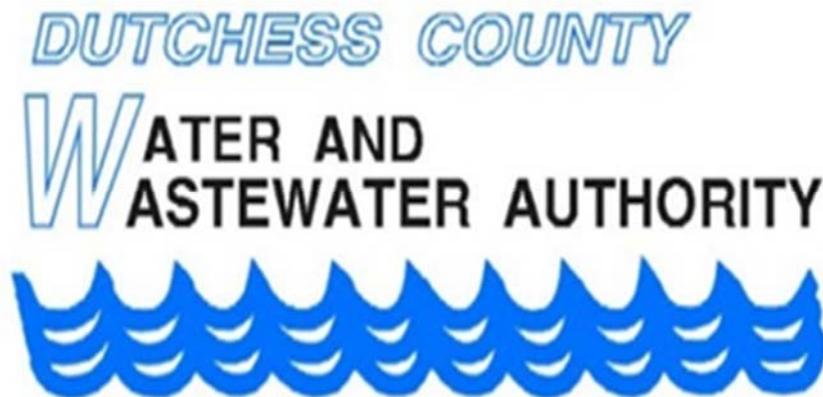


FINANCIAL REPORT
Audited
DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
(A Component Unit of Dutchess County, New York)
POUGHKEEPSIE, NEW YORK
December 31, 2018

Audited for:

Board of Directors
Dutchess County Water & Wastewater Authority



Audited by:

RBT CPAs, LLP
2678 South Road
Poughkeepsie, NY 12601
(845) 485-5547

DUTCHESS COUNTY WATER AND WASTEWATER AUTHORITY

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LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Dutchess County Water & Wastewater Authority
1 Lagrange Avenue
Poughkeepsie, New York 12603

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Dutchess County Water & Wastewater Authority (the "Authority"), a component unit of Dutchess County, New York, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and schedules of changes in the Authority's total OPEB liability and related ratios, proportionate share of the net pension liability, and employer contributions, on pages 3-12, 41-43 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.

Emphasis of Matter

As noted in Note IX to the financial statements, net position as of January 1, 2018 has been restated to reflect the implementation of GASB 75. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of the Dutchess County Water & Wastewater Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dutchess County Water & Wastewater Authority's internal control over financial reporting and compliance.

RBT CPAs, LLP

Poughkeepsie, New York
March 20, 2019

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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, 2018. 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, 2018, the Authority owned and operated a total of seventeen water systems, which include operation of a 13 mile water transmission line, and six sewer systems.

The Authority provides service in the aggregate to 3,779 separate water accounts and 1,668 separate sewer accounts. The Hyde Park Regional Water System provides water from the Authority's Hyde Park Water Treatment Plant on South Drive in the Town of Hyde Park to the Hyde Park service area (Zones A and B), the Staatsburg service area (Zone C) and the Zone D and Zone L service areas. The source of water for this conventional filtration treatment facility is the Hudson River. The Arbors and Greenbush/Violet Avenue water distribution systems are supplied with water purchased from the Poughkeepsie Joint Water Board. Said water is produced at the Joint Water Board's conventional treatment plant drawing from the Hudson River. The Authority purchases wholesale water for a total of one hundred twelve thousand gallons per day for the two systems, regardless of the actual volume of water taken. Ten water systems, including Birch Hill, Dalton Farms, Fairways, Greenfields, Pinebrook, Quaker Hills, Rokeby, Schreiber, Shore Haven and Valley Dale, each utilize groundwater wells and pumping and chlorination facilities, which are located within their respective service areas, with the Dalton Farms and Valley Dale Water plants also having cartridge filtration systems. A green sand filtration system is used at the Birch Hill Water System to reduce levels of iron and manganese. The Shore Haven Water System utilizes a chloramination disinfection system to control for disinfection by-product levels and a water softener system to control for iron and manganese. Greenfields Water utilizes ortho-polyphosphates to sequester iron and manganese. Pinebrook Water employs water softeners to aid in the reduction of iron and manganese.

The Central Dutchess Water Transmission Line (CDWTL) is a 13 mile water pipeline for which the Authority purchases water from the Poughkeepsie Joint Water Board to serve areas south to the Town of East Fishkill. The water is received at a connection point in the Town of Poughkeepsie. The Authority currently serves two customers at the southernmost end of the line, Global Foundries and the Hopewell Glen Water District in the Town of East Fishkill. In aggregate, the two customers have purchase contracts with the Authority for a total of two million and fifty thousand gallons per day. Beginning in the fall of 2018, additional service is now provided to two customers through a new system, the Airport Water Line. This system receives its water from the Central Dutchess Water Transmission Line and will add additional customers within the Town of Wappinger in 2019, in addition to providing water service to the Dutchess County Airport property. The Authority is the operator of this system and anticipates taking ownership sometime in 2019.

Five sewer systems, Chelsea Cove, Dalton Farms, Greenfields, Pinebrook and Valley Dale, each have rotating biological contact (RBC) treatment plants with tertiary treatment located on property within their service areas. The Fairways Sewer Plant consists of three separate treatment trains each including septic tanks followed by subsurface disposal fields. The Vanderburgh Cove Sewer Plant utilizes two bioclere trickling filters to treat the incoming waste stream.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

FINANCIAL OPERATIONS HIGHLIGHTS

Although most of the systems are billed based on customer usage, a large portion of the budgets (ranging from 50-70%) is comprised of expenses that would realize their budgeted expectations regardless of customer water (or sewer) usage levels, and are considered to be "State of Readiness" costs. As a result, budgets are prepared based on history and conservative projections for the coming fiscal year, determining a fiscally sound blend of Monthly Service Charges or Minimum Use Charges, in conjunction with water or sewer use charges. The 2018 budgets were based on customer usage levels derived from an evaluation of the prior two years' billing history, taking into consideration other field knowledge we were able to gather concerning changes to the customer base. Although most of the systems have single-tiered rate structures, the Arbors and Rokeby Water System have two and three tiered rate structures, respectively. The Chelsea Cove Sewer System, Fairways Sewer System, Greenbush Water System, Greenfields Sewer System, Pinebrook Sewer System, Quaker Hills Water System, Valley Dale Sewer System and the Vanderburgh Cove Sewer System are all billed with Flat Rate Fixed charges. Customer rates were increased from 2017 to 2018 in most systems, with the exception of the Greenfields Water and Sewer Systems and the Violet Avenue Water System. The rate changes resulted in increases ranging from 0.12% to 21.55% to the average user's total annual cost. Those increases that were above CPI for September 2017 (2.1%) were the result of decreased water use, rising costs of contract operations and/or budget increases to fund planned improvements to the system. The 2018 rate for the Central Dutchess Water Transmission Line remained at the 2017 level.

Water and sewer revenues experienced varying changes by system in 2018, with the aggregate showing an increase of 3.31% from 2017 to 2018. The primary reason for the increase was the full year reporting for Vanderburgh Cove Sewer for the 2018 fiscal year and the rate increases related to those systems most affected by operation contract increases.

For those systems for which the billing periods did not coincide with the Authority's 2018 fiscal year, revenue estimates were used for the remaining months in the fiscal year, with charges to be billed as a portion of their first 2019 billing cycle. This applies to the following systems; Arbors Water, Birch Hill Water, Chelsea Cove Sewer, Dalton Farms Water and Sewer, Fairways Water and Sewer, Greenfields Water and Sewer, Pinebrook Water and Sewer, Quaker Hills Water, Rokeby Water, Schreiber Water, Violet Avenue Water and portions of the Hyde Park Regional Water System.

All sewer systems fully owned and operated by the Authority for both 2017 and 2018 showed increases in revenues of from 0.55% to 10.65%. Dalton Farms Sewer System's increase of 4.37% was due to an increase in gallons sold. The Fairways Sewer System had an increase of 11.37%, primarily due to the rate increase. The Authority took over the operation of the Vanderburgh Cove Sewer System at the onset of 2018. As we took over responsibility for accounts payable and accounts receivable at that time, three months of revenue was recorded in the 2017 Financial Statements reflecting the last quarter billing for that year. The 2018 statement reflects the first full year of revenue for this system. Transfer of ownership will be in 2019.

Water system revenues for two systems declined in 2018. The Valley Dale Water System showed a drop of 16.72% in gallons sold over the prior year, resulting in a 7.71% decrease in water sales revenue, in addition to a marginal decrease in penalty fee collections. This is a significant change from prior years and will be monitored to determine if there is an overall change to the customer base usage. The demographics of the service area have been fairly consistent in prior years, with customers (count of 164 customer connections) all being single family residential. Our Hyde Park Regional Water System, which is comprised of six billing zones, showed varied degrees of usage changes, and experienced a decrease in revenue due to several large commercial users addressing what were determined to be long term leaks. These changes will be taken into account when evaluating future water sales.

The remaining water systems demonstrated varying degrees of increases in revenues, ranging from 0.92% to as high as 16.24%, with most increases due to changes in rates. However, the Pine Brook Water System showed an 8.71% increase in billed water use.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

We continue to monitor usage by system to determine whether patterns demonstrated in the 2018 fiscal year can be expected to continue in the future.

Most water and sewer systems were able to meet or exceed their 2018 budgeted revenue expectations. Those that did not (Birch Hill Water, Dalton Farms Water, Rokeby Water, Shore Haven Water, Valley Dale Sewer and Valley Dale Water, Schreiber Water and Zone D Water) were able to work within their 2018 budget limits due to savings in system expenses. The only exceptions were Shore Haven Water and Valley Dale Sewer, both of which were affected by changes to their operating functions that caused increases in expense lines.

The addition of a water softener for the Shore Haven Water System resulted in the need to periodically haul brine from the facility for off-site disposal. The volume and frequency of brine hauling was more than anticipated, causing expenses to exceed budget. In addition the improvements to the treatment system increased electric expenses. A change to the discharge permit for the Valley Dale Sewer System resulted in an unanticipated increase in chemical purchase expenses. This, in conjunction with repairs to pumps were the primary reasons for exceedance to the budgeted expenses. However, both systems have sufficient fund balances to offset these unanticipated expenses.

The fund balances in all Authority systems were evaluated for use to either offset rate increases for 2019 or to be held as contingency and to offset anticipated improvement expenses.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
<u>Sewer Revenues</u>		
Chelsea Cove	\$354,866	\$352,921
Dalton Farms	311,175	298,158
Fairways Sewer System	16,379	14,803
Greenfields Sewer System	138,407	138,148
Pinebrook Sewer System	83,054	81,123
Valley Dale	116,707	115,683
Vanderburgh Cove	86,499	17,522
Subtotal	1,107,087	1,018,358
<u>Water Sale Revenues</u>		
Arbors	48,140	46,000
Airport Water Line	908	0
Birch Hill	73,106	61,587
CDWTL	2,221,050	2,122,056
Dalton Farms	175,128	166,056
Fairways	40,130	39,765
Greenbush Water System	118,427	115,774
Greenfields Water System	90,096	88,180
Hyde Park	1,381,543	1,422,313
Pinebrook	54,393	47,751
Quaker Hills	53,819	53,190
Rokeby	26,782	25,265
Schreiber	19,236	17,037
Staatsburg	288,974	285,090
Shore Haven	91,417	78,647
Violet Avenue Water System	14,311	12,715
Valley Dale	66,928	72,690
Zone D	214,112	208,640
Zone L	<u>92,313</u>	<u>98,608</u>
Subtotal	<u>5,070,813</u>	<u>4,961,363</u>
Total Sales Revenues	<u>\$6,177,901</u>	<u>\$5,979,721</u>

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

Rental Fees and Other Operating Revenue	<u>\$120,376</u>	<u>\$119,361</u>
Total Operating Revenues	<u>\$6,298,276</u>	<u>\$6,099,082</u>

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

2018 AUTHORITY OPERATIONS

In 2018 the DCWWA continued its successful management and operation of twenty-five water and sewer systems, adding two new systems since 2017, and providing services to over 5,440 customers. All systems closed out 2018 within the adopted system budget parameters. Below are the system operational highlights from 2018:

- Construction was completed and operations began for the Dutchess County Airport Water Line, extending water service from the Central Dutchess Water Transmission Line to properties in the Town of Wappinger.
- DCWWA took over the Vanderburgh Cove Sewer System from the Town of Rhinebeck.
- Work was completed for the first phase of a project to update all Instrumentation and Control Systems at the Hyde Park Water Treatment Facility.
- A Bank Lock Box was established for receipt of customer bill payments, creating greater economies in costs associated with Accounts Receivable functions.
- DCWWA purchased and completed renovations to a building to house its administrative offices.

MAJOR CAPITAL PROJECTS

In 2018 the DCWWA continued the process of annually reviewing and updating a Five Year Capital Plan. The 2018-2022 Capital Plan includes \$13 million in funded capital project work. Below are the capital project highlights for 2018:

- Completed construction of the Shore Haven Water Treatment System Improvement Project.
- Completed construction of a new waterline connecting the Beekman Elementary School to the DCWWA's Dalton Farms Water System.
- Commenced construction of the Pinebrook Sewer Wastewater Treatment Plant Replacement Project.
- Commenced engineering design work to make repairs to the Greenfields Sewer Collection System, to address high inflow and infiltration.
- Obtained a \$2,022,705 grant from the NYS Water Infrastructure Improvement Act program to interconnect the Pinebrook Water System to the DCWWA's Hyde Park Water Treatment Facility.
- Awarded a contract for the installation of 650 new radio-read meters in 5 Hyde Park Water Systems, to be funded by a NYS Department of State grant.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

NEW SYSTEM ACQUISITIONS AND SYSTEM EXPANSIONS

- Entered into Agreements with the project sponsor for DCWWA ownership of the proposed water and sewer system for the proposed Red Hook Acres 102-unit residential development in the Town of Red Hook.
- Entered into Memoranda of Understanding with the developer of the proposed Bellefield Project in the Town of Hyde Park for the development and ownership of water and sewer services in support of the project.

INTER-MUNICIPAL COOPERATION

The Authority receives from the Dutchess County Division of Water Resources an annual allocation of funds which are utilized to support activities related to regional and community water and wastewater planning, and preliminary evaluation and development of potential Authority water and wastewater projects. The project and community assistance activities in 2018 included the following:

Town of Hyde Park – the Authority provided assistance to the Town of Hyde Park's efforts to create a Map, Plan and Report in support of the creation of a central sewer district.

Village of Tivoli – In partnership with the Village, a County Municipal Innovation Grant was awarded for the purpose of implementing the transfer of the Village's water and sewer systems.

Village of Rhinebeck – In partnership with the Village, a County Municipal Innovation Grant was awarded to evaluate the potential transfer to the DCWWA of the Village's water and sewer systems.

LONG-TERM DEBT ADMINISTRATION

The Authority has no taxing power, and its bonds are payable solely from the revenues, funds and assets pledged as security for the payment thereof, including payments from Dutchess County under the Service Agreements between the County and the Authority. These Service Fees include amounts sufficient to pay when due, all installments of principal of, premium, if any, and interest on all 1998, 2000, 2001, 2004, 2009, 2010, 2011, 2014, 2016 and 2018 Bonds issued by the Authority.

There is currently one Service Agreement with Dutchess County that covers all County Water District Zones of Assessment, and seven Service Agreements with the County, on behalf of Part-County Sewer Districts #1, 2, 3, 6, 7, 8 and 10 (Chelsea Cove, Valley Dale, Dalton Farms, Fairways, Pinebrook, Greenfields and Vanderburgh Cove), respectively. These Service Agreements require the Authority to provide service to properties within the established Zones of Assessment and/or Sewer Districts. The County has covenanted and agreed during the Service Agreement Term to annually levy benefit assessments to raise monies which, together with County monies to be appropriated, are sufficient to pay all Service Fees due under the Service Agreements. The Authority, under the Service Agreements, has agreed to raise monies sufficient to pay Operating Expenses through the fixing, charging and collection of Water and Sewer Rates.

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

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Operating Revenues:</u>		
Water Sales	\$5,070,813	\$4,961,363
Sewer Charges	1,107,087	1,018,358
Rental Fees and Other Operating Revenue	120,376	119,361
Total Operating Revenues	<u>6,298,276</u>	<u>6,099,082</u>
<u>Operating Expenses:</u>		
Operation and Maintenance	4,256,713	3,885,312
Administration and General	1,269,901	1,669,702
Depreciation	1,510,884	1,602,700
Total Operating Expenses	<u>7,037,498</u>	<u>7,157,714</u>
Operating (Loss)	<u>(739,222)</u>	<u>(1,058,632)</u>
<u>Non-Operating Revenues (Expenses):</u>		
Interest and Investment Income	222,292	210,149
Project Grants and Capital-Related Funding:		
Dutchess County	3,316,997	3,227,305
Contributed Assets	-	21,829
Other Revenues	12,599	11,216
Project Administration and General	(190,008)	(190,038)
Interest Expense	(1,460,603)	(1,466,973)
Bond Financing Costs	(56,200)	(65,836)
Net Non-Operating (Revenues)	<u>1,845,077</u>	<u>1,747,652</u>
Changes in Net Position	<u>\$1,105,855</u>	<u>\$689,020</u>

FINANCIAL POSITION SUMMARY

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

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

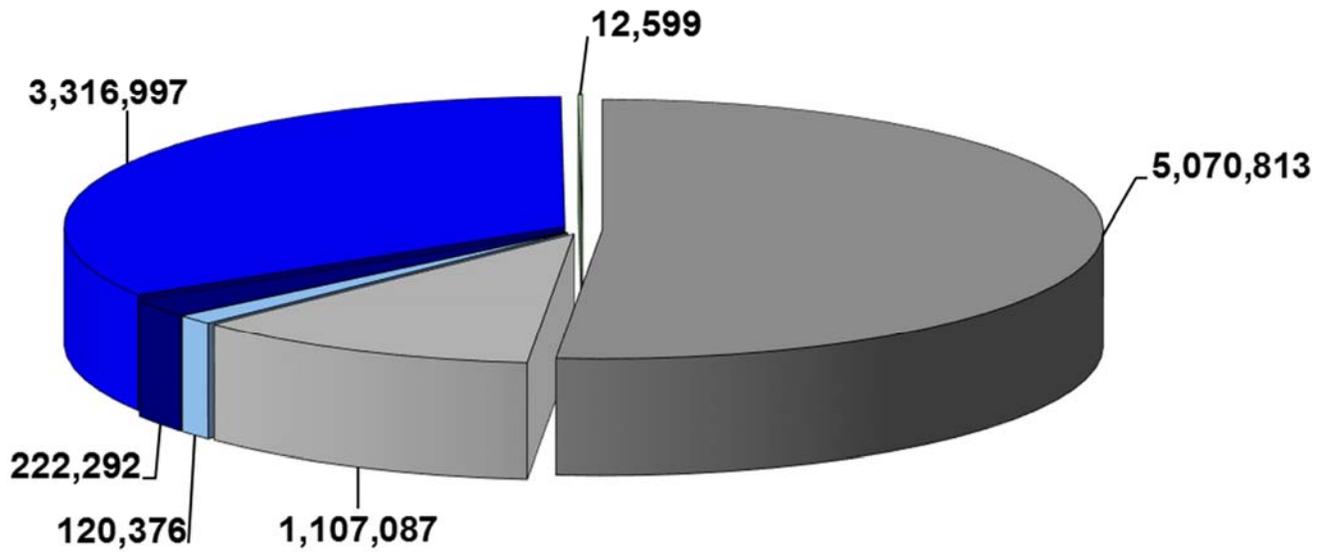
SUMMARY OF NET POSITION

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS:		
Current and other assets	\$8,818,166	\$9,328,277
Capital assets	66,037,128	63,863,862
TOTAL ASSETS	<u>74,855,294</u>	<u>73,192,139</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Loss on refunding	697,357	691,509
NYS Employee Retirement System	678,505	583,303
TOTAL DEFERRED OUTFLOWS	<u>1,375,862</u>	<u>1,274,812</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	<u>\$76,231,156</u>	<u>\$74,466,951</u>
LIABILITIES:		
Long-term debt outstanding	\$39,249,460	\$35,811,974
Other liabilities	5,561,986	7,136,271
TOTAL LIABILITIES	<u>44,811,446</u>	<u>42,948,245</u>
DEFERRED INFLOWS OF RESOURCES:		
NYS Employee Retirement System	502,393	65,433
Deferred Bond Premium	301,652	330,478
Deferred Revenues	23,445,091	24,015,141
TOTAL DEFERRED INFLOWS	<u>24,249,136</u>	<u>24,411,052</u>
NET POSITION:		
Restricted for Debt	3,264,889	6,471,171
Net Investment in Capital Assets	11,960,779	6,504,395
Unrestricted	(8,055,094)	(5,867,912)
TOTAL NET POSITION	<u>7,170,574</u>	<u>7,107,654</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$76,231,156</u>	<u>\$74,466,951</u>

FINANCIAL STATEMENTS

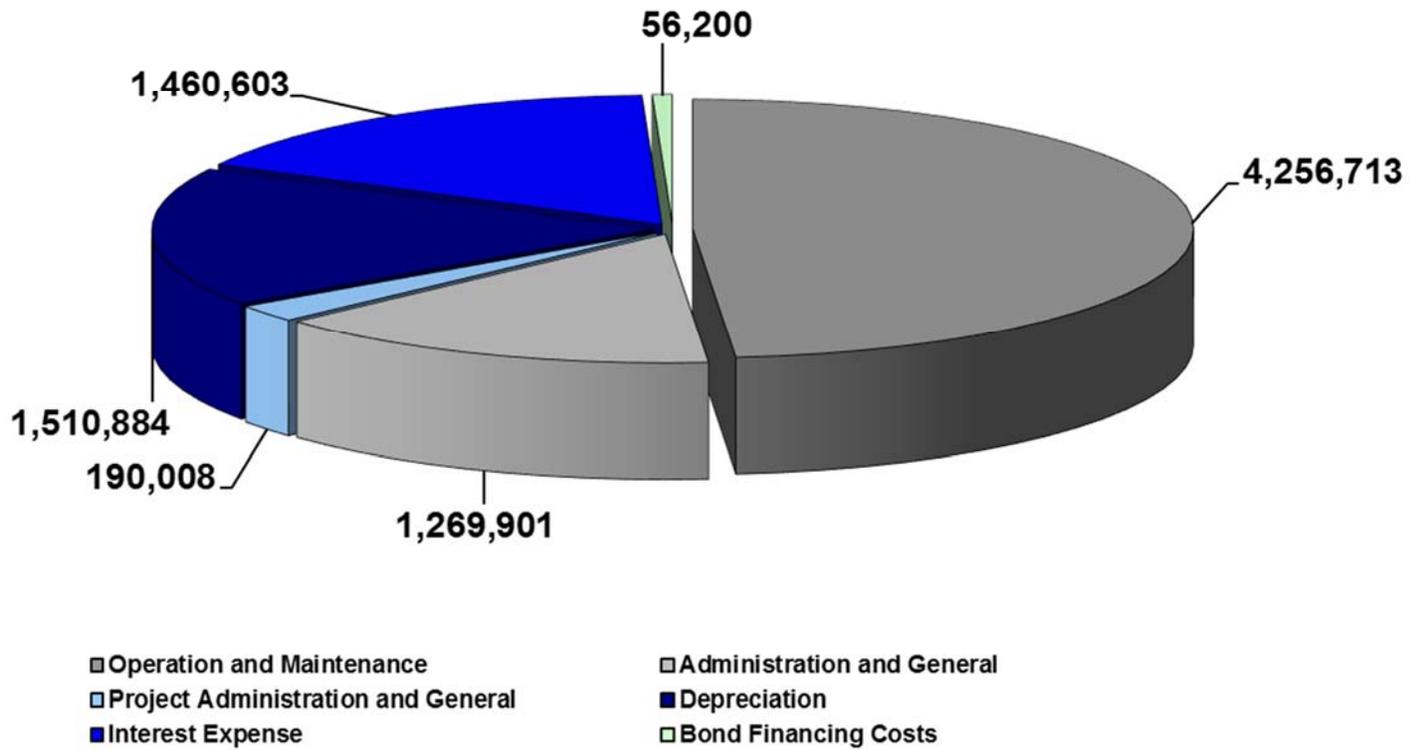
The Authority's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). The Authority is structured as an Enterprise Fund. It is considered 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.

DCWWA - Actual - 2018 Revenues \$9,850,164



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

DCWWA - Actual - 2018 Expenses \$8,744,309



DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
STATEMENTS OF NET POSITION

As of December 31	2018	2017
ASSETS AND DEFERRED OUTFLOWS		
Current Assets:		
Cash and Cash Equivalents (Note II)	\$ 2,715,079	\$ 3,540,337
Cash, Cash Equivalents, and Investments-Restricted (Note II)	875,421	954,303
Cash and Cash Equivalents-Held by EFC (Note II)	431,075	-
Accounts Receivable	2,329,916	2,411,423
Prepaid Expense	77,504	22,439
Total Current Assets	6,428,995	6,928,502
Cash, Cash Equivalents, and Investments-Restricted Non-current (Note II)	2,389,171	2,399,775
Property, Plant and Equipment Net of Accumulated Depreciation (Note III)	66,037,128	63,863,862
Total Assets	74,855,294	73,192,139
Deferred Outflows of Resources:		
Loss on Refunding (Note VII)	697,357	691,509
NYS Employee Retirement System (Note IV)	678,505	583,303
Total Deferred Outflows of Resources	1,375,862	1,274,812
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$76,231,156	\$ 74,466,951

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
STATEMENTS OF NET POSITION

As of December 31	2018	2017
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 952,902	\$ 921,316
Accrued Expenses Payable	222,716	189,636
Accrued Interest Payable	128,564	156,336
Accrued Capital Expenses Payable	87,062	209,381
Escrow Deposits	186,382	385,023
Bond Anticipation Notes Payable (Note VI)	1,250,000	2,732,941
Current Portion of Bonds Payable (Note VII)	2,734,360	2,541,638
Total Current Liabilities	5,561,986	7,136,271
Non-Current Liabilities:		
Bond Anticipation Notes Payable (Note VI)	1,484,026	147,682
Bonds Payable (Note VII)	35,079,625	33,485,594
Net Employee Retirement System Liability (Note IV)	158,901	430,891
Postemployment Benefit Obligations (Note V)	2,526,908	1,747,807
Total Non-Current Liabilities	39,249,460	35,811,974
Total Liabilities	44,811,446	42,948,245
Deferred Inflows of Resources:		
NYS Employee Retirement System (Note IV)	502,393	65,433
Deferred Bond Premium (Note I.H)	301,652	330,478
Deferred Revenues (Note VIII)	23,445,091	24,015,141
Total Deferred Inflows of Resources	24,249,136	24,411,052
Net Position:		
Net Investment in Capital Assets	11,960,779	6,504,395
Restricted for Debt	3,264,889	6,471,171
Unrestricted	(8,055,094)	(5,867,912)
Total Net Position	7,170,574	7,107,654
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	\$76,231,156	\$ 74,466,951

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITON

For the Years Ended December 31	2018	2017
Operating Revenues:		
Water Sales	\$ 5,070,813	\$ 4,961,363
Sewer Charges	1,107,087	1,018,358
Rental Fees and Other Operating Revenues	120,376	119,361
Total Operating Revenues	6,298,276	6,099,082
Operating Expenses:		
Operation and Maintenance	4,256,713	3,885,312
Administration and General	1,269,901	1,669,702
Depreciation	1,510,884	1,602,700
Total Operating Expenses	7,037,498	7,157,714
Operating (Loss)	(739,222)	(1,058,632)
Non-Operating Revenues (Expenses):		
Interest and Investment Income	222,292	210,149
Project Grants and Capital-Related Funding :		
Dutchess County	3,316,997	3,227,305
Contributed Assets	-	21,829
Other Revenues	12,599	11,216
Project Administration and General	(190,008)	(190,038)
Interest Expense	(1,460,603)	(1,466,973)
Bond Financing Costs	(56,200)	(65,836)
Net Non-Operating Revenues	1,845,077	1,747,652
Change in Net Position	1,105,855	689,020
Net Position - Beginning, as Reported	7,107,654	6,418,634
Cumulative Effect Adjustment (Note IX)	(1,042,935)	-
Net Position, January 1, restated	6,064,719	6,418,634
Net Position, December 31	\$ 7,170,574	\$ 7,107,654

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
STATEMENTS OF CASH FLOWS

For the Years Ended December 31	2018	2017
Cash Flows from Operating Activities:		
Receipts From Customers	\$ 6,285,210	\$ 5,808,574
Payments To Suppliers	(3,855,810)	(4,111,160)
Payments To Employees and Benefits	(2,176,229)	(2,100,640)
Rental Fees and Other Operating Revenues Received	120,376	119,361
Net Cash (Used) Provided By Operating Activities	373,547	(283,865)
Cash Flows from Non-Capital Financing Activities:		
Project Grants and Non-Capital-Related Funding	3,329,596	3,238,521
Project Administration Payments	(190,008)	(190,038)
Net Cash Provided By Non-Capital Financing Activities	3,139,588	3,048,483
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(4,280,003)	(3,969,302)
Proceeds of Capital Debt	4,469,791	1,761,702
Bond Escrow Deposit	-	296,545
Principal Paid on Capital Debt	(3,615,638)	(2,479,000)
Interest Paid on Capital Debt	(708,220)	(749,299)
Bond Financing Costs Paid	(85,026)	(94,663)
Net Cash (Used) By Capital and Related Financing Activities	(4,219,096)	(5,234,017)
Cash Flows from Investing Activities:		
Interest and Investment Income Received	222,292	210,149
Net Cash Provided By Investing Activities	222,292	210,149
Net Decrease in Cash and Cash Equivalents	(483,669)	(2,259,250)
Cash and Cash Equivalents at the Beginning of the Year	6,894,415	9,153,665
Cash and Cash Equivalents at the End of the Year	\$ 6,410,746	\$ 6,894,415
Presented as:		
Cash and Cash Equivalents	\$ 2,715,079	\$ 3,540,337
Cash and Cash Equivalents - Current - Restricted	875,421	954,303
Cash and Cash Equivalents - Held by EFC	431,075	-
Cash and Cash Equivalents - Non Current - Restricted	2,389,171	2,399,775
Total	\$ 6,410,746	\$ 6,894,415

See Notes to the Financial Statements

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
STATEMENTS OF CASH FLOWS**

For the Years Ended December 31	2018	2017
Reconciliation of Operating (Loss) to Net Cash (Used) Provided by Operating Activities:		
Operating (Loss)	\$ (739,222)	\$ (1,058,632)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities:		
Depreciation	1,510,884	1,602,700
Changes in Assets and Liabilities:		
Accounts Receivable	81,507	(210,619)
Prepaid Expenses	(55,065)	(3,197)
Deferred Outflows - Retirement System	(95,202)	339,404
Accounts Payable	31,586	(956,915)
Accrued Expenses Payable	(165,561)	18,292
Net Employee Retirement System Liability	(271,990)	(283,722)
Post Employment Benefit Obligations	(263,834)	222,689
Capital Liabilities Included in Accounts Payable	(122,319)	25,935
Deferred Inflows - Retirement System	436,960	(19,272)
Deferred Water Sale Revenues and Grants	25,803	39,472
Net Cash (Used) Provided By Operating Activities	\$ 373,547	\$ (283,865)

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

Dutchess County Water & Wastewater Authority (the “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; issue bonds and notes for financing; 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.

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.

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.

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

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

C. Cash and Cash Equivalents

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

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

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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, net of interest earned on the invested proceeds over the same period. Depreciation is computed using the straight-line methods over the following estimated useful lives, beginning in the year the asset is placed in service:

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

F. Revenues and Receivables

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

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

G. Deferred Revenue

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

H. Deferred Bond Premium

The Authority reported deferred outflows of resources of \$301,652 and \$330,478 for a deferred loss on refunding bonds as of December 31, 2018 and 2017, respectively. These amounts result from the differences in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Equity Classifications

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

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

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

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

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

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. Subsequent Events

The Authority evaluated subsequent events for disclosure and/or recognition in the financial statements from December 31, 2018 through March 20, 2019, the date on which the financial statements were approved for issuance. A detailed description of subsequent events that were noted for disclosure is included in Note XIII.

II. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As described in Note I 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
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

II. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

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

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

Investments are categorized into these three categories of credit risk:

- 1) Insured or registered, or securities held by the Authority or its agent in the Authority's name; included in Category 1 are funds invested in securities of the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations;
- 2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Authority's name;
- 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.

Balances as of December 31, 2018

	Category 1	Category 2	Category 3	Total
Cash Balances:				
Cash In Banks	\$ 503,033	\$ 2,212,046	\$ -	\$ 2,715,079
Money Market Funds	-	1,821,437	-	1,821,437
Cash Total	503,033	4,033,483	-	4,536,516
Investments:				
U.S. Treasury Bills & Notes	1,874,230	-	-	1,874,230
Investments Total	1,874,230	-	-	1,874,230
Total Cash, Cash Equivalents, and Investments	\$ 2,377,263	\$ 4,033,483	\$ -	\$ 6,410,746

Balances as of December 31, 2017

	Category 1	Category 2	Category 3	Total
Cash Balances:				
Cash In Banks	\$ 507,781	\$ 3,032,556	\$ -	\$ 3,540,337
Money Market Funds	-	1,479,974	-	1,479,974
Cash Total	507,781	4,512,530	-	5,020,311
Investments:				
U.S. Treasury Bills & Notes	1,874,104	-	-	1,874,104
Investments Total	1,874,104	-	-	1,874,104
Total Cash, Cash Equivalents, and Investments	\$ 2,381,885	\$ 4,512,530	\$ -	\$ 6,894,415

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

II. CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

At December 31, 2018, the Authority has \$6,264,285 in unspent BAN proceeds held by New York State Environmental Facilities Corporation and available for improvements to the Pinebrook and Greenfields wastewater treatment plant.

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

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>2018</u>	<u>2017</u>
Construction Reserve Funds	\$ 244,042	\$ 357,903
Debt Service Sinking Funds	562	556
Debt Service Reserve Funds	630,817	595,844
Held by EFC	<u>431,075</u>	<u>-</u>
Current Restricted Funds	1,306,496	954,303
Non-Current Debt Service Reserve Funds	<u>2,389,171</u>	<u>2,399,775</u>
Total	<u>\$ 3,695,667</u>	<u>\$ 3,354,078</u>

The Debt Service Reserve Funds are funded in an amount equal to an amount which is the lesser of, 1) the maximum annual debt service required under the bond resolutions, 2) 125% of the average annual debt service required by certain bond resolutions, or 3) 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.

III. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	<u>Balance as of December 31, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of December 31, 2018</u>
Land	\$ 955,608	\$ -	\$ -	\$ 955,608
Improvements	300,602	-	-	300,602
Buildings	17,480,237	4,892,698	-	22,372,935
Water Systems	55,612,556	1,483,178	-	57,095,734
Machinery and Equipment	8,059,117	6,043	-	8,065,160
Sewage Collection System	1,644,932	-	-	1,644,932
Construction in Progress	<u>9,078,846</u>	<u>3,387,830</u>	<u>(5,489,746)</u>	<u>6,976,930</u>
Sub-total	93,131,899	9,769,749	(5,489,746)	97,411,902
Less: Accumulated Depreciation	<u>(29,268,037)</u>	<u>(2,106,737)</u>	<u>-</u>	<u>(31,374,774)</u>
Net Property, Plant and Equipment	<u>\$ 63,863,862</u>	<u>\$ 7,663,012</u>	<u>\$ (5,489,746)</u>	<u>\$ 66,037,128</u>

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

III. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was recorded in the amount of \$2,106,737 and \$2,198,553, 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 VIII) for the years ended December 31, 2018 and 2017. The effect of netting these amounts resulted in \$1,510,884 and \$1,602,700 in depreciation expense for the years ended December 31, 2018 and 2017, respectively.

IV. EMPLOYEE RETIREMENT SYSTEMS

Plan Description

The Dutchess County Water and Wastewater Authority is required to participate in the New York State Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan System (Systems). These are cost sharing multiple employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of funds. The Systems issue publicly available financial reports that include an annual report and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy

The Systems are generally noncontributory. Tiers 1-4 are noncontributory after ten years of participation. Tier 5 is required to contribute 3% of their salary, and Tier 6 is required to contribute a minimum of 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates of participating employers expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by those employers to the pension accumulation fund.

The Dutchess County Water & Wastewater Authority is required to contribute to the System at an actuarially determined rate. The required contributions for the current and prior two calendar years were:

<u>Plan Year Ending March 31:</u>	
2018	\$237,025
2017	226,072
2016	261,541

The Authority's contributions made to the System were equal to 100% of the contributions required for those years.

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

At December 31, 2018 and 2017, the Authority reported a liability of \$158,901 and \$430,891, respectively, for its proportionate share of the net pension liability. This amount is recorded as a liability due to the NYS Retirement System. The net pension liability was measured as of March 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2018 and 2017, respectively, the Authority's proportion was 0.0049234 and 0.0045858 percent of the Employers' Retirement System liability.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

IV. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

For the years ended December 31, 2018 and 2017, the Authority recognized pension expense of \$237,025 and \$278,443, respectively. The Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2018</u>	<u>2017</u>
Deferred Outflows of Resources:		
Differences between expected and actual experience	\$ 56,675	\$ 10,798
Changes of assumptions	105,365	147,208
Net difference between projected and actual investment earnings on pension plan investments	230,791	86,067
Changes in proportion and differences between employer contributions and proportionate share of contributions	118,417	97,197
Employer contributions subsequent to the measurement date	167,257	242,033
Total Deferred Outflows of Resources	<u>\$ 678,505</u>	<u>\$ 583,303</u>
Deferred Inflows of Resources:		
Differences between expected and actual experience	\$ 46,834	\$ 65,433
Net difference between projected and actual investment earnings on pension plan investments	455,559	-
Total Deferred Inflows of Resources	<u>\$ 502,393</u>	<u>\$ 65,433</u>

\$167,257 and \$242,033 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended December 31, 2019 and 2018, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended March 31:	
2019	\$ 78,937
2020	\$ 62,437
2021	\$ (92,280)
2022	\$ (40,239)

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

IV. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

Actuarial Assumptions

The total pension liability at March 31, 2018 and 2017, was determined by using an actuarial valuation as of April 1, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to March 31, 2018 and 2017. The actuarial valuations used the following actuarial assumptions.

Significant actuarial assumptions used in the March 31, 2018 and 2017, valuations were as follows:

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Inflation	2.5%	2.5%
Salary increases - ERS	3.8%	3.8%
Investment rate of return (net of investment expense, including inflation)	7.0%	7.0%
Cost of living adjustments	1.3%	1.3%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the March 31, 2017 valuation are based on the results of an actuarial experience study for the periods April 1, 2010 – March 31, 2015.

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

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 and 2017 are summarized below:

<u>Asset Class</u>	Long-Term Expected Real Rate of Return	
	<u>2018</u>	<u>2017</u>
Domestic equity	4.55%	4.55%
International equity	6.35	6.35
Private equity	7.50	7.75
Real estate	5.55	5.80
Absolute return strategies	3.75	4.00
Opportunistic portfolio	5.68	5.89
Real assets	5.29	5.54
Bonds and mortgages	1.31	1.31
Cash	(0.25)	(0.25)
Inflation-indexed bonds	1.25	1.50

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

IV. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

Discount Rate

The discount rate used to calculate the total pension liability as of March 31, 2018 and 2017, was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as of March 31, 2018 and 2017 of 7.0 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Measurement Date	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
March 31, 2018			
Authority's proportionate share of the net ERS pension (liability) / asset	\$ (1,202,290)	\$ (158,901)	\$ 723,764
Measurement Date	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
March 31, 2017			
Authority's proportionate share of the net ERS pension (liability) / asset	\$ (1,376,183)	\$ (430,891)	\$ 368,350

Pension plan fiduciary net position

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

	Dollars in Thousands	
	Employees' Retirement System	
	March 31, 2018	March 31, 2017
Employers' total pension liability	\$ (183,400,590)	\$ (177,400,586)
Plan net position	180,173,145	168,004,363
Employers' net pension liability	\$ (3,227,445)	\$ (9,396,223)
Ratio of plan net position to the employers' total pension liability	98.2%	94.7%

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

V. POSTEMPLOYMENT BENEFITS

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 year when it will be paid.

Through implementation of the requirements of GASB Statements No. 45 and No. 75, *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 postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior year, and provides information useful in assessing potential demands on the Authority's future cash flows.

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. The benefit levels, employee contributions and employer contributions are governed by the Authority's contractual agreements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided

Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A copy of the report on these benefits can be requested at the Authority.

Medical and prescription drug benefits are offered to retirees on an Authority-subsidized basis. Upon attaining age 65 or upon disability retirement, Medicare (Parts A and B) becomes the primary provider for hospital insurance and supplementary medical insurance, with the Authority's plan providing an additional layer of coverage. The Authority reimburses retirees and their spouses for Medicare Part B premiums, but not those of surviving spouses.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

V. POSTEMPLOYMENT BENEFITS (CONTINUED)

Contribution rates for new retirees are as follows:

Group	Provider Options	Years of Service	Age	Authority Contributions (Fixed)				Reimbursement Part B Premium		
				Individual and				Individual	Spouse	Surviving Spouse
				Individual	Spouse	Children	Family			
Retirees Over 55	MVP	10 - 14	Under 65	\$ 478.25	\$ 813.02	\$ 724.86	\$ 1,109.85	Y	Y	Y
		10 - 14	Over 65	60.00	102.00	-	-	Y	Y	Y
		15 - 19	Under 65	573.89	1,004.31	890.97	1,385.96	Y	Y	Y
		15 - 19	Over 65	72.00	126.00	-	-	Y	Y	Y
		20 - 24	Under 65	669.54	1,195.61	1,057.08	1,662.06	Y	Y	Y
		20 - 24	Over 65	84.00	150.00	-	-	Y	Y	Y
		25+	Under 65	765.19	1,386.91	1,223.19	1,938.17	Y	Y	Y
		25+	Over 65	96.00	174.00	-	-	Y	Y	Y
Retirees Over 63	MVP	10 - 14	Under 65	478.25	813.02	724.86	1,109.85	Y	Y	Y
		10 - 14	Over 65	60.00	102.00	-	-	Y	Y	Y
		15 - 19	Under 65	573.89	1,004.31	890.97	1,385.96	Y	Y	Y
		15 - 19	Over 65	72.00	126.00	-	-	Y	Y	Y
		20 - 24	Under 65	669.54	1,195.61	1,057.08	1,662.06	Y	Y	Y
		20 - 24	Over 65	84.00	150.00	-	-	Y	Y	Y
		25+	Under 65	765.19	1,386.91	1,223.19	1,938.17	Y	Y	Y
		25+	Over 65	96.00	174.00	-	-	Y	Y	Y
Retirees Over 55	NYSHIP	10 - 14	Under 65	507.49	N/A	N/A	974.10	Y	Y	Y
		10 - 14	Over 65	222.20	N/A	N/A	489.09	Y	Y	Y
		15 - 19	Under 65	608.99	N/A	N/A	1,208.91	Y	Y	Y
		15 - 19	Over 65	266.63	N/A	N/A	609.79	Y	Y	Y
		20 - 24	Under 65	710.49	N/A	N/A	1,443.73	Y	Y	Y
		20 - 24	Over 65	311.07	N/A	N/A	730.48	Y	Y	Y
		25+	Under 65	811.98	N/A	N/A	1,678.54	Y	Y	Y
		25+	Over 65	355.51	N/A	N/A	851.18	Y	Y	Y
Retirees Over 63	NYSHIP	10 - 14	Under 65	507.49	N/A	N/A	974.10	Y	Y	Y
		10 - 14	Over 65	222.20	N/A	N/A	489.09	Y	Y	Y
		15 - 19	Under 65	608.99	N/A	N/A	1,208.91	Y	Y	Y
		15 - 19	Over 65	266.63	N/A	N/A	609.79	Y	Y	Y
		20 - 24	Under 65	710.49	N/A	N/A	1,443.73	Y	Y	Y
		20 - 24	Over 65	311.07	N/A	N/A	730.48	Y	Y	Y
		25+	Under 65	811.98	N/A	N/A	1,678.54	Y	Y	Y
		25+	Over 65	355.51	N/A	N/A	851.18	Y	Y	Y

The Authority's contribution is equivalent to that portion of health insurance premiums paid that are allocated to retirees, estimated to be \$32,545 during the year ended December 31, 2018.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

V. POSTEMPLOYMENT BENEFITS (CONTINUED)

Employees Covered by Benefit Terms

At December 31, 2018, the following employees were covered by benefit terms:

Active Employees	25
Retired	<u>5</u>
Total employees covered by benefit terms	<u><u>30</u></u>

Since the number of covered employees was less than 100, the Authority was eligible, and elected, to utilize the Alternative Measurement Method for the year ended December 31, 2018.

Total OPEB Liability

The Authority obtained an actuarial valuation report as of December 31, 2018. The liability for other postemployment benefits was measured as of December 31, 2018. The total liability for other postemployment benefits is \$2,526,908, all of which is reflected in the Statement of Net Position.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Projected Salary Increases, Including Wage Inflation	2.50%
Discount Rate	4.19%
Healthcare Cost Trend Rates	Pre-65: Ranging from 7.6% to 3.0% for pharmacy, medical, dental and vision for 2019, reduced incrementally to an ultimate rate of 4.7% to 3.0% after 10 years
	Post-65: Same
Current Retiree's Share of Benefit Related Costs	Retirees pay based on specific cost sharing agreement
Future Retiree's Share of Benefit Related Costs	Retirees pay based on specific cost sharing agreement

The discount rate was based on a review of the yield derived from the 20 Year AA Municipal GO Bond Rate Index per Fidelity Investments.

Mortality Rates were based on April 1, 2010 – March 31, 2015 NYSLRS experience with adjustments for mortality improvements based on the SOA Scale MP-2014.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

V. POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

The Authority is currently paying postemployment benefits for five individuals. Since New York State does not allow the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume the pay-as-you-go funding.

Changes in the Total OPEB Liability during the year ended December 31, 2018:

Balance - Beginning	\$ 2,790,742
Changes for the Year:	
Service Cost	131,287
Interest	70,031
Changes of Benefit Terms	(650,072)
Changes in Assumptions or Other Inputs	217,465
Benefit Payments	<u>(32,545)</u>
Net Changes	<u>(263,834)</u>
Balance - Ending	<u>\$ 2,526,908</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or higher than the current discount rate.

	1% Decrease 3.19%	Discount Rate 4.19%	1% Increase 5.19%
Total OPEB Liability	\$ 2,865,054	\$ 2,526,908	\$ 2,244,779

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or higher than the healthcare cost trend rate, which ranges from 7.6% to 3.0%, depending on the type of healthcare (medical, pharmacy, dental and vision).

	1% Decrease	Healthcare Trend Rate	1% Increase
Total OPEB Liability	\$ 2,200,917	\$ 2,526,908	\$ 2,926,011

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

V. POSTEMPLOYMENT BENEFITS (CONTINUED)

2017

The Authority's 2017 annual OPEB liability was calculated under the parameters of GASB Statement 45.

Annual Other Postemployment Benefit Cost

The Authority's change in net OPEB obligation amounted to \$222,689 for the year ended December 31, 2017. 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, adjusted for interest accruing on the unpaid liability, and other timing adjustments. 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.

	<u>2017</u>
Total Actuarial Accrued Liability	<u><u>\$ 2,792,807</u></u>
Past Service Costs	\$ 12,708
Normal Costs	241,938
Annual Required Contribution (ARC)	<u><u>\$ 254,646</u></u>
Net OPEB Obligation - Beginning of the Year	<u>\$ 1,525,118</u>
Annual Required Contribution (ARC)	254,646
Interest on Net OPEB Obligation	38,129
Adjustment to Annual Required Contribution	<u>(50,837)</u>
Annual OPEB Cost	241,938
Age Adjusted Contributions Made*	<u>(19,249)</u>
Increase in Net OPEB Obligation	<u>222,689</u>
Net OPEB Obligation - End of the Year	<u><u>\$ 1,747,807</u></u>
Percent of annual OPEB cost contributed	8.0%

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

Year Ended December 31	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2018	N/A	N/A	N/A
2017	\$ 241,938	8.0%	\$ 1,747,807
2016	\$ 169,151	18.2%	\$ 1,525,118

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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

V. POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2017, actuarial valuation was completed using the Level Percent of Payroll Amortization Method, and the liabilities were computed using the entry age actuarial cost method and level percent of payroll amortization method. The actuarial assumptions utilized a 2.5% baseline discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as money market funds), was considered in the selection of the 2.5% rate. The valuation assumes the following rates of increase in health care costs:

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

VI. BOND ANTICIPATION NOTES

In September 2013, the Authority authorized financing of \$2,757,441 with the New York State Environmental Facilities Corporation maturing in September 2016. The purpose of the notes is to provide the Authority with funds to pay for improvements to the Shore Haven water system. In 2018, this BAN was refunded into a 30 year bond.

In February 2017, the Authority authorized financing of \$3,752,144 with the New York State Environmental Facilities Corporation maturing in February 2022. The purpose of the notes is to provide the Authority with funds to pay for improvements to the Pinebrook Sewer District wastewater treatment plant process. During the years ended December 31, 2018 and 2017, there were drawdowns of \$955,902 and \$147,682 on this debt, respectively.

In May 2018, the Authority authorized financing of \$3,996,167 with the New York State Environmental Facilities Corporation maturing in May 2023. The purpose of the notes is to provide the Authority with funds to pay for improvements to the Greenfields Sewer District wastewater treatment plant process and collection system. During the year ended December 31, 2018, there were drawdowns of \$380,442 on this debt.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

VI. BOND ANTICIPATION NOTES (CONTINUED)

The bond anticipation notes outstanding as of December 31, 2018, are as follows:

<u>Purpose</u>	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding at 12/31/18</u>
Pinebrook Sewer District Upgrades	2/2/2017	2/2/2022	0.00-1.17%	\$ 3,752,144	\$ 1,103,584
Greenfields Sewer District Upgrades	5/10/2018	5/10/2023	-	3,996,167	380,442
Building Purchase	1/26/2018	1/25/2019	1.97%	1,250,000	1,250,000
Total Bond Anticipation Notes				\$ 8,998,311	\$ 2,734,026

Changes in bond anticipation notes as of December 31, 2018, are as follows:

<u>Purpose</u>	<u>Balance Outstanding 12/31/2017</u>	<u>New Issues/ Drawdowns</u>	<u>Payments and Refundings</u>	<u>Balance Outstanding 12/31/2018</u>
Short Term BANs:				
Shore Haven Water System Improvements Building Purchase	\$ 2,732,941	\$ -	\$ (2,732,941)	\$ -
	-	1,250,000	-	1,250,000
Long Term BANs:				
Pinebrook Sewer District Upgrades	147,682	955,902	-	1,103,584
Greenfields Sewer District Upgrades	-	380,442	-	380,442
Total Bond Anticipation Notes	\$ 2,880,623	\$ 2,586,344	\$ (2,732,941)	\$ 2,734,026

VII. LONG TERM OBLIGATIONS

Bonds Payable

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

Trust Indenture

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

As of November 1, 2017, the Authority executed a trust indenture authorizing the issuance of debt for the purpose of acquiring a sewage facility. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below for the Vanderburgh Cove Sewer System.

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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

VII. LONG TERM OBLIGATIONS (CONTINUED)

General Bond Resolutions

As of June 1, 1998, the Authority adopted a General Water Bond Resolution which enabled the Authority to issue additional debt pursuant to supplemental resolutions without having to modify the form or general terms of the debt, referred to as additional parity debt. The Authority has issued twenty supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, two issues in 2002, 2004, two issues in 2008, two issues in 2009, 2010, 2011, 2013, 2014, two issues in 2015, 2016 and two issues in 2018.

As of August 1, 2004, the Authority adopted a general bond resolution pertaining to the Part County Sewer District # 3, which enabled it to issue bonds to finance the purchase of Dalton Farms Sewer System.

As of December 16, 2015, the Authority adopted a general bond resolution pertaining to the Pinebrook Sewer District #7, which enabled it to issue bonds to finance the upgrades to Pinebrook Sewer District.

As of February 15, 2017, the Authority adopted a general bond resolution pertaining to the Greenfields Sewer District, which enabled it to issue bonds to finance the upgrades to Greenfields Sewer District.

Description of Bonds Payable

	<u>2018</u>	<u>2017</u>
1998 Revenue Bonds (Zero Coupon) Series One, due in various installments from 2021 through 2029, interest 3.90%-5.40%	\$ 3,817,817	\$ 3,817,817
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	130,000	190,000
2001 Service Agreement Revenue (Refunding) Bond Series 2001, due in various installments through 2041, interest 3.00%-5.36%;	1,108,410	1,123,410
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	810,000	925,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	855,000	980,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%; partially refunded in 2016 as described below	1,374,144	1,535,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments from 2030 through 2039, interest 5.62%-5.96%	253,381	1,347,524
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 2010 C, due in various installments through 2019; interest .8450%-3.355%	1,235,000	2,440,000
New York State Environmental Facilities Corporation State Drinking Water Revolving Fund Revenue (Refunding) Bonds Series 2011C, due in various installments through 2023, interest .540%-3.165%	765,000	985,000

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

VII. LONG TERM OBLIGATIONS (CONTINUED)

Description of Bonds Payable (Continued)

	<u>2018</u>	<u>2017</u>
2011 Service Agreement Revenue Bond Series 2011, due in various installments from 2012 through 2041, interest 3.50%-4.25%	1,690,000	1,730,000
New York State Environmental Facilities Corporation Revenue Refunding Bonds Series 2014B, due in various installments through 2026, interest .1515%-2.7455%	240,000	265,000
New York State Environmental Facilities Corporation Revenue Refunding Bonds Series 2014B, due in various installments through 2037, interest .1515%-4.2025%	1,695,000	1,765,000
New York State Environmental Facilities Corporation Bond Series 2016, due in various installments through 2025, interest 4.361%-4.964%	925,000	1,055,000
New York State Environmental Facilities Corporation Bond Series 2016 B, due in various installments through 2044, interest 0.548%-3.351%	3,797,761	3,934,399
Service Agreement Revenue Bonds, Series 2016, due in various installments through 2046, interest 1.5%-3.25%	1,505,000	1,545,000
Service Agreement Revenue Refunding Bonds, Series 2016, due in various installments through 2029, interest 1.75%-4.00%	3,830,000	3,865,000
New York State Environmental Facilities Corporation Bond Series 2018, due in various installments through 2047, interest 0.00%	4,055,888	-
New York State Environmental Facilities Corporation Bond Series 2018A, due in various installments through 2043, interest 0.00%	416,500	-
Total Bonds Payable	28,503,901	27,503,150
Accreted Interest Recorded on Zero Coupon Bonds	9,310,084	8,524,082
Total Bonded Debt Payable	37,813,985	36,027,232
Portion Due Within One Year	(2,734,360)	(2,541,638)
Net Long Term Debt Payable	<u>\$ 35,079,625</u>	<u>\$ 33,485,594</u>

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

VII. LONG TERM OBLIGATIONS (CONTINUED)

Changes in Long-Term Obligations

	<u>Balance at December 31, 2017</u>	<u>New Issues/ Additions</u>	<u>Maturities and/or Payments</u>	<u>Balance at December 31, 2018</u>	<u>Due within One Year</u>
Bonds Payable	\$ 36,027,232	\$ 5,358,391	* \$ (3,571,638)	\$ 37,813,985	\$ 2,734,360
Long Term Bond					
Anticipation Notes	147,682	1,336,344	-	1,484,026	-
Net ERS Liability	430,891	-	(271,990)	158,901	-
OPEB Liability	1,747,807	779,101	-	2,526,908	-
	<u>\$ 38,353,612</u>	<u>\$ 7,473,836</u>	<u>\$ (3,843,628)</u>	<u>\$ 41,983,820</u>	<u>\$ 2,734,360</u>

*Bonds payable increased by \$786,002 in adjustments for accreted interest on 1998 Series I debt, 2001 debt, and 2009 debt.

Debt Service Requirements

Debt service requirements to maturity, less accreted interest, as of December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,734,360	\$ 571,305	\$ 3,305,665
2020	2,027,751	1,551,069	3,578,820
2021	1,972,436	1,542,644	3,515,080
2022	1,856,777	1,686,615	3,543,392
2023	1,858,826	1,676,891	3,535,717
2024-2028	7,184,605	8,251,242	15,435,847
2029-2033	3,921,340	4,813,140	8,734,480
2034-2038	3,251,870	3,930,531	7,182,401
2039-2043	2,517,377	1,353,748	3,871,125
2044-2047	1,178,559	21,656	1,200,215
Totals	<u>\$ 28,503,901</u>	<u>\$ 25,398,841</u>	<u>\$ 53,902,742</u>

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.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

VII. LONG TERM OBLIGATIONS (CONTINUED)

Bond Covenants - Continued

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

Bond Refundings

In April 2016, the Authority issued \$3,895,000 in service agreement revenue refunding bonds with interest rates of 1.75-4.00%. The proceeds were used to refund a portion of the Authority's 2009 bonds for Birch Hill and Hyde Park system improvements, and pay the costs of issuance of the 2016 refunding bonds. The net proceeds of the refunding, \$4,178,704, after payment of underwriting and other issuance costs, were used to purchase state and local government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded debt. The cash flow required to service the old debt was \$5,368,563, and the cash flow required to service the new debt is \$4,977,859, resulting in a reduction of \$390,703. The economic gain (net present value of the savings resulting from the refunding) amounted to \$350,743. Escrow funds were used to pay down refunded debt, resulting in an available balance of \$3,815,847 as of December 31, 2018. The refunded bonds will be called in 2019.

The Authority recognized losses on various bond refundings. The balances on these bond refundings totaled \$697,357 and \$691,509 for the years ended December 31, 2018 and 2017, respectively. Changes on these refundings are as follows:

Systems	Year of Refunding	Balance at December 31 2017	New Issues	Expensed	Balance at December 31 2018
Hyde Park Water	2002	\$ -	\$ 13,015	\$ (521)	\$ 12,494
Zone D Water	2002	61,158	-	(2,446)	58,712
Birch Hill Water	2016	156,701	-	(8,105)	148,596
Hyde Park Water	2016	23,643	-	(2,837)	20,806
Shore Haven Water	2018	55,846	-	(4,856)	50,990
Chelsea Cove Sewer	2014	394,161	-	(34,274)	359,887
Valley Dale Sewer	2014	-	45,872	-	45,872
		\$ 691,509	\$ 58,887	\$ (53,039)	\$ 697,357

VIII. DEFERRED REVENUES

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

During 2009, the Authority returned \$4,209,736 in unused funds to Dutchess County and IBM. The Authority recognized \$595,853 in revenue for each of the years ended December 31, 2018 and 2017, and reduced related asset depreciation. The long term portion of deferred revenue amounted to \$22,374,026 and \$22,969,879 as of December 31, 2018 and 2017, all of which is related to the Utility Corridor.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

VIII. DEFERRED REVENUES (CONTINUED)

Current and non-current deferred revenues as of December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Current Portion of Deferred Revenues:		
Utility Corridor - Construction	\$ 595,853	\$ 595,853
Utility Corridor - Capital	194,905	169,025
Utility Corridor - Operations	48,417	48,267
Water Usage Billings Received in Advance	231,890	232,117
	<u>1,071,065</u>	<u>1,045,262</u>
Long-term Portion of Deferred Revenues:		
Utility Corridor - Construction	<u>22,374,026</u>	<u>22,969,879</u>
Total Deferred Revenues	<u>\$ 23,445,091</u>	<u>\$ 24,015,141</u>

IX. CUMULATIVE EFFECT ADJUSTMENT

For the calendar year ended December 31, 2018, the Authority implemented GASB No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of Statement No. 75 resulted in the recalculation of liabilities related to the Authority's other postemployment benefits (OPEB) as of December 31, 2017.

The Authority's net position has been restated as follow:

Net Position, as previously stated	\$ 7,107,654
<u>GASB Statement No. 75 Implementation</u>	
December 31, 2017 OPEB Liability - calculated under GASB 45	1,747,807
December 31, 2017 OPEB Liability - calculated under GASB 75	<u>(2,790,742)</u>
Net Position Beginning of 2018, as restated	<u>\$ 6,064,719</u>

X. CONTINGENCIES AND RISK MANAGEMENT

The Authority is subject to various litigation and claims arising out of the course of its operations. While the results of the lawsuits cannot be predicted with certainty, management does not believe these matters will have an adverse effect on the Authority's overall financial position. The Authority assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Authority has purchased insurance with limits as follows: umbrella aggregate coverage of \$20,000,000, business auto coverage of \$1,000,000 per occurrence, general liability aggregate coverage of \$3,000,000, property coverage of \$43,356,495, and workers compensation coverage of \$100,000.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS

XI. ECONOMIC DEPENDENCY

As described in Note VIII – Deferred Revenues, 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 2018 and 2017, the Authority recorded net revenues of \$3,316,997 and \$3,227,305, having recorded a return of \$114,751 and \$123,481 to the County during those years. There was \$0 due to or due from the County at each respective year-end. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

XII. SYSTEM ACQUISITIONS

In 2017, the Authority authorized memorandums of understanding for the acquisition of three subdivision sewer systems and in 2018, the Authority authorized memorandums of understanding for the acquisition of an additional four subdivision water and sewer systems. The closing dates are dependent on the timeline for the construction and completion of the new infrastructure, at which time the Authority will acquire the water and sewer systems and assume the related debt.

XIII. SUBSEQUENT EVENTS

The Authority refunded the BAN for their new building totaling \$1,250,000 with a bond issued for \$1,315,000, during January 2019. The additional amount borrowed, \$65,000, is to be used for additional renovations.

XIV. NEW REPORTING STANDARDS

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. The Authority does not anticipate GASB 83 to have a material effect on its financial statements.

In January of 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018. The Authority does not anticipate GASB 84 to have a material effect on its financial statements.

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
DUTCHESS COUNTY, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS**

XIV. NEW REPORTING STANDARDS (CONTINUED)

In June of 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for periods beginning after December 15, 2019. The Authority has not evaluated the effect of GASB 87 on its financial statements.

In March 2018, GASB issued Statement 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of GASB 88 are effective for periods beginning after June 15, 2018. The Authority has not evaluated the effect of GASB 88 on its financial statements.

The GASB has also issued Statements 89 and 90. Neither of these statements are expected to have a substantive effect on the Authority's financial reporting.

REQUIRED SUPPLEMENTARY INFORMATION

**DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
SCHEDULE OF CHANGES IN THE AUTHORITY'S TOTAL OPEB LIABILITY
AND RELATED RATIOS**

<u>Total OPEB Liability</u>	<u>12/31/2018</u>
Service Cost	\$ 131,287
Interest	70,031
Changes of Benefit Terms	(650,072)
Changes in Assumptions or Other Inputs	217,465
Benefit Payments	<u>(32,545)</u>
Net Changes	(263,834)
Total OPEB Liability - Beginning	<u>2,790,742</u>
Total OPEB Liability - Ending	<u>\$ 2,526,908</u>
Covered-Employee Payroll	\$ 1,495,377
Total OPEB Liability as a Percentage of Covered-Employee Payroll	168.98%

Notes to Schedule:

Changes in assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

12/31/2017	2.50%
12/31/2018	4.19%

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75 to pay related benefits.

*GASB 75 requires that the past 10 years of information be presented. Due to the fact that this statement was implemented for the year ended December 31, 2018, prior year information is not available for 10 years. The data will be accumulated over time and presented according to GASB 75.

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

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

Plan Year End	<u>March 31, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Authority's proportion of the net pension liability (asset)	0.00492340%	0.00458580%	0.00445230%	0.00443870%
Authority's proportionate share of the net pension liability (asset)	\$ 158,901	\$ 430,891	\$ 714,613	\$ 149,950
Authority's covered-employee payroll	\$ 1,524,688	\$ 1,623,233	\$ 1,582,671	\$ 1,513,848
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	10.42%	26.55%	45.15%	9.91%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.70%	97.90%

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

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

DUTCHESS COUNTY WATER & WASTEWATER AUTHORITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

	<u>March 31, 2018</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Contractually required contribution	\$ 237,025	\$ 226,072	\$ 261,541	\$ 256,914
Contributions in relation to the contractually required contribution	<u>237,025</u>	<u>226,072</u>	<u>261,541</u>	<u>256,914</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 1,524,688	\$ 1,623,233	\$ 1,582,671	\$ 1,513,848
Contributions as a percentage of covered-employee payroll	15.55%	13.93%	16.53%	16.97%

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

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

OTHER REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

**INDEPENDENT AUDITOR'S 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**

Board of Directors
Dutchess County Water & Wastewater Authority
1 Lagrange Avenue
Poughkeepsie, New York 12603

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Dutchess County Water & Wastewater Authority, a component unit of Dutchess County, New York, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Dutchess County Water & Wastewater Authority's basic financial statements, and have issued our report thereon dated March 20, 2019.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

RBT CPAs, LLP

Poughkeepsie, New York
March 20, 2019