

EAST OF HUDSON WATERSHED CORPORATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

EAST OF HUDSON WATERSHED CORPORATION

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Sickler, Torchia
Allen & Churchill, CPA's, PC
Your Partner When It Counts

Robert J. Allen, CPA
Victor V. Churchill, CPA
Edward J. Gower II, CPA
Craig R. Sickler, CPA
Michael A. Torchia, Jr., CPA, CVA

Joseph J. Montalto, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
East of Hudson Watershed Corporation
Patterson, New York

We have audited the accompanying statements of East of Hudson Watershed Corporation (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, and cash flows for the years 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 the *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.

EAST OF HUDSON WATERSHED CORPORATION
INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is 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 March 19, 2017 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.


Hudson, New York
March 19, 2017

EAST OF HUDSON WATERSHED CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 3,108,594	\$ 13,852,855
Short-Term Investments	7,993,669	-
Accounts Receivable	301,808	260,360
Accrued Interest Receivable	3,345	-
Prepaid Expenses	38,214	35,839
Total Current Assets	<u>11,445,630</u>	<u>14,149,054</u>
PROPERTY, PLANT, AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION		
	<u>23,281</u>	<u>27,144</u>
OTHER ASSETS:		
Rent Security	<u>3,500</u>	<u>1,400</u>
	<u>\$ 11,472,411</u>	<u>\$ 14,177,598</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts Payable	\$ 231,434	\$ 172,146
Accrued Expenses	19,348	134,686
Deferred Revenue	3,602,006	13,792,200
Total Current Liabilities	<u>3,852,788</u>	<u>14,099,032</u>
LONG TERM LIABILITIES:		
Deferred Revenue	<u>7,537,409</u>	<u>-</u>
NET ASSETS:		
Unrestricted	-	-
Temporarily Restricted	82,214	78,566
Permanently Restricted	-	-
Total Net Assets	<u>82,214</u>	<u>78,566</u>
	<u>\$ 11,472,411</u>	<u>\$ 14,177,598</u>

Note: Totals may not add due to rounding

See independent auditor's report and notes to the financial statements.

EAST OF HUDSON WATERSHED CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Totals
REVENUE:			
Program Revenues	\$ -	\$ 2,652,784	\$ 2,652,784
O&M Bubble Compliance	-	95,987	95,987
Interest	-	5,229	5,229
Net Assets Released from Restrictions	<u>2,748,771</u>	<u>(2,748,771)</u>	<u>-</u>
Total Revenues	<u>2,748,771</u>	<u>5,229</u>	<u>2,754,000</u>
EXPENSES:			
Program Services:			
Phosphorus Removal	2,116,448	-	2,116,448
Non SRP Services	<u>95,987</u>	<u>-</u>	<u>95,987</u>
Total Program Services	<u>2,212,435</u>	<u>-</u>	<u>2,212,435</u>
Supporting Services:			
Administrative and General	<u>536,336</u>	<u>-</u>	<u>536,336</u>
Total Expenses	<u>2,748,771</u>	<u>-</u>	<u>2,748,771</u>
OTHER CHANGES IN NET ASSETS:			
Change in Market Value Investments	-	(1,581)	(1,581)
Changes in Net Assets	-	3,648	3,648
Net Assets, Beginning	<u>-</u>	<u>78,566</u>	<u>78,566</u>
Net Assets, Ending	<u>\$ -</u>	<u>\$ 82,214</u>	<u>\$ 82,214</u>

Note: Totals may not add due to rounding

See independent auditor's report and notes to the financial statements.

EAST OF HUDSON WATERSHED CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Totals
REVENUE:			
Program Revenues	\$ -	\$ 2,851,923	\$ 2,851,923
Non SRP Reimbursements	-	291,980	291,980
Interest	-	6,524	6,524
Net Assets Released from Restrictions	<u>3,143,903</u>	<u>(3,143,903)</u>	<u>-</u>
Total Revenues	<u>3,143,903</u>	<u>6,524</u>	<u>3,150,427</u>
EXPENSES:			
Program Services:			
Phosphorus Removal	2,367,599	-	2,367,599
Non SRP Services	<u>291,980</u>	<u>-</u>	<u>291,980</u>
Total Program Services	<u>2,659,579</u>	<u>-</u>	<u>2,659,579</u>
Supporting Services:			
Administrative and General	<u>484,324</u>	<u>-</u>	<u>484,324</u>
Total Expenses	<u>3,143,903</u>	<u>-</u>	<u>3,143,903</u>
Changes in Net Assets	-	6,524	6,524
Net Assets, Beginning	<u>-</u>	<u>72,042</u>	<u>72,042</u>
Net Assets, Ending	<u>\$ -</u>	<u>\$ 78,566</u>	<u>\$ 78,566</u>

Note: Totals may not add due to rounding

See independent auditor's report and notes to the financial statements.

EAST OF HUDSON WATERSHED CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from Funding Agencies	\$ 54,539	\$ 5,622,620
Interest Income and Other	1,884	6,524
Cash Paid for Operating Activities	<u>(2,803,135)</u>	<u>(3,068,540)</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,746,712)</u>	<u>2,560,604</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceed from Investment Maturities/Sales	-	-
Purchase of Investments	(7,995,250)	-
Purchase of Fixed Assets	<u>(2,299)</u>	<u>(8,263)</u>
Net Cash Provided (Used) by Investing Activities	<u>(7,997,549)</u>	<u>(8,263)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,744,261)	2,552,341
CASH AND CASH EQUIVALENTS, BEGINNING	<u>13,852,855</u>	<u>11,300,514</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 3,108,594</u>	<u>\$ 13,852,855</u>

*RECONCILIATIONS OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015:*

Changes in Net Assets	\$ 3,648	\$ 6,524
Adjustments to Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in Market Value	1,581	-
Depreciation	1,629	1,855
Amortization	<u>4,533</u>	<u>4,097</u>
Working Capital Provided (Used) by Operating Activities	<u>11,391</u>	<u>12,476</u>
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(41,448)	(169,360)
Accrued Interest Receivable	(3,345)	-
Prepaid Expenditures	(2,375)	5,265
Rent Security	(2,100)	-
(Decrease) Increase in:		
Accounts Payable	59,288	(58,702)
Accrued Expenditures	(115,338)	122,848
Deferred Revenue	<u>(2,652,785)</u>	<u>2,648,077</u>
	<u>(2,758,103)</u>	<u>2,548,128</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,746,712)</u>	<u>\$ 2,560,604</u>

Note: Totals may not add due to rounding

See independent auditor's report and notes to the financial statements.

EAST OF HUDSON WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of the East of Hudson Watershed Corporation (“EOHWC”) is presented to assist in understanding the EOHWC’s financial statements. The financial statements and notes are representations of the EOHWC’s management, which are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

A. Organization:

EOHWC was formed on October 18, 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 an organization comprised of 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 NYSDEC. 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 target applicable to the SRPs are for the five year period of May 1, 2010 to April 30, 2015. The NYCDEP authorized the second five year plan as follows; 2015-Year 6; 2016-Year 7; 2017-Year 8; 2018-Year 9 and 2019-Year 10.

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 assist its member 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. During 2015 EOHWC received funds totaling \$5,500,000 from NYCDEP 2010 Water Supply Permit and during 2014 EOHWC received funds totaling \$4,500,000 from NYCDEP 2007 Filtration Avoidance Determination (FAD).

See independent auditor’s report.

EAST OF HUDSON WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Westchester and Putnam Counties have authorized use of the remaining unused funds from the first five year plan for use in the second five year plan; for years 6 through 10 of the stormwater retrofit regional plan.

As of December 31, 2016, EOHWC had 19 members (18 towns/villages and 1 county). Each member has passed resolutions to join EOHWC and to authorize the implementation of the SRPs on their behalf.

B. Financial Statement Presentation:

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 restriction, if any.

C. Basis of Accounting:

The EOHWC's financial statement has been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

D. Cash and Cash Equivalents:

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

E. Investment Income:

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

F. Property, Plant, and Equipment:

Expenditures for furniture, equipment and certain intangibles with useful lives in excess of one year that costs more than \$500 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 3-7 years.

G. Income Taxes:

EOHWC is tax exempt as an organization under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, no provision for income taxes has been made.

H. Estimates:

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

See independent auditor's report.

EAST OF HUDSON WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

I. 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.

J. Advertising:

EOHWC expenses advertising costs as they are incurred.

NOTE 2 – CONCENTRATION OF 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, 2016, EOHWC's only cash accounts (operating and NYC DEP WSP) with balances that exceeded the current FDIC limit are subject to a third party collateral agreement and therefore management believes the credit risk related to these accounts are minimal.

The bank balance was \$3,431,174 and \$13,889,518 as of December 31, 2016 and 2015.

There are two categories of credit risk that apply to the EOHWC's balance:

1. Insured or collateralized with securities held by the EOHWC or by the EOHWC's agent in the Corporation's name; and
2. Collateralized with securities held by the pledging financial institution's trust department or the EOHWC's agent in the EOHWC's name.

Balances held in each category as of December 31, 2016, are as follows:

Bank	Bank Balance	FDIC	Collateral	Uncollateralized
M&T Bank	\$ 3,409,732	\$ 250,000	\$ 3,159,732	\$ -
JPMorgan Chase Bank, N.A.	21,443	250,000	-	-
	<u>\$ 3,431,175</u>	<u>\$ 500,000</u>	<u>\$ 3,159,732</u>	<u>\$ -</u>

Note: Totals may not add due to rounding.

See independent auditor's report.

EAST OF HUDSON WATERSHED CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 3 – INVESTMENTS:

EOHWC held \$7,993,669 and \$0 in United States government agency obligations at December 31, 2016 and 2015, respectively. The investments are stated at fair value in the financial statements and include unrealized appreciation as summarized below:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Fixed Income:				
US Government/Agency Obligations	\$ 7,993,669	\$ 7,995,250	\$ -	\$ -

NOTE 4 – RECEIVABLES:

The receivables for EOHWC for the years ended December 31, 2016 and 2015 are \$301,808 and \$260,360 respectively. The receivables consist of reimbursements from Putnam County of \$260,360 and \$41,448 related to O&M Bubble Compliance, See Note 9.C. at December 31, 2016. At December 31, 2015, the receivable in the amount of \$260,360 consist of reimbursement from Putnam County. EOHWC has deemed these amounts to be fully collectible.

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment as of December 31, 2016 and 2015, is summarized as follows:

	2016			2015		
	Historic Cost	Accumulated Depreciation	Net Book Value	Historic Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 9,000	\$ 7,757	\$ 1,243	\$ 8,301	\$ 6,536	\$ 1,765
Computer Software	33,212	12,921	20,291	31,611	8,388	23,223
Furniture & Fixtures	2,857	1,110	1,747	2,858	702	2,156
	<u>\$ 45,069</u>	<u>\$ 21,788</u>	<u>\$ 23,281</u>	<u>\$ 42,770</u>	<u>\$ 15,626</u>	<u>\$ 27,144</u>

Note: Totals may not add due to rounding.

Depreciation expense for the years ended December 31, 2016 and 2015 is \$6,162 and \$5,952, respectively.

See independent auditor's report.

EAST OF HUDSON WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 6 – 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, 2016 and 2015 the accrued liabilities for compensated absences were \$4,457 and \$4,735, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted assets are available for Stormwater Retrofit Projects.

NOTE 8 – DEFERRED REVENUES:

During 2015 EOHWC received funding from NYCDEP 2010 Water Supply Permit totaling \$5,500,000 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.

During the year ended December 31, 2016 and 2015, EOHWC has total expenses (paid and incurred) of \$2,748,771 and \$3,143,903, respectively. The liability deferred revenues totaled \$11,139,415 and \$13,792,200 respectively for the fiscal years ended December 31, 2016 and 2015 of which \$3,602,006 and \$13,792,200 is short-term based on total anticipated expenses paid and incurred during the subsequent year.

NOTE 9 – COMMITMENTS AND CONTINGENCIES:

A. Operating Leases:

EOHWC has operating leases for its office space and its copier. EOHWC has entered into an operating lease agreement for a copier effective 2/3/16 for a term of 60 months with monthly payments of \$285 plus applicable charges. The lease contains a "non-appropriation clause" making the obligation to pay the lease payments contingent upon approval of the appropriation of funds, replacing the prior month to month lease. Total expense related to the copier lease was \$3,627 and \$2,990 for the years ended December 31, 2016 and 2015, respectively.

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 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 of February 1, 2014 through January 31, 2017. In December 2016 EOHWC and the landlord executed a rider to the original lease to establish monthly rent a \$3,500 for the period February 1, 2017 through January 31,

See independent auditor's report.

EAST OF HUDSON WATERSHED CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED):

2020. 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, 2016 and 2015 amounted to \$42,000 and \$43,022, respectively.

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

<u>Year Ending December 31</u>	
2017	\$ 45,420
2018	45,420
2019	45,420
2020	6,920
2021	<u>285</u>
	<u>\$ 143,465</u>

B. Grants:

The Organization has received grants in varying amounts, which are subject to audit/review by agencies of Local Governments. Such audits/reviews may result in disallowances and a request for return of funds to the Local Governments. Based on past evaluations, agency administration believes disallowances, if any, will be immaterial.

C. O&M Receivables and Payables:

In March 2016, EOHWC and participating municipalities entered into an agreement on the finance of the maintenance on the retrofits installed by the Corporation. Twice annually, in June and November municipalities will submit an invoice for reimbursement of the actual cost for providing maintenance of the stormwater projects under their jurisdiction. Actual costs incurred will be credited against any amount due and owing to the Corporation. Where there is a surplus, the municipality would receive a refund, where there is a deficit the municipality would be invoiced. The total accumulated cost to maintain retrofit projects for the program as of December 31, 2016 and 2015 was \$95,987 and \$0, respectively. EOHWC has recorded the total estimated surplus in the amount of \$41,448 and \$0, as of December 31, 2016 and 2015, respectively. EOHWC has recorded the total deficit owed by the municipalities in the amount of \$41,448 and \$0 as of December 31, 2016 and 2015, respectively. These are estimates of the total maintenance cost for the first five year plan, as Year 5 Projects are being concluded. The maintenance agreement will be applied to the second five year plan for year 6-10 projects.

See independent auditor's report.

EAST OF HUDSON WATERSHED CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 10 – INCOME TAXES:

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Organization is not liable for income taxes if it operates within the confines of its exempt status, though the Organization may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Organization could be changed if an adjustment in the tax exempt purpose or income from unrelated business activities is ultimately determined by the taxing authorities. The Organization’s income tax filings are subject to audit by various taxing authorities. The Organization’s open audit periods are 2013–2016. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings. The Organization believes their estimates are appropriate based on current facts and circumstances. Accordingly, there are no uncertain tax positions to disclose. As such, there are no correspondingly related interest and penalties to be accrued thereon.

NOTE 11 – FAIR VALUE MEASUREMENTS:

A. Major categories of assets measured at fair value on a recurring basis comprise the following:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2016				
Assets:				
Investments Held to Maturity	\$ 7,993,669	\$ 7,993,669	\$ -	\$ -
	<u>\$ 7,993,669</u>	<u>\$ 7,993,669</u>	<u>\$ -</u>	<u>\$ -</u>
As of December 31, 2015				
Assets:	\$ -	\$ -	\$ -	\$ -

Note: Totals may not add due to rounding.

- ❖ Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ❖ Level 2 Inputs: Directly or indirectly observable (market based) information– This includes quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active. For loans receivable and deferred grant revenue fair value is estimated as the present value of expected future cash inflows or outflows.
- ❖ Level 3 Inputs: Unobservable inputs for the asset or liability for which there is no market data or for which asset and liability values are not correlated with market value. –

See independent auditor’s report.

EAST OF HUDSON WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

The table below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at the fair value and classified as Level 3 in the fair value hierarchy:

	Year Ended December 31,	
	2016	2015
Balance at Beginning of Period	\$ -	\$ -
Unrealized gains/(losses)	-	-
Realized gain/(losses)	-	-
Purchases, issuances, sales and settlements	-	-
Transfers in and/or out of Level 3	-	-
Balance at End of Period	<u>\$ -</u>	<u>\$ -</u>

Note: Totals may not add due to rounding.

Realized and unrealized gains and losses of \$-0- and \$-0- for 2016 and 2015, respectively are included in changes in net assets are reported in the Statement of Activities as a component of program expense. There were no transfers into Level 3 from Level 2. The Organization's policy is to recognize transfers into and out of Level 3 as of the actual date of the event or change in circumstances.

B. Other Fair Value Disclosures:

Financial instruments are recorded at carrying value in the financial statements; however, the fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate that value:

- I. Cash and Cash Equivalents: - the carrying amount approximates fair value because of the short maturity of those instruments.
- II. Accrued Interest Receivable: - the carrying amount approximates fair value because of the short term to the ultimate scheduled payment date.
- III. Property, Plant and Equipment: - the fair value of property, plant and equipment held and used is determined, whenever possible, by reference to quoted market prices and other market information for similar assets. This is then compared to depreciated historical cost values as a measure to determine potential impairment loss. No impairment losses have been recognized through the current year end.
- IV. Accounts Payable and Accrued Expenses: - the carrying amounts approximate fair value because of the short term to liquidation of the instruments.

See independent auditor's report.

EAST OF HUDSON WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 12 – SUBSEQUENT EVENTS:

Management of EOHWC evaluated subsequent events through March 19, 2017, which is the date the financial statements were available to be issued.

See independent auditor's report.

SUPPLEMENTARY INFORMATION

EAST OF HUDSON WATERSHED CORPORATION

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services			Fundraising	Total
	Stormwater Retrofit Projects			General and Administrative				
	Putnam	Westchester	Subtotal	Putnam	Westchester	Subtotal		
Salaries	\$ 13,999	\$ 36,528	\$ 50,527	\$ 151,398	\$ 151,374	\$ 302,772	\$ -	\$ 353,299
Employee Health and Payroll Taxes	2,079	5,425	7,504	22,484	22,484	44,968	-	52,472
Total Salaries and Related Expenses	16,078	41,953	58,031	173,882	173,858	347,740	-	405,771
Supplies	-	-	-	1,771	1,771	3,542	-	3,542
Travel	192	1,353	1,545	246	274	520	-	2,065
Consulting	28,960	118,325	147,285	3,523	3,523	7,046	-	154,331
Construction	630,548	1,188,678	1,819,226	-	-	-	-	1,819,226
Printing & Postage	161	552	713	480	480	960	-	1,673
Advertising	302	1,762	2,064	237	237	474	-	2,538
Municipal Reimbursable	34,348	27,136	61,484	-	-	-	-	61,484
Bank Charges	-	-	-	-	-	-	-	-
Legal & Accounting	9,526	10,105	19,631	42,807	42,715	85,522	-	105,153
Telephone	-	-	-	1,281	1,281	2,562	-	2,562
Insurance	-	-	-	16,841	16,841	33,682	-	33,682
Permits & Licensing	5,650	820	6,470	-	-	-	-	6,470
Equipment Rental	-	-	-	1,814	1,814	3,628	-	3,628
Rent	-	-	-	21,000	21,000	42,000	-	42,000
Conferences	-	-	-	642	642	1,284	-	1,284
Depreciation & Amortization	-	-	-	3,081	3,081	6,162	-	6,162
O&M - Bubble Compliance	29,746	66,240	95,986	-	-	-	-	95,986
Miscellaneous	-	-	-	607	607	1,214	-	1,214
Total Other Expenses	739,433	1,414,971	2,154,404	94,330	94,266	188,596	-	2,343,000
Total Expenses	\$ 755,511	\$ 1,456,924	\$ 2,212,435	\$ 268,212	\$ 268,124	\$ 536,336	\$ -	\$ 2,748,771

See independent auditor's report and notes to the financial statements.

EAST OF HUDSON WATERSHED CORPORATION

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services			Supporting Services			Fundraising	Total
	Stormwater Retrofit Projects			General and Administrative				
	Putnam	Westchester	Subtotal	Putnam	Westchester	Subtotal		
Salaries	\$ 30,238	\$ 35,724	\$ 65,962	\$ 111,792	\$ 111,792	\$ 223,584	\$ -	\$ 289,546
Employee Health and Payroll Taxes	5,031	5,944	10,975	18,601	18,601	37,202	-	48,177
Total Salaries and Related Expenses	<u>35,269</u>	<u>41,668</u>	<u>76,937</u>	<u>130,393</u>	<u>130,393</u>	<u>260,786</u>	-	<u>337,723</u>
Supplies	-	38	38	2,826	2,826	5,652	-	5,690
Travel	405	995	1,400	377	377	754	-	2,154
Consulting	225,025	217,446	442,471	4,916	4,916	9,832	-	452,303
Construction	852,074	822,875	1,674,949	-	-	-	-	1,674,949
Printing & Postage	363	796	1,159	632	632	1,264	-	2,423
Advertising	1,149	153	1,302	517	517	1,034	-	2,336
Municipal Reimbursable	112,322	323,811	436,133	-	-	-	-	436,133
Bank Charges	-	-	-	32	32	64	-	64
Legal & Accounting	14,937	10,579	25,516	41,963	41,963	83,926	-	109,442
Telephone	-	-	-	1,929	1,929	3,858	-	3,858
Insurance	-	-	-	31,503	31,503	63,006	-	63,006
Permits & Licensing	6,675	(7,001)	(326)	-	-	-	-	(326)
Equipment Rental	-	-	-	1,495	1,495	2,990	-	2,990
Rent	-	-	-	21,511	21,511	43,022	-	43,022
Conferences	-	-	-	463	463	926	-	926
Depreciation & Amortization	-	-	-	2,976	2,976	5,952	-	5,952
Miscellaneous	-	-	-	629	629	1,258	-	1,258
Total Other Expenses	<u>1,212,950</u>	<u>1,369,692</u>	<u>2,582,642</u>	<u>111,769</u>	<u>111,769</u>	<u>223,538</u>	-	<u>2,806,180</u>
Total Expenses	<u>\$ 1,248,219</u>	<u>\$ 1,411,360</u>	<u>\$ 2,659,579</u>	<u>\$ 242,162</u>	<u>\$ 242,162</u>	<u>\$ 484,324</u>	<u>\$ -</u>	<u>\$ 3,143,903</u>



Sickler, Torchia
Allen & Churchill, CPA's, PC
Your Partner When It Counts

Robert J. Allen, CPA
Victor V. Churchill, CPA
Edward J. Gower II, CPA
Craig R. Sickler, CPA
Michael A. Torchia, Jr., CPA, CVA

Joseph J. Montalto, CPA

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
East of Hudson Watershed Corporation
Patterson, New York

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 East of Hudson Watershed Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East of Hudson Watershed Corporation'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 East of Hudson Watershed Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of East of Hudson Watershed Corporation's internal control.

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

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


EAST OF HUDSON WATERSHED CORPORATION
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*
(CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East of Hudson Watershed Corporation'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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Hudson, New York
March 19, 2017



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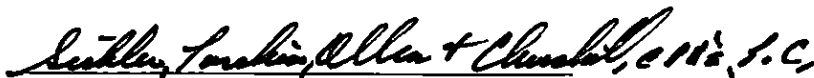
INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH SECTION 2925(3)(f) OF THE
NEW YORK STATE PUBLIC AUTHORITIES LAW

The Board of Directors
East of Hudson Watershed Corporation
Patterson, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of East of Hudson Watershed Corporation (a nonprofit organization), as of December 31, 2016, which collectively comprise the Corporation's financial statements listed in the table of contents, and we have issued our report thereon dated March 19, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with Section 2925(3)(f) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations regarding investment guidelines during the year ended December 31, 2016. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above rules and regulations.

This report is intended solely for the information and use of management, the Board of Directors, officials of New York City, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.


Hudson, New York
March 19, 2017