

**DUTCHESS COUNTY WATER &
WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Net Assets of the Dutchess County Water & Wastewater Authority (the Authority), a component unit of Dutchess County, as of December 31, 2011 and 2010, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Cash Flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Dutchess County Water & Wastewater Authority as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012 on our consideration of the Dutchess County Water and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and Schedule of Funding Progress for Other Post-employment Benefits Plan listed in the Table of Contents, 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.



Poughkeepsie, New York
March 16, 2012



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**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 Trustees
Dutchess County Water & Wastewater Authority
27 High Street
Poughkeepsie, New York 12601

We have audited the financial statements of the business-type activities of the Dutchess County Water & Wastewater Authority as of and for the year ended December 31, 2011, which collectively comprise the Dutchess County Water & Wastewater Authority’s basic financial statements, and have issued our report thereon dated March 16, 2012. 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 the *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Dutchess County Water & Wastewater Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dutchess County Water & Wastewater Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Dutchess County Water & Wastewater Authority’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we

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consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dutchess County Water & Wastewater Authority's financial statements are free of 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*.

This report is intended solely for the information and use of the Authority Board and Management, others within the entity, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sidau Hudson Valley CPAs

Poughkeepsie, New York
March 16, 2012

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
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, 2011. 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, 2010, the Authority owned and operated a total of nine water systems and three sewer systems and, in addition, operates a 13 mile water transmission line. As of January 1, 2011, the Authority regionalized its operations of the previously separate Hyde Park, Staatsburg, Zone D and newly created Zone L water system to form the Hyde Park Regional Water System as a single budgeted system, while maintaining each area's current Accounts Receivable billing schedule.

The Authority provides service in the aggregate to 2,940 separate water accounts and 1,177 separate sewer accounts. The Hyde Park Regional Water System provides water from the Authority's Hyde Park Water Treatment Plant on South Drive in the Town of Hyde Park to the Hyde Park service area (Zones A and B), the Staatsburg service area (Zone C) and the Zone D and Zone L service areas. The source of water for this conventional filtration treatment facility is the Hudson River. The remaining six water systems, Birch Hill, Dalton Farms, 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 Valley Dale and Dalton Farms Water plants also having cartridge filtration systems. The three sewer systems each have rotating biological contact (RBC) treatment plants with tertiary treatment located on property within their service areas. The Central Dutchess Water Transmission Line is a 13 mile water pipeline whereby the Authority purchases water from the Poughkeepsie Joint Water Board to serve areas south to the Town of East Fishkill. The water is received at a connection point in the Town of Poughkeepsie. The Authority currently serves two customers at the southernmost end of the line, International Business Machines Corporation (IBM) and the Hopewell Glen Water District in the Town of East Fishkill. In aggregate, the two customers have a "take or pay" contract with the Authority for two million fifty thousand gallons per day, with a rate accommodation for water not taken.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

FINANCIAL OPERATIONS HIGHLIGHTS

Although all but one of the water systems are billed based on water use, a large portion of the budgets (anywhere from 50-70%) is comprised of costs that would realize their budgeted expectations due to their classification as "State of Readiness" costs, regardless of customer water use. As a result, budgets are prepared based on history and a conservative expectation of the coming fiscal year; determining a fiscally sound blend of Monthly Service Charges or Minimum Use Charges, in conjunction with water or sewer use charges. Although most of the systems have single-tiered use charges, the Rokeby Water System has a two-tiered use charge. The Chelsea Cove Sewer System and the Valley Dale Sewer System are both billed with Flat Rate Fixed charges, as is the Shore Haven Water System. The systems which are not billed strictly on a calendar quarter (Birch Hill Water, Dalton Farms Water and Sewer, Rokeby Water, Schreiber Water, Shore Haven Water, and portions of the Hyde Park Regional Water System) use estimates for those remaining months in the fiscal year which have not yet been billed. With the exception of the Hyde Park Regional Zones A,B, and D, the Rokeby Water System and the Central Dutchess Water Transmission Line, customer rates rose 1% or less over their 2010 levels for the 2011 budget year. In 2011, we saw weather with an above average precipitation in the area, including a hurricane which brought heavy rains and a large October snow storm. Driven by the economy, we saw 2010 water revenues decline over prior years in those systems which have commercial use and some increased vacancy in single family homes across a number of our systems. The 2011 budgets were based on conservative numbers evaluating the average use of the prior two year's billing history and any and all other field knowledge we were able to gather concerning changes to the customer base.

Water and Sewer Sales revenues varied in 2011. In particular, the Birch Hill,, Hyde Park Zones A and B, Rokeby, Schreiber, Shore Haven and Valley Dale 2011 revenues were less than in 2010. Particular changes that would have affected these revenue numbers vary. The Hyde Park System in 2010 was receiving a payment for the purchases of water to the Staatsburg and Zone D Systems. The regionalized system no longer showed this as a revenue in 2011. The Schreiber Water System is our smallest water system with only 23 customers and whose base appears to be changing. The Shore Haven Water System provides service to an area with a large number of seasonal and vacation homes and has seen a significant number of customer requests for seasonal turn offs.. The Birch Hill, Rokeby and Valley Dale Water Systems had less than a 2% decrease from the prior year. It is important to note that although the Central Dutchess Water Transmission Line appears to show a significant increase in revenues, this was due to a new classification of a portion of the 2010 water sale revenues as deferred to 2011.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

	<u>2011</u>	<u>2010</u>
<u>Sewer Revenues</u>		
Chelsea Cove	\$342,541	\$334,631
Dalton Farms	289,602	282,200
Valley Dale	<u>118,525</u>	<u>117,999</u>
Subtotal	750,668	734,830
<u>Water Sale Revenues</u>		
Birch Hill	55,729	56,148
CDWTL	1,888,686	1,649,435
Dalton Farms	160,129	156,589
Hyde Park	1,051,954	1,177,505
Rokeby	28,445	28,927
Schreiber	17,356	19,097
Staatsburg	272,494	268,818
Shore Haven	86,835	89,308
Valley Dale	72,942	74,210
Zone D	184,372	178,498
<u>Zone L</u>	<u>19,457</u>	<u>0</u>
Subtotal	3,838,399	3,698,535
Total Sales Revenues	<u>\$4,589,067</u>	<u>\$4,433,365</u>

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

	<u>2011</u>	<u>2010</u>
Rental Fees		
And Other Operating Revenue	\$106,362	\$100,844

2011 AUTHORITY OPERATIONS

In 2011 the Authority continued its successful management and operation of all systems.

The Authority currently provides services to over 4,115 customer accounts located in seven towns within the County. With the exception of the Shore Haven Water System, all systems were in compliance with all relevant federal, state and local laws and regulations

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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The Authority uses staff for operation and maintenance of the 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 and further developmental activities. All systems' operation and maintenance expenses for 2011 ended the fiscal year within their budgeted amounts. Funds remaining were evaluated for use to either offset rate increases for 2012 or to remain in fund balance for anticipated improvement expenses.

Below are some of the system operational highlights from 2011:

- Operation budgets for Hyde Park, Staatsburg, Zone D and the new Zone L service area were merged into a single operations budget for 2011, resulting in administrative efficiencies and cost savings.
- Installation was completed for the 3rd well for the Shore Haven Water System, which serves 100 households in the Town of Pawling to ensure availability of adequate water supplies under all demand conditions.
- Began providing water from the Central Dutchess Water Transmission Line to the Town of East Fishkill's Hopewell Glen Water District.
- Fourth quarter lead and copper samples at the IBM East Fishkill facility were within the regulatory action level. We anticipate approval from the Department of Health in early 2012 to lift the existing water quality advisory first put in place in 2010.
- As a result of two bond refinancings and a bond refunding during 2011, debt service expenses for property owners in the Authority's Hyde Park Regional Water System were reduced by over \$203,000 in net present value savings over the remaining life of the bonds.
- Twenty water main breaks were repaired, along with twenty-three service line leaks.

MAJOR CAPITAL PROJECTS

Several major capital project initiatives were advanced during 2011:

Hyde Park Water Route 9G Interconnection - Water service commenced along the newly constructed Route 9G Interconnection Main in the Town of Hyde Park, making public water available to a new service area (46 residential and commercial properties) and improving water flow and reliability of service throughout the Hyde Park Water System by completing a major distribution system loop. The project was completed on time and under budget.

Springwood Village Asbestos Cement Pipe Replacement – Substantial completion was reached on the replacement of deteriorating asbestos cement water main in the Springwood Village/Tan

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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House Road area of the Hyde Park Water System, increasing water service reliability for about 58 households. The project was completed on time and under budget.

Hyde Park Water Storage Tank Re-Coating Project – Work was completed to re-coat the south (1.0 million gallon) and north (0.75 million gallon) water storage tanks. The project was completed on time and under budget.

Birch Hill Water System Improvements – Construction reached the substantial completion point for water treatment system improvements to address iron, manganese and radionuclides water quality issues. The pump house building and electrical systems have also been upgraded as part of the project.

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 2011 included the following:

Amenia Sewer Project - At the request of the Town of Amenia, the Authority will take the lead in the development of a central sewer system for the core commercial area of the hamlet of Amenia. The project has been determined to be eligible for about 11.5 million of interest free financing through the NYS Clean Water Revolving Loan Fund.

INTER-MUNICIPAL COOPERATION

The Authority receives annually from the Dutchess County Division of Water Resources an allocation of funds to support project initiation and community assistance activities. These funds are utilized to support activities related to regional and community water and wastewater planning, and preliminary evaluation and development of potential Authority water and wastewater projects. The project and community assistance activities in 2011 included the following:

Beekman Town Center - The Authority continues to participate in the Town of Beekman's Town Center Infrastructure Advisory Committee. The purpose of this volunteer committee is to review and discuss possible scenarios for the provision of central water and sewer services to the properties within Beekman's Town Center Zoning District, building on the conclusions and recommendations of a 2008 engineering feasibility study that was co-funded by the Authority and the Town.

Millerton/North East Sewer - The Authority is providing assistance to a joint Town and Village Sewer Committee, charged with evaluating the feasibility of creating a central sewer system to service the commercial core of the Village and Town. The Committee has completed the initial feasibility study. The Village and Town boards have reviewed the study and determined that a traditional collection and treatment system is economically not viable. The boards and

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

committee have asked the Authority staff to identify appropriate alternative technologies that could achieve the same goal while reducing end user costs for both capital and usage charges.

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, 1999, 2000, 2001, 2002, 2004, 2007, 2009, and 2011 Bonds issued by the Authority. The 2011 Service Agreement Revenue Bonds, issued in the amount of \$1,935,000, were issued to repay the \$1,930,800 million 2010 Service Agreement Revenue Note, the proceeds of which were used to provide improvements to the Hyde Park and Birch Hill Water Systems. These improvements included approximately 7,000 linear feet of water transmission main along the US Route 9G corridor and infrastructure work to the newly acquired Birch Hill Water System.

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

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

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	December 31, 2011	December 31, 2010
	<u> </u>	<u> </u>
<u>Operating Revenues:</u>		
Water Sales	\$3,838,399	\$3,698,535
Sewer Charges	750,668	734,830
Rental Fees, Other Operating Revenue	106,362	100,844
Total Operating Revenues	<u>4,695,429</u>	<u>4,534,209</u>
<u>Operating Expenses:</u>		
Operation and Maintenance	3,172,626	3,227,325
Administration and General	1,259,077	1,094,921
Depreciation	1,139,148	980,761
Total Operating Expenses	<u>5,570,851</u>	<u>5,303,007</u>
Operating (Loss)	(875,422)	(769,798)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	191,229	502,896
Projects Grants and Capital-Related Funding		
Dutchess County	2,730,392	2,965,185
Federal Grants	3,085	58,607
Project Administration and General	(148,768)	(290,175)
Other Revenues	69,906	17,240
Interest Expense	(1,487,922)	(1,687,720)
Bond Issuance Costs	(52,739)	(40,234)
Amortization	(76,494)	(76,250)
Net Non-Operating (Revenues)	<u>1,228,689</u>	<u>1,449,549</u>
Changes in Net Assets	<u>\$353,267</u>	<u>\$680,751</u>

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

FINANCIAL POSITION SUMMARY

Net assets can serve over time as an overall useful indicator of the Authority's financial position. Although we experienced a reduction in Total Assets and Total Liability over the prior year, because loan repayments which are funded by benefit assessments exceeded depreciation expense, we experienced an increase in Total Net Assets. 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.

	December 31, 2011	December 31, 2010
ASSETS:		
Current and other assets	\$12,510,971	\$15,767,521
Capital assets	54,699,267	52,872,151
TOTAL ASSETS	67,210,238	68,639,672
 LIABILITIES:		
Long-term debt outstanding	35,426,854	35,196,438
Deferred Revenues	26,544,997	27,289,371
Other liabilities	4,883,947	6,152,690
TOTAL LIABILITIES	66,855,798	68,638,499
 NET ASSETS:		
Restricted Funds	2,618,369	2,300,496
Invested in Capital – Type Assets		
Net of Related Debt	(741,162)	(1,577,191)
Unrestricted	(1,522,767)	(722,132)
TOTAL NET ASSETS	\$354,440	\$1,173

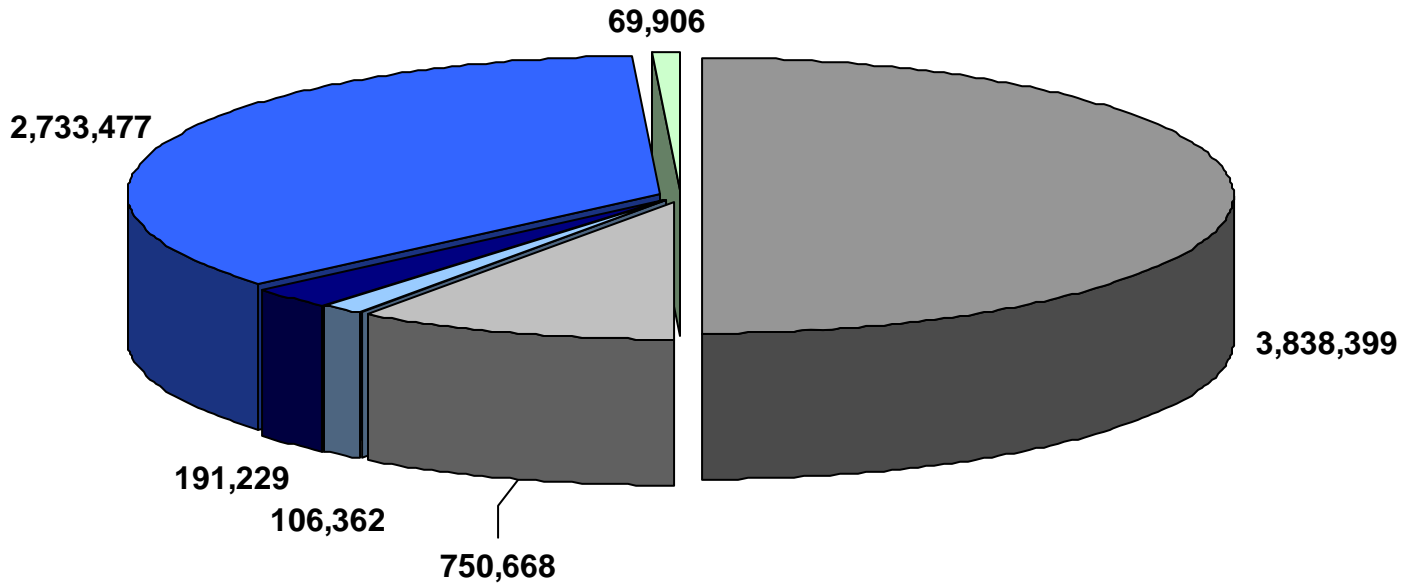
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

FINANCIAL STATEMENTS

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

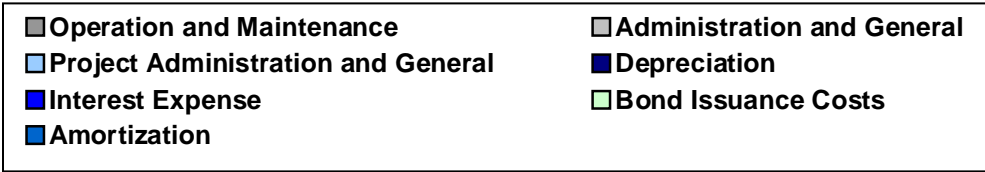
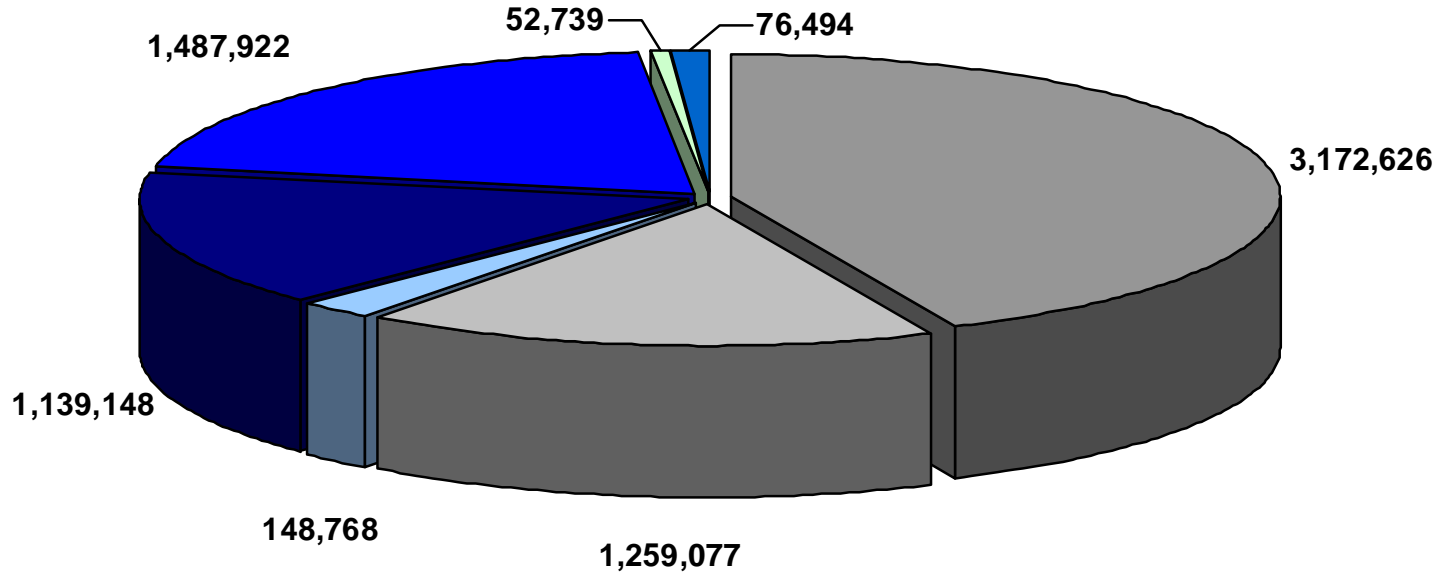
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
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DCWWA - Actual - 2011 Revenues \$7,690,041



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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

DCWWA - Actual - 2011 Expenses \$7,336,774



DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET ASSETS
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	December 31, <u>2011</u>	December 31, <u>2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 3,535,853	\$ 3,475,122
Cash and Cash Equivalents-Restricted	3,808,515	7,391,318
Accounts Receivable	1,371,969	1,214,543
Prepaid Expense	<u>51,746</u>	<u>40,948</u>
Total Current Assets	8,768,083	12,121,931
Cash and Cash Equivalents-Restricted Non-current	2,669,597	2,583,418
Property, Plant and Equipment Less Accumulated Depreciation	54,699,267	52,872,151
Deferred Bond Financing Costs, Net of Accumulated Amortization	<u>1,073,290</u>	<u>1,062,172</u>
Total Assets	<u>\$ 67,210,238</u>	<u>\$ 68,639,672</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET ASSETS (Continued)
DECEMBER 31, 2011 AND 2010

	December 31, <u>2011</u>	December 31, <u>2010</u>
Current Liabilities:		
Accounts Payable	\$ 738,297	\$ 377,051
Accrued Expenses Payable	132,991	137,859
Accrued Interest Payable	191,962	176,899
Due to Other Governments	22	11,441
Current Portion of Bonds Payable	1,950,000	1,871,923
Service Agreement Revenue Notes Payable	-	1,905,800
Retainage Payable	29,363	181,313
Current Portion of Deferred Revenues	1,011,025	814,452
Escrow Deposits	<u>54,787</u>	<u>66,052</u>
Total Current Liabilities	4,108,447	5,542,790
Deferred Revenues	26,544,997	27,289,371
Bonds Payable	35,426,854	35,196,438
Post Employment Benefit Obligations	<u>775,500</u>	<u>609,900</u>
Total Liabilities	<u>66,855,798</u>	<u>68,638,499</u>
 Net Assets:		
Invested in Capital - Type Assets		
Net of Related Debt	(741,162)	(1,577,191)
Restricted Net Assets	2,618,369	2,300,496
Unrestricted	<u>(1,522,767)</u>	<u>(722,132)</u>
Total Net Assets	<u>354,440</u>	<u>1,173</u>
Total Liabilities and Net Assets	<u>\$ 67,210,238</u>	<u>\$ 68,639,672</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Year Ended, <u>2011</u>	Year Ended, <u>2010</u>
Operating Revenues:		
Water Sales	\$ 3,838,399	\$ 3,698,535
Sewer Charges	750,668	734,830
Rental Fees and other operating revenues	<u>106,362</u>	<u>100,844</u>
Total Operating Revenues	4,695,429	4,534,209
Operating Expenses:		
Operation and Maintenance	3,172,626	3,227,325
Administration and General	1,259,077	1,094,921
Depreciation	<u>1,139,148</u>	<u>980,761</u>
Total Operating Expenses	5,570,851	5,303,007
Operating (Loss)	(875,422)	(768,798)
Non-Operating Revenues (Expenses):		
Interest and Investment Income	191,229	502,896
Project Grants and Capital-Related Funding		
Dutchess County	2,730,392	2,965,185
Federal Grants	3,085	58,607
Project Administration and General	(148,768)	(290,175)
Other Revenues	69,906	17,240
Interest Expense	(1,487,922)	(1,687,720)
Bond Financing Costs	(52,739)	(40,234)
Amortization	<u>(76,494)</u>	<u>(76,250)</u>
Net Non-Operating Revenues	1,228,688	1,449,549
Change in Net Assets	353,267	680,751
Net Assets, January 1	<u>1,173</u>	<u>(679,578)</u>
Net Assets, December 31	<u><u>\$ 354,440</u></u>	<u><u>\$ 1,173</u></u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2011 AND 2010

	Year Ended, <u>2011</u>	Year Ended, <u>2010</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 4,463,711	\$ 4,813,832
Payments to suppliers	(3,358,589)	(2,434,277)
Payments to employees and benefits	(1,640,404)	(1,625,136)
Rental fees and other operating revenues received	<u>106,363</u>	<u>100,844</u>
Net cash provided provided(used) by operating activities	(428,919)	855,263
Cash Flows from Non-Capital Financing Activities:		
Project Grants and Non-Capital-Related Funding	2,751,356	3,009,067
Project administration payments	<u>(148,768)</u>	<u>(290,175)</u>
Net cash provided by non-capital financing activities	2,602,588	2,718,892
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(3,206,148)	(2,734,835)
Other capital-related receipts and (disbursements)	86,265	38,528
Proceeds of service agreement revenue note issue	-	1,905,800
Proceeds of bond issue	1,935,000	-
Repayments of service agreement revenue notes	(1,905,800)	-
Principal paid on capital debt	(1,626,507)	(1,733,077)
Interest paid on capital debt	(952,442)	(1,312,680)
Bond financing costs paid	<u>(131,162)</u>	<u>(40,234)</u>
Net cash provided (used) by capital and related financing activities	(5,800,794)	(3,876,498)
Cash Flows from Investing Activities		
Interest and investment income received	<u>191,229</u>	<u>502,896</u>
Net cash provided by investing activities	191,229	502,896
Net Increase (Decrease) in Cash and Cash Equivalents	(3,435,896)	200,553
Cash and Cash Equivalents at the Beginning of the Year	<u>13,449,858</u>	<u>13,249,305</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 10,013,962</u>	<u>\$ 13,449,858</u>
Presented as:		
Cash and Cash Equivalents	\$ 3,535,853	\$ 3,475,122
Cash and Cash Equivalents - Current - Restricted	3,808,515	7,391,318
Cash and Cash Equivalents - Non Current - Restricted	<u>2,669,597</u>	<u>2,583,418</u>
Total	<u>\$ 10,013,965</u>	<u>\$ 13,449,858</u>

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2011 AND 2010

	Year Ended, <u>2011</u>	Year Ended, <u>2010</u>
Reconciliation of operating (loss) to net cash (used) by operating activities		
Operating (Loss)	\$ (875,422)	\$ (768,798)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	1,139,148	980,761
Changes in Assets and Liabilities:		
Accounts Receivable	(157,428)	171,369
Prepaid Expenses	(10,798)	4,756
Accounts Payable	(361,247)	100,524
Accrued Expenses Payable	(4,869)	14,014
Post Employment Benefit Obligations	165,600	175,400
Capital Liabilities included in Accounts Payable	(355,972)	(31,862)
Deferred water sale revenues	<u>32,068</u>	<u>209,099</u>
Net cash provided (used) by operating activities	<u>\$ (428,919)</u>	<u>\$ 855,263</u>

Non-cash investing, capital and financing activities:

In July, 2011, the New York State Environmental Facilities Corporation re-financed certain of its debt, resulting in the payment of the 2002G debt series with proceeds of the 2011C debt series, amounting to \$2,340,000. As these transactions were completed on the Authority's behalf, it neither received nor disbursed any cash.

The notes to the financial statement are an integral part of these statements.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

1. Organization and Purpose

Dutchess County Water & Wastewater 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.

2. 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, 2011 AND 2010

2. Summary of Significant Accounting Policies (Continued)

B. Proprietary Fund Accounting

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

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

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

In accordance with Governmental Accounting Standards Board (GASB) No. 20 regarding proprietary fund accounting, the Authority applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, the American Institute of Certified Public Accountants (AICPA) Accounting Research Bulletins and any FASB or AICPA pronouncements made applicable by GASB Statement or Interpretation.

C. Cash, Cash Equivalents and Investments

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

State statutes govern the investment policies of the Authority. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, obligations of New York State and

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

2. Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments (continued)

repurchase agreements secured by U.S. Treasury obligations. See also Note 3, Cash Equivalents and Investments.

D. Restricted Assets

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

E. Deferred Bond Financing Costs

Bond financing costs are amortized over the life of the related bond issue, using the straight-line method.

F. 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

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

2. Summary of Significant Accounting Policies (Continued)

G. Revenues and Receivables

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

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

H. 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.

I. Equity Classifications

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

Invested in capital-type assets, net of related debt – Consist 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 costs incurred to obtain such financing and decreased by un-amortized cost reimbursements.

Restricted net assets – Consist of net 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.

Unrestricted net assets – Consist of all other net assets that do not meet the definition of “restricted” or “invested in capital-type assets, net of related debt.

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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

2. Summary of Significant Accounting Policies (Continued)

J. Income Taxes

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

K. 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.

L. Reclassifications

Several reclassifications have been made to the 2010 and 2011 presentations in order to more clearly present certain financial statement items. Current portion of deferred revenue now includes non-refundable capital reserves receipts received in relation to the maintenance and operation of the Central Dutchess Water Transmission Line, as well as certain amounts received in advance for water usage, in addition to the current portion of deferred revenue in relation to Transmission Line construction. Project administration expenses related to funding received from Dutchess County were previously shown as operating expenses, but have now been reclassified to non-operating expenses. None of these reclassifications have any impact on changes in net assets.

3. Cash Equivalents and Investments

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

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

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

3. Cash Equivalents and Investments (Continued)

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, 2011 AND 2010

3. Cash Equivalents and Investments (Continued)

	<u>Balances as of December 31, 2011</u>			
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Cash in Banks	<u>\$ 566,907</u>	<u>\$ 2,968,946</u>	<u>\$ -</u>	<u>\$ 3,535,853</u>
<u>Investments:</u>				
Money Market Funds	\$ 3,312,677	\$ 1,921,076	\$ -	\$ 5,233,753
U.S. Treasury Bills & Notes	<u>1,551,919</u>	<u>-</u>	<u>-</u>	<u>1,551,919</u>
Investments Total	<u>\$ 4,864,596</u>	<u>\$ 1,921,076</u>	<u>\$ -</u>	<u>\$ 6,785,672</u>

	<u>Balances as of December 31, 2010</u>			
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Cash in Banks	<u>\$ 548,709</u>	<u>\$ 2,926,413</u>	<u>\$ -</u>	<u>\$ 3,475,122</u>
<u>Investments:</u>				
Money Market Funds	\$ 1,472,385	\$ -	\$ -	1,472,385
U.S. Treasury Bills & Notes	<u>8,502,351</u>	<u>-</u>	<u>-</u>	<u>8,502,351</u>
Investments Total	<u>\$ 9,974,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,974,736</u>

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, 2011 AND 2010

4. Restricted Assets

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

	<u>2011</u>	<u>2010</u>
Litigation Reserve Funds	\$ -	\$ 275,796
Construction Reserve Funds	3,611,223	6,793,611
Debt Service Sinking Funds	56,557	59,002
Debt Service Reserve Funds	<u>140,735</u>	<u>262,909</u>
Current Restricted Funds	3,808,515	7,391,318
Debt Service Reserve Funds	<u>2,669,597</u>	<u>2,583,418</u>
Total	<u><u>\$ 6,478,112</u></u>	<u><u>\$ 9,974,736</u></u>

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

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	<u>Balance as of</u> <u>January 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of</u> <u>December 31, 2011</u>
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	120,255	-	-	120,255
Buildings	12,181,920	187,057	-	12,368,977
Water System	45,809,891	3,193,706	-	49,003,597
Machinery and Equipment	4,699,114	1,590,354	-	6,289,468
Sewage Collection System	1,364,871	-	-	1,364,871
Construction in Progress	<u>3,496,610</u>	<u>3,654,830</u>	<u>(5,063,827)</u>	<u>2,087,613</u>
Sub-total	68,507,469	8,625,947	(5,063,827)	72,069,589
Less: Accumulated Depreciation	<u>(15,635,318)</u>	<u>(1,735,001)</u>	<u>-</u>	<u>(17,370,319)</u>
Net Property, Plant and Equipment	<u>\$ 52,872,151</u>	<u>\$ 6,890,946</u>	<u>\$ (5,063,827)</u>	<u>\$ 54,699,270</u>

Depreciation was recorded in the amount of \$1,735,001 and \$1,576,614 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, 2011 and 2010. The effect of netting these amounts resulted in \$1,139,148 and \$980,761 in depreciation expense for the years ended December 31, 2011 and 2010, respectively.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

6. Employee Retirement Systems

A. Plan Description

Through the acquisition of the assets and employees of the Hyde Park Fire and Water District, the Dutchess County Water and Wastewater Authority is required to participate in the New York State Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan System. This is a cost sharing multiple employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes an Annual Report and required supplementary information.

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

B. Funding Policy

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System (System) after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Dutchess County Water and Wastewater Authority is required to contribute to the System at an actuarially determined rate. The required contributions for the current and prior two years were \$181,796 , \$131,574 and \$104,762, respectively. The Authority's contributions made to the System were equal to 100% of the contributions required for those years.

7. Post-employment Benefits

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Through implementation of the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, beginning in the year ended December 31, 2007, the Authority recognizes the cost of post-employment healthcare in the year when the employee

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

7. Post-employment Benefits (Continued)

services are received, reports the accumulated liability from prior year, and provides information useful in assessing potential demands on the Authority's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, which commenced with the 2007 liability.

A. Plan Description

The Authority provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the Authority. Currently, there is one retiree 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 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 one individual. 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 that pay-as-you-go funding.

C. Annual Other Post-employment Benefit Cost

The Authority's OPEB cost (expense) amounted to \$165,600 and \$175,400 for the years ended December 31, 2011 and 2010, respectively. The Authority's OPEB cost was equal to the Annual Required Contribution (ARC), \$171,812, an amount actuarially determined in accordance with the parameters of GASB Statement 45, adjusted for interest accruing on the unpaid liability and other timing adjustments, (\$6,212). 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, 2011 AND 2010

7. Post-employment Benefits (Continued)

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

Benefit Obligations at Normal Cost

Actuarial Accrued Liability (AAL)	
Retired employees (1) - Not available	\$ -
Active employees (21)	1,195,514
	\$ 1,195,514
Level Per Cent of Payroll Amortization	
Past Service Costs	\$ 40,847
Normal Costs	130,965
	\$ 171,812
Percent of annual OPEB cost contributed	0%

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.

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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

7. Post-employment Benefits (Continued)

D. Actuarial Methods and Assumptions (continued)

In the December 31, 2011, actuarial valuation, completed using the Alternative Measurement Method, the liabilities were computed using the projected unit credit cost method and level per cent of payroll amortization. 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 an initial 10.50% healthcare cost inflation rate, reduced by decrements of .5% for the next 11 years at which time it would be 5%.

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 Districts #1 and 2. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below.

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 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 seven supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, 2004, two issues in 2002, 2007 and 2008, and one debt issue in 2009, 2010, and 2011.

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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

8. Long Term Obligations (Continued)

B. Description of Bonds Payable

	<u>2011</u>	<u>2010</u>
New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 2005D, due in various installments through 2015, interest 3.70%-5.55%	\$ 220,000	\$ 265,000
1998 Revenue Bonds (Zero Coupon) Series One, due in various installments starting in 2021 through 2029, interest 3.90%-5.40%	3,817,818	3,817,818
1998 Revenue Bond Series Two, due in various installments through 2019, interest 3.90%-5.43%	-	300,000
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	485,000	525,000
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	1,213,410	1,223,410
New York State Environmental Facilities Corporation State Drinking Water Series 2002 G Harbour Hills, due in various installments through 2021, interest 1.333%-5.063% (Re-financed by EFC Series 2011 C below)	-	1,980,000
New York State Environmental Facilities Corporation State Clean Water Revolving Fund Revenue (Refunding) Bonds Series 2002, due in various installments through 2023, interest 1.825%-5.705% (Re-financed by EFC Series 2011C below)	-	360,000
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,535,000	1,625,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,630,000	1,725,000

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

8. Long-Term Obligations (Continued)

B. Description of Bonds Payable (continued)

2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00%-5.00%	1,760,000	1,795,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00%-4.625%	345,000	360,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	6,905,000	7,160,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments starting in 2030 through 2039, interest 5.62%-5.96%	1,347,524	1,347,524
2010 Water Service Agreement Revenue Notes Series 2010, maturing December 9, 2011, interest 1.51%	-	1,905,800
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 2010C, due in various installments through 2019, interest .8450%-3.355%	9,245,000	10,326,923
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%	2,160,000	-
2011 Service Agreement Revenue Bond Series 2011, due in various installments starting in 2012 through 2041, interest 3.50%-4.25%	<u>1,935,000</u>	<u>-</u>
Total Bonds Payable	32,598,752	34,716,475
Accreted Interest Recorded on Zero Coupon Bonds	<u>4,778,102</u>	<u>4,257,681</u>
Total Bonded Debt Payable	37,376,854	38,974,156
Portion Due Within One Year	<u>(1,950,000)</u>	<u>(3,777,718)</u>
Net Long Term Debt Payable	<u><u>\$ 35,426,854</u></u>	<u><u>\$ 35,196,438</u></u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

8. Long-Term Obligations (Continued)

C. Changes

	Balance at January 1, <u>2011</u>	New Issues/ <u>** Additions</u>	Maturities and/or <u>Payments</u>	Balance at December 31, <u>2011</u>	Due within <u>One Year</u>
Bonds Payable	\$ 38,974,156	\$ 4,795,420	\$ (6,392,722)	\$ 37,376,854	\$ 1,950,000
OPEB liability (see Note 7)	<u>609,900</u>	<u>165,600</u>	<u>-</u>	<u>\$ 775,500</u>	<u>-</u>
	<u>\$ 39,584,056</u>	<u>\$ 4,961,020</u>	<u>\$ (6,392,722)</u>	<u>\$ 38,152,354</u>	<u>\$ 1,950,000</u>

**Bonds payable increased by \$520,420 in adjustments for accreted interest on 1998 series one, 2001 debt, and 2009 debt.

D. Debt Service Requirements

Debt Service requirements to maturity as of December 31, 2011 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,950,000	\$ 932,843	\$ 2,882,843
2013	1,925,000	900,277	2,825,277
2014	1,990,000	858,297	2,848,297
2015	2,070,000	807,594	2,877,594
2016	2,055,000	746,377	2,801,377
2017-2021	9,533,879	4,800,368	14,334,247
2022-2026	6,188,420	8,026,042	14,214,462
2027-2031	3,920,346	6,050,516	9,970,862
2032-2036	1,829,027	3,533,110	5,362,137
2037-2041	<u>1,137,080</u>	<u>2,593,495</u>	<u>3,730,575</u>
Totals	<u>\$32,598,752</u>	<u>\$29,248,919</u>	<u>\$61,847,671</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2010 AND 2009

8. Long-Term Obligations (Continued)

E. Re-financing, Advance Refunding and Defeasance of Debt

In July 2002, the Authority refinanced a portion of the 2001 Series (Zone D project) and a portion of the 1999 Series (Water Pollution Control) bonds in transactions accounted for as advance refunding of debt. The Authority defeased bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. As of December 31, 2011, the bonds were called and paid from the escrow funds.

In July 2011, the Authority participated in a refinancing initiated by the New York State Environmental Facilities Corporation on behalf of the municipalities that participated in the State Drinking Water and Clean Water Revolving Funds Series 2002G, amounting to \$2,340,000. A net present value savings of \$203,036 over the life of the new debt resulted from the refinancing transactions.

F. 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 rates together with other Authority revenues in amounts sufficient to provide for operating expenses as included in the Authority's budget. The Authority also pledges to maintain, in full force and effect, the service agreement with Dutchess County, as is further described in Note 13 - Economic Dependency.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

9. Deferred Revenues

In June 2002 the Authority signed an agreement with Dutchess County outlining a project known as the Central Dutchess Utility Corridor (the “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, 2011 and 2010 and was recorded net of depreciation. The long term portion of deferred revenue amounted to \$26,544,997 and \$27,289,371 as of December 31, 2011 and 2010, all of which is related to the Utility Corridor. Current deferred revenue expected to be recognized in 2011 is as follows:

	<u>2011</u>	<u>2010</u>
Current Portion of Deferred Revenues:		
Utility Corridor - Construction	\$ 595,853	\$ 595,853
Utility Corridor - Capital	126,178	-
Utility Corridor - Operations	47,826	-
Dutchess County	-	9,500
Water Usage Billings Received in Advance	<u>241,168</u>	<u>209,099</u>
	<u><u>\$ 1,011,025</u></u>	<u><u>\$ 814,452</u></u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2011 AND 2010

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 \$36,966,826 and workers compensation coverage of \$100,000.

11. Commitments

Authorized Debt

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

12. Economic Dependency

As described in Note 8F - 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 2011 and 2010, the Authority recorded net revenues of \$2,730,392 and \$2,965,185, having recorded a return of \$102,695 (including savings on debt re-financing) and \$50,241 to the County during those years. Of those amounts, \$22 and \$11,441 was due to 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.

REQUIRED SUPPLEMENTAL INFORMATION

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POST-EMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2011 AND 2010**

The schedule of funding progress presents the results of OPEB valuations as of and for the years ended December 31, 2009, 2010, and 2011.

<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>
12/31/2009	8/1/2009	\$ -	\$ 1,703,200	\$ 1,703,200	0.0%	N/A	N/A
12/31/2010	8/1/2009	\$ -	\$ 1,703,200	\$ 1,703,200	0.0%	N/A	N/A
12/31/2011	12/31/2011	\$ -	\$ 1,195,514	\$ 1,195,514	0.0%	\$1,245,308	96.00%