

**DUTCHESS COUNTY WATER &
WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

TABLE OF CONTENTS

<u>REPORTS</u>	<u>PAGE(S)</u>
Independent Auditors' Report	1-2
Report on Internal Control Over Financial Reporting And Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Management's Discussion and Analysis	5-15
 <u>FINANCIAL STATEMENTS</u>	
Statements of Net Assets	16-17
Statements of Revenues, Expenses and Changes in Net Assets	18
Statements of Cash Flows.....	19-20
Notes to the Financial Statements.....	21-40
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Schedule of Funding Progress for Other Post-employment Benefit Plan	41

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, 2010 and 2009, 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, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years 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 11, 2011 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.

The Management's Discussion and Analysis and the Schedule of Funding Progress for the Other Postemployment Benefit Plan, listed in the Table of Contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sedon Hudson Valley CPAs

Poughkeepsie, New York
March 11, 2011

**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, 2010, which collectively comprise the Dutchess County Water & Wastewater Authority's basic financial statements, and have issued our report thereon dated March 11, 2011. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record,

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3

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process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Dutchess County Water & Wastewater Authority's financial statements that is more than consequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 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.

Sedore Hudson Valley CPAs

Poughkeepsie, New York

March 11, 2011

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
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, 2010. 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 owns and operates a total of nine water systems and three sewer systems and, in addition, operates a 13 mile water transmission line. The Authority provides service in the aggregate to 2,940 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 service area. 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.

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

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

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, Staatsburg Water and portions of the Hyde Park Water System) use estimates for those remaining months in the fiscal year which have not yet been billed. With the exception of the Shore Haven Water System and the Central Dutchess Water Transmission Line, all customer rates remained at their 2009 levels for the 2010 budget year. In 2010, we saw weather with an above average rainfall in the area compared to 2009, which experienced a slightly below normal wet weather pattern. As drier years can artificially inflate water use, revenue expectations for the 2010 budgets were based on conservative numbers evaluating the average use of the prior two year's billing history.

Water and Sewer Sales revenues varied in 2010. In particular, the Dalton Farms, Rokeby, Valley Dale and Zone D water systems 2010 revenues were less than in 2009. However, with the exception of Zone D, these systems met their budgeted revenue expectations. As the Dalton Farms Sewer system billing is based on the same usage figures that generate the revenue for the water system, it also experienced a decrease in revenue from the prior year, but met its budgeted revenue target. The Zone D water system revenues fell short of budgeted expectation by less than 3.5%. 2009 was the first full year of operation for the Shore Haven Water System and as such, is showing a 28.5% increase over 2009 revenues. Although the Central Dutchess Water Transmission Line appears to show a significant decrease in revenues, this is due to a new classification of a portion of the 2010 water sale revenues as deferred to 2011. The Staatsburg and Zone D Water Systems purchase their water from the Hyde Park Water System and the allocation is handled as a portion of the production costs. In 2009, these two systems experienced allocation adjustments to their water purchase price which brought them to consistency with the Hyde Park Water customers for the cost of water production. The following represent the sales revenue numbers for 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<u>Sewer Revenues</u>		
Chelsea Cove	\$334,631	\$333,276
Dalton Farms	282,200	297,142
Valley Dale	<u>117,999</u>	<u>116,243</u>
Subtotal	\$734,830	\$746,661
<u>Water Sale Revenues</u>		
Birch Hill	56,148	55,455
CDWTL	1,649,435	1,878,728
Dalton Farms	156,589	166,112
Hyde Park	1,177,505	1,089,187

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

Rokeby	28,927	29,307
Schreiber	19,097	18,092
Staatsburg	268,818	257,573
Shore Haven	89,308	69,523
Valley Dale	74,210	75,653
Zone D	<u>178,498</u>	<u>178,901</u>
 Subtotal	 \$3,698,535	 \$3,818,531
 Total Sales Revenues	 \$4,433,365	 \$4,565,192

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

	<u>2010</u>	<u>2009</u>
 Rental Fees And Other Operating Revenue	 \$100,844	 \$103,485

2010 AUTHORITY OPERATIONS

In 2010 the Authority continued its successful management and operation of all systems.

The Authority currently provides services to over 4,100 customer accounts located in seven towns within the County. With the exception of the recently acquired Shore Haven Water System, all systems were in compliance with all relevant federal, state and local laws and regulations.

The Authority uses staff for operation and maintenance of the Hyde Park, Staatsburg and Zone D 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 2010 ended the fiscal year within their budgeted amounts. Funds remaining were evaluated for use to either offset rate increases for 2011 or to remain in fund balance for anticipated improvement expenses.

Below are some of the system operational highlights from 2010:

- Ground Water Under Direct Influence sampling was completed for the Shore Haven system, resulting in a Health Department determination that wells are not surface-water influenced.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

- New flushing hydrants were installed and monthly flushing has been undertaken in order to address accumulation of sediment in the Shore Haven distribution system.
- A study was completed on the Hyde Park Water Treatment Facility sludge processing facilities, in order to identify options to increase capacity and improve efficiency of the facilities. Selected improvements will proceed to design and construction in 2011.
- A variable speed pump was installed in the Zone D pressure booster station.
- Seven water main breaks were repaired, along with thirteen service line leaks.
- A new meter pit was installed at the Mills-Norrie State Park site in Staatsburg
- Ground Water Under Direct Influence sampling was completed for the Schreiber Water System Well #2, resulting in a Health Department determination that the well is not surface-water influenced

MAJOR CAPITAL PROJECTS

Several major capital project initiatives were advanced during 2010:

Hyde Park Water Route 9G Interconnection - Construction was completed on the 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. Service line connections, final restoration and contract close out will be completed in the spring of 2011.

Springwood Village Asbestos Cement Pipe Replacement – Engineering design and permitting was completed for the replacement of approximately 4,000 feet of asbestos cement lined pipe in the Hyde Park Water System. Construction will take place in 2011.

Hyde Park Water Storage Tank Re-Coating Project – Engineering design was commenced for the re-coating of the south (1.0 million gallon) and north (0.75 million gallon) water storage tanks. Design will be completed, and construction commenced, in 2011.

Shore Haven Water System The Authority completed a meter installation project in its Shore Haven Water System (Town of Pawling), funded primarily through a federal ARRA stimulus grant. Engineering design has commenced on water system treatment improvements to address disinfection by-products, radionuclide and iron and manganese problems within the Shore Haven system. Plans and permitting were completed for a new water supply well, to be drilled in early 2011.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

Birch Hill Water System Improvements – Engineering design has been completed for water treatment system improvements to address iron and manganese water quality issues. In response to a new regulatory requirement from the Health Department, engineering design was also completed for the treatment of radionuclides. The pump house building and electrical systems will also be upgraded as part of the project. Permits will be obtained and construction commenced in early 2011.

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 2010 included the following:

Red Hook Sewer Project - At the request of the Town and Village of Red Hook, the Authority will take the lead in the construction of a low pressure sewer collection system, and the acquisition and expansion of the Red Hook Commons Sewer Plant, to provide sewer service to approximately 191 properties located along the existing commercial corridor of the Village and Town along Broadway and Market Street. Preliminary commitments were obtained for \$3.85 million in grant money and \$4.35 million in zero percent interest loans to fund the proposed Red Hook Sewer Project. Funding commitments will be finalized after the district creation process is completed in early 2011.

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. In 2010 the expenses associated with these funds were reclassified as non-operating and 2009 expenses were re-classified as well. The project and community assistance activities in 2010 included the following:

Amenia Sewer - The Authority has continued to work with the Town of Amenia Wastewater Committee to evaluate the feasibility of providing central sewer services to the Town's Hamlet of Amenia. At the request of the Town, the Authority has taken the lead on the project. Negotiation has continued on a Memorandum of Agreement with the Town, as well as with the developers of the proposed Silo Ridge Resort Community Project in the Town of Amenia, whom have agreed to provide treatment capacity for the Amenia Hamlet at the wastewater treatment plant they intend to construct as part of their Silo Ridge project.

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

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

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, which is now under consideration by the Village and Town boards.

Town of Stanford Town Center Feasibility Study - At the request of the Town of Stanford, the Authority is providing technical and funding assistance to evaluate the feasibility of developing central water and wastewater facilities in support of the development of a Town Center area.

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 (re-financed in 2010) 2000, 2001, 2002, 2004, 2007 and 2009 Bonds issued by the Authority. The 2009 Service Agreement Revenue Bonds, issued in the amount of \$9,352,251, were issued to provide improvements to the Hyde Park, Birch Hill and Shore Haven 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 and Shore Haven Water Systems. In 2010 the Authority issued a Service Agreement Revenue Note in the amount of \$1,905,800 to fund additional improvements to the Hyde Park and Birch Hill water systems with a plan to issue long-term financing in 2011.

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 relevy any unpaid water or sewer bills. The Authority annually provides the County with a list and dollar amount for those properties in arrears. The County then places these amounts on the property tax bills for the following fiscal year and these amounts are then paid to the Authority. This places the Authority in the position of being at 100% collection of its water and sewer sales revenues.

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

	December 31, 2010	December 31, 2009
	<u> </u>	<u> </u>
<u>Operating Revenues:</u>		
Water Sales	\$3,698,535	\$3,818,531
Sewer Charges	734,830	746,661
Rental Fees, Other Operating Revenue	100,844	103,485
Total Operating Revenues	<u>4,534,209</u>	<u>4,668,677</u>
<u>Operating Expenses:</u>		
Operation and Maintenance	3,227,325	3,168,555
Administration and General	1,094,921	1,082,979
Depreciation	980,761	988,609
Total Operating Expenses	<u>5,303,007</u>	<u>5,240,143</u>
Operating (Loss)	(768,798)	(571,466)
<u>Non-Operating Revenues (Expenses):</u>		
Interest and Investment Income	502,896	353,520
Projects Grants and Capital-Related Funding		
Dutchess County	2,965,185	2,506,550
Federal Grants	58,607	-
Project Administration and General	(290,175)	(370,860)
Other Revenues	17,240	15,246
Interest Expense	(1,687,720)	(1,654,646)
Bond Issuance Costs	(40,234)	(44,926)
Amortization	(76,250)	(78,620)
Net Non-Operating (Revenues)	<u>1,449,549</u>	<u>726,264</u>
Changes in Net Assets	\$680,751	\$154,798

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

FINANCIAL POSITION SUMMARY

Net assets can serve over time as a useful indicator of the Authority's financial position. The sale of State and Local Government Series Securities which resulted in additional investment earnings, and increased Project Grants and Capital-Related Funding played the primary role in the 2010 change in Net Assets. In addition, debt is currently being paid down at a faster rate than assets are being depreciated. Accreted interest (accrued interest pertaining to zero coupon bonds) is being accrued but will not be due until 2021 and beyond when principal payments in similar amounts will no longer be due. As a result, we show the expense, but we are not scheduled at this time to collect the offsetting revenue.

	December 31, 2010	December 31, 2009
ASSETS:		
Current and other assets	\$15,767,521	\$15,819,341
Capital assets	52,872,151	51,500,754
TOTAL ASSETS	68,639,672	67,320,095
LIABILITIES:		
Long-term debt outstanding	35,196,438	36,679,308
Deferred Revenues	27,289,371	27,859,528
Other liabilities	6,152,690	3,460,837
TOTAL LIABILITIES	68,638,499	67,999,673
NET ASSETS:		
Restricted Funds	2,300,496	2,054,625
Invested in Capital – Type Assets		
Net of Related Debt	(1,577,191)	(2,458,624)
Unrestricted	(722,132)	(275,749)
TOTAL NET ASSETS	\$1,173	\$(679,578)

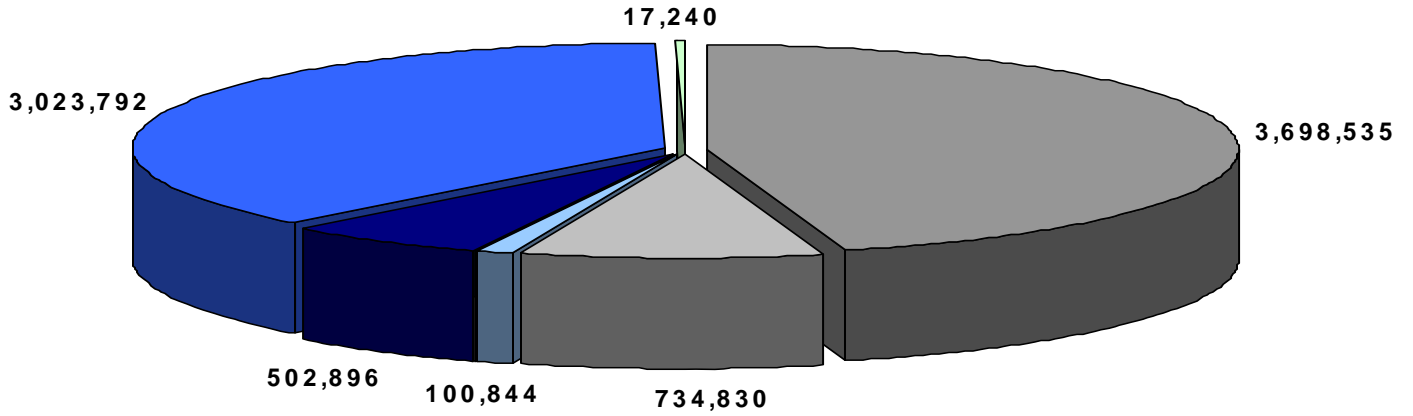
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

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.

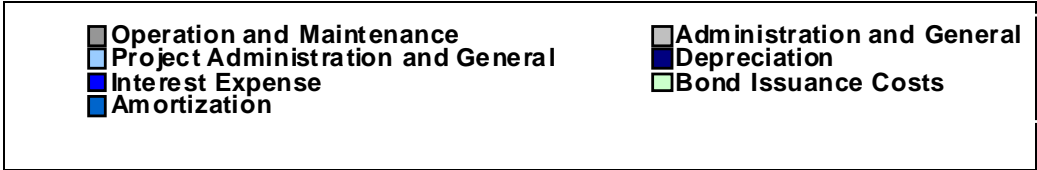
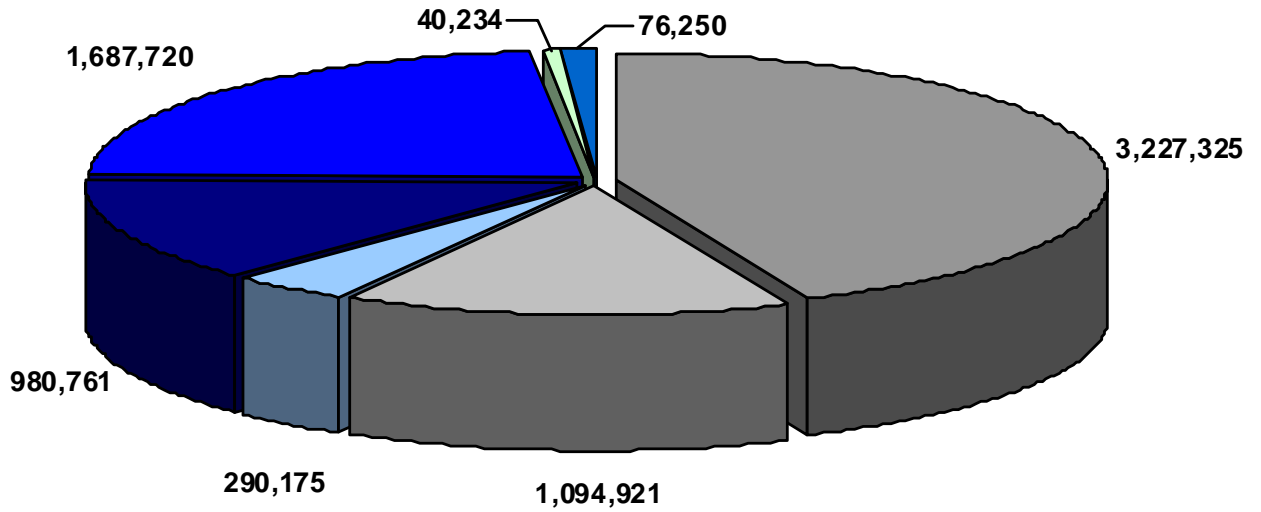
DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

DCWWA - Actual - 2010 Revenues \$8,078,137



DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY
DECEMBER 31, 2010
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Un-audited)

DCWWA - Actual - 2010 Expenses \$7,397,386



DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	December 31, <u>2010</u>	December 31, <u>2009</u>
Current Assets:		
Cash and Cash Equivalents	\$ 3,475,122	\$ 2,772,632
Cash and Cash Equivalents-Restricted	7,391,318	7,861,943
Accounts Receivable	1,214,543	1,385,912
Prepaid Expense	<u>40,948</u>	<u>45,704</u>
Total Current Assets	12,121,931	12,066,191
Cash and Cash Equivalents-Restricted Non-current	2,583,418	2,614,730
Property, Plant and Equipment Less Accumulated Depreciation	52,872,151	51,500,754
Deferred Bond Financing Costs, Net of Accumulated Amortization	<u>1,062,172</u>	<u>1,138,420</u>
Total Assets	<u>\$ 68,639,672</u>	<u>\$ 67,320,095</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, 2010 AND 2009

	December 31, <u>2010</u>	December 31, <u>2009</u>
Current Liabilities:		
Accounts Payable	\$ 377,051	\$ 276,527
Accrued Expenses Payable	137,859	123,845
Accrued Interest Payable	176,899	288,989
Due to Other Governments	11,441	26,652
Current Portion of Bonds Payable	1,871,923	1,635,000
Service Agreement Revenue Notes Payable	1,905,800	-
Retainage Payable	181,313	-
Current Portion of Deferred Revenues	814,452	605,353
Escrow Deposits	<u>66,052</u>	<u>69,971</u>
Total Current Liabilities	5,542,790	3,026,337
Deferred Revenues	27,289,371	27,859,528
Bonds Payable	35,196,438	36,679,308
Post Employment Benefit Obligations	<u>609,900</u>	<u>434,500</u>
Total Liabilities	<u>68,638,499</u>	<u>67,999,673</u>
Net Assets:		
Invested in Capital - Type Assets		
Net of Related Debt	(1,577,191)	(2,458,453)
Restricted Net Assets	2,300,496	2,054,624
Unrestricted	<u>(722,132)</u>	<u>(275,749)</u>
Total Net Assets	<u>1,173</u>	<u>(679,578)</u>
Total Liabilities and Net Assets	<u>\$ 68,639,672</u>	<u>\$ 67,320,095</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, 2010 AND 2009

	Year Ended, <u>2010</u>	Year Ended, <u>2009</u>
Operating Revenues:		
Water Sales	\$ 3,698,535	\$ 3,818,531
Sewer Charges	734,830	746,661
Rental Fees and other operating revenues	<u>100,844</u>	<u>103,485</u>
Total Operating Revenues	4,534,209	4,668,677
Operating Expenses:		
Operation and Maintenance	3,227,325	3,168,555
Administration and General	1,094,921	1,082,979
Depreciation	<u>980,761</u>	<u>988,609</u>
Total Operating Expenses	5,303,007	5,240,143
Operating (Loss)	(768,798)	(571,466)
Non-Operating Revenues (Expenses):		
Interest and Investment Income	502,896	353,520
Project Grants and Capital-Related Funding		
Dutchess County	2,965,185	2,506,550
Federal Grants	58,607	-
Project Administration and General	(290,175)	(370,860)
Other Revenues	17,240	15,246
Interest Expense	(1,687,720)	(1,654,646)
Bond Financing Costs	(40,234)	(44,926)
Amortization	<u>(76,250)</u>	<u>(78,620)</u>
Net Non-Operating Revenues	1,449,549	726,264
Change in Net Assets	680,751	154,798
Net Assets, January 1	<u>(679,578)</u>	<u>(834,376)</u>
Net Assets, December 31	<u>\$ 1,173</u>	<u>\$ (679,578)</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, 2010 AND 2009

	Year Ended, <u>2010</u>	Year Ended, <u>2009</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 4,813,832	\$ 4,316,586
Payments to suppliers	(2,434,277)	(2,903,040)
Payments to employees and benefits	(1,625,136)	(1,360,317)
Rental fees and other operating revenues received	<u>100,844</u>	<u>103,485</u>
Net cash provided (used) by operating activities	855,263	156,714
Cash Flows from Non-Capital Financing Activities:		
Project Grants and Capital-Related Funding	<u>2,718,892</u>	<u>2,490,781</u>
Net cash provided by non-capital financing activities	2,718,892	2,490,781
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(2,734,835)	(362,893)
Other capital-related receipts and (disbursements)	38,528	(331,560)
Repayments of service agreement revenue notes	-	(1,500,000)
Proceeds of bond issue	-	8,697,524
Net bond premium proceeds	-	142,170
Proceeds of service agreement revenue note issue	1,905,800	-
Principal paid on capital debt	(1,733,077)	(1,395,000)
Interest paid on capital debt	(1,312,680)	(1,117,830)
Return of surplus Utility Corridor funds to participants	-	(4,209,736)
Bond financing costs paid	<u>(40,234)</u>	<u>(44,926)</u>
Net cash provided (used) by capital and related financing activities	(3,876,498)	(122,251)
Cash Flows from Investing Activities		
Interest and investment income received	<u>502,896</u>	<u>353,520</u>
Net cash provided by investing activities	502,896	353,520
Net Increase in Cash and Cash Equivalents	200,553	2,878,764
Cash and Cash Equivalents at the Beginning of the Year	<u>13,249,305</u>	<u>10,370,541</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 13,449,858</u></u>	<u><u>\$ 13,249,305</u></u>
Presented as:		
Cash and Cash Equivalents	\$ 3,475,122	\$ 2,772,632
Cash and Cash Equivalents - Current - Restricted	7,391,318	7,861,943
Cash and Cash Equivalents - Non Current - Restricted	<u>2,583,418</u>	<u>2,614,730</u>
Total	<u><u>\$ 13,449,858</u></u>	<u><u>\$ 13,249,305</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, 2010 AND 2009

	Year Ended, <u>2010</u>	Year Ended, <u>2009</u>
Reconciliation of operating (loss) to net cash (used) by operating activities		
Operating (Loss)	\$ (768,798)	\$ (571,466)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	980,761	988,609
Changes in Assets and Liabilities:		
Accounts Receivable	171,369	(248,606)
Prepaid Expenses	4,756	3,962
Accounts Payable	100,524	(159,811)
Accrued Expenses Payable	14,014	(19,497)
Post Employment Benefit Obligations	175,400	175,400
Capital Liabilities included in Accounts Payable	(31,862)	(11,877)
Deferred water sale revenues	<u>209,099</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 855,263</u>	<u>\$ 156,714</u>

Non-cash investing, capital and financing activities:

In May, 2010, the New York State Environmental Facilities Corporation re-financed its debt, resulting in the payment of the 1998D, 1998A and 199B debt series with proceeds of the 2010C debt series, amounting to \$11,266,923. As these transactions were completed on the Authority's behalf, it neither received nor disbursed the 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, 2010 AND 2009

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, 2010 AND 2009

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, 2010 AND 2009

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, 2010 AND 2009

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, 2010 AND 2009

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 2009 and 2010 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, 2010 AND 2009

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; 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, 2010 AND 2009

3. Cash Equivalents and Investments (Continued)

<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	\$ 548,709	\$ 2,926,413	\$ -	\$ 3,475,122
<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>

<u>Balances as of December 31, 2009</u>				
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>
Cash in Banks	\$ 56,859	\$ 2,715,773	\$ -	\$ 2,772,632
<u>Investments:</u>				
Money Market Funds	\$ 8,972,980	\$ -	\$ -	8,972,980
U.S. Treasury Bills & Notes	<u>1,503,693</u>	<u>-</u>	<u>-</u>	<u>1,503,693</u>
Investments Total	<u>\$ 10,476,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,476,673</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, 2010 AND 2009

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>2010</u>	<u>2009</u>
Litigation Reserve Funds	\$ 275,796	\$ 275,796
Construction Reserve Funds	6,793,611	7,429,384
Debt Service Sinking Funds	59,002	71,690
Debt Service Reserve Funds	<u>262,909</u>	<u>85,073</u>
Current Restricted Funds	7,391,318	7,861,943
Debt Service Reserve Funds	<u>2,583,418</u>	<u>2,614,730</u>
Total	<u><u>\$ 9,974,736</u></u>	<u><u>\$ 10,476,673</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, 2010 AND 2009

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	<u>Balance as of</u> <u>January 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of</u> <u>December 31, 2010</u>
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	120,255	-	-	120,255
Buildings	12,181,920	-	-	12,181,920
Water System	45,742,521	67,370	-	45,809,891
Machinery and Equipment	4,668,359	30,755	-	4,699,114
Sewage Collection System	1,364,871	-	-	1,364,871
Construction in Progress	<u>646,724</u>	<u>2,849,886</u>	<u>-</u>	<u>3,496,610</u>
Sub-total	65,559,458	2,948,011	-	68,507,469
Less: Accumulated Depreciation	<u>(14,058,704)</u>	<u>(1,576,614)</u>	<u>-</u>	<u>(15,635,318)</u>
Net Property, Plant and Equipment	<u>\$ 51,500,754</u>	<u>\$ 1,371,397</u>	<u>\$ -</u>	<u>\$ 52,872,151</u>

Depreciation was recorded in the amount of \$1,576,614 and \$1,584,472 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, 2010 and 2009. The effect of netting these amounts resulted in \$980,761 and \$988,609 in depreciation expense for the years ended December 31, 2010 and 2009, respectively.

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

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 \$131,574, \$104,762 and \$115,786, 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, 2010 AND 2009

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 are no retiree's 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 not paying post-employment benefits for any individuals. Although the Authority is considering the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding.

C. Annual Other Post-employment Benefit Cost

The Authority's OPEB cost (expense) amounted to \$175,400 for each of the years ended December 31, 2010 and 2009. The Authority's OPEB cost was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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, 2010 AND 2009

7. Post-employment Benefits (Continued)

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

Benefit Obligations at Normal Cost

Actuarial Accrued Liability (AAL)	
Retired employees (0)	\$ -
Active employees (20)	1,703,200
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,703,200</u>

Level Dollar Amortization

Past Service Costs	\$ 64,800
Normal Costs	110,600
Annual Required Contribution (ARC)	<u>\$ 175,400</u>

Percent of annual OPEB cost contributed	0%
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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, 2010 AND 2009

7. Post-employment Benefits (Continued)

D. Actuarial Methods and Assumptions (continued)

In the August 1, 2009, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 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 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 and 2010.

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, 2010 AND 2009

8. Long Term Obligations (Continued)

B. Description of Bonds Payable

	<u>2010</u>	<u>2009</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%	265,000	\$ 310,000
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	325,000
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 1999B, due in various installments through 2019, interest 3.97%-5.43%	-	11,125,000
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 1999B, due in various installments through 2019, interest 3.97%-5.43%	-	240,000
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	525,000	565,000
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	1,223,410	1,223,410
2002 Service Agreement Revenue (Refunding) Bond Series 2002 Harbour Hills, due in various installments through 2021, interest 1.333%-5.063%	1,980,000	2,130,000

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

8. Long-Term Obligations (Continued)

B. Description of Bonds Payable (continued)

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%	360,000	380,000
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,625,000	1,710,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,725,000	1,815,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00%-5.00%	1,795,000	1,830,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00%-4.625%	360,000	375,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	7,160,000	7,350,000
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	-

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

8. Long-Term Obligations (Continued)

Water and Drinking Water Revolving Fund Revenue (Refunding)		
Bond Series 2010C, due in various installments through 2019, interest .8450%-3.355%	10,326,923	-
Total Bonds Payable	34,716,475	34,543,752
Accreted Interest Recorded on Zero Coupon Bonds	4,257,681	3,770,551
Total Bonded Debt Payable	38,974,156	38,314,303
Portion Due Within One Year	(3,777,718)	(1,635,000)
Net Long Term Debt Payable	\$ 35,196,438	\$ 36,679,303

C. Changes

	Balance at January 1, <u>2010</u>	New Issues/ <u>**Additions</u>	Maturities and/or <u>Payments</u>	Balance at December 31, <u>2010</u>	Due within <u>One Year</u>
Bonds Payable	\$ 38,314,308	\$ 13,659,848	\$ (13,000,000)	\$ 38,974,156	\$ 3,777,723
OPEB liability (see Note 7)	434,500	175,400	-	\$ 609,900	-
	\$ 38,748,808	\$ 13,835,248	\$ (13,000,000)	\$ 39,584,056	\$ 3,777,723

**Bonds payable increased by \$487,130 in adjustments for accreted interest on 1998 series one, 2001 debt, and 2009 debt.

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

8. Long-Term Obligations (Continued)

D. Debt Service Requirements

Debt Service requirements to maturity as of December 31, 2010 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,777,718	\$ 1,002,202	\$ 4,779,920
2012	1,920,000	936,220	2,856,220
2013	1,955,000	887,835	2,842,835
2014	1,985,000	837,659	2,822,659
2015	2,070,000	780,248	2,850,248
2016-2020	10,056,591	3,890,930	13,947,521
2021-2025	6,355,315	7,212,023	13,567,338
2026-2030	4,286,696	5,923,281	10,209,977
2031-2035	1,438,732	2,320,968	3,759,700
2036-2040	841,098	1,925,398	2,766,496
2041-2044	30,320	1,448	31,768
Totals	<u><u>\$34,716,470</u></u>	<u><u>\$25,718,212</u></u>	<u><u>\$60,434,682</u></u>

E. 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. At December 31, 2010, the balance of the 2001 and 1999 defeased debt outstanding was \$1,925,000 and \$-0-, respectively.

The Authority recorded a deferred loss in the amount of \$97,853 pertaining to the 2001 Series debt, representing the difference between the net carrying value of the old debt and the reacquisition price. This loss will be amortized over the life of the new debt. The present values of the difference in debt service requirements including subsidies obtained through the New York State Environmental Facilities Corporation has resulted in an economic gain of \$272,360, while the difference in net cash flows resulted in a net savings of \$348,852.

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

8. Long-Term Obligations (Continued)

E. Advance Refunding and Defeasance of Debt (Continued)

In May 2010, 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 Clean Water and Drinking Water Revolving Funds Series 1998D, 1999A, and 1999B, amounting to \$11,266,923. A net present value savings of \$979,741 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.

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

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

9. Deferred Revenues (Continued)

\$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, 2010 and 2009 and was recorded net of depreciation. The long term portion of deferred revenue amounted to \$27,289,371 and \$27,859,528 as of December 31, 2010 and 2009, all of which is related to the Utility Corridor. Current deferred revenue expected to be recognized in 2011 is as follows:

	<u>2010</u>	<u>2009</u>
Current Portion of Deferred Revenues:		
Utility Corridor	\$ 595,853	\$ 595,853
Dutchess County	9,500	9,500
Water Usage Billings Received in Advance	<u>209,099</u>	<u>-</u>
	<u>\$ 814,452</u>	<u>\$ 605,353</u>

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 coverage of \$20,000,000, business auto of \$1,000,000, general liability of \$3,000,000, property of \$32,863,374 and workers compensation 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

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

11. Commitments (Continued)

Authorized Debt (Continued)

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 2010 and 2009, the Authority recorded net revenues of \$2,965,185 and \$2,506,550, having recorded a return of \$50,241 and \$39,266 to the County during those years. Of those amounts, \$11,441 and \$26,166 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, 2010 AND 2009

The schedule of funding progress presents the results of OPEB valuations as of and for the years ended December 31, 2008, 2009, and 2010.

<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>
12/31/2008	8/1/2007	\$ -	\$ 1,329,500	\$ 1,329,500	0.0%	N/A	N/A
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