITIES:		
Long-term debt outstanding	32,076,278	32,677,062
Other liabilities	6,020,177	4,162,111
TOTAL LIABILITIES	38,096,455	36,839,173
DEFERRED INFLOW OF RESOURCES:		
Deferred revenues	25,765,847	26,371,798
NET POSITION:		
Restricted for Debt	2,719,817	2,569,001
Net investment in Capital Assets	1,714,014	717,054
Unrestricted	(4,158,922)	(3,384,779)
TOTAL NET POSITION	274,909	(98,724)
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$64,137,211	\$63,112,247

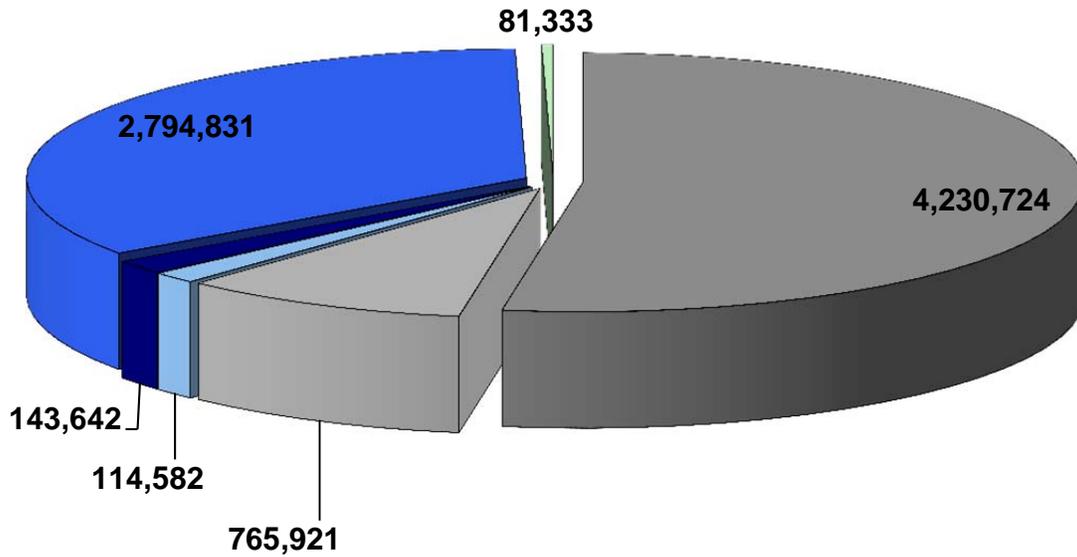
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America and promulgated by the Governmental Accounting Standards Board (GASB). The Authority is structured as an Enterprise Fund. It is considered a component unit of the financial reporting entity, Dutchess County. The Authority recognizes revenues when earned, not when received and expenses when incurred, not when paid. Capital assets are recorded at cost, or if donated, at the estimated fair market value at the date of donation. The assets are then depreciated over their useful lives. See the notes to the financial statements for a summary of the significant accounting policies, descriptions of capitalized assets and outstanding debt.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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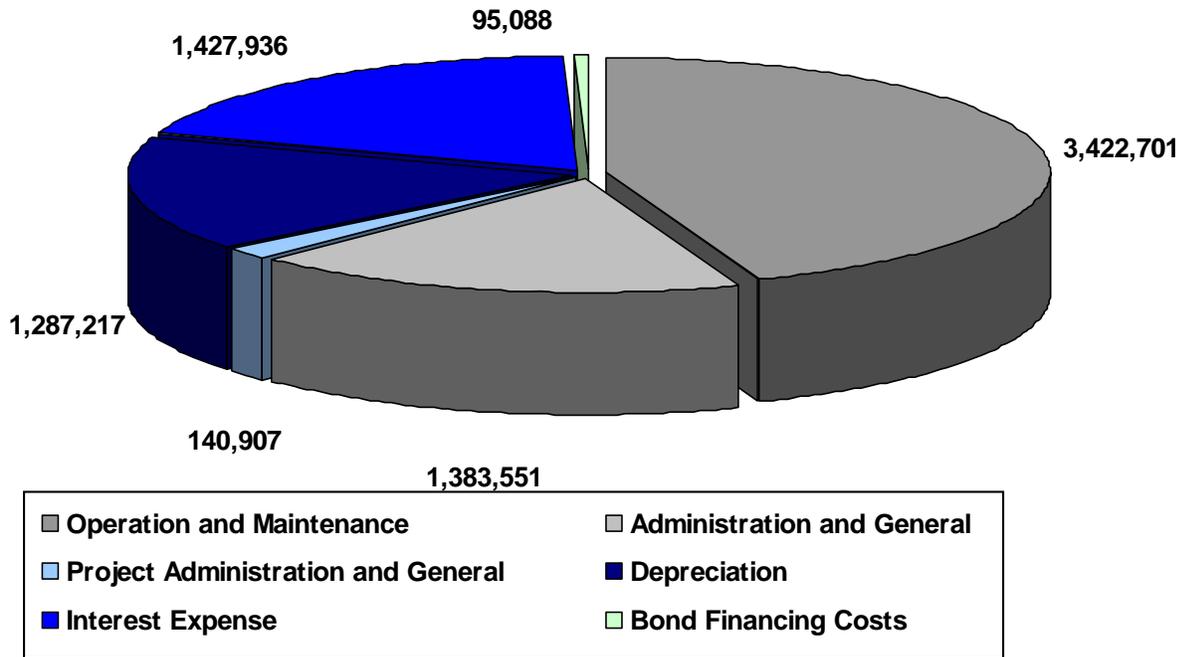
DCWWA - Actual - 2014 Revenues \$8,131,033



■ Water Sales	□ Sewer Charges
■ Rental Fees and Other Operating Revenue	■ Interest Income
■ Project Grants and Capital-Related Funding	□ Other Revenues

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DCWWA - Actual - 2014 Expenses \$7,757,400



DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
Current Assets:		
Cash and Cash Equivalents	\$ 2,773,049	\$ 2,992,620
Cash and Cash Equivalents-Restricted	2,316,443	1,572,967
Accounts Receivable	1,712,163	1,640,975
Prepaid Expense	79,638	87,856
Total Current Assets	6,881,293	6,294,418
Cash and Cash Equivalents-Restricted Non-current	2,573,628	2,631,539
Property, Plant and Equipment Less Accumulated Depreciation	54,399,296	54,113,502
Total Assets	63,854,217	63,039,459
Deferred Outflow of Resources:		
Loss on Refunding	282,994	72,788
Total Assets and Deferred Outflows	\$ 64,137,211	\$ 63,112,247

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2014 AND 2013

	2014	2013
Current Liabilities:		
Accounts Payable	\$ 547,755	\$ 646,024
Accrued Expenses Payable	173,700	186,388
Accrued Interest Payable	180,768	187,572
Current Portion of Bonds Payable	2,110,000	1,990,000
Retainage Payable	64,705	8,994
Escrow Deposits	40,126	42,467
Bond Anticipation Note Payable	1,660,500	-
Total Current Liabilities	4,777,554	3,061,445
Bonds Payable	31,500,643	32,677,062
Bond Anticipation Notes	575,635	-
Post Employment Benefit Obligations	1,242,623	1,100,666
Total Liabilities	38,096,455	36,839,173
Deferred Inflow of Resources:		
Deferred Revenues	25,765,847	26,371,798
Net Position:		
Net Investment in Capital Assets	1,714,014	717,054
Restricted for Debt	2,719,817	2,569,001
Unrestricted	(4,158,922)	(3,384,779)
Total Net Position	274,909	(98,724)
Total Liabilities, Deferred Inflows and Net Position	\$ 64,137,211	\$ 63,112,247

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water Sales	\$ 4,230,724	\$ 4,211,767
Sewer Charges	765,921	749,274
Rental Fees and Other Operating Revenues	114,582	115,221
	<hr/>	<hr/>
Total Operating Revenues	5,111,227	5,076,262
	<hr/>	<hr/>
Operating Expenses:		
Operation and Maintenance	3,422,701	3,482,068
Administration and General	1,383,551	1,404,472
Depreciation	1,287,217	1,265,184
	<hr/>	<hr/>
Total Operating Expenses	6,093,469	6,151,724
	<hr/>	<hr/>
Operating (Loss)	(982,242)	(1,075,462)
	<hr/>	<hr/>
Non-Operating Revenues (Expenses):		
Interest and Investment Income	143,642	141,254
Project Grants and Capital-Related Funding :		
Dutchess County	2,794,831	2,762,238
Other - Customer Provided	67,968	15,795
Project Administration and General	(140,907)	(128,082)
Other Revenues	13,365	13,329
Interest Expense	(1,427,936)	(1,506,292)
Bond Financing Costs	(95,088)	(41,612)
	<hr/>	<hr/>
Net Non-Operating Revenues	1,355,875	1,256,630
	<hr/>	<hr/>
Change in Net Position	373,633	181,168
	<hr/>	<hr/>
Net Position, January 1, as originally stated	(98,724)	645,540
Implementation of GASB 65 Adjustment	-	(925,432)
	<hr/>	<hr/>
Net Position, January 1, as adjusted	(98,724)	(279,892)
	<hr/>	<hr/>
Net Position, December 31	<u>\$ 274,909</u>	<u>\$ (98,724)</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Receipts From Customers	\$ 4,958,170	\$ 4,934,777
Payments To Suppliers	(2,766,276)	(2,721,963)
Payments To Employees and Benefits	(1,966,778)	(1,952,202)
Rental Fees and Other Operating Revenues Received	114,582	115,221
Net Cash Provided By Operating Activities	<u>339,698</u>	<u>375,833</u>
Cash Flows from Non-Capital Financing Activities:		
Project Grants and Non-Capital-Related Funding	2,794,831	2,762,238
Project Administration Payments	(140,907)	(128,082)
Net Cash Provided By Non-Capital Financing Activities	<u>2,653,924</u>	<u>2,634,156</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(2,147,132)	(1,630,317)
Other Capital-Related Receipts and (Disbursements)	36,180	42,863
Proceeds of Capital Debt	4,634,722	-
Principal Paid on Capital Debt	(4,263,325)	(1,955,000)
Interest Paid on Capital Debt	(836,627)	(901,329)
Bond Financing Costs Paid	(95,088)	(41,612)
Net Cash (Used) By Capital and Related Financing Activities	<u>(2,671,270)</u>	<u>(4,485,395)</u>
Cash Flows from Investing Activities:		
Interest and Investment Income Received	143,642	141,254
Net Cash Provided By Investing Activities	<u>143,642</u>	<u>141,254</u>
Net Increase (Decrease) in Cash and Cash Equivalents	465,994	(1,334,152)
Cash and Cash Equivalents at the Beginning of the Year	<u>7,197,126</u>	<u>8,531,278</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 7,663,120</u>	<u>\$ 7,197,126</u>
Presented as:		
Cash and Cash Equivalents	\$ 2,773,049	\$ 2,992,620
Cash and Cash Equivalents - Current - Restricted	2,316,443	1,572,967
Cash and Cash Equivalents - Non Current - Restricted	<u>2,573,628</u>	<u>2,631,539</u>
Total	<u>\$ 7,663,120</u>	<u>\$ 7,197,126</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Reconciliation of Operating (Loss) to Net Cash Provided By Operating Activities:		
Operating (Loss)	\$ (982,242)	\$ (1,075,462)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities:		
Depreciation	1,287,217	1,265,184
Changes in Assets and Liabilities:		
Accounts Receivable	(71,188)	(97,487)
Prepaid Expenses	8,218	(9,770)
Accounts Payable	136,067	257,459
Accrued Expenses Payable	(12,688)	42,231
Post Employment Benefit Obligations	141,957	156,791
Capital Liabilities Included in Accounts Payable	(200,356)	(234,336)
Deferred Water Sale Revenues and Grants	32,713	71,223
Net Cash Provided By Operating Activities	\$ 339,698	\$ 375,833

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Organization and Purpose

Dutchess County Water & Wastewater Authority (“Authority”) is a public benefit corporation established under Section 1123 of the New York Local Water and Sewer Act, duly enacted into law as Chapter 592 of the Laws of the State of New York. The act was requested by the Dutchess County Legislature to assist the County and its municipalities with managing water supplies and wastewater disposal. The legislation empowers the Authority to make plans and studies, develop, construct or maintain projects, acquire or lease real and personal property, to issue bonds and notes for financing and to fix rates and collect charges for the purpose of supplying and selling water and to collect, treat and discharge sewage in Dutchess County, New York.

The governing body of the Authority consists of eight members, five voting and three non-voting. Voting members serve five year terms with two members appointed by the County Executive, two appointed by the Chairman of the County Legislature and the fifth being a joint appointment confirmed by the entire Legislature. The non-voting members include the Director of the Dutchess County Environmental Management Council, the Director of the Dutchess County Soil and Water Conservation District, and the Commissioner of the Dutchess County Department of Planning and Economic Development.

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

1. Summary of Significant Accounting Policies

A. The Reporting Entity

The Authority is considered a component unit of the financial reporting entity known as Dutchess County. Inclusion in the financial reporting entity, Dutchess County, is determined based on financial accountability as defined by GASB Statement No. 14, "The Financial Reporting Entity". All of the Authority's board members are appointed by the Dutchess County Executive, and/or Members of the County Legislature, as described above. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

B. Proprietary Fund Accounting

As described above, the Authority performs the function of supplying water and sewer services to areas within the County of Dutchess. Its operations are financed primarily through user charges. Under standards set by the GASB, the Authority is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources. This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

The Authority considers all revenues pertaining to the operations of the water and sewer systems as operating revenues, and other revenues and grants which finance either capital or non-system related projects are reported as non-operating revenues.

The Authority generally applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

C. Cash, Cash Equivalents and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of inception.

State statutes govern the investment policies of the Authority. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, obligations of New York State and repurchase agreements secured by U.S. Treasury obligations. See also Note 3, Cash Equivalents and Investments.

D. Restricted Assets

Proceeds from acquisition and construction financing are set aside for completion of capital improvements and reduction of debt service. The disbursements from the restricted accounts are under the control of third party trustees.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

E. Fixed Assets

Property, plant and equipment are recorded at cost. Donated property, plant and equipment are recorded at the estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, and net of interest earned on the invested proceeds over the same period. Depreciation is computed using the straight-line methods over the following estimated useful lives, beginning in the year the asset is placed in service:

<u>Assets</u>	<u>Years</u>
Buildings	20
Improvements Other Than Buildings	30
Machinery & Equipment	3-20
Sewage Collection System	50
Water Transmission System	50

F. Revenues and Receivables

Revenues are derived generally from quarterly billing of user fees to customers and are considered to be operating revenues. Non-operating revenues include Dutchess County-funded revenues based on a contract with the Dutchess County Division of Water Resources to provide countywide water and wastewater planning and management. The Authority also derives revenues from service fee payments from the County pursuant to several service agreements, which are used to pay debt service and related expenses pertaining to debt obligations incurred for specific districts and/or systems.

Receivables represent outstanding user fees. The Authority has an agreement with Dutchess County that provides for collection of outstanding user fees through the real property tax levy. Therefore, the Authority has not established an allowance for uncollectible accounts.

G. Deferred Revenue

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned. Grants and aid received for construction costs are deferred until construction is complete and the assets are placed in service.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

H. Equity Classifications

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction, or improvement of those assets, increased by deferred outflows of resources – loss on refunding, decreased by deferred inflows of resources – deferred revenues pertaining to acquisition of those assets.

Restricted net position – Consists of assets with constraints placed in their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation and reduced by liabilities related to those assets.

Unrestricted net position – Consists of the net amount of the assets that do not meet the definition of “restricted” or “net investment in capital assets”.

The Authority is required to segregate and reserve the net income generated under the service agreements between the Authority and the County and local municipalities by each service agreement area.

I. Income Taxes

The Authority is exempt from federal income taxes under Internal Revenue Service Code Section 115.

J. Use of Estimates

The preparation of financial statements 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 amounts could differ from those estimates.

K. Subsequent Events

The Authority evaluated subsequent events for disclosure and/or recognition in the financial statements from December 31, 2014, and through March 13, 2015, the date on which the financial statements were approved for issuance. A detailed description of subsequent events that were noted for disclosure is included in Note 14.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

3. Cash Equivalents and Investments

As described in Note 2.C. above, state statutes authorize the Authority to maintain deposits with financial institutions and to invest in certificates of deposits, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

In addition, the Authority, through the General Bond Resolution adopted June 1, 1998, is authorized to invest funds held under the Resolution in “Qualified Investments”. Qualified Investments include the above-described investments as well as certain types of commercial paper, money market accounts and investment agreements.

Cash deposits are secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The Authority’s deposits are categorized below to give an indication of the level of risk assumed by the Authority.

- 1) Insured or collateralized with securities held by the Authority or by its agent in the Authority’s name;
- 2) Collateralized with securities held by the pledging institution’s trust department or agent in the Authority’s name;
- 3) Uncollateralized.

Investments are categorized into these three categories of credit risk:

- 1) Insured or registered, or securities held by the Authority or its agent in the Authority’s name; included in Category 1 are funds invested in securities of the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations; or,
- 2) Uninsured and unregistered, with securities held by the counter-party’s trust department or agent in the Authority’s name; or,
- 3) Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent, but not in the Authority’s name.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

3. Cash Equivalents and Investments (Continued)

	Balances as of December 31, 2014			
	Category 1	Category 2	Category 3	Total
Cash in Banks	\$ 542,897	\$ 2,230,152	\$ -	\$ 2,773,049
<u>Investments:</u>				
Money Market Funds	\$ 3,030,868	\$ 110,953	\$ -	\$ 3,141,821
U.S. Treasury Bills & Notes	1,748,250	-	-	1,748,250
Investments Total	\$ 4,779,118	\$ 110,953	\$ -	\$ 4,890,071

	Balances as of December 31, 2013			
	Category 1	Category 2	Category 3	Total
Cash in Banks	\$ 543,392	\$ 2,449,228	\$ -	\$ 2,992,620
<u>Investments:</u>				
Money Market Funds	\$ 2,488,729	\$ 175,214	\$ -	\$ 2,663,943
U.S. Treasury Bills & Notes	1,540,563	-	-	1,540,563
Investments Total	\$ 4,029,292	\$ 175,214	\$ -	\$ 4,204,506

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

4. Restricted Assets

The restricted assets of the Authority consist of unexpended bond and note proceeds, which are invested in cash funds and investments under the control of bank trustees. These assets are restricted in use by bond covenants as described below:

	<u>2014</u>	<u>2013</u>
Construction Reserve Funds	\$ 2,014,050	\$ 1,446,996
Debt Service Sinking Funds	937	937
Debt Service Reserve Funds	<u>301,456</u>	<u>125,034</u>
Current Restricted Funds	2,316,443	1,572,967
Non-Current Debt Service Reserve Funds	<u>2,573,628</u>	<u>2,631,539</u>
Total	<u>\$ 4,890,071</u>	<u>\$ 4,204,506</u>

The Debt Service Reserve Funds are funded in an amount equal to an amount which is the lesser of, the maximum annual debt service required under the bond resolutions, 125% of the average annual debt service required by certain bond resolutions or the maximum amount that may be held in the Debt Service Reserve Fund without adversely affecting the tax-exempt status of bond series intended to be tax-exempt, currently 10% of the original issue amount. Since these reserves are not anticipated to be used in the subsequent year, they have been classified as restricted non-current assets on the balance sheet. Interest earnings on these reserves have been classified as current as they are available to pay current debt.

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	<u>Balance as of January 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of December 31, 2014</u>
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	175,907	-	-	175,907
Buildings	13,198,932	178,940	-	13,377,872
Water System	50,716,011	81,176	-	50,797,187
Machinery and Equipment	7,188,007	72,816	-	7,260,823
Sewage Collection System	1,364,871	280,061	-	1,644,932
Construction in Progress	<u>1,721,350</u>	<u>1,903,901</u>	<u>(348,029)</u>	<u>3,277,222</u>
Sub-total	75,199,886	2,516,894	(348,029)	77,368,751
Less: Accumulated Depreciation	<u>(21,086,384)</u>	<u>(1,883,071)</u>	<u>-</u>	<u>(22,969,455)</u>
Net Property, Plant and Equipment	<u>\$ 54,113,502</u>	<u>\$ 633,823</u>	<u>\$ (348,029)</u>	<u>\$ 54,399,296</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

5. Property, Plant and Equipment (Continued)

Depreciation was recorded in the amount of \$1,883,071 and \$1,861,037 respectively, less amortization of deferred revenues associated with the Central Dutchess Water Transmission Line of \$595,853 (which was put into service in 2007, see Note 9) for the years ended December 31, 2014 and 2013. The effect of netting these amounts resulted in \$1,287,217 and \$1,265,184 in depreciation expense for the years ended December 31, 2014 and 2013, respectively.

6. Employee Retirement Systems

A. Plan Description

The Dutchess County Water and Wastewater Authority is required to participate in the New York State Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan System. This is a cost sharing multiple employer retirement system. The System 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 (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes an Annual Report and required supplementary information.

That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236.

B. Funding Policy

The Systems are generally noncontributory. Tiers I-IV are noncontributory after ten years of participation and tier V is required to contribute 3% of their salary, and tier VI is required to contribute a minimum of 3.5% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates of participating employers expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by those employers to the pension accumulation fund.

The Dutchess County Water & Wastewater Authority is required to contribute to the System at an actuarially determined rate. The required contributions for the current and prior two years were \$259,737, \$264,843, and \$239,994, respectively. The Authority's contributions made to the System were equal to 100% of the contributions required for those years.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

7. Post-employment Benefits

From an accrual accounting perspective, the cost of post-employment 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.

Through implementation of the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, beginning in the year ended December 31, 2007, the Authority recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior year, and provides information useful in assessing potential demands on the Authority's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, which commenced with the 2007 liability.

A. Plan Description

The Authority provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the Authority. Currently, there are two retirees receiving post-employment benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A copy of the report on these benefits can be requested at the Authority. A summary of benefits is as follows:

<u>Years of Service</u>	<u>% Paid by Authority</u>	
	<u>Retiree</u>	<u>Dependent/Spouse</u>
10-14	50%	35%
15-19	60%	45%
20-24	70%	55%
25+	80%	65%

B. Funding Policy

The Authority is currently paying post-employment benefits for two individuals. Although the Authority is considering the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume the pay-as-you-go funding.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

7. Post-employment Benefits (Continued)

C. Annual Other Post-employment Benefit Cost

The Authority's change in net OPEB obligation amounted to \$141,957 and \$156,791 for the years ended December 31, 2014 and 2013, respectively. The Authority's OPEB cost was equal to the Annual Required Contribution (ARC), \$176,299, an amount actuarially determined in accordance with the parameters of GASB Statement 45, adjusted for interest accruing on the unpaid liability of \$27,518, and other timing adjustments of (\$36,689). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Total Actuarial Accrued Liability	\$	<u>1,645,843</u>
Past Service Costs	\$	55,942
Normal Costs		<u>120,357</u>
Annual Required Contribution (ARC)	\$	<u>176,299</u>
Net OPEB Obligation - Beginning of the Year	\$	<u>1,100,666</u>
Annual Required Contribution (ARC)		176,299
Interest on Net OPEB Obligation		27,518
Adjustment to Annual Required Contribution		<u>(36,689)</u>
Annual OPEB Cost		167,128
Age Adjusted Contributions Made*		<u>(25,171)</u>
Increase in Net OPEB Obligation		<u>141,957</u>
Net OPEB Obligation - End of the Year	\$	<u>1,242,623</u>
Percent of annual OPEB cost contributed		14.3%

*This contribution is a pay-as-you-go amount, as an actual plan has not been established; see Funding Policy.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value for plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

7. Post-employment Benefits (Continued)

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2014, actuarial valuation was completed using the Alternative Measurement Method, and the liabilities were computed using the entry age actuarial cost method and level percent of payroll amortization method. The actuarial assumptions utilized a 2.5% baseline discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 2.5% rate. The valuation assumes the following rates of increase in health care costs:

<u>Year</u>	<u>Health</u>	<u>Pharmacy</u>	<u>Dental</u>	<u>Vision</u>
Year 1	8.0%	8.0%	3.5%	3.0%
Year 2	7.0%	7.0%	3.0%	3.0%
Year 3	6.0%	6.0%	3.0%	3.0%
Year 4	5.5%	5.5%	3.0%	3.0%
Year 5	5.3%	5.3%	3.0%	3.0%
Year 6	5.2%	5.2%	3.0%	3.0%
Year 7	5.2%	5.2%	3.0%	3.0%
Year 8	5.2%	5.2%	3.0%	3.0%
Year 9	5.2%	5.2%	3.0%	3.0%
Year 10	4.7%	4.7%	3.0%	3.0%

8. Bond Anticipation Notes

In May 2014, the Authority issued \$1,660,500 in bond anticipation notes at 1.51% maturing in May 2015. The notes were issued for Staatsburg Water System service agreements.

In September 2013, the Authority authorized financing of \$2,757,441 with New York State Environmental Facilities Corporation. The purpose of the notes is to provide the Authority with funds to pay for improvements to the Shore Haven water system. As of December 31, 2014, there were drawdowns of \$394,832 on this debt. Additional drawdowns of \$111,821 were made in February 2015.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

8. Bond Anticipation Notes (Continued)

In September 2014, the Authority authorized financing of \$3,318,767 with New York State Environmental Facilities Corporation. The purpose of the notes is to provide the Authority with funds to pay for improvements to the Chelsea Cove Sewer District wastewater treatment plant process, and upgrades to the Valley Dale Sewer District wastewater treatment plant, along with manhole and sewer line repairs. As of December 31, 2014, there were drawdowns of \$180,803 on this debt.

The bond anticipation notes outstanding as of December 31, 2014, are as follows:

<u>Purpose</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding at 12/31/14</u>
Short Term BANs:					
Staatsburg Water System Improvements	5/21/2014	5/20/2015	1.51%	\$ 1,660,500	\$ 1,660,500
Long Term BANs:					
Shorehaven Water System Improvements	9/26/2013	9/26/2016	0.00%	2,757,441	394,832
Chelsea Cove Sewer District Upgrades	9/25/2014	9/25/2017	0.00-0.31%	2,019,572	-
Valley Dale Sewer District Upgrades	9/25/2014	9/25/2017	0.00-0.31%	1,299,195	180,803
Total Bond Anticipation Notes				<u>\$ 7,736,708</u>	<u>\$ 2,236,135</u>

Changes in bond anticipation notes as of December 31, 2014, are as follows:

<u>Purpose</u>	<u>Balance Outstanding 1/1/2014</u>	<u>New Issues/ Drawdowns</u>	<u>Payments</u>	<u>Balance Outstanding 12/31/2014</u>
Short Term BANs:				
Staatsburg Water System Improvements	\$ -	\$ 1,660,500	\$ -	\$ 1,660,500
Long Term BANs:				
Shorehaven Water System Improvements	-	394,832	-	394,832
Chelsea Cove Sewer District Upgrades	-	-	-	-
Valley Dale Sewer District Upgrades	-	180,803	-	180,803
Total Bond Anticipation Notes	<u>\$ -</u>	<u>\$ 2,236,135</u>	<u>\$ -</u>	<u>\$ 2,236,135</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

9. Long Term Obligations

A. Bonds Payable

The Authority issues revenue bonds to finance the acquisition of systems and the cost of the capital renovations to those systems and to pay costs of issuance. Such debt has been issued under the following authorizations:

Trust Indenture

As of June 1, 1995, the Authority executed a trust indenture authorizing the issuance of debt for the purpose of acquiring a sewage facility. This trust indenture was amended in 2007 to authorize debt issued for Part County Sewer District #1. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below for Part County Sewer District #2. Two additional supplemental resolutions were adopted in 2014.

Special Bond Resolution

As of September 30, 1997, the Authority adopted a special bond resolution authorizing debt to be sold at private sale for the purpose of acquiring a privately held water system.

General Bond Resolutions

As of June 1, 1998, the Authority adopted a General Water Bond Resolution which enabled the Authority to issue additional debt pursuant to supplemental resolutions without having to modify the form or general terms of the debt, referred to as additional parity debt. The Authority has issued fifteen supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, 2004, two issues in 2002, 2008, 2009, 2010, 2011, 2013, and two issues in 2014.

As of August 1, 2004, the Authority adopted a general bond resolution pertaining to the Part County Sewer District No 3, which enabled it to issue bonds to finance the purchase of Dalton Farms Sewer System.

B. Description of Bonds Payable

	<u>2014</u>	<u>2013</u>
New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 2005D, due in various installments through 2015, interest 3.70%-5.55%	\$ 80,000	\$ 130,000
1998 Revenue Bonds (Zero Coupon) Series One, due in various installments from 2021 through 2029, interest 3.90%-5.40%	3,817,818	3,817,818
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	350,000	395,000

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

9. Long-Term Obligations (Continued)

B. Description of Bonds Payable (continued)

	2014	2013
2001 Service Agreement Revenue (Refunding) Bond Series 2001, due in various installments through 2041, interest 3.00%-5.36%; partially refunded in 2002 as described below	1,168,410	1,183,410
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,245,000	1,345,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,325,000	1,430,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00%-5.00%; refunded in 2014 as described below	-	1,685,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00%-4.625%; refunded in 2014 as described below	-	315,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	6,100,000	6,375,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments from 2030 through 2039, interest 5.62%-5.96%	1,347,524	1,347,524
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 2010 C, due in various installments through 2019; interest .8450%-3.355%	5,920,000	7,040,000
New York State Environmental Facilities Corporation State Drinking Water Revolving Fund Revenue (Refunding) Bonds Series 2011C, due in various installments through 2023, interest .540%-3.165%	1,595,000	1,785,000
2011 Service Agreement Revenue Bond Series 2011, due in various installments starting in 2012 through 2041, interest 3.50%-4.25%	1,840,000	1,875,000
New York State Environmental Facilities Corporation Revenue Refunding Bonds Series 2014B, due in various installments through 2026, interest .1515%-2.7455%	339,054	-
New York State Environmental Facilities Corporation Revenue Refunding Bonds Series 2014B, due in various installments through 2037, interest .1515%-4.2025%	1,974,533	-
Total Bonds Payable	27,102,339	28,723,752
Accreted Interest Recorded on Zero Coupon Bonds	6,508,304	5,943,310
Total Bonded Debt Payable	33,610,643	34,667,062
Portion Due Within One Year	(2,110,000)	(1,990,000)
Net Long Term Debt Payable	\$31,500,643	\$32,677,062

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

9. Long-Term Obligations (Continued)

C. Changes

	<u>Balance at January 1, 2014</u>	<u>New Issues/ **Additions</u>	<u>Maturities and/or Payments</u>	<u>Balance at December 31, 2014</u>	<u>Due within One Year</u>
Bonds Payable	\$34,667,062	\$ 2,963,581	\$(4,020,000)	\$ 33,610,643	\$2,110,000
Long Term Bond Anticipation Notes	-	575,635	-	575,635	-
OPEB liability (see Note 7)	1,100,666	141,957	-	1,242,623	-
	<u>\$35,767,728</u>	<u>\$ 3,681,173</u>	<u>\$(4,020,000)</u>	<u>\$ 35,428,901</u>	<u>\$2,110,000</u>

**Bonds payable increased by \$565,001 in adjustments for accreted interest on 1998 Series I debt, 2001 debt, and 2009 debt.

D. Debt Service Requirements

Debt Service requirements to maturity, less accreted interest, as of December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,110,000	\$ 783,233	\$ 2,893,233
2016	2,083,587	724,405	2,807,992
2017	2,135,000	660,664	2,795,664
2018	2,200,000	590,732	2,790,732
2019	2,270,000	514,495	2,784,495
2010-2024	7,188,854	7,788,216	14,977,070
2025-2029	5,298,762	7,836,010	13,134,772
2030-2034	1,840,389	3,485,996	5,326,385
2035-2039	1,678,460	3,578,342	5,256,802
2040-2044	297,287	452,800	750,087
Totals	<u>\$27,102,339</u>	<u>\$26,414,893</u>	<u>\$53,517,232</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

9. Long-Term Obligations (Continued)

E. Bond Covenants

The Authority has agreed to maintain dedicated sources of revenues with respect to the projects financed in accordance with the State Act and in amounts such that the revenues of the Authority with respect to the financial projects shall be sufficient, together with all other funds available to the Authority for such purposes, to pay all costs of operating and maintaining the projects and to pay principal and interest requirements. The bonds payable are special obligations of the Authority, secured by the assets of the Authority and to be amortized solely from the revenues of the Authority.

The Authority has pledged its revenues, subject to the right to pay operating expenses, its interest in its Service Agreement with Dutchess County, its interest in cash and investments held by the Bond Trustee and any other property subsequently pledged.

In addition to pledging its revenues and other rights as described above, the Authority made certain covenants including that it will fix, charge and collect water and sewer rates together with other Authority revenues in amounts sufficient to provide for operating expenses as included in the Authority's budget. The Authority also pledges to maintain, in full force and effect, the service agreement with Dutchess County, as is further described in Note 13 - Economic Dependency.

F. Bond Refunding

In June 2007, the Authority issued \$2,290,000 in serial bonds with interest rates of 4.00-5.00%. The proceeds were used to fund improvements to the Valley Dale system of \$400,000, and improvements to the Chelsea Cove system of \$1,890,000. In 2014, the Authority refunded the 2007 sewer service agreement revenue bonds for Chelsea Cove and Valley Dale Sewer System with series 2014B bonds through NYS EFC as described in Note 9.B. The net proceeds of the refunding, \$2,243,625, after payment of underwriting and other issuance costs, were used to purchase state and local government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded debt. The cash flow required to service the old debt was \$3,174,344, and the cash flow required to service the new debt is \$3,064,850, resulting in a reduction of \$109,494. The economic gain (net present value of the savings resulting from the refunding) amounted to \$251,438. Escrow funds were used to pay \$55,000 of the refunded debt, resulting in an outstanding balance of \$1,945,000, as of December 31, 2014. The refunded bonds will be called in 2017.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

10. Deferred Revenues

In June 2002, the Authority signed an agreement with Dutchess County outlining a project known as the Central Dutchess Utility Corridor (“Corridor”), consisting of a 24” water transmission line and necessary pumping capacity for the purpose of transmission of water to serve the Hudson Valley Research Park in East Fishkill, New York, and other future customers. The project was placed into service in July of 2007. The Authority had estimated the cost to be \$33,269,000, with funding coming in the form of grants from New York State, \$11,250,000, International Business Machines (IBM), \$11,375,000, the Town of East Fishkill, \$269,000 and Dutchess County, \$10,375,000. There were also interest earnings on advances and grants such that the total amount attributed to the project as of December 31, 2008, was approximately \$34,034,902, which was accounted for as deferred revenues.

During 2009, the Authority returned \$4,209,736 in unused funds to Dutchess County and IBM. The Authority recognized \$595,853 in revenue for the years ended December 31, 2014 and 2013, and was recorded net of depreciation. The long term portion of deferred revenue amounted to \$24,757,438 and \$25,353,291 as of December 31, 2014 and 2013, all of which is related to the Utility Corridor.

Current deferred revenue expected to be recognized in 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Current Portion of Deferred Revenues:		
Utility Corridor - Construction	\$ 595,853	\$ 595,853
Utility Corridor - Capital	117,975	160,786
Utility Corridor - Operations	48,193	48,154
Water Usage Billings Received in Advance	246,388	213,714
	<u>1,008,409</u>	<u>1,018,507</u>
Long-term Portion of Deferred Revenues:		
Utility Corridor - Construction	<u>24,757,438</u>	<u>25,353,291</u>
Total Deferred Revenues	<u>\$ 25,765,847</u>	<u>\$ 26,371,798</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

11. Contingencies and Risk Management

The Authority is subject to various litigation and claims arising out of the course of its operations. While the results of the lawsuits cannot be predicted with certainty, management does not believe these matters will have an adverse effect on the Authority's overall financial position. The Authority assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Authority has purchased insurance with limits as follows: umbrella aggregate coverage of \$20,000,000, business auto coverage of \$1,000,000 per occurrence, general liability aggregate coverage of \$3,000,000, property coverage of \$38,283,977 and workers compensation coverage of \$100,000.

12. Commitments - Authorized Debt

In February 2004, the Authority authorized the issuance of up to \$625,000 in debt to fund renovations to the Fairview Pump Station. These renovations are part of the improvements needed to supply increased transmission capacity to the Dutchess Central Utility Corridor pipeline described above. No debt has been issued under this authorization, and Corridor funds were used instead.

13. Economic Dependency

As described in Note 9.E. - Long Term Obligations, the Authority has entered into service agreements with Dutchess County for the Water District and Part County Sewer Districts to provide water and/or sewer services and receive a service fee from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover certain operating expenses and debt service requirements. The Authority also receives payments from Dutchess County for the completion of certain consulting projects. Although these payments are subject to budgetary resolutions by the Dutchess County Legislature for approval, no approvals have been withheld by the Legislature. For the years ended 2014 and 2013, the Authority recorded net revenues of \$2,794,831 and \$2,762,238, having recorded a return of \$105,089 and \$116,341 to the County during those years. There was \$0 was due to or due from the County at each respective year-end. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014 AND 2013

14. Subsequent Event

The Authority has been in the process of investigating various systems for acquisition in 2015. The Authority expects to acquire six new water systems and 3 new sewer systems. No agreements have been finalized as of the report date.

15. New Reporting Standards

In June 2012, GASB issued Statement 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement 2*. When implemented, this Statement will require the recording of the Authority's proportional share of the collective net pension liability of the NYS Local Government Employees Retirement System. The Authority is required to implement this standard for the year ending December 31, 2015. The implementation of this standard is expected to have a substantive effect on the Authority's net position.

GASB has also issued Statements 69 through 72, none of which are expected to have any substantive effects on the Authority's net position.

REQUIRED SUPPLEMENTAL INFORMATION

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POST-EMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2014 AND 2013

The schedule of funding progress presents the results of OPEB valuations as of and for the years ended December 31, 2014, 2013, and 2012.

<u>Year Ended,</u>	<u>Actuarial</u>	<u>Actuarial</u>	<u>Accrued</u>	<u>Unfunded</u>	<u>Funded</u>	<u>Covered</u>	<u>UAL as a</u>
<u>Date</u>	<u>Valuation</u>	<u>Value of</u>	<u>Liability</u>	<u>Liability</u>	<u>Ratio</u>	<u>Payroll</u>	<u>Percentage</u>
		<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>((b-a)/c)</u>
12/31/2014	12/31/2014	\$ -	\$ 1,645,843	\$ 1,645,843	0.0%	\$ 1,345,851	122.29%
12/31/2013	12/31/2011	\$ -	\$ 1,195,514	\$ 1,195,514	0.0%	\$ 1,322,276	90.41%
12/31/2012	12/31/2011	\$ -	\$ 1,195,514	\$ 1,195,514	0.0%	\$ 1,311,460	91.16%