

**EAST OF HUDSON WATERSHED CORPORATION**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORT**

For the Year Ended  
December 31, 2012

**EAST OF HUDSON WATERSHED CORPORATION**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
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For the Year Ended  
December 31, 2012

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
East of Hudson Watershed Corporation

**Report on the Financial Statements**

We have audited the accompanying financial statements of East of Hudson Watershed Corporation (a nonprofit organization) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

***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 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 East of Hudson Watershed Corporation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

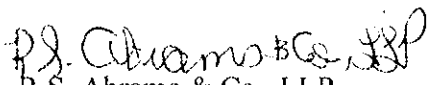
## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 10-12 of functional expenses and of stormwater retrofit funds expended, repaid, committed and on hand are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2014 on our consideration of East of Hudson Watershed Corporation'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 East of Hudson Watershed Corporation's internal control over financial reporting and compliance.

  
R.S. Abrams & Co., LLP  
Islandia, NY  
July 3, 2014



**EAST OF HUDSON WATERSHED CORPORATION**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>REVENUES</b>			
Program revenues	-	\$ 2,050,422	\$ 2,050,422
Interest	-	23,555	23,555
Net assets released from restrictions	\$ 2,050,422	(2,050,422)	-
	<u>2,050,422</u>	<u>23,555</u>	<u>2,073,977</u>
Total Revenues			
<b>EXPENSES</b>			
Program Services:			
Phosphorus removal	1,801,195	-	1,801,195
	<u>1,801,195</u>	<u>-</u>	<u>1,801,195</u>
Total Program Services			
Supporting Services:			
General and administrative	249,227	-	249,227
	<u>249,227</u>	<u>-</u>	<u>249,227</u>
Total Supporting Services			
Total Expenses	<u>2,050,422</u>	<u>-</u>	<u>2,050,422</u>
Change in Net Assets	-	23,555	23,555
Net Assets at Beginning of Year	-	-	-
Net Assets at End of Year	<u>\$ -</u>	<u>\$ 23,555</u>	<u>\$ 23,555</u>

See notes to financial statements

**EAST OF HUDSON WATERSHED CORPORATION**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2012

**Cash Flows From Operating Activities**

Change in net assets	\$	23,555
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		1,886
(Increase) decrease in:		
Other receivables		(84)
Prepaid insurance		(82,574)
Other assets-rent security		(1,400)
Increase (decrease) in:		
Accounts payable and accrued expenses		1,148,255
Deferred revenues-short-term		<u>10,492,170</u>
Net Cash Provided by Operating Activities		<u>11,581,808</u>

**Cash Flows From Investing Activities**

Purchase of fixed assets		<u>(17,804)</u>
Net Cash Used by Investing Activities		<u>(17,804)</u>

**Cash Flows From Financing Activities**

Deferred revenues-long term		<u>5,231,203</u>
Net Cash Provided by Financing Activities		<u>5,231,203</u>

Net Increase in Cash		16,795,207
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Cash and Cash Equivalents at Beginning of Year		<u>-</u>
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Cash and Cash Equivalents at End of Year		<u><u>\$16,795,207</u></u>
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**EAST OF HUDSON WATERSHED CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2012

**(1) Organization**

The East of Hudson Watershed Corporation (“EOHWC”) was formed on October 19, 2011 under Section 1411 of the New York State Not-for-Profit Corporation Law. EOHWC is operated for charitable purposes and was established to administer, coordinate and implement through a single entity the East of Hudson regional stormwater retrofit plans (SRPs) approved by the New York State Department of Environmental Conservation (NYSDEC). The EOHWC is a coalition of municipalities in Westchester, Putnam and Dutchess Counties which are located in the New York City Watershed east of the Hudson River.

The SRPs were developed in response to heightened phosphorus removal requirements of the New York State Department of Environmental Conservation. These are embodied in the Municipal Separate Storm Sewer Systems State Pollutant Discharge Elimination System (SPDES) General Permit No. GP-0-10-002 (the MS4 Permit). Entities covered under the MS4 permit (MS4 operators) that exceed their established discharge levels must address requirements aimed at achieving specified pollutant load reductions and to implement SRPs. The NYSDEC phosphorus reduction targets applicable to the SRPs are for the five year period May 1, 2010 to April 30, 2015 as follows: 2010-Year 1; 2011-Year 2; 2012-Year 3, 2013-Year 4 and 2014-Year 5.

Prior to the formation of EOHWC, MS4 operators were responsible for implementing their own SRPs in Years 1 and 2. EOHWC was created to act as a Regional Stormwater Entity (RSE) through which MS4 operators could act in concert by becoming a member of the RSE. Membership will enable resource sharing as well as enhanced funding opportunities among participating members. In addition, through the RSE MS4 operators are subject to “bubble compliance” whereby members can jointly implement SRPs throughout the members’ communities in order to achieve the five-year phosphorus removal requirement as a whole.

In May of 2012 the NYSDEC authorized EOHWC to combine the separate SRPs into one consolidated program which enabled EOHWC to assume the obligations of the municipalities in Westchester, Putnam and Dutchess Counties, which are located within the East of Hudson New York City Watershed. As a result, EOHWC was eligible for funding as follows: \$15.5 million from the NYCDEP 2010 Water Supply Permit; \$4.5 million from the NYCDEP 2007 Filtration Avoidance Determination (FAD); \$10 million from Westchester County and \$8.2 million from Putnam County of which \$676,204 was used by the Putnam County to fund Year 2 SRPs. In total during 2012 EOHWC received funds totaling \$17,773,796 of which \$250,000 was used to fund initial operations.

As of December 31, 2012 EOHWC had 19 members (18 municipalities and 1 county). Each member has passed resolutions to join EOHWC and to authorize the implementation of the SRPs on their behalf.

**(2) Summary of Significant Accounting Policies**

**(a) Financial Statement Presentation**

EOHWC follows the requirements of the Not-For-Profit Topic of the FASB Accounting Standards Codification. As required, EOHWC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets temporarily restricted net assets and permanently restricted net assets depending on donor imposed restrictions, if any.

**(b) Basis of Accounting**

The EOHWC’s financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**EAST OF HUDSON WATERSHED CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2012

(c) Cash and Cash Equivalents

EOHWC considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Investment Income

Interest on investments funds are reported as increases in temporarily restricted net assets in accordance with the NYCDEP funding agreement.

(e) Property and Equipment

Expenditures for furniture, equipment and certain intangibles with useful lives in excess of one year are capitalized and recorded at cost while repairs and maintenance which do not improve or extend the life of an asset are expensed. Furniture and equipment are generally depreciated using the straight line method over their estimated useful lives of 5 – 7 years. EOHWC had office equipment totaling \$5,626 and accumulated depreciation of \$1,125 as of December 31, 2012. In addition EOHWC capitalized computer software in the amount of \$12,178 and amortization expense related to this software was \$761.

(f) Tax Status

EOHWC has applied for exempt status as an organization under Section 501(c) 3 of the Internal Revenue Code. As of December 31, 2012 the application was still pending.

EOHWC has adopted the provisions of FASB ASC 740, *Income Taxes*, which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. EOHWC does not believe its financial statements include any uncertain tax positions.

(g) Functional Allocation of Expenses

The costs of implementing the phosphorus removal program (Stormwater Retrofit Projects) and other activities have been summarized on a functional basis in the statement of activities and the schedule of functional expenses. Accordingly, certain costs have been allocated between program and non-program services.

(h) The Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 may differ from those estimates.

(3) **Compensated Absences**

EOHWC’s policy is to accrue for compensated absences for vacation time and sick pay if such expenses can be reasonably estimated. As of December 31, 2012 there was no accrued liability for compensated absences.

(4) **Temporarily Restricted Net Assets**

Temporarily restricted assets are available for Stormwater Retrofit Projects.

**EAST OF HUDSON WATERSHED CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2012

(5) **Deferred Revenues**

During 2012 EOHWC received funding from Westchester and Putnam Counties totaling \$17,773,796 towards the planning, design and implementation of various SRPs. These funds are treated as deferred (unearned) revenues until actual expenditures are made for both program and non-program (supporting) costs. As of December 31, 2012, EOHWC has total expenditures (paid and incurred) of \$2,050,422 and the liability deferred revenues totaled \$15,723,373 of which \$10,492,170 is short-term based on total actual expenditures paid and incurred during calendar year 2013.

(6) **Commitments and Contingencies**

Operating Leases:

EOHWC has operating leases for its office space and its copier. The copier lease is a month-to-month lease which can be canceled by either party upon thirty days written notice. Total expense related to the copier lease was \$794 for the year ended December 31, 2012.

The original office lease was for the three year period commencing April 2, 2012 and ending December 31, 2014. This lease required monthly rent payments of \$1,400. Beginning November 1, 2012 the lease was amended as a result of EOHWC increasing the amount of office space occupied and monthly rent increased to \$1,800 through February 2013. In March 2013 monthly rent increased again to \$2,161 as a result of utilizing additional office space. In June 2014 EOHWC and the landlord executed a rider to the original lease to formally recognize the increased space occupied by EOHWC. The rider established monthly rent at \$3,500 for the period February 1, 2014 through January 31, 2017. The lease can be terminated by either party at any time upon thirty days prior notice in writing.

Rental payments for the year ended December 31, 2012 amounted to \$13,516.

The minimum rental payments under the office lease for future fiscal years through the last lease payment are as follows:

	<u>Amount</u>
For the year ended:	
December 31, 2013	\$25,561
December 31, 2014	40,700
December 31, 2015	42,700
December 31, 2016	42,700
December 31, 2017	<u>3,500</u>
Total	<u>\$155,161</u>

(7) **Credit Risk**

Financial instruments which potentially subject EOHWC to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. At December 31, 2012, EOHWC's only cash account (money market) with balances that exceed the current FDIC limit is subject to a collateral agreement and therefore management believes the credit risk related to this account is minimal.

(8) **Subsequent Events**

Subsequent to the year ended December 31, 2012, EOHWC executed additional contracts related to Stormwater Retrofit projects with various towns and villages located in Westchester and Putnam Counties. The supplemental schedule of Stormwater Retrofit Funds (SRFs) Expended, Repaid, Committed and On Hand presented on pages 11-12 of the financial statements presents a summary of contracts entered into during 2012. From January 1, 2013 to May 14, 2014 EOHWC had outstanding commitments related to Stormwater Retrofit Projects totaling

**EAST OF HUDSON WATERSHED CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2012

\$11,928,634 of which \$1,572,897 was applicable to Westchester County and \$10,355,737 was applicable to Putnam County.

In addition, in September of 2013 EOHWC received \$10 million from the New York City Department of Environment Protection (NYCDEP) which represented the first installment of the total \$15.5 million that NYCDEP was obligated to pay EOHWC per the 2010 Water Supply Permit. Also, in March of 2014 EOHWC received \$4.5 million from NYCDEP which represented the total amount due EOHWC from the 2007 FAD funds (see "Organization" footnote).

Management of EOHWC evaluated subsequent events through July 3, 2014, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**EAST OF HUDSON WATERSHED CORPORATION**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2012

	Program Services		Supporting Services			Total
	Stormwater Retrofit Projects		General and Administrative		Westchester	
	Putnam	Westchester	Putnam	Westchester		
Salaries	\$ 22,614	\$ 25,562	\$ 44,105	\$ 44,105	\$	\$ 136,386
Employee health and payroll taxes	2,714	3,067	7,000	7,000		19,781
	<u>25,328</u>	<u>28,629</u>	<u>51,105</u>	<u>51,105</u>		<u>156,167</u>
Total Salaries and Related Expenses						
Supplies	10	11	2,335	2,335		4,691
Travel	173	196	935	935		2,239
Consulting	535,661	605,501	7,872	7,872		1,156,906
Printing & postage	577	652	40	39		1,308
Public relations	359	406	625	625		2,015
Municipal Reimbursable	272,345	307,853	-	-		580,198
Bank charges	-	-	60	60		120
Legal & audit	2,222	2,512	37,624	37,624		79,982
Telephone	-	-	1,998	1,998		3,996
Insurance	-	-	12,960	12,960		25,920
Permits & licensing	376	424	-	-		800
Equipment rental	-	-	397	397		794
Rent	-	-	6,758	6,758		13,516
Conferences	-	-	360	360		720
Depreciation & amortization	-	-	943	943		1,886
Miscellaneous	8,400	9,560	602	602		19,164
Total Other Expenses	820,123	927,115	73,509	73,508		1,894,255
Total Expenses	<u>\$ 845,451</u>	<u>\$ 955,744</u>	<u>\$ 124,614</u>	<u>\$ 124,613</u>		<u>\$ 2,050,422</u>

East of Hudson Watershed Corporation  
 Schedule of Stormwater Retrofit Funds (SRFs) Expended,  
 Repaid, Committed and On Hand  
 For the Year Ended December 31, 2012

Description	Westchester County			Putnam County			
	Total Contract*	Expended through 12/31/2012	Repayments	Remaining(Committed)Contract Amount After 12/31/2012	Expended through 12/31/2012	Repayments	Remaining(Committed)Contract Amount After 12/31/2012
<b>Active Contracts:</b>							
2012-01-1					51,863	-	109,737
2012-01-2				145,812	93,178	-	52,634
2012-01-3				574,850	104,200	-	470,650
2012-01-4				119,500	77,520	-	41,980
2012-02-1	109,432	42,400	-	67,032			
2012-02-2	332,314	44,013	-	288,301			
2012-02-3	141,400	26,094	-	115,306			
2012-02-4	177,700	39,322	-	138,378			
B-MU-07	502,626	-	-	502,626			
B-MU-21 & B-MU-22	85,029	85,029	-	-			
S-MU-01 & MU-09A	2,048,225	533,506	-	1,514,719			
S-MU-16/17	593	593	-	-			
Kent-MB-ADD3					200	-	-
Kent-MB-ADD 4 & 19					171,250	-	171,250
PutVal-09-01							
PutVal-PA-02					60,131	-	-
SE-POT-01					73,173	-	-
SE-POT-02					1,315	-	-
SE-PA-05					65,091	-	-
VB-DI-31 & VB-DI-32					314,634	-	-
	<b>3,397,319</b>	<b>770,957</b>		<b>2,626,362</b>	<b>841,305</b>		<b>846,311</b>
<b>Reimbursement Contracts:</b>							
Carmel-CF-119B					281	-	-
Kent-MB-Add 4					171,250	-	169,618
S-MU-01	210,047	1,286	-	208,761			
S-MU-09A	153,095	804	-	152,291			
S-MU-09B	174,965	804	-	174,161			
S-MU-09C	677,991	804	-	677,187			
S-MU-09D	174,965	804	-	174,161			
S-MU-09E	240,578	768	-	239,810			
S-MU-09F	349,930	862	-	349,068			
	<b>1,961,571</b>	<b>6,152</b>		<b>1,975,439</b>	<b>1,913</b>		<b>169,618</b>

East of Hudson Watershed Corporation  
 Schedule of Stormwater Retrofit Funds (SRFs) Expended,  
 Repaid, Committed and On Hand  
 For the Year Ended December 31, 2012

Description	Westchester County			Putnam County				
	Total Contract*	Expended through 12/31/2012	Repayments	Remaining(Committed)Contract Amount After 12/31/2012	Total Contract*	Expended through 12/31/2012	Repayments	Remaining(Committed)Contract Amount After 12/31/2012
<b>Closed Contracts:</b>								
Carmel-AM-127					211	211	-	-
Carmel-CF-123					211	211	-	-
Carmel-PA-18					258	258	-	-
Kent-MB-NLC					199	199	-	-
NS-MU-08/09	171,435	171,435	-	-				
Pat-EB-09-04a-c					118	118	-	-
Patterson-PA-10					194	194	-	-
Southeast-EB-05					158	158	-	-
Southeast-PA-05					759	759	-	-
Southeast-PA-06					289	289	-	-
S-MU-NP3	961	961	-	-				
S-MU-NP4	314	314	-	-				
	<b>172,710</b>	<b>172,710</b>			<b>2,397</b>	<b>2,397</b>		
Add: payroll taxes allocated to programs	<b>3,067</b>	<b>3,067</b>			<b>2,714</b>	<b>2,714</b>		
<b>Grand Totals by County</b>	<b>5,554,667</b>	<b>952,866</b>			<b>1,864,258</b>	<b>848,329</b>		<b>1,015,929</b>
<b>Grand Totals-Both Counties:</b>								
Westchester	5,554,667	952,866						4,601,801
Putnam	1,864,258	848,329						1,015,929
<b>Grand Totals Both Counties</b>	<b>7,418,925</b>	<b>1,801,195</b>						<b>5,617,730</b>

As of December 31, 2012 EOHWC had cash on hand available for SRFs of \$16,795,207

\* based on EOHWC's responsible portion; in some instances the Total Contract dollar amount reflects costs advanced through 12/31/2012 ahead of the execution of a formal contract which occurred after 12/31/2012.

**Notes:**

- 1) the contracts reflected in the above reflect Stormwater Retrofit project activities in various Westchester and Putnam County towns and villages including Carmel, Kent, Patterson, Bedford, Mt. Kisco, Cortlandt, Lewisboro, North Salem, New Castle, Somers, Southeast, Yorktown, Putnam Valley and Village of Brewster.
- 2) contract amounts can change at any time, up or down, due to change orders reflecting revisions to the project
- 3) a contract initially started can be closed if the project is deemed not viable and/or cost prohibitive