

FINANCIAL REPORT
Audited
DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
(A Component Unit of Dutchess County, New York)
December 31, 2017 and 2016

Audited for:

Chairman and Members of the Board of Directors
Dutchess County Resource Recovery Agency

Audited By:
RBT CPAs, LLP
2768 South Road Suite 101
Poughkeepsie, New York 12601
(845) 485-5510

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1-2
Management's Discussion and Analysis (Unaudited)	3-7
Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to the Financial Statements	12-27
Required Supplementary Information	
Schedule of Funding Progress for Other Postemployment Benefit Plan	28
Schedule of Proportionate Share of the Net Pension Liability	29
Schedule of Pension Contributions	30
Other Reporting Required by <i>Government Auditing Standards</i>	
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 <i>Government Auditing Standards</i>	31-32



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dutchess County Resource Recovery Agency
96 Sand Dock Road
Poughkeepsie, New York 12601-5444

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Dutchess County Resource Recovery Agency ("Agency"), a component unit of Dutchess County, New York, as of and for the years ended December 31, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Agency'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

rbtcpas.com

11 Racquet Road
Newburgh, NY 12550
T: (845) 567-9000
F: (845) 567-9228

2678 South Road, Suite 101
Poughkeepsie, NY 12601
T: (845) 485-5510
F: (845) 485-5547

P.O. Box 209
51 Sullivan Street
Wurtsboro, NY 12790
T: (845) 888-5656
F: (845) 888-2789

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dutchess County Resource Recovery Agency as of December 31, 2017 and 2016, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress for Other Postemployment Benefits Plan, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Pension Contributions on pages 3-7, 29, 30, and 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, on our consideration of the Dutchess County Resource Recovery Agency'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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dutchess County Resource Recovery Agency's internal control over financial reporting.

RBT CPAs, LLP

Poughkeepsie, New York
March 22, 2018

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Our discussion and analysis of the Dutchess County Resource Recovery Agency (the "Agency") financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2017. Please read this discussion and analysis along with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

Bond interest expense decreased \$94,983 for the year due to the refinancing of the Agency bond debt in 2017.

Administrative expenses decreased by \$384,821 during 2017, mainly due to a reduction in personnel costs and professional services expenses.

Metals recycling revenue increased \$133,841 for the 2017 operating year.

Energy revenues decreased in 2017 by \$274,089 due to several turbine outages during the fiscal year.

Service fees expenses decreased by \$472,853 due to Operator payments for not meeting ash residue and electrical performance guarantees. Additionally the agency also recognized non-performance revenue paid by the contractor of \$442,428 for the year.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	2017 & 2016 Variance over (under)
Tonnage received at RRF	<u>145,637</u>	<u>150,424</u>	<u>154,966</u>	<u>(4,787)</u>
Total tonnage received	<u><u>145,637</u></u>	<u><u>150,424</u></u>	<u><u>154,966</u></u>	<u><u>(4,787)</u></u>
Energy sales	<u><u>\$ 1,976,311</u></u>	<u><u>\$ 2,250,400</u></u>	<u><u>\$ 2,676,884</u></u>	<u><u>\$ (274,089)</u></u>

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Overview of the Financial Statements

Statement of Net Position

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

Statement of Net Position – Summary:

	<u>2017</u>	<u>2016</u>
Assets:		
Current and other assets	\$ 7,617,611	\$ 10,280,723
Capital assets, net of accumulated depreciation	<u>18,225,927</u>	<u>20,072,973</u>
Total Assets	<u>25,843,538</u>	<u>30,353,696</u>
Deferred Outflows of Resources	<u>365,331</u>	<u>159,795</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 26,208,869</u>	<u>\$ 30,513,491</u>
Liabilities:		
Long-term debt outstanding	\$ 10,960,000	\$ 13,220,000
Other liabilities	<u>5,811,971</u>	<u>8,428,067</u>
Total Liabilities	<u>16,771,971</u>	<u>21,648,067</u>
Deferred Inflows of Resources	<u>1,436,567</u>	<u>50,602</u>
Net Position:		
Net Investment in Capital Assets	4,934,886	5,782,371
Restricted Funds	4,500,945	4,156,761
Unrestricted	<u>(1,435,500)</u>	<u>(1,124,310)</u>
Total Net Position	<u>8,000,331</u>	<u>8,814,822</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 26,208,869</u>	<u>\$ 30,513,491</u>

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

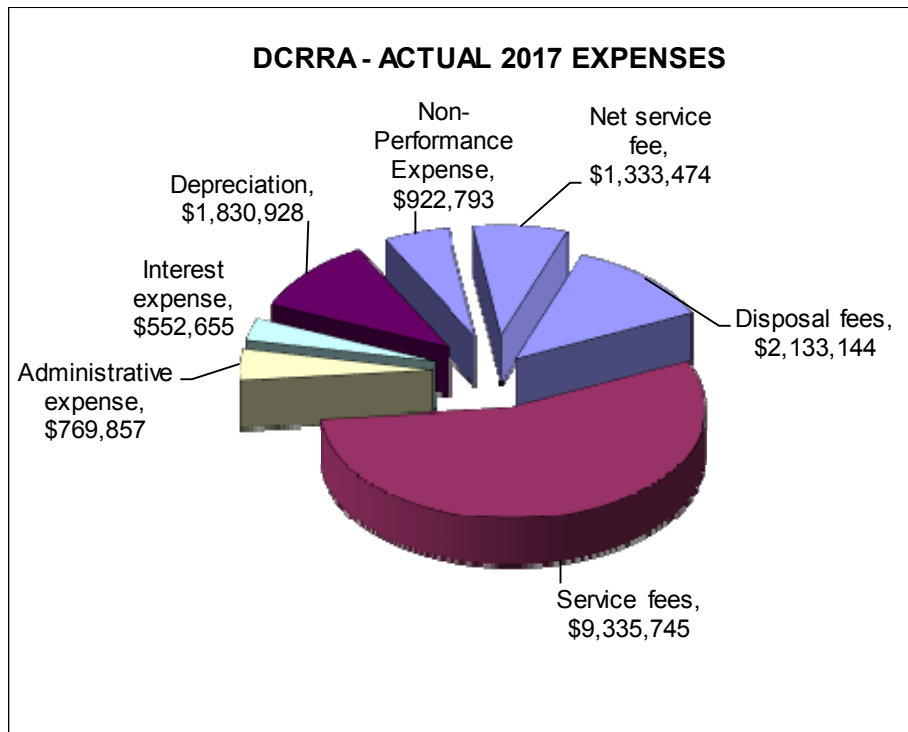
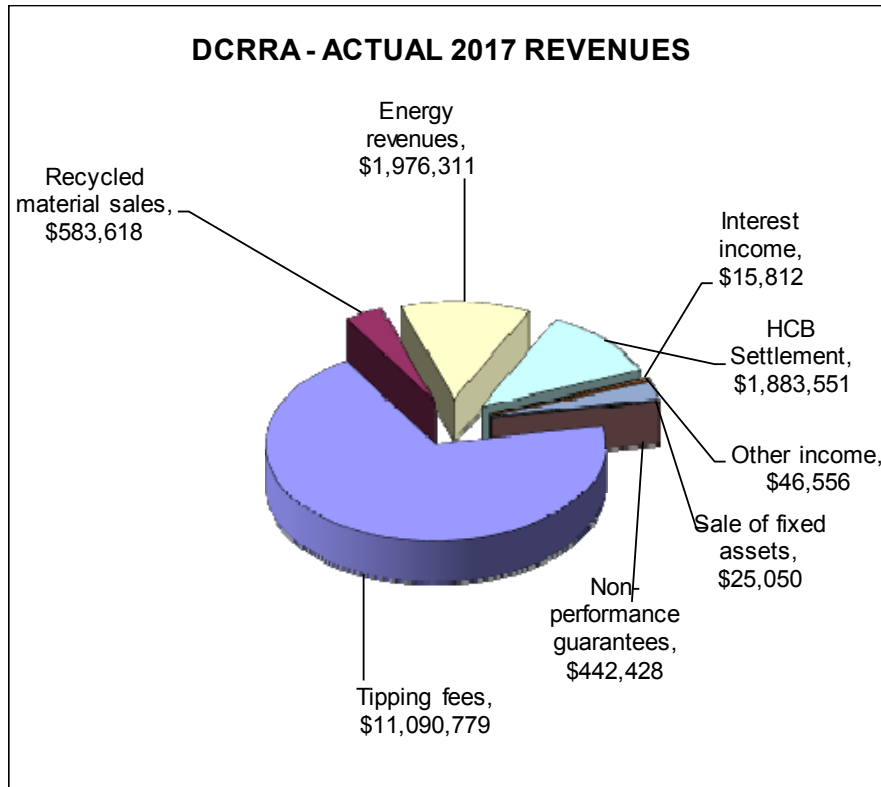
Statements of Revenue, Expenses, and Changes in Net Position

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

Statements of Revenue, Expenses, and Changes in Net Position:

	<u>2017</u>	<u>2016</u>	<u>Variance over (under)</u>
Operating Revenue:			
Tipping fees	\$ 11,090,779	\$ 11,056,118	\$ 34,661
Recycled Materials Sales	583,618	449,777	133,841
Energy revenues	1,976,311	2,250,400	(274,089)
Total Operating Revenue	<u>13,650,708</u>	<u>13,756,295</u>	<u>(105,587)</u>
Expenses:			
Disposal fees	2,133,144	2,138,643	(5,499)
Service fees	9,335,745	9,808,598	(472,853)
Administrative expense	769,857	1,154,678	(384,821)
Interest expense	552,655	647,638	(94,983)
Depreciation	1,830,928	1,849,779	(18,851)
Total Expenses	<u>14,622,329</u>	<u>15,599,336</u>	<u>(977,007)</u>
Operating Loss	<u>(971,621)</u>	<u>(1,843,041)</u>	<u>871,420</u>
Other Income (Expense):			
Non-Performance Guarantee Revenue	442,428	473,925	(31,497)
Grants	-	56,654	(56,654)
Interest income	15,812	3,914	11,898
Other Income	46,556	125,029	(78,473)
Sale of Fixed Asset	25,050	36,150	(11,100)
Settlement of Host Community Benefit Accrual	1,883,551	-	1,883,551
Non Performance Expense	(922,793)	-	(922,793)
Net Service Fee Accrual (Over-accrual)	(1,333,474)	291,697	(1,625,171)
Total Other Income	<u>157,130</u>	<u>987,369</u>	<u>(830,239)</u>
Change in Net Position	<u>\$ (814,491)</u>	<u>\$ (855,672)</u>	<u>\$ 41,181</u>

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED DECEMBER 31, 2017**



**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Statements of Cash Flows

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

	<u>2017</u>	<u>2016</u>
Net cash (used)/provided by operating activities	\$ 1,799,459	\$ 412,664
Net cash (used)/provided by non-capital financing activities	(453,809)	530,579
Net cash used in capital and related financing activities	<u>(2,659,137)</u>	<u>(1,606,949)</u>
Net (decrease) in cash and cash equivalents	(1,313,487)	(663,706)
Cash and cash equivalents at beginning of year	<u>5,680,518</u>	<u>6,344,224</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,367,031</u></u>	<u><u>\$ 5,680,518</u></u>

Additional Information

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

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,585,589	\$ 3,363,248
Cash, Cash Equivalents and Investments, Restricted (Note 3)	2,603,005	2,317,270
Accounts Receivable, Less Allowance of \$15,000 in 2017 and 2016	1,504,672	1,756,980
Due from Related Party (Note 11)	-	982,349
Prepaid Expenses	26,405	21,385
TOTAL CURRENT ASSETS	5,719,671	8,441,232
NON-CURRENT ASSETS		
Cash, Cash Equivalents and Investments, Restricted (Note 3)	1,897,940	1,839,491
Property, Plant and Equipment, Net of Accumulated Depreciation (Note 4)	18,225,927	20,072,973
TOTAL NON-CURRENT ASSETS	20,123,867	21,912,464
TOTAL ASSETS	25,843,538	30,353,696
DEFERRED OUTFLOWS OF RESOURCES		
NYS Employee Retirement System (Note 6)	101,663	159,795
Deferred Capital-related Outflows	263,668	-
TOTAL DEFERRED OUTFLOWS	365,331	159,795
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 26,208,869	\$ 30,513,491
LIABILITIES		
Current Liabilities:		
Bonds Payable, Current Portion (Note 5)	\$ 1,170,000	\$ 1,020,000
Accounts Payable	244,218	239,826
Accrued Expenses Payable	1,807,870	4,185,690
Non-Performance Liability (Note 10)	400,000	-
Accrued Interest Payable	286,475	323,819
Due to Related Party (Note 11)	351,125	-
Due to Other Governments (Note 10)	-	1,883,551
TOTAL CURRENT LIABILITIES	4,259,688	7,652,886
Non-current liabilities:		
Postemployment Benefit Obligations (Note 7)	679,557	698,115
Bonds Payable, Less Current Portion (Note 5)	10,960,000	13,220,000
Non-Performance Liability (Note 10)	850,000	-
Net NYS Employee Retirement System Liability (Note 6)	22,726	77,066
TOTAL NON-CURRENT LIABILITIES	12,512,283	13,995,181
TOTAL LIABILITIES	16,771,971	21,648,067
DEFERRED INFLOWS OF RESOURCES		
NYS Employee Retirement System (Note 6)	11,858	10,001
Deferred Capital-related Revenues	1,424,709	40,601
TOTAL DEFERRED INFLOWS	1,436,567	50,602
NET POSITION		
Net Investment in Capital Assets	4,934,886	5,792,372
Restricted	4,500,945	4,156,761
Unrestricted	(1,435,500)	(1,134,311)
TOTAL NET POSITION	8,000,331	8,814,822
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 26,208,869	\$ 30,513,491

See Notes to the Financial Statements

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Operating Revenues:		
Tipping Fees	\$ 11,090,779	\$ 11,056,118
Recycled Material Sales	583,618	449,777
Energy Revenues	1,976,311	2,250,400
Total Operating Revenues	13,650,708	13,756,295
Operating Expenses:		
Disposal Fees	2,133,144	2,138,643
Service Fees	9,335,745	9,808,598
Administrative Expenses	769,857	1,154,678
Interest Expense	552,655	647,638
Depreciation and Amortization	1,830,928	1,849,779
Total Operating Expenses	14,622,329	15,599,336
Operating (Loss)	(971,621)	(1,843,041)
Non-Operating Revenues/(Expenses):		
Non Performance Guarantee Revenues	442,428	473,925
Grants	-	56,654
Interest Income	15,812	3,914
Other Income	46,556	125,029
Gain on Sale of Fixed Assets	25,050	36,150
Settlement of Host Community Benefit Accrual	1,883,551	-
Net Service Fee Accrual (Over-accrual)	(1,333,474)	291,697
Non Performance Expense	(922,793)	-
Total Non-Operating Revenues/(Expenses)	157,130	987,369
Change in Net Position	(814,491)	(855,672)
Net Position, Beginning of Year	8,814,822	9,670,494
Net Position, End of Year	\$ 8,000,331	\$ 8,814,822

See Notes to the Financial Statements

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash Flows from Operating Activities:		
Receipts from customers	\$ 13,903,016	\$ 13,714,142
Payments to suppliers	(14,325,122)	(12,951,276)
Payments to employees and benefits	(304,981)	(350,202)
Net cash provided by operating activities	(727,087)	412,664
Cash Flows from Non-capital Financing Activities		
Funds received/(used) from non-operating activities	630,428	530,579
Net cash provided/(used) by non-capital financing activities	630,428	530,579
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	25,050	36,150
Proceeds of capital debt	12,130,000	-
Bond premium received	1,500,243	-
Bond escrow deposit	(13,502,501)	-
Use of debt reserve funds, net	381,746	-
Use of Costs of Issuance Proceeds	(254,433)	-
Principal paid on capital debt	(1,020,000)	(975,000)
Interest received on reserves	15,812	3,914
Interest paid on capital debt	(416,128)	(672,013)
Bond financing costs paid	(255,054)	-
Net cash (used) by capital and related financing activities	(1,395,265)	(1,606,949)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,491,924)	(663,706)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,680,518	6,344,224
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 4,188,594	\$ 5,680,518
Presented as:		
Cash and Cash Equivalents – Unrestricted	\$ 1,585,589	\$ 3,363,248
Cash, Cash Equivalents and Investments – Current - Restricted	2,603,005	2,317,270
Total	\$ 4,188,594	\$ 5,680,518

See Notes to the Financial Statements

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
STATEMENTS OF CASH FLOWS (CONT'D.)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Reconciliation of Operating (Loss) to Net Cash Provided		
By Operating Activities		
Operating Loss	\$ (971,621)	\$ (1,843,041)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,830,927	1,849,779
Interest Expense	552,655	647,638
Changes in Assets and Liabilities:		
Accounts Receivable	252,308	(42,153)
Prepaid Expenses	(5,020)	13,999
Deferred Outflows - Retirement System	58,132	(69,385)
Accounts Payable	4,392	(49,635)
Non-Capital-Related Accrued Expenses Payable	(2,377,819)	(237,356)
Net Employee Retirement System Liability	(54,340)	59,483
Post Employment Benefit Obligations	(18,558)	73,334
Deferred Inflows - Retirement System	1,857	10,001
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (727,087)	\$ 412,664

See Notes to the Financial Statements

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. Organization and Summary of Significant Accounting Policies

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

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

The Reporting Entity

The Agency is considered a component unit of the financial reporting entity known as Dutchess County. Inclusion in the financial reporting entity, Dutchess County, is determined based on financial accountability as defined by GASB Statement No. 14, "The Financial Reporting Entity" as amended. The Dutchess County Executive, and/or Members of the County Legislature appoint all of the Agency's Board Members. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14, as amended.

Basis of Accounting and Measurement Focus

As described above, the Agency performs the function of solid waste management for the residents of the County of Dutchess. Its operations are financed primarily through user charges (tipping fees). Under standards set by the GASB, the Agency is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources.

This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current financial resources.

The Agency considers all revenues as operating revenues, except that subsidies and grants which finance either capital or current operations are reported as non-operating revenues.

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

Cash and Cash Equivalents

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

Property, Plant and Equipment

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

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

1. Organization and Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs

Costs incurred relating to the issuance of Agency bonds and bond anticipation notes are expensed as incurred, in accordance with GASB Statement No.65.

Equity Classifications

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

Net investment in capital assets – Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by deferred outflows of resources and costs incurred to obtain such financing, and decreased by deferred inflows of resources and un-amortized cost reimbursements.

Restricted – Consist 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; or (3) cash and cash equivalents that are restricted for capital asset acquisition.

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

Income Taxes

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

Insurance

The Agency assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance and/or in contractual agreement with the plant operator. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations.

Postemployment Benefit Obligations

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

Use of Estimates

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

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

1. Organization and Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Agency has evaluated subsequent events for disclosure and/or recognition in the financial statements from December 31, 2017 through March 16, 2018, the date on which the financial statements were available to be issued.

2. Cash, Cash Equivalents and Investments

Statutes authorize the Agency to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations. The Agency has investments in money market funds, which invests at least 99.5% of assets in U.S. Treasury Bills.

In addition, the Agency, through the General Bond Resolution adopted August 6, 1998, is authorized to invest funds held under the Resolution in "Qualified Investments". Qualified Investments include the above described investments as well as certain types of commercial paper, money market accounts, and investment agreements.

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

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

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

Investments are categorized into these three categories of credit risk:

- 1) Insured or registered, or securities held by the Agency or its agent in the Agency'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 registered, with securities held by the counter-party's trust department or agent in the Agency's name;
- 3) Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent, but not in the Agency's name.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

2. Cash, Cash Equivalents and Investments (Continued)

	Balances as of December 31, 2017			
	Category 1	Category 2	Category 3	Total
Cash and Cash Equivalent Balances:				
Cash In Banks	\$ 250,000	\$ 2,660,556	\$ -	\$ 2,910,556
Cash and Cash Equivalent Total:	250,000	2,660,556	-	2,910,556
Investments:				
Money Market Funds	-	3,175,978	-	3,175,978
Investments Total	-	3,175,978	-	3,175,978
Total Cash, Cash Equivalents, and Investments	\$ 250,000	\$ 5,836,534	\$ -	\$ 6,086,534

	Balances as of December 31, 2016			
	Category 1	Category 2	Category 3	Total
Cash and Cash Equivalent Balances:				
Cash In Banks	\$ 350,000	\$ 5,330,518	\$ -	\$ 5,680,518
Cash and Cash Equivalent Total:	350,000	5,330,518	-	5,680,518
Investments:				
Money Market Funds	-	1,839,491	-	-
Investments Total	-	1,839,491	-	-
Total Cash, Cash Equivalents, and Investments	\$ 350,000	\$ 7,170,009	\$ -	\$ 5,680,518

Bank balances differ from the Agency's cash balances by the amount of outstanding items clearing in the following month.

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

3. Restricted Assets

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

The Debt Service Reserve Funds are funded in an amount equal to the greater of any annual principal and interest or sinking fund payments, but limited to 10% of the original principal amount of the 2007 Series and 2017 Refunding bonds. The Reserve and Contingency Fund is funded in an amount at least equal to 10% of the debt service payments required for the current year. However, since these funds are not anticipated to be used in the subsequent year, they have been classified as restricted noncurrent assets on the balance sheet.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

3. Restricted Assets (Continued)

The proceeds from collections of energy revenues, which had not yet been released by the trustee, and funds available for the January 1, bond principal and interest payments, amounted to \$2,603,005 at December 31, 2017 and \$2,317,270 at December 31, 2016, and are included in Restricted Current Cash and Cash Equivalents.

Restricted Assets are summarized as follows:

Current- Restricted Assets	2017	2016
Series 2007	\$ -	\$ 1,343,745
Series 2017 Bonds	1,278,038	-
Energy Revenues and Debt Service Funds	1,324,967	973,525
Total Current - Restricted Assets	<u>\$ 2,603,005</u>	<u>\$ 2,317,270</u>
 Non-Current Restricted Assets		
Series 2007 Bonds	\$ -	\$ 1,839,491
Series 2017 Bonds	1,897,940	-
Total Non-Current - Restricted Assets	<u>\$ 1,897,940</u>	<u>\$ 1,839,491</u>

4. Property, Plant and Equipment

Activities involving Property, Plant and Equipment for the year ended December 31, 2017, are as follows:

	2016	Increases	Decreases	2017
Property	\$ 517,591	\$ -	\$ -	\$ 517,591
Plant	63,774,179	-	-	63,774,179
Equipment	138,962	-	(77,475)	61,487
	64,430,732	-	(77,475)	64,353,257
Less: Accumulated Depreciation	(44,357,757)	(1,847,047)	77,475	(46,127,330)
 Property, Plant, Equipment Net	 <u>\$ 20,072,975</u>	 <u>\$ (1,847,047)</u>	 <u>\$ -</u>	 <u>\$ 18,225,927</u>

Depreciation was recorded in the amount of \$1,847,047 and \$1,866,231 less amortization of deferred revenues associated with the funding of capital improvements of \$16,119 and \$16,452, resulting in \$1,830,928 and \$1,849,779 depreciation expense for the years ended 2017 and 2016, respectively.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

5. Bonds Payable

Bond Refunding

In May 2017, the Agency issued \$12,130,000 in solid waste system revenue refunding bonds with interest rates of 3.00-5.00%. The proceeds were used to refund the outstanding principal of the Agency's \$16,140,000 Solid Waste System Revenue Bonds, Series 2007, paying certain costs of issuance of the Series 2017 bonds, and funding of a Debt Service Reserve Fund. The net proceeds of the refunding, \$13,502,501, after payment of underwriting and other issuance costs, were used to purchase federal 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 \$16,686,213, and the cash flow required to service the new debt is \$15,298,575, resulting in a reduction of \$1,387,638.

Bond Terms – 2017 Refunding

As noted above, in May 2017, the Agency issued the 2017 Series Refunding Bonds in the amount of \$12,130,000 to refund the outstanding principal amount of the Agency's 2007 Series bonds, to pay certain costs of issuance on the 2017 bonds, and to establish a debt reserve fund.

The 2017 Series Bonds are payable from and secured by an express lien on the unexpended proceeds of the bonds held by the Trustee; the Agency's right to receive and/or enforce receipt of revenues; and the Agency's rights and remedies under certain agreements. In addition, the Agency is required to fulfill certain covenants as described below.

Bond Terms - 2007 Tax-Exempt Forward Series

In November 2007, the Agency issued the 2007 Series Bonds in the amount of \$16,140,000 to permanently finance the Agency's plant improvements made to be in compliance with the standards set forth by the U.S. Environmental Protection Agency (E.P.A.).

The 2007 Series Bonds are payable from and secured by an express lien on the unexpended proceeds of the bonds held by the Trustee; the Agency's right to receive and/or enforce receipt of revenues; and the Agency's rights and remedies under certain agreements. In addition, the Agency is required to fulfill certain covenants as described below.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

5. Bonds Payable (Continued)

Bonds payable, with interest payable semiannually on January 1 and July 1, consist of the following as of December 31, 2017 and 2016:

Interest Rate	Issue Date	Maturity Date	2017 Series Outstanding December 31, 2017	2007 Series Outstanding December 31, 2016
Serial Bonds				
3.00%	2017	2017	\$ -	\$ 1,020,000
4.00%	2017	2018	1,170,000	1,070,000
5.00%	2017	2019	1,015,000	1,125,000
5.00%	2017	2020	1,055,000	1,180,000
5.00%	2017	2021	1,105,000	1,230,000
5.00%	2017	2022	1,165,000	1,285,000
5.00%	2017	2023	1,220,000	1,340,000
5.00%	2017	2024	1,280,000	1,400,000
5.00%	2017	2025	1,350,000	1,465,000
5.00%	2017	2026	1,415,000	1,530,000
5.00%	2017	2027	1,355,000	1,595,000
			12,130,000	14,240,000
		Less Current Maturities of Bonds Payable	(1,170,000)	(1,020,000)
		Bonds Payable - Long Term	\$ 10,960,000	\$ 13,220,000

Annual Amortization and sinking fund requirements for Bonds Payable:

Year ended December 31,	Principal	Interest	Total
2018	\$ 1,170,000	\$ 555,400	\$ 1,725,400
2019	1,015,000	517,550	1,532,550
2020	1,055,000	470,875	1,525,875
2021	1,105,000	416,875	1,521,875
2022	1,165,000	360,125	1,525,125
2023-2027	6,620,000	847,750	7,467,750
Totals	\$ 12,130,000	\$ 3,168,575	\$ 15,298,575

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

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

5. Bonds Payable (Continued)

The Agency must obtain additional certifications regarding events of default occurring, landfill capacity and the quantity of waste processed. The Agency must maintain various accounts, described as Restricted Assets in Note 3, which are subject to minimum funding requirements. At December 31, 2017 and 2016, these reserves exceeded their funding requirements.

6. Employee Retirement Systems

Pension Plan:

A. Plan Description

The Agency is required to participate in the New York State and Local Employees' Retirement System (ERS) 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 (Comptroller) 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 its funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

B. Funding Policy

The Systems are generally noncontributory. Tiers I-IV are noncontributory after ten years of participation and tier V is required to contribute 3% of their salary, and tier VI is required to contribute a minimum of 3.5% 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 Agency is required to contribute to the System at an actuarially determined rate. The required contributions for the current and prior two calendar years were \$26,030, \$41,623, and \$62,345, respectively. The Agency's contributions made to the System were equal to 100% of the contributions required for those years.

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

At December 31, 2017, the Agency reported a liability of \$22,726 for its proportionate share of the net pension liability. This amount is recorded as a long-term liability due to the NYS Retirement System. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as April 1, 2016. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At March 31, 2017, the Agency's proportion was .00024190 percent of the Employers' Retirement System liability.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

6. Employee Retirement Systems (Continued)

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

For the year ended December 31, 2017, the Agency recognized pension expense of \$31,678. At December 31, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 569	\$ 3,451
Changes of Assumptions	7,764	-
Net difference between projected and actual investment earnings on pension plan investments	4,539	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	62,761	8,407
Employer contributions subsequent to the measurement date	26,030	-
Total	\$ 101,663	\$ 11,858

\$26,030 reported as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability, in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
	2018	\$ 22,962
	2019	\$ 22,962
	2020	\$ 16,430
	2021	\$ 1,421

Actuarial Assumptions

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

Significant actuarial assumptions used in the April 1, 2017, valuation were as follows:

Inflation	2.5%
Salary increases - ERS	3.8%
Investment rate of return	7.0%
Cost of living adjustments	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 April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

6. Employee Retirement Systems (Continued)

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

Actuarial Assumptions (Continued)

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, 2017 are summarized below:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	4.55%
International equity	6.35%
Private equity	7.75%
Real estate	5.80%
Absolute return strategies	4.00%
Opportunistic funds	5.89%
Real assets	5.54%
Bonds and mortgages	1.31%
Cash	-0.25%
Inflation-indexed bonds	1.50%

Discount Rate

The discount rate used to calculate the total pension liability 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 Agency's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

6. Employee Retirement Systems (Continued)

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

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Agency's proportionate share of the net ERS pension liability/(asset)	\$ 72,583	\$ 22,726	\$(19,428)

Pension plan fiduciary net position

The components of the current-year net pension liability of the employers as of March 31, 2017, were as follows:

	<u>Dollars in Thousands</u>
	Employees' Retirement System
Employers' total pension liability	\$ (177,400,586)
Plan net position	168,004,363
Employers' net pension liability	\$ (9,396,223)
Ratio of plan net position to the employers' total pension liability	94.7%

7. 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 when it will be paid. In adopting the requirements of GASB No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the Agency recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from the prior year and provides information useful in assessing potential demands on the Agency's cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability. The Postemployment Benefits Liability as of December 31, 2017 and 2016, is \$679,557 and \$698,115, respectively.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

7. Postemployment Benefits (Continued)

Benefit Obligation at Normal Cost

	2017	2016
Actuarial Accrued Liability (AAL)		
Retired and Active Employees	\$ 564,908	\$ 1,027,127
Unfunded actuarial accrued liability (UAAL)	\$ 564,908	\$ 1,027,127

Annual Required Contribution (ARC)

	2017	2016
Past Service Costs	\$ 22,253	Not Available
Normal Costs	19,246	Not Available
Annual Required Contribution (ARC)	\$ 41,499	\$ 116,331
Percent of annual OPEB cost contributed	167.5%	34.9%

Year Ended December 31	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 27,475	167.5%	\$ 679,557
12/31/2016	112,655	34.9%	698,115
12/31/2015	112,986	50.1%	624,781

Plan Description

The Agency provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the Agency. The Agency administers its own plan, but does not issue separate, stand-alone financial statements. Currently, there are six retirees receiving postemployment benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for life of the retiree based on the retiree's years of service at retirement. A summary of benefits is as follows:

Years of Service	% Paid by Agency	
	Retiree	Dependent/Spouse
10	50%	35%
15	60%	45%
20	70%	55%
25	80%	65%

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

7. Postemployment Benefits (Continued)

Funding Policy

The Agency is paying postemployment benefits for six retirees, based on billed health insurance premiums. This is considered pay-as-you-go funding. Currently there is no legislative authorization which would enable the Agency to establish a trust that could be used to accumulate and invest assets necessary to pay the accumulated liability.

Annual Other Postemployment Benefit Cost

For the years ended December 31, 2017 and 2016, the Agency's OPEB cost (expense), before the consideration of current health insurance premiums of retirees, amounted to \$27,475 and \$112,655, respectively, which was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45, adjusted by interest accrued on the net OPEB obligation and timing adjustments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded liabilities over an open period of 30 years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value for plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Agency last performed a valuation as of December 31, 2017.

Actuarial Methods and Assumptions

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

In the last actuarial valuation, the liabilities were computed using the projected unit credit cost method. The actuarial assumptions utilized a 0.5% 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 0.5% rate. The valuation assumes a prescribed schedule of percentage increases in premiums over the next seventy years.

8. Commitments

Solid Waste Disposal Service Agreement

The Agency and Dutchess County entered into a solid waste disposal service agreement dated December 1, 1984, the most recent amendment being dated January 7, 2016. The County agreed to deliver at least 140,000 tons per year of solid waste to the plant and to pay net service fees to the Agency amounting to the excess of payments for debt service and reserves, fees to the contractor and accrued expenses over tipping fees, energy and other revenues. It is the Agency's obligation to process and to provide for disposal of the solid waste. The terms of the agreement were extended during 2007 to remain in effect through July 1, 2027.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

8. Commitments (Continued)

Operations Service Agreement

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

The Agency has contracted to pay to the operator \$68 per net ton of solid waste processed, \$0.83 per ton of net Agency processed tonnage for turbine generator maintenance fees plus adjustments based upon changes in labor and material price indexes calculated on each, plus 25% of net revenues from electric and metals recycling sales.

The Agency's current operating permit allows for up to 164,000 tons to be processed at the plant. However, the Agency is required to supply 140,000 tons, or pay the corporation \$68 a ton for each ton of solid waste below that amount which is not delivered to the plant, adjusted based upon changes in labor and material price indexes. During 2017, the Agency caused to have delivered 145,637 tons, and 150,424 tons in 2016, meeting its guarantees.

Power Sales Agreement

The Agency and a commercial corporation have entered into a power sales agreement dated November 1, 1984. The Agency agrees to sell all electricity produced by the plant in excess of its own requirements to the corporation at a price based on tariffs filed with the New York State Public Service Commission. The terms of the agreement are effective through January 1, 2008 and include provisions for an automatic renewal for two consecutive 5-year periods, plus extensions, currently expiring January 14, 2019.

Transportation and Disposal of Ash Residue

Effective January 1, 2013, the Agency entered into a contract with a hauler and a landfill for the transportation and disposal of ash residue. The contract period is through June 30, 2014 with provisions for renewal at the Agency's option for four one year periods and provisions for fee increases accordingly. During 2017, the Agency renewed the contract for an additional year, through June 30, 2018.

9. Economic Dependency

As described in Note 11 – Related-Party Transactions, the Agency is entitled to receive net service fees from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover operating expenses and debt service requirements. These payments are subject to approval by resolution of the Dutchess County Legislature.

10. Contingencies

Operating Permits

The Agency is required to maintain operating permits for its small power production and solid waste management facility. The NYSDEC Part 360 Operating permit expired in July 2011. The Agency submitted a timely renewal application and is now operating under the State Administrative Procedures Act while the permit is under NYSDEC review. The Title V Air Control permit has been renewed and runs through October 2021.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

10. Contingencies (Continued)

Operations Service Agreement – Annual Reconciliations

The Agency employs an independent engineer to prepare an annual report summarizing waste processed, utility usage, supplemental compensation, and other items relating to revenues and expenses of the Operator. The Agency records a receivable and expense accrual covering amounts shown to be due to and due from Operator. The Agency and the current Operator have agreed upon and accepted the 2017 annual reconciliation.

Litigation

The Agency was a defendant in a lawsuit regarding liabilities due to the former plant operator from the Agency. The matter was resolved to the mutual satisfaction of the former plant operator and the Agency in November 2017.

The Town of Poughkeepsie had a claim against the Agency regarding Host Community Benefit payments due the Town. The Agency and the Town settled the liability in exchange for Town use of disposal services for a five year period.

11. Related-Party Transactions

As more fully described in Note 9 - Economic Dependency, Dutchess County is responsible for net service fees due/(from) the Agency. These fees amounted to (\$1,333,474) and \$291,697 during 2017 and 2016, respectively. At December 31, 2017 and December 31, 2016, respectively, the Agency (owed)/was owed \$351,125 and (\$982,349) to Dutchess County, reported as Due to/from Related Party.

During 2017 and 2016, the Agency participated in the health and dental insurance plan administered by Dutchess County and was charged \$98,336 and \$98,620, respectively.

12. New Reporting Standards

GASB has issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves the information provided by state and local governmental employers about support for OPEB that is provided by other entities. The Agency is required to implement this standard for the year ending December 31, 2018. The implementation of this standard is expected to have a substantive effect on the Agency's net position.

In March 2016, GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Agency is required to implement this standard for the year ending December 31, 2018. The implementation of this standard is not expected to have a substantive effect on the Agency's net position.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

12. New Reporting Standards (Continued)

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 Agency has not evaluated the effect of GASB 83 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 Agency has not evaluated the effect of GASB 84 on its financial statements.

In March of 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits. The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017. The Agency has not evaluated the effect GASB 85 on its financial statements.

In May of 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017. The Agency has not evaluated the effect of GASB 86 on its financial statements.

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 Agency has not evaluated the effect of GASB 87 on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POSTEMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2017**

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

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2017	12/31/2017	\$ -	\$ 564,908	\$ 564,908	0%	\$ 154,959	364.55%
12/31/2016	12/31/2014	\$ -	\$ 1,027,127	\$ 1,027,127	0%	\$ 209,503	490.27%
12/31/2015	12/31/2014	\$ -	\$ 1,027,127	\$ 1,027,127	0%	\$ 282,986	362.96%

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
DECEMBER 31, 2017**

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

	<u>March 31, 2017</u>	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Agency's proportion of the net pension liability (asset)	0.00024190%	0.00048020%	0.05205000%
Agency's proportionate share of the net pension liability (asset)	\$ 22,726	\$ 77,066	\$ 17,583
Agency's covered-employee payroll	\$ 154,959	\$ 209,503	\$ 282,986
Agency's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	14.67%	36.79%	6.21%
Agency plan fiduciary net position as a percentage of the total pension liability	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 Agency will present information for those years for which information is available.

**DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
SCHEDULE OF PENSION CONTRIBUTIONS
DECEMBER 31, 2017**

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

	<u>March 31, 2017</u>	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Contractually required contribution	\$ 41,623	\$ 62,345	\$ 56,026
Contributions in relation to the contractually required contribution	41,623	62,345	56,026
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Agency's covered-employee payroll	\$ 154,959	\$ 209,503	\$ 282,986
Contributions as a percentage of covered-employee payroll	26.86%	32.93%	20.77%

*The amounts presented for each fiscal year were determined as of the plan's 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 Agency will present information for those years for which information is available.



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**

To the Board of Directors
Dutchess County Resource Recovery Agency
96 Sand Dock Road
Poughkeepsie, New York 12601-5444

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 Dutchess County Resource Recovery Agency, as of and for the year ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Dutchess County Resource Recovery Agency's basic financial statements, and have issued our report thereon dated March 22, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dutchess County Resource Recovery Agency'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 Resource Recovery Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Dutchess County Resource Recovery Agency'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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dutchess County Resource Recovery Agency'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 Dutchess County Resource Recovery Agency'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 Dutchess County Resource Recovery Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RBT CPAs, LLP

Poughkeepsie, New York
March 22, 2018