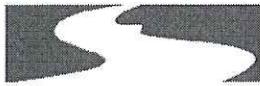


**DUTCHESS COUNTY WATER &
WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
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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, 2015 and 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinion.

Opinion

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, as of December 31, 2015 and 2014, 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.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2015, the Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement 2*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress for Other Post-employment Benefits Plan, Schedule of the Proportionate Share of the Net Pension Liability, and Schedule of Pension Contributions, on pages 6-17, 47, 48, and 49 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.

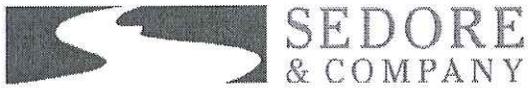
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2016, on our consideration of the Dutchess County Water & Wastewater Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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's internal control over financial reporting and compliance.

Sedace & Company, CPA's

Poughkeepsie, New York

March 9, 2016



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**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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Dutchess County Water & Wastewater Authority's basic financial statements, and have issued our report thereon dated March 9, 2016.

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. However, material weaknesses 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 9, 2016

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
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, 2015. 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, 2015, the Authority owned and operated a total of fourteen water systems and five sewer systems and, in addition, operates a 13 mile water transmission line.

The Authority provides service in the aggregate to 3,238 separate water accounts and 1,347 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 Arbors water distribution system is supplied with water purchased from the Poughkeepsie Joint Water Board. Said water is produced at the Joint Water Board's conventional treatment plant drawing from the Hudson River. The Authority purchases wholesale water for a total of thirty-two thousand gallons per day, regardless of the actual volume of water taken. The remaining nine water systems, Birch Hill, Dalton Farms, Fairways, Pinebrook, Quaker Hills, 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 and Valley Dale Water plants also having cartridge filtration systems. A green sand filtration system is used at the Birch Hill Water System to reduce levels of iron and manganese. The Shore Haven Water System utilizes a chloramination disinfection system to control for disinfection by-product levels. Greenfields Water utilizes ortho-polyphosphates to sequester iron and manganese. Pinebrook Water employs water softeners to aid in the reduction of iron and manganese.

Four sewer systems, Chelsea Cove, Dalton Farms, Pinebrook and Valley Dale, each have rotating biological contact (RBC) treatment plants with tertiary treatment located on property within their service areas. The Fairways Sewer Plant consists of three separate treatment trains each including septic tanks followed by subsurface disposal fields.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

The Central Dutchess Water Transmission Line is a 13 mile water pipeline for which 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, Global Foundries 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 most of the systems are billed based on customer usage, a large portion of the budgets (ranging from 50-70%) is comprised of costs that would realize their budgeted expectations regardless of customer water (or sewer) usage levels, and are considered to be "State of Readiness" costs. As a result, budgets are prepared based on history and conservative projections for 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. The 2015 budgets were based on customer usage levels derived from an evaluation of the prior two years' billing history, taking into consideration other field knowledge we were able to gather concerning changes to the customer base. Although most of the systems have single-tiered rate structures, the Arbors and Rokeby Water System have two and three tiered rate structures, respectively. The Chelsea Cove Sewer System, Fairways Sewer System, Pinebrook Sewer System, Quaker Hills Water System and the Valley Dale Sewer System are all billed with Flat Rate Fixed charges. Customer rates were increased from 2014 to 2015 in all systems, with the exception of the Staatsburg service area in the Hyde Park Regional Water System. These rate changes resulted in an increase of 0.9% to 9.8% to the average water user's total annual cost. Those increases that were above CPI for September 2014 (1.7%) were the result of decreased water use and/or budget increases to fund planned improvements to the system. .

Water and sewer revenues for those systems under Authority ownership in 2014 increased in 2015, in spite of continued economic issues affecting commercial use and increased vacancy in single family homes across a number of our systems. For those systems for which the billing periods did not coincide with the Authority's 2015 fiscal year (Arbors Water, Birch Hill Water, Dalton Farms Water and Sewer, Fairways Water and Sewer, Pinebrook Water and Sewer, Rokeby Water, Schreiber Water, and portions of the Hyde Park Regional Water System) revenue estimates were used for those remaining months in the fiscal year which will be billed as a portion of their first 2016 billing cycle. The sewer systems showed varied increases in revenues ranging from 1% to 2%, primarily as a result of rate increases. Although water revenues for all systems were above those realized in 2014, some systems realized this increase simply as a result of the rate changes, while some were due to increased collection in late charges. After a number of years of decreased water usage, the Hyde Park Zones (A and B) within the Hyde Park Regional Water System experienced an increase in billed usage of 6.9%. Usage was also higher in Zone C, but continued to decline in Zones D and L. However, the decline in use was offset by the increased rate and late charge collections. Dalton Farms, Schreiber and Valley Dale Water

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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Systems also had increased revenues, in spite of varied decrease in billed usage, again due to rate increases. The Birch Hill, Fairways, Rokeby and Shore Haven Water Systems showed increases in billed water use, resulting in increased revenues. Most water and sewer systems were able to meet or exceed their 2015 budgeted revenue expectations. The Central Dutchess Water Transmission Line (CDWTL) 2015 final revenue number is greater than its 2014 counterpart. A contractual arrangement associated with the sale of this water causes an accounting debit entry against revenues for any funds remaining after expenses have been closed out for the year which can sometimes have a negative effect on stated revenue. The largest impact on the Authority's 2015 revenue collection was the acquisition of the Arbors, Pinebrook and Quaker Hills Water Systems and the Fairways and Pinebrook Sewer Systems, an aggregate increase of 418 customers. These systems were acquired during September of 2015 and operated for the last four months of the fiscal year. The Authority acquired all assets and liabilities at the time of closing. Valuation of these systems at acquisition was conducted by an independent appraisal company, resulting in the Authority reporting Contributed Assets in the amount of \$2,073,579. The cash fund balances transferred to the Authority upon acquisition of these systems totaled \$187,170. Customers in these systems did not get billed by the Authority during 2015. Revenues shown below for the newly acquired systems are a sum of Accounts Receivable at acquisition and 2015 estimated portion of each system's first 2016 billing cycles.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
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(Un-audited)

	<u>2015</u>	<u>2014</u>
<u>Sewer Revenues</u>		
Chelsea Cove	\$347,526	\$340,690
Dalton Farms	305,550	302,535
Fairways Sewer System	4,794	0
Pinebrook Sewer System	46,717	0
Valley Dale	<u>124,909</u>	<u>122,696</u>
Subtotal	<u>\$829,496</u>	<u>\$765,921</u>
<u>Water Sale Revenues</u>		
Arbors	20,455	0
Birch Hill	61,413	58,143
CDWTL	2,130,359	2,045,750
Dalton Farms	171,167	170,428
Fairways	38,079	36,452
Hyde Park	1,230,524	1,204,328
Pinebrook	25,038	0
Quaker Hills	27,899	0
Rokeby	28,080	26,881
Schreiber	17,309	15,586
Staatsburg	282,294	271,858
Shore Haven	74,275	67,893
Valley Dale	70,315	70,012
Zone D	206,279	188,236
<u>Zone L</u>	<u>85,681</u>	<u>75,157</u>
Subtotal	<u>\$4,469,167</u>	<u>\$4,230,724</u>
Total Sales Revenues	<u>\$5,298,663</u>	<u>\$4,996,645</u>

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

	<u>2015</u>	<u>2014</u>
Rental Fees and Other Operating Revenue	\$118,898	\$114,582

2015 AUTHORITY OPERATIONS

In 2015 the Authority continued its successful management and operation of all systems and currently provides services to 4,585 customer accounts located in eight towns within the County.

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

The Authority uses staff for operation and maintenance of the Arbors and Hyde Park Regional Water Systems 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, capital project planning and development, and further developmental activities. All systems' operation and maintenance expenses for 2015 ended the fiscal year within their budgeted amounts, with the exception of the Schreiber and Shore Haven Water Systems. The Schreiber Water System required the replacement of Well Pump #2 as a result of pump failure due to age. In addition, unplanned laboratory expenses were incurred due to a new requirement to take lead and copper samples. The Shore Haven Water System required a significant repair to a frozen water main early in 2015 due to persistent cold temperatures, at least 13 degrees below average for that time of year. These additional expenses were offset by system fund balances. Funds remaining in other systems were evaluated for use to either offset rate increases for 2016 or to remain in fund balance for contingency and anticipated improvement expenses.

Below are some of the system operational highlights from 2015:

- Successfully negotiated and executed an Assignment Agreement to transfer the IBM 2.0 million gallons per day Water Sale Agreement to Global Foundries, upon Global Foundries acquisition of the IBM campus in East Fishkill.
- Completed an engineering evaluation of all instrumentation and control systems at the Hyde Park Water Treatment Facility, and developed a plan for phased upgrading of the systems.
- Completed architectural design for building exterior maintenance and repair for the Hyde Park Water Treatment Facility and Central Dutchess Water Transmission Line Pump Station, and developed a plan for phased construction activities.
- Completed design and construction of an access drive to the north wells at the Valley Dale Water treatment facility, to allow all-weather access to wells.
- Addressed urgent safety items identified in the acquisition evaluation report for the Pinebrook Sewer System.
- Completed downstream water flow improvements to alleviate flooding risks at the Quaker Hills Water System pump house.

MAJOR CAPITAL PROJECTS

In 2015, the Authority continued the process of annually reviewing and updating a Five Year Capital Plan. The 2015-2019 Capital Plan included \$16.8 million in funded capital project work. Below are the capital project highlights for 2015:

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

Chelsea Cove Treatment Plant – A Value Engineering Review was completed on the design of what is to be an extensive rehabilitation of the wastewater treatment plant to replace aging infrastructure and improve plant efficiency. Subsequent to this review, the project was re-bid. Construction will commence in 2016.

Shore Haven Water System Improvements - Construction of a new Booster Pump Station to improve distribution pressures was completed. In addition, design work for the Permanent Water Treatment Improvements and the Distribution System Improvement Projects was completed. Project construction will commence in 2016, pending receipt of regulatory approvals.

Valley Dale Sewer Treatment System Improvements – A Value Engineering Review was completed for the design of the extensive rehabilitation of the wastewater treatment plant. This rehabilitation will replace aging infrastructure and improve plant efficiency. Construction will commence in 2016.

Central Dutchess Water Transmission Line – The Authority entered into a Project Management Agreement with Dutchess County to manage the construction of a waterline extension from the Transmission Line to the Dutchess County Airport. Engineering design for this project was begun in 2015.

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 2015 included the following:

Based on the outcome of an evaluation process funded by the NYS Department of State's Local Efficiency Grant Program, the Town of Hyde Park determined to transfer to the Authority, eight Town-owned water and sewer districts. Transfer of four systems was completed in 2015, with the remaining four to be transferred in 2016. To assist with implementing these transfers, the Authority received a grant award of \$404,000 also from the above referenced grant program. In addition, the grant will allow for an investment in technology that will enable the Authority to more efficiently absorb the additional operational and administrative responsibilities for the systems.

The acquisition of the Fairways Sewer System from the Red Hook Fairways Homeowner's Association was completed. This sewer system provides service to 36 customers in the Town of Red Hook, NY. In 2012, the Authority had acquired the water system for this same service area, with a slightly larger customer base.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

INTER-MUNICIPAL COOPERATION

The Authority receives from the Dutchess County Division of Water Resources an annual allocation of funds which 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 2015 included the following:

Towns of Hyde Park and Rhinebeck – In response to a request from the Town of Rhinebeck, the process of evaluating the Vanderburgh Cove Sewer System was completed. This sewer system has parcels that are located in both the Towns of Rhinebeck and Hyde Park. The evaluation process culminated in a decision to transfer ownership of the system to the Authority.

Village and Town of Red Hook - Negotiations continued with the project sponsor for the 102 unit residential development on the Hoffman Farm property in the Town of Red Hook for Authority management and operation of the project's proposed water and sewer systems. In conjunction with the project sponsor, the Authority began negotiations for a water purchase agreement with the Village of Red Hook.

Village of Tivoli – The Authority continued to work with the Village of Tivoli on a grant funded evaluation of the potential transfer of the Village's water and sewer systems to the Authority.

Town of Red Hook – The Authority executed an agreement with the developer of the proposed Preserve at Lakes Kill, an eleven lot conservation cluster subdivision, to develop a community wastewater system to be owned and operated by the Authority upon completion.

Town of Wappinger – An agreement was executed between the Authority and the developer of the proposed Obercreek fifteen lot conservation cluster subdivision to develop an innovative "green technology" community wastewater system which would be owned and operated by the Authority upon completion.

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, 2004, 2009, 2010, 2011 and 2014 Bonds issued by the Authority.

There is currently one Service Agreement with Dutchess County that covers all County Water District Zones of Assessment, and five Service Agreements with the County, on behalf of Part-County Sewer Districts #1, 2, 3, 6 and 7 (Chelsea Cove, Valley Dale, Dalton Farms, Fairways

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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and Pinebrook), respectively. These Service Agreements require the Authority to provide service to properties within the established Zones of Assessment and/or 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 Agreements. The Authority, under the Service Agreements, 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 relevy 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, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<u>Operating Revenues:</u>		
Water Sales	\$4,469,167	\$4,230,724
Sewer Charges	829,496	765,921
Rental Fees, Other Operating Revenue	118,898	114,582
Total Operating Revenues	<u>5,417,561</u>	<u>5,111,227</u>
<u>Operating Expenses:</u>		
Operation and Maintenance	3,513,514	3,422,701
Administration and General	1,437,329	1,383,551
Depreciation	1,337,328	1,287,217
Total Operating Expenses	<u>6,288,171</u>	<u>6,093,469</u>
Operating (Loss)	<u>(870,610)</u>	<u>(982,242)</u>
<u>Non-Operating Revenues (Expenses):</u>		
Interest and Investment Income	153,639	143,642
Projects Grants and Capital-Related Funding:		
Dutchess County	2,842,496	2,794,831
Customer Provided Other Funding	0	67,968
Contributed Assets	2,073,579	0
Other Revenues	200,520	13,365
Project Administration and General	(155,487)	(140,907)
Interest Expense	(1,465,653)	(1,427,936)
Bond Financing Costs	(45,249)	(95,088)
Net Non-Operating (Revenues)	<u>3,603,845</u>	<u>1,355,875</u>
Changes in Net Position	<u>\$2,733,235</u>	<u>\$373,633</u>

FINANCIAL POSITION SUMMARY

Net position can serve over time as a useful indicator of the Authority's financial position. Acquisition of five water and sewer systems, bringing to the Authority both fixed assets and cash, had the largest impact on the 2015 change in Net Position. In addition, debt is currently being paid down at a faster rate than assets are being depreciated. Accreted interest (accrued interest pertaining to zero coupon bonds) is being accrued but will not be due until 2021 and beyond when principal payments in similar amounts will no longer be due. As a result, we show the expense, but we are not scheduled at this time to collect the offsetting revenue.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

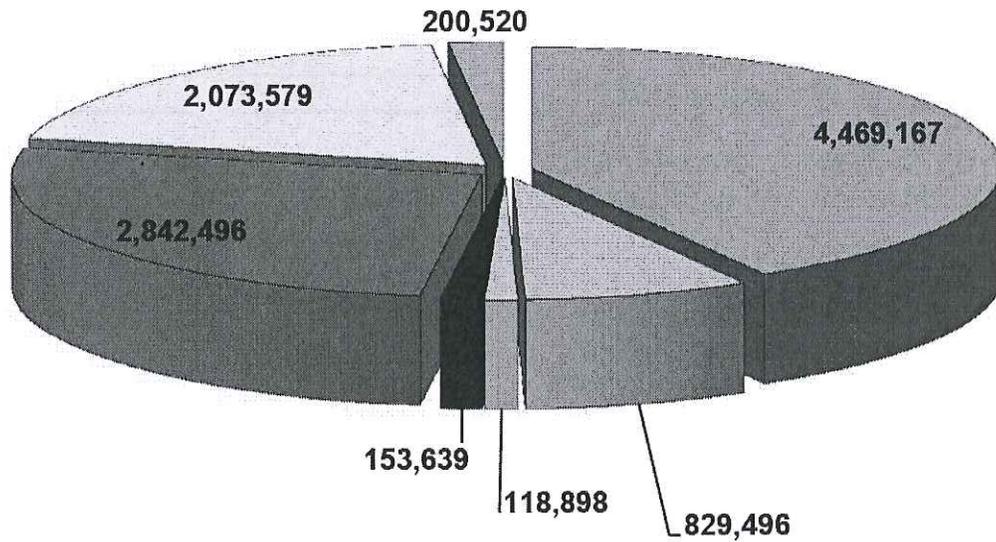
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
ASSETS:		
Current and other assets	\$9,476,234	\$9,454,921
Capital assets	55,468,055	54,399,296
TOTAL ASSETS	<u>64,944,289</u>	<u>63,854,217</u>
DEFERRED OUTFLOW OF RESOURCES:		
Loss on refunding	269,084	282,994
Employee Retirement System	324,174	0
TOTAL DEFERRED OUTFLOWS	<u>593,258</u>	<u>282,994</u>
 TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	 <u>\$65,537,547</u>	 <u>\$64,137,211</u>
LIABILITIES:		
Long-term debt outstanding	30,255,510	32,076,278
Other liabilities	7,060,295	6,020,177
TOTAL LIABILITIES	<u>37,315,805</u>	<u>38,096,455</u>
DEFERRED INFLOW OF RESOURCES:		
Deferred Revenues	25,220,512	25,765,847
NET POSITION:		
Restricted for Debt	2,742,480	2,719,817
Net investment in Capital Assets	4,678,651	1,714,014
Unrestricted	(4,419,901)	(4,158,922)
TOTAL NET POSITION	<u>3,001,230</u>	<u>274,909</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	 <u>\$65,537,547</u>	 <u>\$64,137,211</u>

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
DECEMBER 31, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

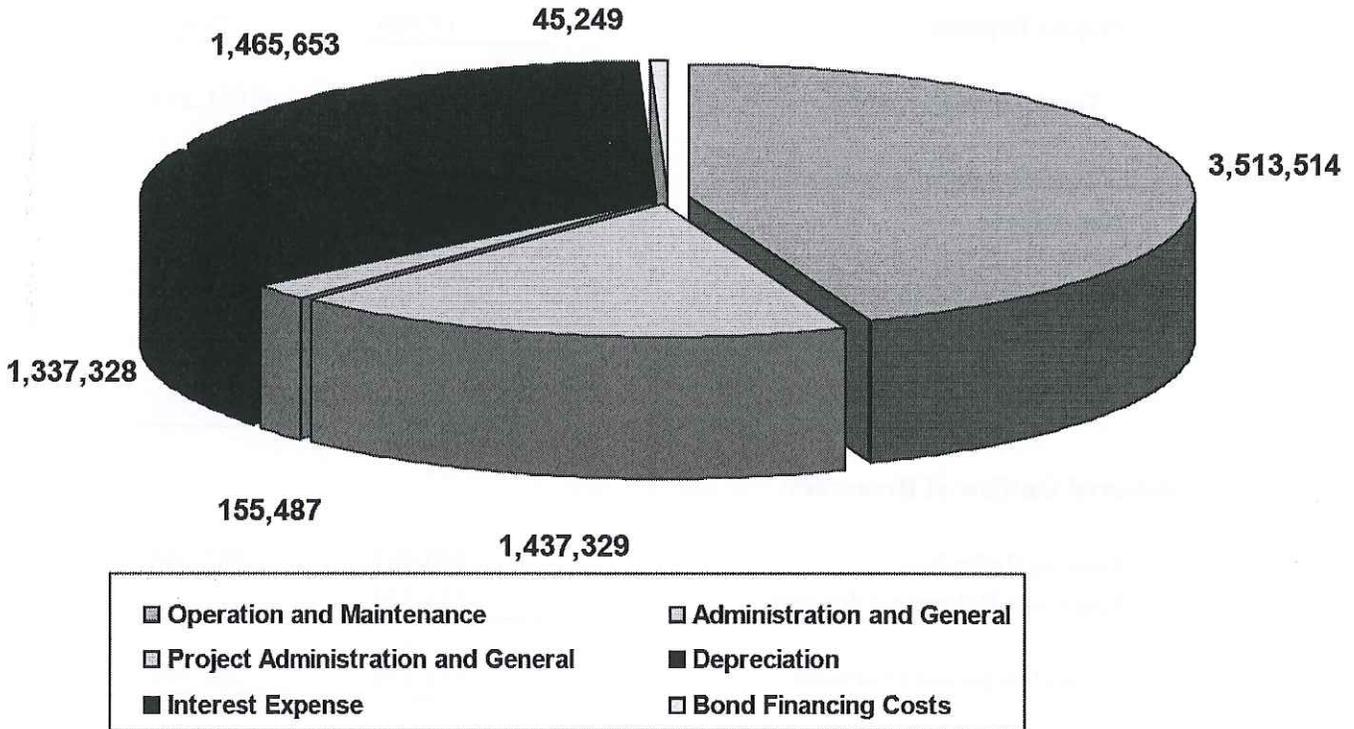
DCWWA - Actual - 2015 Revenues \$10,687,795



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

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2015
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

DCWWA - Actual - 2015 Expenses \$7,954,560



DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and Cash Equivalents	\$ 3,571,430	\$ 2,773,049
Cash and Cash Equivalents-Restricted	1,801,231	2,316,443
Accounts Receivable	1,619,433	1,712,163
Prepaid Expense	<u>17,404</u>	<u>79,638</u>
Total Current Assets	7,009,498	6,881,293
 Cash and Cash Equivalents-Restricted Non-current	 2,466,736	 2,573,628
 Property, Plant and Equipment Less Accumulated Depreciation	 <u>55,468,055</u>	 <u>54,399,296</u>
Total Assets	<u>64,944,289</u>	<u>63,854,217</u>
 Deferred Outflow of Resources:		
Loss on Refunding	269,084	282,994
Employee Retirement System	<u>324,174</u>	<u>-</u>
Total Deferred Outflows	<u>593,258</u>	<u>282,994</u>
Total Assets and Deferred Outflows	<u><u>\$ 65,537,547</u></u>	<u><u>\$ 64,137,211</u></u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Current Liabilities:		
Accounts Payable	\$ 598,944	\$ 547,755
Accrued Expenses Payable	237,006	173,700
Accrued Interest Payable	166,625	180,768
Accrued Capital Expenses Payable	15,150	64,705
Escrow Deposits	62,672	40,126
Current Portion of Bonds Payable	2,083,587	2,110,000
Bond Anticipation Note Payable	2,359,532	1,660,500
	<hr/>	<hr/>
Total Current Liabilities	5,523,516	4,777,554
	<hr/>	<hr/>
Non-Current Liabilities:		
Bonds Payable	30,074,707	31,500,643
Bond Anticipation Notes Payable	180,803	575,635
Net Employee Retirement System Liability	149,950	-
Post Employment Benefit Obligations	1,386,829	1,242,623
	<hr/>	<hr/>
Total Non-Current Liabilities	31,792,289	38,096,455
	<hr/>	<hr/>
Total Liabilities	37,315,805	38,096,455
	<hr/>	<hr/>
Deferred Inflow of Resources:		
Deferred Revenues	25,220,512	25,765,847
	<hr/>	<hr/>
Net Position:		
Net Investment in Capital Assets	4,678,651	1,714,014
Restricted for Debt	2,742,480	2,719,817
Unrestricted	(4,419,901)	(4,158,922)
	<hr/>	<hr/>
Total Net Position	3,001,230	274,909
	<hr/>	<hr/>
Total Liabilities, Deferred Inflows and Net Position	\$ 65,537,547	\$ 64,137,211
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DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Water Sales	\$ 4,469,167	\$ 4,230,724
Sewer Charges	829,496	765,921
Rental Fees and Other Operating Revenues	118,898	114,582
	<u>5,417,561</u>	<u>5,111,227</u>
Total Operating Revenues		
Operating Expenses:		
Operation and Maintenance	3,513,514	3,422,701
Administration and General	1,437,329	1,383,551
Depreciation	1,337,328	1,287,217
	<u>6,288,171</u>	<u>6,093,469</u>
Total Operating Expenses		
Operating (Loss)	<u>(870,610)</u>	<u>(982,242)</u>
Non-Operating Revenues (Expenses):		
Interest and Investment Income	153,639	143,642
Project Grants and Capital-Related Funding :		
Dutchess County	2,842,496	2,794,831
Customer Provided Other Funding	-	67,968
Contributed Assets	2,073,579	-
Other Revenues	200,520	13,365
Project Administration and General	(155,487)	(140,907)
Interest Expense	(1,465,653)	(1,427,936)
Bond Financing Costs	(45,249)	(95,088)
	<u>3,603,845</u>	<u>1,355,875</u>
Net Non-Operating Revenues		
Change in Net Position	<u>2,733,235</u>	<u>373,633</u>
Net Position, January 1, as originally stated	274,909	(98,724)
Implementation of GASB 68 Adjustment	<u>(6,914)</u>	<u>-</u>
Net Position, January 1, as restated	<u>267,995</u>	<u>(98,724)</u>
Net Position, December 31	<u>\$ 3,001,230</u>	<u>\$ 274,909</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities:		
Receipts From Customers	\$ 5,416,811	\$ 4,958,170
Payments To Suppliers	(2,503,007)	(2,766,276)
Payments To Employees and Benefits	(2,219,222)	(1,966,778)
Rental Fees and Other Operating Revenues Received	118,898	114,582
Net Cash Provided By Operating Activities	813,480	339,698
Cash Flows from Non-Capital Financing Activities:		
Project Grants and Non-Capital-Related Funding	2,842,496	2,794,831
Project Administration Payments	(155,487)	(140,907)
Net Cash Provided By Non-Capital Financing Activities	2,687,009	2,653,924
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(1,066,734)	(2,147,132)
Other Capital-Related Receipts and (Disbursements)	248,167	36,180
Proceeds of Capital Debt	304,200	4,634,722
Principal Paid on Capital Debt	(2,110,000)	(4,263,325)
Interest Paid on Capital Debt	(808,235)	(836,627)
Bond Financing Costs Paid	(45,249)	(95,088)
Net Cash (Used) By Capital and Related Financing Activities	(3,477,851)	(2,671,270)
Cash Flows from Investing Activities:		
Interest and Investment Income Received	153,639	143,642
Net Cash Provided By Investing Activities	153,639	143,642
Net Increase in Cash and Cash Equivalents	176,277	465,994
Cash and Cash Equivalents at the Beginning of the Year	7,663,120	7,197,126
Cash and Cash Equivalents at the End of the Year	\$ 7,839,397	\$ 7,663,120
Presented as:		
Cash and Cash Equivalents	\$ 3,571,430	\$ 2,773,049
Cash and Cash Equivalents - Current - Restricted	1,801,231	2,316,443
Cash and Cash Equivalents - Non Current - Restricted	2,466,736	2,573,628
Total	\$ 7,839,397	\$ 7,663,120

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Reconciliation of Operating (Loss) to Net Cash Provided By Operating Activities:		
Operating (Loss)	\$ (870,610)	\$ (982,242)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities:		
Depreciation	1,337,328	1,287,217
Changes in Assets and Liabilities:		
Accounts Receivable	92,730	(71,188)
Prepaid Expenses	62,234	8,218
Deferred Outflows - Retirement System	(181,138)	-
Accounts Payable	251,545	136,067
Accrued Expenses Payable	63,306	(12,688)
Post Employment Benefit Obligations	144,206	141,957
Capital Liabilities Included in Accounts Payable	(111,537)	(200,356)
Deferred Water Sale Revenues and Grants	25,416	32,713
Net Cash Provided By Operating Activities	\$ 813,480	\$ 339,698

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 AND 2014

1. 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 and Cash Equivalents

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 2, Cash and Cash Equivalents.

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, 2015 AND 2014

1. 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 generally derived from regular 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, 2015 AND 2014

1. 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, 2015, and through March 9, 2016, 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, 2015 AND 2014

2. Cash and Cash Equivalents

As described in Note 1.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, 2015 AND 2014

2. Cash and Cash Equivalents (Continued)

	Balances as of December 31, 2015			
	Category 1	Category 2	Category 3	Total
Cash in Banks	\$ 570,199	\$ 3,001,231	\$ -	\$ 3,571,430
<u>Investments:</u>				
Money Market Funds	\$ 2,411,839	\$ 187,602	\$ -	\$ 2,599,441
U.S. Treasury Bills & Notes	1,668,526	-	-	1,668,526
Investments Total	\$ 4,080,365	\$ 187,602	\$ -	\$ 4,267,967

	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

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, 2015 AND 2014

3. 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:

	2015	2014
Construction Reserve Funds	\$ 1,383,811	\$ 2,014,050
Debt Service Sinking Funds	552	937
Debt Service Reserve Funds	416,868	301,456
Current Restricted Funds	1,801,231	2,316,443
Non-Current Debt Service Reserve Funds	2,466,736	2,573,628
Total	\$ 4,267,967	\$ 4,890,071

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.

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	Balance as of			Balance as of
	January 1,	Increases	Decreases	December 31,
	2015	Increases	Decreases	2015
Land	\$ 834,808	\$ 120,800	\$ -	\$ 955,608
Improvements	175,907	75,431	-	251,338
Buildings	13,377,872	1,657,766	-	15,035,638
Water Systems	50,797,187	36,610	-	50,833,797
Machinery and Equipment	7,260,823	267,340	-	7,528,163
Sewage Collection System	1,644,932	-	-	1,644,932
Construction in Progress	3,277,222	921,026	(77,033)	4,121,215
Sub-total	77,368,751	3,078,973	(77,033)	80,370,691
Less: Accumulated Depreciation	(22,969,455)	(1,933,181)	-	(24,902,636)
Net Property, Plant and Equipment	\$ 54,399,296	\$ 1,145,792	\$ (77,033)	\$ 55,468,055

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

4. Property, Plant and Equipment (Continued)

Depreciation was recorded in the amount of \$1,933,181 and \$1,883,071 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, 2015 and 2014. The effect of netting these amounts resulted in \$1,337,328 and \$1,287,217 in depreciation expense for the years ended December 31, 2015 and 2014, respectively.

5. 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 (Systems). These are cost sharing multiple employer retirement systems. The Systems provide 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 Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of funds. The Systems issue publicly available financial reports that include 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 12244.

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% 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 calendar years were \$260,385, \$259,737, and \$264,843, 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, 2015 AND 2014**

5. Employee Retirement Systems (Continued)

**C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to Pensions**

At December 31, 2015, the Authority reported a liability of \$149,950 for its proportionate share of the net pension liability. This amount is recorded as a long-term liability due to the NYS Retirement System. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2015, the Authority's proportion was .0044387 percent of the Employers' Retirement System liability, which is the initial determination. Therefore, this is the initial year for implementation of GASB 68. See Note 13.

For the year ended December 31, 2015, the Authority recognized pension expense of \$143,653. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,800	\$ -
Changes of Assumptions	-	-
Net difference between projected and actual investment earnings on pension plan investments	26,044	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	31,788	-
Employer contributions subsequent to the measurement date	261,542	-
Total	\$ 324,174	\$ -

\$261,542 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2016	\$ 15,658
2017	\$ 15,658
2018	\$ 15,658
2019	\$ 15,658

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

5. Employee Retirement Systems (Continued)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability at March 31, 2015, was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2014, valuation were as follows:

Inflation	2.7%
Salary increases - ERS	4.9%
Investment rate of return (net of investment expense, including inflation)	7.5%

Annuitant mortality rates are based on April 1, 2005 – March 31, 2010 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below:

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

5. Employee Retirement Systems (Continued)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	7%
International equity	8.55
Private equity	11.00
Real estate	8.25
Absolute return strategies	6.75
Opportunistic portfolio	8.60
Real assets	8.65
Bonds and mortgages	4.00
Cash	2.25
Inflation-indexed bonds	4.00

Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

5. Employee Retirement Systems (Continued)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption (Continued)

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Authority's proportionate share of the net ERS pension liability	\$ 999,482	\$ 149,950	\$ (567,265)

Pension plan fiduciary net position

The components of the current-year net pension liability of all employers as of March 31, 2015, were as follows:

	<u>Dollars in Thousands</u>
	Employees' Retirement System
Employers' total pension liability	\$ 164,591,504
Plan net position	(161,213,259)
Employers' net pension liability	\$ 3,378,245
Ratio of plan net position to the employers' total pension liability	97.9%

6. 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.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014**

6. Post-employment Benefits (Continued)

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.

C. Annual Other Post-employment Benefit Cost

The Authority's change in net OPEB obligation amounted to \$144,206 and \$141,957 for the years ended December 31, 2015 and 2014, respectively. The Authority's OPEB cost was equal to the Annual Required Contribution (ARC), \$180,707, an amount actuarially determined in accordance with the parameters of GASB Statement 45, adjusted for interest accruing on the unpaid liability of \$31,067, and other timing adjustments of (\$41,421). 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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

6. Post-employment Benefits (Continued)

C. Annual Other Post-employment Benefit Cost (Continued)

Total Actuarial Accrued Liability	\$ 1,645,843
Past Service Costs	\$ 55,942
Normal Costs	124,765
Annual Required Contribution (ARC)	\$ 180,707
Net OPEB Obligation - Beginning of the Year	\$ 1,242,623
Annual Required Contribution (ARC)	180,707
Interest on Net OPEB Obligation	31,067
Adjustment to Annual Required Contribution	(41,421)
Annual OPEB Cost	170,353
Age Adjusted Contributions Made*	(26,147)
Increase in Net OPEB Obligation	144,206
Net OPEB Obligation - End of the Year	\$ 1,386,829
Percent of annual OPEB cost contributed	15.3%

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u>December 31</u>	<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
12/31/2015	\$170,353	15.3%	\$1,386,829
12/31/2014	\$167,128	15.1%	\$1,242,623
12/31/2013	\$172,645	9.2%	\$1,100,666

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, 2015 AND 2014**

6. 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%

7. Bond Anticipation Notes

In May 2015, the Authority renewed \$1,660,500 in bond anticipation notes at 1.67% maturing in May 2016. The notes were originally issued for improvements to the Staatsburg Water System.

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, 2015, there were drawdowns of \$699,032 on this authorization.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

7. 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, 2015, there were drawdowns of \$180,803 on this debt.

The bond anticipation notes outstanding as of December 31, 2015, are as follows:

Purpose	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount	Amount Outstanding at 12/31/15
Short Term BANs:					
Staatsburg Water System Improvements	5/21/2014	5/16/2016	1.67%	\$ 1,660,500	\$ 1,660,500
Shorehaven Water System Improvements	9/26/2013	9/26/2016	0.00%	2,757,441	699,032
Long Term BANs:					
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				\$ 7,736,708	\$ 2,540,335

Changes in bond anticipation notes as of December 31, 2015, are as follows:

Purpose	Balance Outstanding 1/1/2015	New Issues/ Drawdowns	Payments	Balance Outstanding 12/31/2015
Short Term BANs:				
Staatsburg Water System Improvements	\$ 1,660,500	\$ -	\$ -	\$ 1,660,500
Shorehaven Water System Improvements*	394,832	304,200	-	699,032
Long Term BANs:				
Chelsea Cove Sewer District Upgrades**	-	-	-	-
Valley Dale Sewer District Upgrades	180,803	-	-	180,803
Total Bond Anticipation Notes	\$ 2,236,135	\$ 304,200	\$ -	\$ 2,540,335

* Reclassified from long term

** No drawdowns on the authorization for this project

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

8. 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 seventeen supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, two issues in 2002, 2004, two issues in 2008, two issues in 2009, 2010, 2011, 2013, 2014, and two issues in 2015.

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

	2015	2014
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
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%	300,000	350,000

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

8. Long-Term Obligations (Continued)

B. Description of Bonds Payable (continued)

	<u>2015</u>	<u>2014</u>
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	1,153,410	1,168,410
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,140,000	1,245,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,215,000	1,325,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	5,815,000	6,100,000
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%	4,780,000	5,920,000
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%	1,400,000	1,595,000
2011 Service Agreement Revenue Bond Series 2011, due in various installments starting in 2012 through 2041, interest 3.50%-4.25%	1,805,000	1,840,000
New York State Environmental Facilities Corporation Revenue Refunding Bonds Series 2014B, due in various installments through 2026, interest .1515%-2.7455%	314,054	339,054
New York State Environmental Facilities Corporation Revenue Refunding Bonds Series 2014B, due in various installments through 2037, interest .1515%-4.2025%	<u>1,904,533</u>	<u>1,974,533</u>
Total Bonds Payable	24,992,339	27,102,339
Accreted Interest Recorded on Zero Coupon Bonds	<u>7,165,955</u>	<u>6,508,304</u>
Total Bonded Debt Payable	32,158,294	33,610,643
Portion Due Within One Year	<u>(2,083,587)</u>	<u>(2,110,000)</u>
Net Long Term Debt Payable	<u>\$30,074,707</u>	<u>\$31,500,643</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

8. Long-Term Obligations (Continued)

C. Changes

	<u>Balance at January 1, 2015</u>	<u>New Issues/ Additions</u>	<u>Maturities and/or Payments</u>	<u>Balance at December 31, 2015</u>	<u>Due within One Year</u>
Bonds Payable	\$33,610,643	\$ 657,651 *	\$(2,110,000)	\$ 32,158,294	\$2,083,587
Long Term Bond Anticipation Notes	575,635	-	(394,832) **	180,803	-
Net ERS Liability	-	149,950	-	149,950	-
OPEB Liability	1,242,623	144,206	-	1,386,829	-
	<u>\$35,428,901</u>	<u>\$ 951,807</u>	<u>\$(2,504,832)</u>	<u>\$ 33,875,876</u>	<u>\$2,083,587</u>

*Bonds payable increased by \$657,651 in adjustments for accreted interest on 1998 Series I debt, 2001 debt, and 2009 debt.

**The Shore Haven water system improvements bond anticipation note was reclassified to short-term in 2015.

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>
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
2020	1,551,591	1,485,501	3,037,092
2021-2025	6,690,315	7,886,288	14,576,603
2026-2030	4,631,696	6,931,815	11,563,511
2031-2035	1,803,732	3,521,114	5,324,846
2036-2040	1,476,098	3,091,866	4,567,964
2041-2045	150,320	224,780	375,100
Totals	<u>\$24,992,339</u>	<u>\$25,631,660</u>	<u>\$50,623,999</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

8. 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 11 - 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 8.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 down refunded debt, resulting in outstanding balances of \$1,890,000 and \$1,945,000, as of December 31, 2015 and 2014, respectively. The refunded bonds will be called in 2017.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

9. 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, 2015 and 2014, and reduced related asset depreciation. The long term portion of deferred revenue amounted to \$24,161,585 and \$24,757,438 as of December 31, 2015 and 2014, all of which is related to the Utility Corridor.

Current deferred revenue expected to be recognized in 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Current Portion of Deferred Revenues:		
Utility Corridor - Construction	\$ 595,853	\$ 595,853
Utility Corridor - Capital	143,075	117,975
Utility Corridor - Operations	48,217	48,193
Water Usage Billings Received in Advance	271,782	246,388
	<u>1,058,927</u>	<u>1,008,409</u>
Long-term Portion of Deferred Revenues:		
Utility Corridor - Construction	<u>24,161,585</u>	<u>24,757,438</u>
Total Deferred Revenues	<u>\$ 25,220,512</u>	<u>\$ 25,765,847</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

10. 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 \$37,117,699 and workers compensation coverage of \$100,000.

11. Economic Dependency

As described in Note 8.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 2015 and 2014, the Authority recorded net revenues of \$2,842,496 and \$2,794,831, having recorded a return of \$75,120 and \$105,089 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.

12. System Acquisitions

The Authority has been in the process of investigating various systems for acquisition. In 2015, the Authority signed agreements for the transfer of six water and three wastewater systems. Closings for two wastewater systems and three water systems were completed in 2015. As part of the agreements, all assets and remaining fund balance were transferred to the Authority. The Authority included the receipt of funds totaling \$187,171 in "Other Revenue" and recorded the revenue related to the acquired assets as "Contributed Assets" revenue. The assets that were acquired prior to year-end were recorded at the sound value as reported by an independent appraisal company totaling \$2,073,579 as of December 31, 2015. The remaining closings occurred in 2016 and the related assets will be recorded in the year ended December 31, 2016.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

12. System Acquisitions (Continued)

In November 2015, the Authority authorized memorandums of understanding for the acquisition of two subdivision sewer systems. The closing dates are dependent on the timeline for the construction and completion of the new infrastructure. In January 2016, the Authority signed a transfer agreement for the acquisition of a wastewater system. The closing is expected to occur in May 2016. No new debt is expected to be incurred for these acquisitions.

13. Implementation of GASB 68

In June 2012, GASB issued Statement 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement 2*. This Statement requires the recording of the Authority's proportional share of the collective net pension liability of the New York State & Local Retirement System. The Authority implemented this standard for the year ending December 31, 2015, the first year proportional share information was available. Therefore, no adjustments have been made to the December 31, 2014, financial statements. The substantive effects are summarized in the table below:

<u>Account Description</u>	<u>Change Due to GASB 68 Implementation</u>
Net Position, January 1 - Decrease	\$ (6,914)
Net Employee Retirement System Liability - Increase	\$ 149,950
Employee Retirement Benefits Expense - Decrease	\$ (119,817)
Deferred Outflows - Employee Retirement System - Increase	\$ 324,174

14. Subsequent Events

The Authority has signed transfer agreements and a memorandum of understanding regarding the acquisition of various new water and wastewater systems in 2016. Details of these agreements are explained in Note 12 – Systems Acquisitions.

The Authority has received an award letter for \$404,619 in funding from the NYS Local Government Efficiency Program for the consolidation of certain water systems. This project is expected to begin in 2016.

The Authority entered into a contract with Dutchess County in October 2015 to act as Program Administrator for a construction project to construct a new pipeline expected to begin in 2016. The Authority will receive \$125,000 for providing the program management services.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

14. Subsequent Events (Continued)

In April 2016, the Authority expects to issue \$1,498,973 in service agreement revenue bonds and \$3,615,000 in refunding bonds. The proceeds of the service agreement revenue bonds will be used to repay the Authority's Service Agreement Revenue Note, Series 2015 Staatsburg Water System; to fund certain improvements to the Birch Hill Water System; to fund a deposit to the Debt Service Reserve Fund; and to pay the costs of issuance of the 2016 Revenue Bonds. The proceeds of the 2016 Refunding Bonds will be used to refund the Authority's 2009 Hyde Park and Birch Hill Bonds and to pay the costs of issuance of the 2016 Refunding Bonds.

15. New Reporting Standards

In June 2015, GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. When implemented, this Statement will require the recording of the Authority's net OPEB liability. The Authority is required to implement this standard for the year ending December 31, 2018. The implementation of this standard is expected to have a substantive effect on the Authority's net position.

GASB has also issued Statements 69-74 and 76-80, 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, 2015**

The schedule of funding progress presents the results of the past three actuarial valuations for OPEB:

<u>Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (b)</u>	<u>Unfunded Accrued Liability (UAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2015	12/31/2014	\$ -	\$ 1,645,843	\$ 1,645,843	0.0%	\$ 1,513,848	108.72%
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%
12/31/2011	12/31/2011	\$ -	\$ 1,195,514	\$ 1,195,514	0.0%	\$ 1,245,308	96.00%
12/31/2010	8/1/2009	\$ -	\$ 1,703,200	\$ 1,703,200	0.0%	N/A	N/A
12/31/2009	8/1/2009	\$ -	\$ 1,703,200	\$ 1,703,200	0.0%	N/A	N/A

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
 SCHEDULE OF THE PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
DECEMBER 31, 2015**

NYSLRS Pension Plan
 Last 10 Fiscal Years*
 (Dollar amounts in thousands)

March 31, 2015

Authority's proportion of the net pension liability (asset)	0.00443870%
Authority's proportionate share of the net pension liability (asset)	\$ 149,950
Authority's covered-employee payroll	\$ 1,513,848
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.91%
Plan fiduciary net position as a percentage of the total pension liability	97.90%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
 SCHEDULE OF PENSION CONTRIBUTIONS
DECEMBER 31, 2015**

NYSLRS Pension Plan
 Last 10 Fiscal Years*
 (Dollar amounts in thousands)

	<u>March 31, 2015</u>
Contractually required contribution	\$ 256,914
Contributions in relation to the contractually required contribution	<u>\$ 256,914</u>
Contribution deficiency (excess)	<u>\$ -</u>
Authority's covered-employee payroll	\$ 1,513,848
Contributions as a percentage of covered-employee payroll	16.97%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.