

DUTCHESS COUNTY RESOURCE  
RECOVERY AGENCY

Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Reports thereon)

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Dutchess County Resource Recovery Agency:

We have audited the accompanying financial statements of Dutchess County Resource Recovery Agency (the Agency), a component unit of the County of Dutchess, New York, as of and for the year ended December 31, 2011, which comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Dutchess County Resource Recovery Agency as of December 31, 2010, were audited by other auditors whose report dated March 11, 2011, expressed an unqualified opinion on those statements.

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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedule of funding progress for other postemployment benefit plan on page 26, 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.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 23, 2012

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis

December 31, 2011 and 2010

Our discussion and analysis of the Dutchess County Resource Recovery Agency (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2011. Please read this discussion and analysis along with the basic financial statements and the accompanying notes to those financial statements.

**Financial Highlights**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	2011 over (under) <u>2010</u>
Tip fee (\$/ton)	\$ <u>80</u>	<u>80</u>	<u>80</u>	<u>-</u>
Tonnage received at RRF	162,650	152,623	150,682	10,027
Tonnage received at MRF	<u>5,369</u>	<u>8,111</u>	<u>12,682</u>	<u>(2,742)</u>
Total tonnage received	<u>168,019</u>	<u>160,734</u>	<u>163,364</u>	<u>7,285</u>
Energy sales	\$ <u>2,771,857</u>	<u>2,885,335</u>	<u>2,816,053</u>	<u>(113,478)</u>

Tipping fees increased in 2011 primarily due to increase in metal sales from \$1,182,636 in 2010 to \$1,838,628.

The decrease in energy sales was primarily due to energy produced being severely impacted by adverse weather conditions.

Service fees were consistent with prior year.

The reduction of principal balances of our bonds caused a decrease in overall interest expense.

The decrease in net service fees in due to the increase in net income for 2011.

The Agency's net assets increased by \$1,051,665, from \$12,415,511 at December 31, 2010 to \$13,467,176 at December 31, 2011.

Total revenue in 2011 amounted to \$19,839,231, a \$329,885 increase from 2010.

Total operating expenses of \$18,787,566 in 2011 increased by \$57,939 when compared to 2010.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY  
Management's Discussion and Analysis, Continued

**Overview of the Financial Statements**

**Statements of Net Assets**

The statements of net assets presents the assets, liabilities, and net assets of the Agency at the end of each year. The purpose of the statements of net assets is to present to the readers of the financial statements a fiscal snapshot of Dutchess County Resource Recovery Agency. From the data presented, readers of the statements of net assets are able to determine the assets available to continue the operations of the Agency. They are also able to determine how much the Agency owes vendors, employees and others. Finally, the statements of net assets provides a picture of the net assets (assets minus liabilities) and their availability for use by the Agency.

	<u>2011</u>	<u>2010</u>
Assets:		
Current and other assets	\$ 15,907,224	15,579,634
Capital assets	<u>30,309,346</u>	<u>32,389,212</u>
Total assets	\$ <u>46,216,570</u>	<u>47,968,846</u>
Liabilities:		
Long-term debt outstanding	23,145,000	26,380,000
Other liabilities	<u>9,604,394</u>	<u>9,173,335</u>
Total liabilities	<u>32,749,394</u>	<u>35,553,335</u>
Net assets:		
Restricted funds	11,577,232	11,457,960
Invested in capital-type assets, net of related debt	4,188,236	3,210,199
Unrestricted	<u>(2,298,292)</u>	<u>(2,252,648)</u>
Total net assets	\$ <u>13,467,176</u>	<u>12,415,511</u>

**Statements of Revenue, Expenses, and Changes in Net Assets**

Changes in total net assets as presented on the statements of net assets are based on the activity presented in the statements of revenue, expenses and changes in net assets. The purpose of the statement is to present the revenue received by the Agency, both operating and nonoperating, and the expenses paid by the Agency, operating and nonoperating, and any other revenue, expenses, gains and losses received or spent by the Agency.

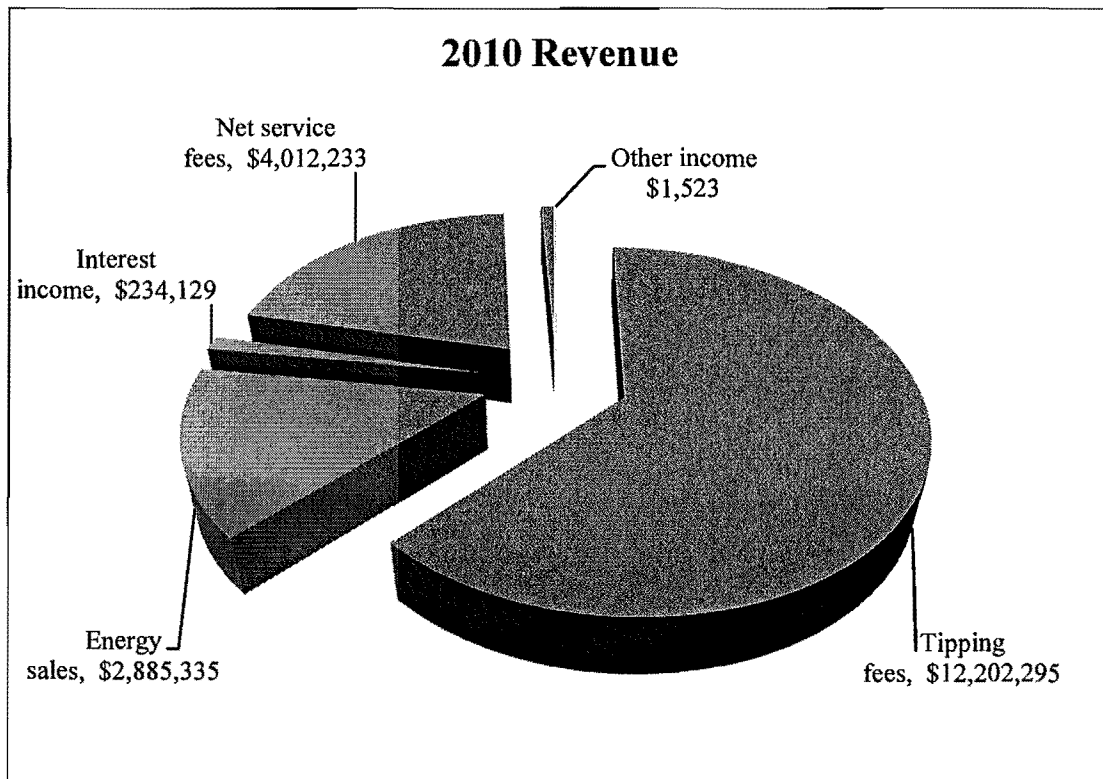
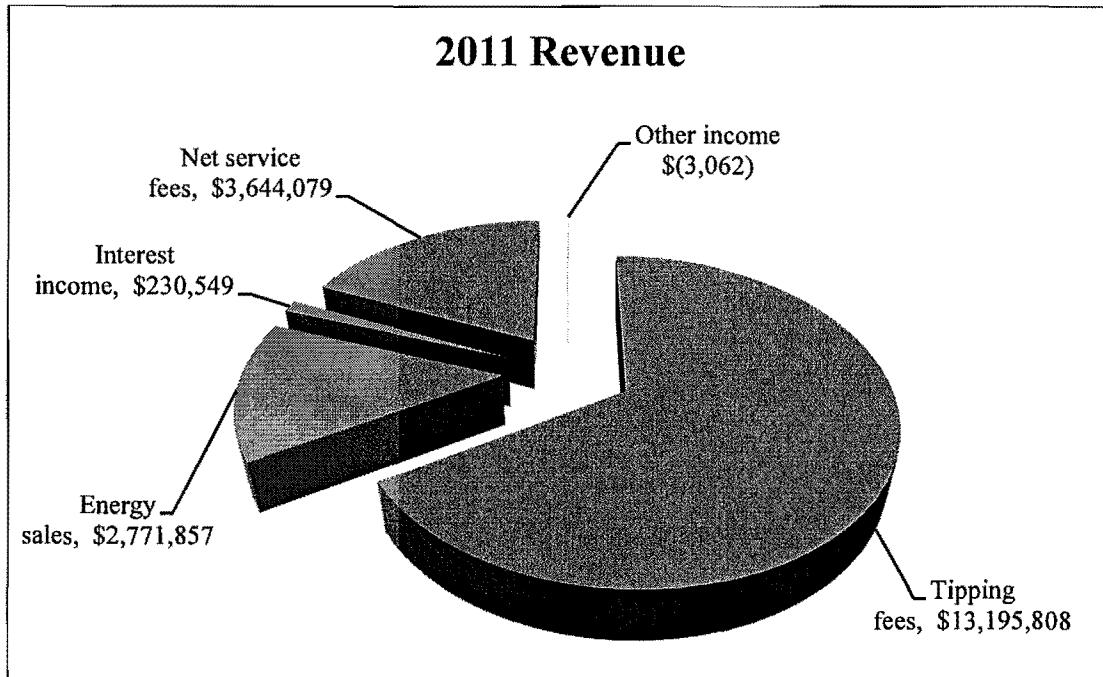
DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

Statements of Revenue, Expenses,  
and Changes in Net Assets

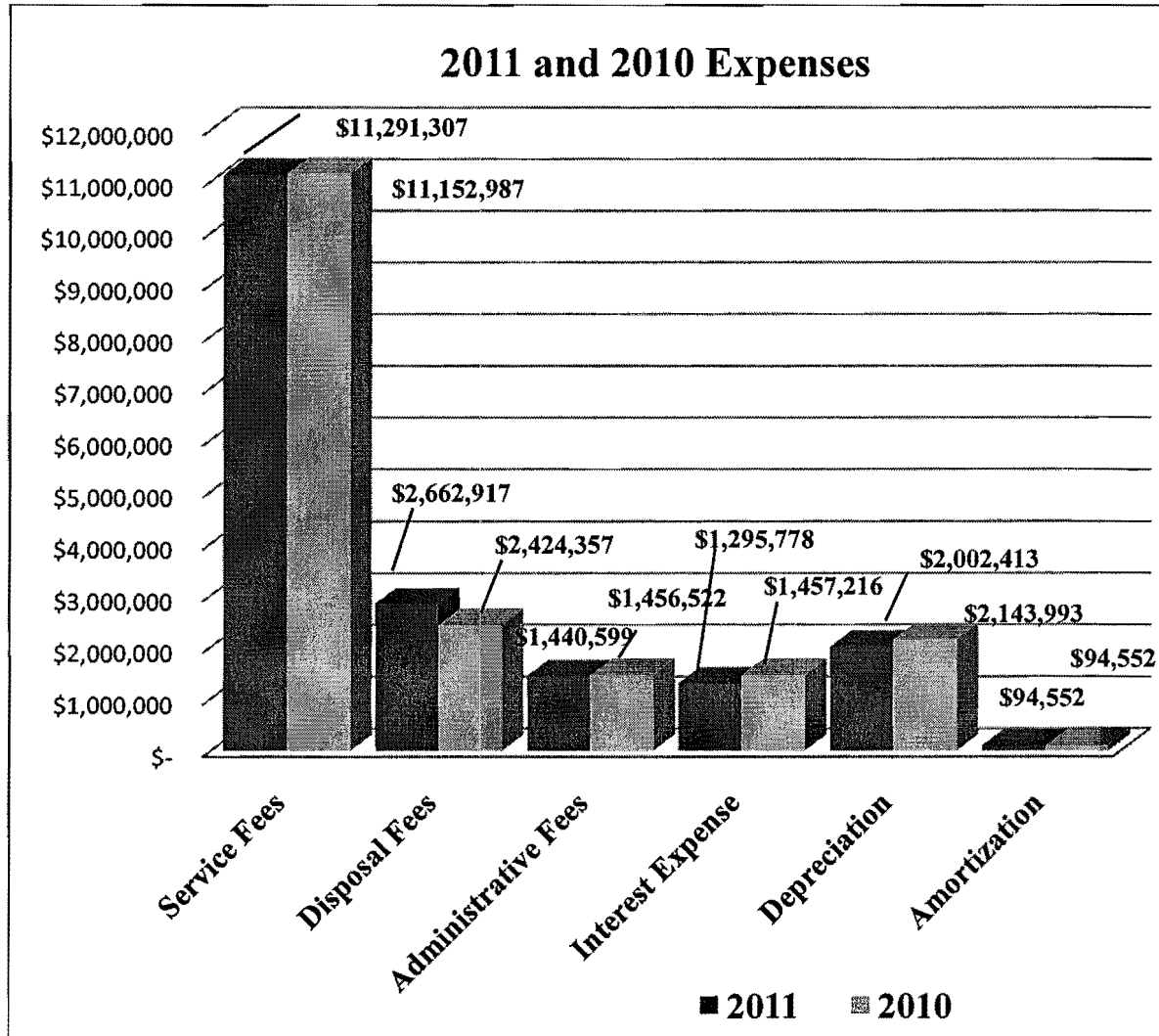
	<u>2011</u>	<u>2010</u>	<u>2009</u>	2011 over (under) <u>2010</u>
Revenue:				
Tipping fees	\$ 13,195,808	12,202,295	11,222,085	993,513
Energy sales	2,771,857	2,885,335	2,816,053	(113,478)
Interest income	<u>230,549</u>	<u>234,129</u>	<u>235,947</u>	<u>(3,580)</u>
Total revenue	<u>16,198,214</u>	<u>15,321,759</u>	<u>14,274,085</u>	<u>876,455</u>
Expenses:				
Disposal fees	2,662,917	2,424,357	2,393,731	238,560
Service fees	11,291,307	11,152,987	10,888,843	138,320
Administrative expense	1,440,599	1,456,522	1,500,399	(15,923)
Interest expense	1,295,778	1,457,216	1,607,096	(161,438)
Depreciation	2,002,413	2,143,993	2,065,453	(141,580)
Amortization	<u>94,552</u>	<u>94,552</u>	<u>97,127</u>	<u>-</u>
Total expenses	<u>18,787,566</u>	<u>18,729,627</u>	<u>18,552,649</u>	<u>57,939</u>
Operating loss	<u>(2,589,352)</u>	<u>(3,407,868)</u>	<u>(4,278,564)</u>	<u>818,516</u>
Other income (expense):				
Net service fees	3,644,079	4,012,233	4,946,199	(368,154)
State grants	-	173,831	36,286	(173,831)
Other income (expense)	<u>(3,062)</u>	<u>1,523</u>	<u>8,712</u>	<u>(4,585)</u>
Total other income	<u>3,641,017</u>	<u>4,187,587</u>	<u>4,991,197</u>	<u>(546,570)</u>
Increase in net assets	\$ <u>1,051,665</u>	<u>779,719</u>	<u>712,633</u>	<u>271,946</u>

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY  
Management's Discussion and Analysis, Continued





DUTCHESS COUNTY RESOURCE RECOVERY AGENCY  
 Management's Discussion and Analysis, Continued



DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Management's Discussion and Analysis, Continued

**Statements of Cash Flows**

The final statement presented by the Agency is the statements of cash flows. The statements of cash flows presents detailed information about the cash activities of the Agency during the year. The first section of the statements of cash flows deals with operating cash flows and shows the net cash provided by the operating activities of the Agency. The second section reflects the cash flows from capital and related financing activities and shows capital construction and capital asset acquisition, and the third section reflects principal/interest on capital debt.

Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>
Net cash provided by operating activities	\$ 1,273,405	21,571
Net cash provided by non-capital financing activities	3,680,573	4,545,743
Net cash used in capital and related financing activities	(4,451,590)	(4,527,995)
Net increase in cash and equivalents	502,388	39,319
Cash and equivalents at beginning of year	<u>6,508,836</u>	<u>6,469,517</u>
Cash and equivalents at end of year	\$ <u>7,011,224</u>	<u>6,508,836</u>

**Additional Information**

The report is compiled for the use of the Agency's Governing Board, management, appropriate officials of the State of New York and members of the public interested in the Agency's affairs. Questions with regard to this financial report or requests for additional information may be addressed to the Executive Director, Dutchess County Resource Recovery Agency.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY  
 Statements of Net Assets  
 December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents	\$ 620,979	237,770
Cash and equivalents, restricted	6,390,245	6,271,066
Receivables, less allowance of \$15,000 in both years	1,441,461	2,249,378
Due from other governments	17,289	24,989
Due from related party	785,651	817,509
Prepaid expenses	42,907	38,029
Total current assets	<u>9,298,532</u>	<u>9,638,741</u>
Noncurrent assets:		
Due from Operator	798,921	-
Cash and equivalents, restricted	5,186,987	5,186,894
Property, plant and equipment, net of accumulated depreciation	30,309,346	32,389,212
Debt issue costs and transaction costs, net of accumulated amortization	622,784	753,999
Total noncurrent assets	<u>36,918,038</u>	<u>38,330,105</u>
Total assets	<u>\$ 46,216,570</u>	<u>47,968,846</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Bonds payable, current portion	3,235,000	3,075,000
Accounts payable	335,498	267,517
Accrued expenses payable	2,965,545	3,701,708
Accrued interest payable	647,889	728,608
Due to other governments	947,009	698,214
Total current liabilities	<u>8,130,941</u>	<u>8,471,047</u>
Noncurrent liabilities:		
Deferred revenues	1,162,815	478,012
Postemployment benefit obligations	310,638	224,276
Bonds payable, less current portion	23,145,000	26,380,000
Total noncurrent liabilities	<u>24,618,453</u>	<u>27,082,288</u>
Total liabilities	<u>32,749,394</u>	<u>35,553,335</u>
Net assets:		
Restricted net assets	11,577,232	11,457,960
Invested in capital-type assets, net of related debt	4,188,236	3,210,199
Unrestricted	(2,298,292)	(2,252,648)
Total net assets	<u>13,467,176</u>	<u>12,415,511</u>
Total liabilities and net assets	<u>\$ 46,216,570</u>	<u>47,968,846</u>

See notes to accompanying financial statements.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY  
 Statements of Revenue, Expenses and Changes in Net Assets  
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Tipping fees	\$ 13,195,808	12,202,295
Energy sales	2,771,857	2,885,335
Interest income	<u>230,549</u>	<u>234,129</u>
Total operating revenue	<u>16,198,214</u>	<u>15,321,759</u>
Operating expenses:		
Disposal fees	2,662,917	2,424,357
Service fees	11,291,307	11,152,987
Administrative expenses	1,440,599	1,456,522
Interest expense	1,295,778	1,457,216
Depreciation	2,002,413	2,143,993
Amortization	<u>94,552</u>	<u>94,552</u>
Total operating expenses	<u>18,787,566</u>	<u>18,729,627</u>
Operating loss	<u>(2,589,352)</u>	<u>(3,407,868)</u>
Nonoperating revenue (expenses):		
Net service fees	3,644,079	4,012,233
State grants	-	173,831
Other income (expense)	<u>(3,062)</u>	<u>1,523</u>
Total nonoperating revenue (expenses)	<u>3,641,017</u>	<u>4,187,587</u>
Increase in net assets	1,051,665	779,719
Net assets at beginning of year	<u>12,415,511</u>	<u>11,635,792</u>
Net assets at end of year	<u>\$ 13,467,176</u>	<u>12,415,511</u>

See accompanying notes to financial statements.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY  
 Statements of Cash Flows  
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers	\$ 16,775,582	14,485,678
Payments to suppliers	(15,396,825)	(14,352,475)
Payments to employees	(335,901)	(345,761)
Interest received	230,549	234,129
Net cash provided by operating activities	<u>1,273,405</u>	<u>21,571</u>
Cash flows from noncapital financing activities:		
Net service fee received	3,675,935	4,359,061
State grants received	7,700	185,159
Other receipts/disbursements	(3,062)	1,523
Net cash provided by non-capital financing activities	<u>3,680,573</u>	<u>4,545,743</u>
Cash flows from investing activities:		
Purchase of capital assets	-	(2,200)
Less proceeds received from 2007 serial bond deposited in noncurrent restricted cash	(93)	(68,639)
Principal paid on capital debt	(3,075,000)	(2,925,000)
Interest paid on capital debt	(1,376,497)	(1,532,156)
Net cash used in capital and related financing activities	<u>(4,451,590)</u>	<u>(4,527,995)</u>
Net increase in cash and equivalents	502,388	39,319
Cash and equivalents at beginning of year	<u>6,508,836</u>	<u>6,469,517</u>
Cash and equivalents at end of year	<u>\$ 7,011,224</u>	<u>6,508,836</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	(2,589,352)	(3,407,868)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,096,965	2,238,545
Interest expense	1,295,778	1,457,216
Changes in:		
Accounts receivable	807,917	(601,952)
Prepaid expenses	(4,878)	(10,056)
Accounts payable	67,981	43,133
Noncapital-related accrued expenses payable	(736,163)	9,536
Postemployment benefit obligations	86,362	56,736
Due to other governments	248,795	236,281
Net cash provided by operating activities	<u>\$ 1,273,405</u>	<u>21,571</u>

See accompanying notes to financial statements.

# DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

## Notes to Financial Statements

December 31, 2011 and 2010

### (1) Organization and Summary of Significant Accounting Policies

The Dutchess County Resource Recovery Agency (the Agency) was established as a public benefit corporation to perform the function of solid waste management within the County of Dutchess, State of New York. The Agency constructed a solid waste disposal resource recovery plant to be used for that purpose. The construction of the plant was financed primarily by the issuance of Dutchess County Resource Recovery Agency revenue bonds and New York State Environmental Quality Bond Act (EQBA) grant proceeds. The New York State Environmental Quality Bond Act grant proceeds have been recorded as contributed capital in these financial statements. In fulfilling its function, the Agency also operates a materials recycling facility.

The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, some of which are as follows.

#### (a) The Reporting Entity

The Agency 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." The Dutchess County Executive, and/or Members of the County Legislature appoint all of the Agency's Board Members. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14.

#### (b) Basis of Accounting and Measurement Focus

As described above, the Agency performs the function of solid waste management for the residents of the County of Dutchess. Its operations are financed primarily through user charges (tipping fees). Under standards set by the GASB, the Agency 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 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 Agency considers all revenues as operating revenues, except that that subsidies and grants which finance either capital or current operations are reported as non-operating revenues.

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

## DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

### Notes to Financial Statements, Continued

#### (1) Organization and Summary of Significant Accounting Policies, Continued

##### (b) Basis of Accounting and Measurement Focus, Continued

The Agency's policy is to apply, first, (a) all GASB pronouncements, and then (b) Financial Accounting Standards Board Statements and Interpretations, APB Opinions, and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

##### (c) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all cash and cash equivalents classified as current assets, whether unrestricted or restricted, with an original maturity of three months or less to be cash equivalents.

##### (d) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes interest incurred during construction. The Agency provides for depreciation of the plant and equipment on a straight-line basis over periods ranging from 3 to 40 years.

##### (e) Debt Issuance Costs

Costs incurred relating to the issuance of Agency bonds and bond anticipation notes have been capitalized and are amortized on a straight-line basis over the life of the related bonds and notes.

##### (f) Deferred Revenue

Amounts represents costs for capitalized assets provided by the operator being amortized over the life of the assets, reserves created as a result of the 1998 bond issuance being amortized over the original life of the bonds, and unresolved amounts due from the operator for the years 2008 through 2011. Negotiations to amend and revise various operating parameters of the contract are in process.

##### (g) 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; or (3) cash and cash equivalents that are restricted for capital asset acquisition.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital-type assets, net of related debt."

## DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

### Notes to Financial Statements, Continued

#### (1) Organization and Summary of Significant Accounting Policies, Continued

##### (h) Income Taxes

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

##### (i) Insurance

The Agency 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 and/or in contractual agreement with the plant operator. 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. 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.

##### (j) Post Employment Benefit Obligations

Effective with the financial report for the year ended December 31, 2007, the Agency adopted GASB Statement No. 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement establishes standards for reporting the liability for non-pension postemployment benefits, chiefly health care premiums for retirees.

Other postemployment benefits (OPEB) cost for healthcare is required to be measured and disclosed using the accrual basis of accounting, regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost should be equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

##### (k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### (l) Subsequent Events

The Agency has evaluated events after December 31, 2011, and through March 23, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

#### (2) Cash, Cash Equivalents and Investments

Statutes authorize the Agency to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.



DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(2) Cash, Cash Equivalents and Investments, Continued

Repurchase agreements involve purchases by a broker of portfolio securities concurrently with an agreement by the broker to sell the same securities at a later date at a fixed price. Generally, the effect of such a transaction is that the Agency can invest its excess cash balances at competitive interest rates. The Agency is subject to certain risks, specifically credit risk that parties to the repurchase agreement will not perform as required, market risk in that the value of the underlying securities may decline below cost, and legal risk in that investments may be made in securities not authorized by state and local regulations. The Agency believes its contractual arrangements and short-term nature of its investments minimize these risks. Market value of the repurchase agreements, and other investments, approximates cost plus accrued interest.

In addition, the Agency, through the General Bond Resolution adopted August 6, 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 agreement.

In January 1999 the Agency entered into a flexible draw investment agreement between the Agency, a commercial entity, and the bond trustee, which provides for the investment of certain restricted funds until the maturity date of the bonds. The Agency has obtained a financial guaranty insurance policy, which provides for payment of amounts due under the agreement, if not made when due.

As of December 31, 2011 and 2010, the Agency had cash deposited in various banks aggregating approximately \$2,627,000 and \$1,096,000, respectively, which are classified as Risk Category A, the lowest risk, as defined by the Governmental Accounting Standards Board (the GASB), as insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the entity's agent in the entity's name. As of December 31, 2011 and 2010, the Agency had additional cash and cash equivalents and investments of approximately \$9,636,028 and \$10,705,913 in various accounts, which are not covered by FDIC.

Bank balances differ from the Agency's cash balances by the amount of outstanding items clearing in the following month. The cash balances and repurchase agreements are collateralized with securities held by the counter party's trust department or agent in the entity's name and the investments are held by the counter party's trust department in the entity's name which are considered Risk Category B, as defined by the GASB.

	<u>2011</u>	<u>2010</u>
Risk Category B		
Bank balance	\$ 11,368	1,042,664
U.S. government money markets	5,450,928	4,476,355
Insured investment - guaranteed investment contracts	<u>4,173,732</u>	<u>5,186,894</u>
Total Risk Category B	<u>\$ 9,636,028</u>	<u>10,705,913</u>

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

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(3) Restricted Assets

In accordance with the terms of the general bond resolution, bond and note proceeds, accrued interest receivable, the initial collection of tipping fees and energy revenues, and investments are administered and reported upon by a trustee on behalf of the Agency and are restricted.

As of December 31, 2011 and 2010 the trustee reported the following restricted cash and cash equivalents and investments as follows:

	<u>2011</u>	<u>2010</u>
1998 Series C		
Project funds	\$ <u>          -</u>	<u>      3,955</u>
Current restricted funds	<u>                  -</u>	<u>      3,955</u>
Total 1998 Series C	\$ <u>                  -</u>	<u>      3,955</u>
1999 Series A		
Project funds	53,833	161,013
Debt service reserve funds	<u>3,511,761</u>	<u>3,804,608</u>
Current restricted funds	<u>3,565,594</u>	<u>3,965,621</u>
Reserve and contingency fund	447,957	447,957
Debt service reserve fund	<u>3,794,303</u>	<u>3,794,303</u>
Noncurrent restricted funds	<u>4,242,260</u>	<u>4,242,260</u>
Total 1999 Series A	\$ <u>7,807,854</u>	<u>8,207,881</u>
2007 Series		
Project fund	413,850	413,863
Cost of issuance fund	98,187	98,176
Debt service reserve fund	<u>371,410</u>	<u>      27</u>
Current restricted funds	<u>883,447</u>	<u>512,066</u>
Reserve and contingency fund	85,884	85,876
Debt service reserve fund	<u>858,843</u>	<u>858,758</u>
Noncurrent restricted funds	<u>944,727</u>	<u>944,634</u>
Total 2007 Series	\$ <u>1,828,174</u>	<u>1,456,700</u>

The debt service reserve funds are funded in an amount equal to the greater of any annual principal and interest or sinking fund payments, but limited to 10% of the original principal amount of the 1998 C and 1999 A Series bonds. The reserve and contingency fund is funded in an amount at least equal to 10% of the debt service payments required for the current year. However, since these funds are not anticipated to be used in the subsequent year, they have been classified as restricted noncurrent assets on the balance sheet.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(3) Restricted Assets, Continued

The proceeds from collections of energy revenues, which had not yet been released by the trustee, amounted to \$1,941,204 at December 31, 2011 and \$1,790,424 at December 31, 2010, and are included in restricted current cash and cash equivalents.

Restricted Assets are summarized as follows:

	<u>2011</u>	<u>2010</u>
Current - restricted assets		
Series 1998 B & C bonds	\$ -	3,955
Series 1999 A	3,565,594	3,965,621
Series 2007	883,447	512,066
Energy revenues	<u>1,941,204</u>	<u>1,790,424</u>
Total current - restricted assets	\$ <u>6,390,245</u>	<u>6,271,066</u>
Noncurrent restricted assets		
Series 1999 A bonds	4,242,260	4,242,260
Series 2007 bonds	<u>944,727</u>	<u>944,634</u>
Total noncurrent - restricted assets	\$ <u>5,186,987</u>	<u>5,186,894</u>

(4) Property, Plant and Equipment

Activities involving property, plant and equipment for the year ended December 31, 2011 are as follows:

	<u>2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>2011</u>
Property	\$ 517,591	-	-	517,591
Plant	66,181,536	-	-	66,181,536
Equipment	<u>1,164,191</u>	-	-	<u>1,164,191</u>
	67,863,318	-	-	67,863,318
Less accumulated depreciation	<u>(35,474,106)</u>	<u>(2,079,866)</u>	-	<u>(37,553,972)</u>
Property, plant, equipment net	\$ <u>32,389,212</u>	<u>(2,079,866)</u>	-	<u>30,309,346</u>

Depreciation was recorded in the amount of \$2,079,866 and \$2,212,513 less amortization of deferred revenues associated with the funding of capital improvements of \$77,453 and \$68,520, resulting in \$2,002,413 and \$2,143,993 depreciation expense for the years ended 2011 and 2010, respectively.



DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(5) Bonds Payable, Continued

Bond Terms, Continued

Annual Amortization and sinking fund requirements for bonds payable:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,235,000	1,209,242	4,444,242
2013	3,410,000	1,030,636	4,440,636
2014	3,595,000	840,601	4,435,601
2015	925,000	719,513	1,644,513
2016	975,000	672,013	1,647,013
2017 - 2021	5,625,000	2,579,452	8,204,452
2022 - 2026	7,020,000	1,174,693	8,194,693
2027 - 2028	<u>1,595,000</u>	<u>35,887</u>	<u>1,630,887</u>
Totals	<u>\$ 26,380,000</u>	<u>8,262,037</u>	<u>34,642,037</u>

The Agency has covenanted under the indenture that operating revenues earned from the disposal of solid waste at the plant plus investment earnings will equal or exceed the sum of (i) all operating expenses of the Agency contained in the budget for such bond year, (ii) an amount equal to 110% of the debt service requirement for such bond year and (iii) amounts, if any, necessary to fund the debt service reserve fund to the debt service reserve requirement or to fund the reserve and contingency fund to the reserve and contingency fund requirement.

The Agency must obtain additional certifications regarding events of default occurring, landfill capacity and the quantity of waste processed. The Agency must maintain various accounts, described as restricted assets, note 3, which are subject to minimum funding requirements. At December 31, 2011 and 2010 these reserves exceeded their funding requirements.

(6) Employee Benefit Plans

(a) Pension Plan

Plan Description - The Agency participates in the New York State and Local Employees' Retirement System (ERS) (System), a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employees. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) 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 their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(6) Employee Benefit Plans, Continued

(b) Funding Policy

The System is non-contributory except for employees who joined the New York State and Local Employees Retirement 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 Agency is required to contribute annually at an actuarially determined rate. The required contributions for the current year and two preceding years ending December 31 were:

	<u>ERS</u>
2011	\$ 52,869
2010	\$ 48,011
2009	\$ 35,015

The Agency's contributions made to the System were equal to 100 percent of the contributions required for each year.

(7) Postemployment Benefit Plans

From an accrual accounting perspective, the cost of postemployment 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 when it will be paid. In adopting the requirements of GASB No. 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," the Agency recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from the prior year and provides information useful in assessing potential demands on the Agency's cash flows.

Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability. The postemployment benefits liability as of December 31, 2011 and 2010 is \$310,638 and \$224,276, respectively.

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(7) Postemployment Benefit Plans, Continued

(a) Plan Description

The Agency 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 Agency. The Agency administers its own plan, but does not issue separate, stand-alone financial statements. 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 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	50%	35%
15	60%	45%
20	70%	55%
25	80%	65%

(b) Funding Policy

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

(c) Annual Other Postemployment Benefit Cost

For the years ended December 31, 2011 and 2010, the Agency's OPEB cost (expense) amounted to \$106,459 and \$64,700, respectively, which was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded liabilities over an open period of 30 years.

	<u>Benefit Obligation at Normal Cost</u>	
	<u>2011</u>	<u>2010</u>
Actuarial accrued liability (AAL) retired and active employees	\$ <u>1,027,127</u>	<u>701,700</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>1,027,127</u>	<u>701,700</u>
	<u>Annual Required Contribution (ARC)</u>	
	<u>2011</u>	<u>2010</u>
Past service costs	\$ 41,456	26,700
Normal costs	<u>65,003</u>	<u>38,000</u>
Annual required contribution (ARC)	\$ <u>106,459</u>	<u>64,700</u>
Percent of annual OPEB cost contributed	17.6%	11.4%

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Notes to Financial Statements, Continued

(7) Postemployment Benefit Plans, Continued

(c) Annual Other Postemployment Benefit Cost, Continued

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

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type 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.

In the December 31, 2011 valuation, the liabilities were computed using the projected unit credit cost 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.

(8) Commitments

(a) Solid Waste Disposal Service Agreement

The Agency and Dutchess County entered into a solid waste disposal service agreement dated December 1, 1984, amended September 20, 1990 and September 1993. The County agreed to deliver at least 140,000 tons per year of solid waste to the plant and to pay net service fees to the Agency amounting to the excess of payments for debt service and reserves, fees to the contractor and accrued expenses over tipping fees, energy and other revenues. It is the Agency's obligation to process and to provide for disposal of the solid waste. The terms of the agreement were extended during 2007 to remain in effect through July 1, 2027.



## DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

### Notes to Financial Statements, Continued

#### (8) Commitments, Continued

##### (b) Operations Service Agreement

The Agency has entered into an operations service agreement, with a commercial corporation wherein the corporation has agreed to operate the resource recovery plant, and the Agency is required to provide the plant with a guaranteed amount of solid waste, provide an ash landfill, and pay fees to the corporation. The agreement is to be in effect through June 2014.

The Agency has contracted to pay to the corporation \$34 per net ton of solid waste processed, adjusted based upon changes in labor and material price indexes, 15% of revenues from electrical energy sales, up to a break-point and 50% of revenues from electrical energy sales in excess of agreed-upon levels, and, after meeting certain steam production levels, additional compensation based on 15% of the related electrical energy sales. In addition, the Agency has contracted to pay utilities, insurance and certain other expenses pertaining to plant operations subject to certain maximum levels.

In addition, the Agency is required to pay the corporation \$500,000 per year, plus an adjustment for price index increases to reimburse the corporation for repairs and replacement of major components of the plant.

The Agency's current operating permit allows for up to 164,000 tons to be processed at the plant. However the Agency is required to supply the corporation with a minimum of 140,000 tons or pay the corporation \$34 a ton for each ton of solid waste below that amount which is not delivered to the plant adjusted based upon changes in labor and material price indexes. However, during 2011 and 2010 the Agency caused to have delivered 141,563 and 145,658 acceptable tons.

##### (c) Power Sales Agreement

The Agency and a commercial corporation have entered into a power sales agreement dated November 1, 1984. The Agency agrees to sell all electricity produced by the plant in excess of its own requirements to the corporation at a price based on tariffs filed with the New York State Public Service Commission. The terms of the agreement are effective through January 1, 2008 and include provisions for an automatic renewal for two consecutive 5-year periods.

##### (d) Transportation of Ash Residue and Non-processable Waste

Effective January 2, 1999, the Agency executed a contract with a commercial corporation for the transportation of ash residue and non-processable waste to a municipal landfill for the period of January 2, 1999 through December 31, 2001 for incineration residue up to 40,000 tons per year, and up to 6,000 tons for unprocessed waste per year. The contract has continued in effect through report date on similar terms.

Commencing in November 2004, the Agency executed an amendment to the contract that the commercial corporation shall deliver up to 10,000 tons per year at a cost of \$25 per ton to an alternate landfill site.

## DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

### Notes to Financial Statements, Continued

#### (8) Commitments, Continued

##### (e) Landfill Agreement

As of January 2008, the Agency entered into contracts with four different landfills to deliver ash residue and by-pass waste. Three of the contracts with the landfills are five year agreements which will expire on December 31, 2012. The fourth contract expired on December 31, 2011 and has been renewed/extended for a term of one year, from January 1, 2012 to December 31, 2012. The terms of these agreements vary based on amount of tons that can be delivered to each landfill and the cost per ton.

##### (f) Recyclable Processing Agreement

The Agency and Dutchess County entered into a revised recyclable processing agreement dated February 1, 1999. The County agreed to deliver at least 125 tons per week of uncontaminated recyclable materials to the Materials Recovery Facility, and it is the Agency's obligation to accept, process, and market recyclable materials. The Agency shall have the right to charge the County and the County shall have the obligation to pay the Agency net processing fees, as defined in the contract. The original terms of the agreement were in effect through December 2002, but include provisions for automatic renewal in five year increments.

##### (g) Materials Recovery Facility Project Agreement

The Agency entered into an agreement through December 31, 2008, with a commercial corporation to operate its materials recovery facility. This agreement has been extended on a month to month basis through June 2011. The Agency provided the plant with commingled and source separated recyclable materials, provided the removal and disposal of rejected materials, and paid to the corporation service fees to operate the facility \$151,085 and \$300,000, respectively, for the years ending December 31, 2011 and 2010. Effective June 30, 2011 through December 31, 2012, all recyclable materials received are transferred to the corporation's facility. The Agency is responsible for scale functions and receives a per ton fee. Effective June 30, 2011, payment of service fees has been eliminated and is no longer required.

#### (9) Economic Dependency

As described in note 8 - commitments, the Agency is entitled to receive net service fees from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover operating expenses and debt service requirements. Although these payments are subject to resolutions by the Dutchess County Legislature approving the appropriation, no approvals have been withheld to date by the Legislature. For the years ended December 31, 2011 and 2010, the Agency recorded net service revenue of \$3,644,079 and \$4,012,233.

## DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

### Notes to Financial Statements, Continued

#### (10) Contingencies

##### (a) Operating Permits

The Agency is required to maintain operating permits for its small power production and solid waste management facility. The 360 Operating permit expired in July 2011 and the Title V Air Control permit expired in September 2011. Applications to renew each permit were submitted to the New York State Department of Environmental Conservation (NYSDEC) prior to their expiration. The Title V Air Control permit has been renewed and runs through September 2016. The 360 Operating permit is pending NYSDEC approval of a Local Solid Waste Management Plan, which is to be submitted by Dutchess County.

##### (b) Operations Service Agreement

The Agency is in the process of finalizing its 2008, 2009, 2010 and 2011 annual engineer reports with the corporation that is operating the resource recovery plant. Certain amounts and calculations from the final engineer reports may vary from those originally prepared based on continuing negotiations between the Agency and the corporation.

#### (11) Related-Party Transactions

As more fully described in note 9 - economic dependency, Dutchess County is responsible for net service fees due to the Agency. These fees amounted to \$3,644,079 and \$4,012,233 during 2011 and 2010. At December 31, 2011 and 2010, \$785,651 and \$817,509 was due from Dutchess County and included in due from related party.

During 2011 and 2010, the Agency participated in the health and dental insurance plan administered by Dutchess County and was charged \$122,637 and \$117,502, respectively.

In addition, Dutchess County allows the Agency to use the building designated for the Dutchess County Materials Recovery Facility rent-free.

REQUIRED SUPPLEMENTAL INFORMATION

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

Schedule of Funding Progress for  
Other Postemployment Benefit Plan

December 31, 2011 and 2010

The Schedule of funding progress presents the results of OPEB valuations for the past three years. All determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

<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>
12/31/2011	12/31/2011	\$ -	1,027,127	1,027,127	0%	333,459	308.02%
12/31/2010	8/1/2009	-	701,700	701,700	0%	360,022	194.90%
12/31/2009	8/1/2009	-	639,300	639,300	0%	376,763	169.68%

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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**

The Board of Directors  
Dutchess County Resource Recovery Agency:

We have audited the financial statements of the Dutchess County Resource Recovery Agency (the Agency), a component unit of the County of Dutchess, New York as of and for the year ended December 31, 2011, and have issued our report thereon dated March 23, 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 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 Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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 was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 management, Board of Directors, others within the Agency and appropriate officials of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Toski & Co., CPAs, P.C.

Williamsville, New York  
March 23, 2012