

CATSKILL WATERSHED CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 AND 2010

CATSKILL WATERSHED CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Catskill Watershed Corporation
Margaretville, New York

We have audited the accompanying statements of financial position of Catskill Watershed Corporation (a nonprofit organization), as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catskill Watershed Corporation as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted by the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2012, on our consideration of Catskill Watershed Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

CATSKILL WATERSHED CORPORATION

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audits were performed for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken 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 above 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 the reconciling of 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.

 Susan L. Albrecht CPA's P.C.

Hudson, New York

February 28, 2012

CATSKILL WATERSHED CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 34,261,616	\$ 26,534,799
Cash and Cash Equivalents - Reserved	4,598,739	1,898,273
Short-Term Investments	12,128,350	19,806,668
Grants Receivable	69,489	30,399
Accounts Receivable	920	461
Accrued Interest Receivable	259,147	440,022
Loans Receivable, Net of Allowance for Doubtful Accounts	1,694,214	1,836,514
Prepaid Expenditures	26,099	24,355
Total Current Assets	<u>53,038,574</u>	<u>50,571,491</u>
 PROPERTY, PLANT, AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	 <u>347,762</u>	 <u>355,778</u>
 LONG-TERM ASSETS:		
Long-Term Investments	29,279,407	26,639,972
Long-Term Investments - Reserved	8,154,000	8,154,000
Loans Receivable, Net of Allowance for Doubtful Accounts	24,573,143	24,242,929
CWC Holdings I	111,000	-
CWC Holdings II LLC	1,500,000	2,829,567
Total Long-Term Assets	<u>63,617,550</u>	<u>61,866,468</u>
	 <u>\$ 117,003,886</u>	 <u>\$ 112,793,737</u>
 <i>LIABILITIES AND NET ASSETS</i>		
 CURRENT LIABILITIES:		
Accounts Payable	\$ 1,148,936	\$ 700,535
Accrued Expenditures	170,140	316,270
Deferred Revenue	109,654,308	101,784,529
Total Current Liabilities	<u>110,973,384</u>	<u>102,801,334</u>
 NET ASSETS:		
Unrestricted	6,030,502	9,992,403
Temporarily Restricted	-	-
Permanently Restricted	-	-
Total Net Assets	<u>6,030,502</u>	<u>9,992,403</u>
	 <u>\$ 117,003,886</u>	 <u>\$ 112,793,737</u>

Note: Totals may not add due to rounding

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUE:		
Grant Revenue	\$ 9,473,264	\$ 16,572,689
Interest and Other Income	<u>1,317,061</u>	<u>1,389,749</u>
Total Revenue	<u>10,790,325</u>	<u>17,962,438</u>
EXPENDITURES:		
Program Services	15,568,580	19,514,434
Administrative and General	<u>428,502</u>	<u>290,892</u>
Total Expenditures	<u>15,997,082</u>	<u>19,805,326</u>
	(5,206,757)	(1,842,888)
OPERATING REVENUES, GAINS, AND OTHER SUPPORT:		
Investment Return Designated for Current Operations	<u>1,244,856</u>	<u>908,737</u>
Changes in Net Assets	(3,961,901)	(934,151)
Net Assets, Beginning	<u>9,992,403</u>	<u>10,926,554</u>
Net Assets, Ending	<u>\$ 6,030,502</u>	<u>\$ 9,992,403</u>

Note: Totals may not add due to rounding

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from Funding Agencies	\$ 17,303,494	\$ 10,715,163
Interest Income and Other	2,209,234	2,064,604
Cash Paid for Operating Activities	<u>(12,545,239)</u>	<u>(19,602,126)</u>
Net Cash Provided (Used) by Operating Activities	<u>6,967,489</u>	<u>(6,822,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceed from Investment Maturities	23,331,107	60,960,402
Purchase of Investments	(23,657,514)	(54,451,300)
Loan Payments Received	3,381,520	3,014,105
Loans Issued	(4,787,748)	(7,292,273)
Purchase of Fixed Assets	(105,922)	(41,522)
Purchase CWC Holdings I	(32,758)	-
Purchase CWC Holdings II	<u>(567,739)</u>	<u>(1,600,000)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,439,054)</u>	<u>589,412</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,528,435	(6,232,947)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>45,239,062</u>	<u>51,472,009</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 49,767,497</u>	<u>\$ 45,239,062</u>

*RECONCILIATIONS OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010:*

Changes in Net Assets	\$ (3,961,901)	\$ (934,151)
Adjustments to Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	46,719	47,233
Impairment Loss on Property	2,166,038	-
Change in Market Value	(533,558)	54,501
Bad Debt Expense	<u>938,559</u>	<u>1,028,407</u>
Working Capital Provided by Operating Activities	<u>(1,344,143)</u>	<u>195,990</u>
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Grants Receivable	(39,090)	(30,399)
Accounts Receivable	(459)	1,119
Accrued Interest Receivable	180,875	(288,383)
Due from Other Funds		
Prepaid Expenditures	(1,744)	(2,399)
(Decrease) Increase in:		
Accounts Payable	448,401	(899,075)
Accrued Expenditures	(146,130)	29,035
Deferred Revenue	<u>7,869,779</u>	<u>(5,828,248)</u>
	<u>8,311,632</u>	<u>(7,018,350)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,967,489</u>	<u>\$ (6,822,360)</u>

Note: Totals may not add due to rounding

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of the Catskill Watershed Corporation (“CWC”) is presented to assist in understanding the CWC’s financial statements. The financial statements and notes are representations of the CWC’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:

CWC is a not-for-profit organization as defined in sub-paragraph (a) (5) of Section 102 of the Not-for-Profit Law and is a local development corporation pursuant to Section 141 of the Not-for-Profit Corporation Law. The Corporation is exempt from income taxes under Section 501 (c)(3) of the United States Internal Revenue Code. CWC was organized as a non-profit corporation under the laws of the State of New York on November 5, 1996, and commenced operations on December 9, 1996. CWC was formed to relieve and reduce adult unemployment, promote and provide additional maximum adult employment, and attract new commerce and industry to the West of the Hudson (WOH) Watershed. CWC’s primary purpose is to administer Watershed Protection and Partnership Programs necessary to maintain and enhance the water quality in the West of Hudson Watershed and to make decisions on funding and implementation of such programs.

B. Financial Statement Presentation:

CWC is required to report 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. In addition, CWC is required to present a statement of cash flows.

C. Fund Accounting:

In order to ensure observance of limitations placed on the use of resources available to CWC, the accounts are maintained in accordance with the principles of fund accounting grouped according to the restriction categories identified above. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into programs established according to their nature and purpose. Separate accounts are maintained for each major program. Accordingly, all financial transactions have been recorded and reported by program. CWC records all of its transactions in 16 self-balancing programs classified by the restriction categories identified above as follows:

- I. *Operating* – The Operating Program includes resources that are expendable for support of CWC’s operations. All inter-program activity has been eliminated through consolidation.

See independent auditors’ report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

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

- II. *Alternate Design* – The Alternate Design Program includes resources and funds expended for design, construction, and installation of alternate designed septic systems, which would be required beyond the State, or Local regulations of enforceable standards. All inter-program activity has been eliminated through consolidation.
- III. *Septic Program III* – The Septic Program III is a continuation of the Septic Program II and includes the creation and installation of new cluster septic systems for residences or small businesses where appropriate for water quality reasons. All inter-program activity has been eliminated through consolidation.
- IV. *Septic System Maintenance* – The Septic System Maintenance Program is a voluntary cost-sharing program intended to reduce the occurrence of System failures through regular pump-outs and maintenance. All inter-program activity has been eliminated through consolidation.
- V. *Land Acquisition* – The Land Acquisition Program represents funds expendable for the reimbursement to towns and/or villages in the WOH Watershed for costs incurred to review, access, and comment on submissions to acquire lands and to delineate the boundaries of hamlets, commercial and industrial areas, and village extensions. All inter-program activity has been eliminated through consolidation.
- VI. *Stream Corridor Protection* – The Stream Corridor Protection Program's resources were made available for the costs of designing, constructing and implementing stream corridor protection projects in West of Hudson. The Debris Removal Program is included in this fund. All inter-program activity has been eliminated through consolidation.
- VII. *Sand & Salt Storage Program II* - The Sand & Salt Program [II] funds were made available to improve storage of sand, salt and other road de-icing materials in the West of Hudson Watershed. All inter-program activity has been eliminated through consolidation.
- VIII. *Community Wastewater Management* – The Community Wastewater Management Program resources are intended to provide assistance for Wastewater Management Projects in up to five identified Communities. All inter-program activity has been eliminated through consolidation.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

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

- IX. *Community Wastewater Management Phase II* – The Community Wastewater Management Program Phase II shall fund the design and construction of community septic systems and/or wastewater treatment plants in existing participating communities and in three additional participating communities. All inter-program activity has been eliminated through consolidation.
- X. *Public Education Program* – The Public Education Program includes funds to educate the public and increase awareness of the nature and importance of the New York City (City) water supply. All inter-program activity has been eliminated through consolidation.
- XI. *Stormwater Retrofits* – The Stormwater Retrofits Program represents funds expendable for the design, construction, implementation, and maintenance of storm water best management policies to address existing storm water run-off in concentrated areas of impervious surfaces. All inter-program activity has been eliminated through consolidation.
- XII. *Stormwater Technical Assistance Funds* – The Stormwater Technical Assistance is to retain a Stormwater Program Specialist to assist applicants undertaking regulated activities to comply with the storm water provisions of the Watershed Regulations. All inter-program activity has been eliminated through consolidation.
- XIII. *Tax Consulting* – The Tax Consulting Program provides funds for payment of fees and expenses of attorneys and/or professional consultants retained by the CWC and/or the towns and/or villages in the WOH Watershed to analyze or assist in the administration of real property taxes paid by the City on City-owned land within the WOH Watershed. All inter-program activity has been eliminated through consolidation.
- XIV. *WOH Future Stormwater* – The Future Stormwater Controls Program represents funds expendable for the design, construction, implementation, and maintenance of storm water measures with the WOH Watershed required by the New York City Watershed Regulation not otherwise required by Federal and/or State law. All inter-program activity has been eliminated through consolidation.
- XV. *Local Technical Assistance Program* – The Local Technical Assistance Program was established to provide for the development and implementation of Community Planning Initiatives. All inter-program activity has been eliminated through consolidation.
- XVI. *Catskill Fund for the Future* – Funds allocated to the Catskill Fund for the Future are used for the support of responsible, environmentally sensitive economic development projects in the WOH Watershed. All inter-program activity has been eliminated through consolidation.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

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

D. Basis of Presentation:

CWC prepares its financial statements and maintains its records on the accrual basis of accounting. This method is consistent with that used in the preparation of CWC's annual information returns.

E. Basis of Revenue Recognition:

Program revenue is recognized when the related program expenditure is incurred, as expenditures are the prime factor in determining funding eligibility. Program receipts in excess of revenue recognized is recorded as deferred grant revenue.

F. Property, Plant, and Equipment:

Property, plant, and equipment are stated at cost, or at fair market value for donated items. Expenditures for additions, improvements, and major renewals, which extend the life of an asset, are capitalized, whereas expenditures for maintenance and repairs are charged to operations when incurred. The amounts for property disposals are removed from the assets, accumulated depreciation accounts, and any resultant gain or loss is included in earnings.

G. Depreciation:

Depreciation is computed for financial reporting purposes using principally the straight-line method based upon estimated useful lives of the assets; ranging from 5 to 39.5 years.

H. Income Taxes:

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

I. Cash and Cash Equivalents:

CWC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturity of those instruments.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011 AND 2010

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

J. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Advertising:

The Corporation expenses advertising costs as they are incurred.

NOTE 2 – CASH AND CASH EQUIVALENTS:

Cash and cash equivalents deposited with financial institutions amounted to \$49,767,197 and \$45,239,062 as of December 31, 2011 and 2010, respectively.

The bank balance was \$50,183,534 and \$45,652,182 as of December 31, 2011 and 2010, and was entirely covered by FDIC or by collateral held by a bank in the Corporation's name.

There are three categories of credit risk that apply to the Corporation's balance:

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

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED):

Balances held in each category as of December 31, 2011, are as follows:

Program	Bank Balance	Carrying Amount	FDIC/Collateral
Alternate Design	\$ 250,000	\$ 250,000	Insured (FDIC)
Septic Program III	250,000	250,000	Insured (FDIC)
Subtotal	<u>500,000</u>	<u>500,000</u>	
Operating I	525,022	108,684	Collateral Held by Unit's Custodial Bank
Operating II	150,867	150,867	Collateral Held by Unit's Custodial Bank
Alternate Design	1,161,205	1,161,205	Collateral Held by Unit's Custodial Bank
Septic Program III	4,427,239	4,427,239	Collateral Held by Unit's Custodial Bank
Septic Maintenance	1,513,594	1,513,594	Collateral Held by Unit's Custodial Bank
Stream Corridor Protection	2,861,625	2,861,625	Collateral Held by Unit's Custodial Bank
Sand & Salt Storage Facilities II	450,151	450,151	Collateral Held by Unit's Custodial Bank
Community Wastewater	2,714,916	2,714,916	Collateral Held by Unit's Custodial Bank
Community Wastewater II	19,898,122	19,898,122	Collateral Held by Unit's Custodial Bank
Public Education	14,274	14,274	Collateral Held by Unit's Custodial Bank
Stormwater Retrofits	2,462,226	2,462,226	Collateral Held by Unit's Custodial Bank
Stormwater Retrofits - Technical Assist.	134,682	134,682	Collateral Held by Unit's Custodial Bank
Stormwater Retrofits - Maintenance	143,207	143,207	Collateral Held by Unit's Custodial Bank
Tax Consulting	453,704	453,704	Collateral Held by Unit's Custodial Bank
WOH Future Stormwater	7,232,988	7,232,988	Collateral Held by Unit's Custodial Bank
WOH Future Stormwater - Lateral Repair Program	291,838	291,838	Collateral Held by Unit's Custodial Bank
Local Technical Assistance	698,385	698,385	Collateral Held by Unit's Custodial Bank
Catskill Fund for the Future	4,546,453	4,546,453	Collateral Held by Unit's Custodial Bank
CFF - Business Recovery	3,035	3,035	Collateral Held by Unit's Custodial Bank
Subtotal	<u>49,683,534</u>	<u>49,267,196</u>	
	<u>\$ 50,183,534</u>	<u>\$ 49,767,196</u>	

Note: Totals may not add due to rounding.

Deposits in the Catskill Fund for the Future Program were \$-0- and \$5,194,959 as of December 31, 2011 and 2010, respectively. Of these deposits, \$-0- and \$162,390 were maintained by New York State Environmental Facilities Corporation (NYSEFC), respectively. NYSEFC is a public benefit corporation. All remaining NYSEFC deposits were transferred to the Catskill Watershed Corporation.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 3 – RESERVED CASH AND INVESTMENTS:

The Septic Program, Stream Corridor, Community Wastewater Management, and the Catskill Fund for the Future have reserved cash and/or money markets of \$715,248, \$2,500,000, \$1,120,843, and \$262,648, respectively. The Catskill Fund for the Future also has reserved investments of \$8,154,000. The reserves were established for the Septic Hardship Program, Debris Removal, Street Laterals and the Catskill Fund for the Future municipal lateral and decommissioning and hospital healthcare loans.

NOTE 4 – RECEIVABLES:

A. Grants Receivable:

Grants receivable represents that portion of grant monies due to CWC from granting entities or NYCDEP for expenditures incurred by CWC. A summary of grants receivable as of December 31, 2011 and 2010, is as follows:

Program	2011	2010
Catskill Fund for the Future		
- Empire State Development Grant	<u>\$ 69,489</u>	<u>\$ 30,399</u>

B. Accrued Interest Receivable:

Accrued interest receivable consists of interest income that has not been received at year-end. Accrued interest receivable as of December 31, 2011 and 2010, amounted to \$259,147 and \$440,022, respectively.

C. Loans Receivable:

Within the Catskill Fund for the Future Program, there are 138 loans receivable from a variety of entities totaling, \$28,972,904. The years of maturity range from 2011 to 2026 and the interest rates range from 1.125 percent to 6.5 percent. Collateral consists of a first or second position on real estate and/or entity assets. The loans are classified as current and long-term assets in the accompanying financial statements. CWC has established an allowance for doubtful accounts in the amount of \$2,705,547. Provisions for losses of allowances on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment as of December 31, 2011 and 2010, is summarized as follows:

	2011		2010	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 13,300	\$ -	\$ 13,300	\$ 13,300
Building	186,700	64,596	122,104	126,830
Equipment	171,735	156,900	14,835	22,311
Vehicle	74,611	37,075	37,536	19,704
Furniture & Fixtures	241,909	213,695	28,213	35,780
Improvements	225,161	98,987	126,174	129,851
Software	40,804	35,204	5,600	8,002
	<u>\$ 954,219</u>	<u>\$ 606,457</u>	<u>\$ 347,762</u>	<u>\$ 355,778</u>

Note: Totals may not add due to rounding.

Depreciation expense for the years ended December 31, 2011 and 2010 are \$46,718 and \$47,233, respectively.

NOTE 6 – INVESTMENTS:

Under NYCDEP contractual obligations, net appreciations can be used as regular program expenditures, contract specific expenditures or a reduction of the NYCDEP financial/contractual obligation. The CWC utilizes all net appreciations for annual expenditures unless there are contractual or Board of Director designated restrictions. The following schedule summarizes the [bond] investment return and its classification in the statement of activities:

Interest on Long-Term Investments	\$ 599,669
Net Realized Gains	59,840
Net Unrealized Gains/(Losses)	<u>536,559</u>
Return on Long-Term Investments	1,196,068
Interest on Short-Term Investments	<u>48,788</u>
Total Return on Investments	<u>\$ 1,244,856</u>
Investment Return Designated for Current Operations	<u>\$ 1,244,856</u>

Note: Totals may not add due to rounding.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 6 – INVESTMENTS (CONTINUED):

In addition to investing in money markets and/or certificates of deposits, the CWC has purchased 'investment grade' municipal & agency bonds rated Baa to AAA or equivalent and with maturities ranging from one year up to approximately 5 years. The bonds are classified as short or long term investments on the Statement of Financial Position and are considered to be investments held to maturity. However, certain bonds were purchased &/or sold to reflect market conditions/opportunities. The investments are stated at market value and any bond premiums or discounts are amortized on a straight-line basis. Market value is determined using a fair value measurement hierarchy. CWC's investments are each valued using level 1 inputs. Any unrealized gains or losses are reflected in the Statement of Activities. Below is summary of the investments:

	2011		2010	
	Carry Value	Unrealized Gain/(Loss)	Market Value	Market Value
Municipal & Agency Bonds	\$ 1,214,988	\$ 6,221	\$ 1,221,209	\$ 3,000,678
Municipal & Agency Bonds	\$ 28,801,623	\$ 477,784	\$ 29,279,407	\$ 26,639,972
M & A Bonds - Reserved *	8,154,000	-	8,154,000	8,154,000
Total Long-Term	\$ 36,955,623	\$ 477,784	\$ 37,433,407	\$ 34,793,972

* See Note 3

Note: Totals may not add due to rounding.

NOTE 7 – COMPENSATED ABSENCES:

Employees of CWC earn annual time at various amounts. In case of termination of employment or upon retirement, employees are entitled to payment for accumulated annual and sick time. The estimated annual and sick time liability at December 31, 2011 and 2010, of \$64,387 and \$55,300, respectively, has been included in accrued expenses in the accompanying financial statements.

NOTE 8 – DEFERRED GRANT REVENUE:

Any payment(s) received in advance of expenditure are not recognized as income until such expenditures are incurred. Such advance payments are recorded as deferred grant revenue. A summary of deferred grant revenue as of December 31, 2011 and 2010 is as follows:

See independent auditors' report.

CATSKILL WATERSHED CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2011 AND 2010

NOTE 8 – DEFERRED GRANT REVENUE (CONTINUED):

Program	2011	2010
Operating	\$ 522,674	\$ 700,411
Alternate Design	1,182,988	1,182,988
Septic Program III	4,396,282	3,362,984
Septic Maintenance	1,486,706	1,486,706
Land Acquisition	20	-
Stream Corridor Protection	2,861,374	456,065
Sand & Salt Storage II	450,151	499,906
Community Wastewater	2,710,342	2,710,342
Community Wastewater II	19,401,830	10,576,847
Public Education	9,271	199
Stormwater Retrofits	2,361,315	3,176,772
Stormwater Technical Assistant	134,682	61,866
Tax Consulting	1,076,208	1,225,840
WOH Future Stormwater	12,845,990	15,734,294
Local Technical Assistance	689,168	884,578
Catskill Fund for the Future	59,477,818	59,724,733
	<u>\$ 109,606,819</u>	<u>\$ 101,784,529</u>

Note: Totals may not add due to rounding.

NOTE 9 – GRANT REVENUE:

Grant Revenue in the Statements of Activities is comprised of the following:

	2011	2010
New York City Department of Environmental Protection	\$ 9,422,449	\$ 16,538,938
Other	50,815	33,751
	<u>\$ 9,473,264</u>	<u>\$ 16,572,689</u>

Note: Totals may not add due to rounding.

NOTE 10 – RETIREMENT PROGRAM (DEFINED CONTRIBUTION):

The Corporation sponsors a simplified pension retirement plan. Contributions to the plan for 2011 and 2010 were \$74,828 and \$71,677, respectively.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 11 – CONTINUED EXISTENCE:

CWC's continued existence is dependent upon funds received from the City funding agencies to meet its normal operating expenditures.

NOTE 12 – COMMITMENTS AND CONTINGENCIES:

- A. CWC receives City funding for specific purposes that are subject to review and audit by City agencies. Such audits could result in a request for reimbursement by the City for expenditures disallowed under the terms and conditions of the appropriate agency. CWC believes that disallowed expenditures, if any, will not have a material effect on any of the individual CWC's funds or the overall financial position of CWC.
- B. The CWC entered into two [three-year] operating leases totaling \$17,758 for a copy machine and a plotter. Total rental expenditures on the leases for the fiscal years ended December 31, 2011, was \$1,536. The minimum future operating lease payments are as follows:

<u>Year Ending December 31</u>	
2012	\$ 5,851
2013	5,851
2014	4,520
2015	-
2016	-
	<u>\$ 16,222</u>

NOTE 13 – EMPIRE STATE DEVELOPMENT GRANT:

The CWC was awarded \$74,030 to implement the Green Concierge Technical Assistance Project. *See Note 4-A.*

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 14 – CWC HOLDINGS:

The CWC sold [in 2010] the original CWC Holdings I, LLC and owns 100% of the CWC Holdings II, LLC which are consolidated in the financial statements. During 2011, CWC foreclosed on certain loans, taking possession of the property which was placed into CWC Holdings I, LLC.

	Balance Sheets			
	December 31, 2011		December 31, 2010	
	CWC Holdings I, LLC	CWC Holdings II, LLC	CWC Holdings I, LLC	CWC Holdings II, LLC
Assets				
Checking	\$ -	\$ 58,805	\$ -	\$ 409,347
Building (net)	111,000	1,484,163	-	2,420,362
Total Assets	<u>\$ 111,000</u>	<u>\$ 1,542,968</u>	<u>\$ -</u>	<u>\$ 2,829,709</u>
Liabilities				
Current Liabilities	\$ -	\$ 42,968	\$ -	\$ 142
Equity	111,000	1,500,000	-	2,829,567
Total Liabilities & Equity	<u>\$ 111,000</u>	<u>\$ 1,542,968</u>	<u>\$ -</u>	<u>\$ 2,829,709</u>

	Income Statements			
	December 31, 2011		December 31, 2010	
	CWC Holdings I, LLC	CWC Holdings II, LLC	CWC Holdings I, LLC	CWC Holdings II, LLC
Income	\$ -	\$ -	\$ 1,335	\$ -
Expenses				
Advertising & Promotion	-	-	253	-
Depreciation Expense	-	-	1,447	-
Insurance Expense	-	-	1,462	-
Legal Services	-	-	229	-
Misc. Expense	-	-	9	-
Taxes	-	-	3,094	-
Utilities	-	-	(1,023)	-
Loss on Impairment	552,053	1,546,765	-	-
Expenses	<u>552,053</u>	<u>1,546,765</u>	<u>5,471</u>	<u>-</u>
Net Income (Loss)	<u>\$ (552,053)</u>	<u>\$ (1,546,765)</u>	<u>\$ (4,136)</u>	<u>\$ -</u>

Note: Totals may not add due to rounding.

The CWC had purchased CWC Holdings I, LLC and CWC Holdings II, LLC for renovation and resale. CWC Holdings I, LLC properties are now held for sale. The CWC Holdings II, LLC completed renovations and is now held for sale. The impairment loss is reflected in the Statement of Activities as a component of program expense for the Catskill Fund for the future.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 15 – SUBSEQUENT EVENTS:

The date to which events occurring after December 31, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is February 28, 2012, which is the date on which the financial statements were available to be issued.

NOTE 16 – 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 2008–2011. 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.

A. Interest and Penalties:

During the years ended December 31, 2011 and 2010, the Company recognized approximately \$-0- and \$-0- in interest and penalties. The Company has accrued approximately \$-0- and \$-0- for the payment of interest and penalties as of December 31, 2011 and 2010, respectively.

B. Open Tax Years:

With few exceptions the Company is no longer subject to Federal and State income tax examinations by tax authorities for the years before 2007.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 17 – FAIR VALUE MEASUREMENTS:

A. Major categories of assets and liabilities 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 Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2011				
Assets				
Investments Held to Maturity	\$ 38,654,616	\$ 38,654,616	\$ -	\$ -
Loans Receivable, net	26,267,357	-	26,267,357	-
CWC Holdings I LLC	111,000	-	111,000	-
CWC Holdings II LLC	1,500,000	-	1,500,000	-
	<u>\$ 66,532,973</u>	<u>\$ 38,654,616</u>	<u>\$ 27,878,357</u>	<u>\$ -</u>
Liabilities				
Deferred Grant Revenues	<u>\$ 109,606,819</u>	<u>\$ -</u>	<u>\$ 109,606,819</u>	<u>\$ -</u>
As of December 31, 2010				
Assets				
Investments Held to Maturity	\$ 37,794,650	\$ 37,794,650	\$ -	\$ -
Loans Receivable, net	26,079,443	-	26,079,443	-
CWC Holdings II LLC	2,829,567	-	-	2,829,567
	<u>\$ 66,703,660</u>	<u>\$ 37,794,650</u>	<u>\$ 26,079,443</u>	<u>\$ 2,829,567</u>
Liabilities				
Deferred Grant Revenues	<u>\$ 101,784,529</u>	<u>\$ -</u>	<u>\$ 101,784,529</u>	<u>\$ -</u>

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 – For investments in the holdings, LLC’s significant inputs include initial cash investment and measurements of marketability as the project nears completion. This is utilized to estimate future cash flows from the project. As needed impairments in value have been recognized in the past as a reduction in fair value.

See independent auditors’ report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 17 – FAIR VALUE MEASUREMENTS (CONTINUED):

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,	
	2011	2010
Balance at Beginning of Period	\$ 2,829,567	\$ 1,296,809
Unrealized gains/(losses)	-	-
Realized losses	(1,546,765)	(67,242)
Purchases, issuances, sales and settlements	217,198	1,600,000
Transfers in and/or out of Level 3	(1,500,000)	-
Balance at End of Period	\$ -	\$ 2,829,567

Note: Totals may not add due to rounding.

Realized and unrealized gains and losses of \$1,546,765 and \$67,242 for 2011 and 2010, respectively are included in changes in net assets are reported in the Statement of Activities as a component of program expense for the Catskill Fund for the Future. There were no transfers into Level 3 from Level 2. However, the LLC was transferred out of Level 3 into 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. Impairment losses have been recognized through the current year end in the amount of \$67,220.
- IV. Accounts Payable and Accrued Expenses: - the carrying amounts approximate fair value because of the short term to liquidation of the instruments.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 18 – INTER-PROGRAM FUND TRANSFERS:

The Board of Directors has re-allocated certain program funds to develop new programs, continue existing programs and/or because of NYCDEP contractual requirements. A summary of the inter-program transfers is as follows:

Program	Transfer-In	Transfer-Out
Operating I	\$ 250,000	\$ -
Stream Corridor - Debris Program	2,500,000	-
Future Stormwater	-	2,500,000
Catskill Fund for the Future	-	250,000
Total Inter-Program Transfers	\$ 2,750,000	\$ 2,750,000

The Operating Program received funds to repair office damage due to a tropical storm.

NOTE 19 – IMPAIRED LONG-LIVED ASSETS:

Property related to CWC Holdings I and CWC Holdings II have been written down to fair value, which was determined by using licensed real estate brokers, who prepared market valuations for both properties. CWC used these valuations to establish the fair market value of the property. Property and equipment related to buildings and improvements were written down based on costs of repair due to flooding. The amount of impairment loss has been charged to the statement of activities for the year ended December 31, 2011.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

CATSKILL WATERSHED CORPORATION

SCHEDULE OF FINANCIAL POSITION - BY PROGRAM

DECEMBER 31, 2011

ASSETS

	Unrestricted Operating	Alternate Design	Septic Program III	Septic System Maintenance	Stream Corridor Protection	Subtotal Carried Forward
Current Assets:						
Cash - Checking	\$ 259,729	\$ 197,774	\$ 3,961,991	\$ 288,015	\$ 361,625	\$ 5,069,134
Cash - Money Market	-	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-	-
Cash - Reserved	-	-	715,248	-	2,500,000	3,215,248
Short-Term Investments	122	1,213,432	-	1,225,579	-	2,439,133
Grants Receivable	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-
Accrued Interest Receivable	-	-	-	-	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-	-
Due from Other Funds	99,636	-	(42,136)	(515)	(251)	56,734
Prepaid Expenditures	23,086	-	-	-	-	23,086
Total Current Assets	382,573	1,411,206	4,635,103	1,513,079	2,861,374	10,803,335
Property, Plant, and Equipment, Net of Accumulated Depreciation						
	272,405	-	18,952	-	-	291,357
Long-Term Assets:						
Long-Term Investments	-	-	-	-	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts						
CWC Holdings I LLC	-	-	-	-	-	-
CWC Holdings II LLC	-	-	-	-	-	-
Total Long-Term Assets	-	-	-	-	-	-
	\$ 654,978	\$ 1,411,206	\$ 4,654,055	\$ 1,513,079	\$ 2,861,374	\$ 11,094,692
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts Payable	\$ 12,167	\$ -	\$ 257,773	\$ 2,096	\$ -	\$ 272,036
Accrued Expenditures	120,137	-	-	-	-	120,137
Deferred Grant Revenue	522,674	1,182,988	4,396,282	1,486,706	2,861,374	10,450,024
Deferred Interest Income	-	-	-	-	-	-
Total Current Liabilities	654,978	1,182,988	4,654,055	1,488,802	2,861,374	10,842,197
Net Assets:						
Unrestricted	-	228,218	-	24,277	-	252,495
Temporarily Restricted	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-
Total Net Assets	-	228,218	-	24,277	-	252,495
	\$ 654,978	\$ 1,411,206	\$ 4,654,055	\$ 1,513,079	\$ 2,861,374	\$ 11,094,692

Note: Totals may not add due to rounding.

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF FINANCIAL POSITION - BY PROGRAM (CONTINUED)

DECEMBER 31, 2011

<i>ASSETS</i>	Subtotal Brought Forward	Land Acquisition	Sand & Salt II	Community Wastewater Management	Community Wastewater Management II	Public Education Program	Subtotal Carried Forward
Current Assets:							
Cash - Checking	\$ 5,069,134	\$ -	\$ 450,151	\$ 1,594,073	\$ 19,898,122	\$ 14,274	\$ 27,025,754
Cash - Money Market	-	-	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-	-	-
Cash - Reserved	3,215,248	-	-	1,120,843	-	-	4,336,091
Short-Term Investments	2,439,133	-	-	-	-	-	2,439,133
Grants Receivable	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	431	-	431
Accrued Interest Receivable	-	-	-	-	-	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-	-	-
Due from Other Funds	56,734	20	-	-	(10,319)	(3,248)	43,187
Prepaid Expenditures	23,086	-	-	-	-	-	23,086
Total Current Assets	10,803,335	20	450,151	2,714,916	19,888,234	11,026	33,867,682
Property, Plant, and Equipment, Net of Accumulated Depreciation	291,357	-	-	-	-	-	291,357
Long-Term Assets:							
Long-Term Investments	-	-	-	-	-	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-	-	-
CWC Holdings I LLC	-	-	-	-	-	-	-
CWC Holdings II LLC	-	-	-	-	-	-	-
Total Long-Term Assets	-	-	-	-	-	-	-
	\$ 11,094,692	\$ 20	\$ 450,151	\$ 2,714,916	\$ 19,888,234	\$ 11,026	\$ 34,159,039
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Accounts Payable	\$ 272,036	\$ -	\$ -	\$ -	\$ 486,404	\$ 5	\$ 758,445
Accrued Expenditures	120,137	-	-	-	-	1,750	121,887
Deferred Grant Revenue	10,450,024	20	450,151	2,710,342	19,401,830	9,271	33,021,638
Deferred Interest Income	-	-	-	-	-	-	-
Total Current Liabilities	10,842,197	20	450,151	2,710,342	19,888,234	11,026	33,901,970
Net Assets:							
Unrestricted	252,495	-	-	4,575	-	-	257,070
Temporarily Restricted	-	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-	-
Total Net Assets	252,495	-	-	4,575	-	-	257,070
	\$ 11,094,692	\$ 20	\$ 450,151	\$ 2,714,917	\$ 19,888,234	\$ 11,026	\$ 34,159,040

Note: Totals may not add due to rounding.

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF FINANCIAL POSITION - BY PROGRAM (CONTINUED)

DECEMBER 31, 2011

<i>ASSETS</i>	Subtotal		Stormwater		Subtotal
	Brought Forward	Stormwater Retrofits	Technical Assistance	Tax Consulting	Carried Forward
Current Assets:					
Cash - Checking	\$ 27,025,754	\$ 1,556,875	\$ 134,682	\$ 63,768	\$ 28,781,079
Cash - Money Market	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-
Cash - Reserved	4,336,091	-	-	-	4,336,091
Short-Term Investments	2,439,133	1,048,558	-	742,146	4,229,837
Grants Receivable	-	-	-	-	-
Accounts Receivable	431	-	-	-	431
Accrued Interest Receivable	-	-	-	9,436	9,436
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-
Due from Other Funds	43,187	(4,468)	-	(1,798)	36,921
Prepaid Expenditures	23,086	-	-	-	23,086
Total Current Assets	33,867,682	2,600,965	134,682	813,552	37,416,881
Property, Plant, and Equipment, Net of Accumulated Depreciation	291,357	12,636	-	-	303,993
Long-Term Assets:					
Long-Term Investments	-	-	-	271,376	271,376
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-
CWC Holdings I	-	-	-	-	-
CWC Holdings II LLC	-	-	-	-	-
Total Long-Term Assets	-	-	-	271,376	271,376
	\$ 34,159,039	\$ 2,613,601	\$ 134,682	\$ 1,084,928	\$ 37,992,250
<i>LIABILITIES AND NET ASSETS</i>					
Current Liabilities:					
Accounts Payable	\$ 758,445	\$ 252,285	\$ -	\$ 8,721	\$ 1,019,451
Accrued Expenditures	121,887	-	-	-	121,887
Deferred Grant Revenue	33,021,638	2,361,315	134,682	1,076,208	36,593,843
Deferred Interest Income	-	-	-	-	-
Total Current Liabilities	33,901,970	2,613,600	134,682	1,084,929	37,735,181
Net Assets:					
Unrestricted	257,070	-	-	-	257,070
Temporarily Restricted	-	-	-	-	-
Permanently Restricted	-	-	-	-	-
Total Net Assets	257,070	-	-	-	257,070
	\$ 34,159,040	\$ 2,613,600	\$ 134,682	\$ 1,084,929	\$ 37,992,251

Note: Totals may not add due to rounding.

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF FINANCIAL POSITION - BY PROGRAM (CONTINUED)

DECEMBER 31, 2011

<i>ASSETS</i>	Subtotal Brought Forward	WOH Future Stormwater Controls	Local Technical Assistance	Catskill Fund for the Future	Totals
Current Assets:					
Cash - Checking	\$ 28,781,079	\$ 495,484	\$ 698,385	\$ 4,286,668	\$ 34,261,616
Cash - Money Market	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-
Cash - Reserved	4,336,091	-	-	262,648	4,598,739
Short-Term Investments	4,229,837	7,609,416	-	289,097	12,128,350
Grant Receivable	-	-	-	69,489	69,489
Accounts Receivable	431	-	-	489	920
Accrued Interest Receivable	9,436	86,074	-	163,637	259,147
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	1,694,214	1,694,214
Due from Other Funds	36,921	(3,102)	(27)	(33,793)	-
Prepaid Expenses	23,086	-	-	3,013	26,099
Total Current Assets	37,416,881	8,187,872	698,358	6,735,462	53,038,574
Property, Plant, and Equipment, Net of Accumulated Depreciation	303,993	13,260	-	30,509	347,762
Long-Term Assets:					
Long-Term Investments	271,376	8,598,716	-	28,563,315	37,433,407
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	24,573,143	24,573,143
CWC Holdings I	-	-	-	111,000	111,000
CWC Holdings II LLC	-	-	-	1,500,000	1,500,000
Total Long-Term Assets	271,376	8,598,716	-	54,747,458	63,617,550
	\$ 37,992,250	\$ 16,799,848	\$ 698,358	\$ 61,513,429	\$ 117,003,886
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts Payable	\$ 1,019,451	\$ 5,745	\$ 9,189	\$ 114,551	\$ 1,148,936
Accrued Expenses	121,887	-	-	48,253	170,140
Deferred Grant Revenue	36,593,843	12,845,990	689,168	59,477,818	109,606,819
Deferred Interest Income	-	-	-	47,489	47,489
Total Current Liabilities	37,735,181	12,851,735	698,357	59,688,111	110,973,384
Net Assets:					
Unrestricted	257,070	3,948,114	-	1,825,318	6,030,502
Temporarily Restricted	-	-	-	-	-
Permanently Restricted	-	-	-	-	-
Total Net Assets	257,070	3,948,114	-	1,825,318	6,030,502
	\$ 37,992,251	\$ 16,799,849	\$ 698,357	\$ 61,513,429	\$ 117,003,886

Note: Totals may not add due to rounding.

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION
SCHEDULE OF ACTIVITIES - BY PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted Operating	Alternate Design	Septic Program	Septic Program II	Septic III	Subtotal Carried Forward
Revenue:						
Grant Revenue	\$ 427,737	\$ -	\$ -	\$ -	\$ 4,166,702	\$ 4,594,439
Interest and Other Income	765	5,065	-	-	5,983	11,813
Total Revenue	<u>428,502</u>	<u>5,065</u>	<u>-</u>	<u>-</u>	<u>4,172,685</u>	<u>4,606,252</u>
Expenditures:						
Salary	366,636	71	-	-	257,915	624,622
Fringe Benefits	148,514	22	-	-	89,924	238,460
Program	4,694	-	-	-	3,571,488	3,576,182
Occupancy Costs	34,570	-	-	-	-	34,570
Advertising & Promotion	1,779	-	-	-	1,422	3,201
Office Supplies	20,462	-	-	-	568	21,030
Communication	15,371	-	-	-	1,941	17,312
Grants	-	-	-	-	-	-
Travel	28,540	-	-	-	727	29,267
Conferences and Seminars	-	-	-	-	920	920
Insurance	30,226	-	-	-	-	30,226
Repairs & Maintenance	12,566	-	-	-	-	12,566
Subscriptions & Publications	2,828	-	-	-	-	2,828
Professional Fees	91,835	-	-	-	2,943	94,778
Administrative	(510,660)	33	-	-	237,212	(273,415)
Depreciation	26,247	-	-	-	7,626	33,873
Dues, Licenses, and Memberships	1,292	-	-	-	-	1,292
Miscellaneous	86,382	-	-	-	-	86,382
Impairment Loss	67,220	-	-	-	-	67,220
Interfund Transfers Out	-	-	-	-	-	-
Total Expenditures	<u>428,502</u>	<u>126</u>	<u>-</u>	<u>-</u>	<u>4,172,686</u>	<u>4,601,314</u>
Change in Net Assets	-	4,939	-	-	(1)	4,938
Net Assets, Beginning	-	223,280	(2)	-	-	223,278
Net Assets, Ending	<u>\$ -</u>	<u>\$ 228,219</u>	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 228,216</u>

Note: Totals may not add due to rounding.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF ACTIVITIES - BY PROGRAM (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

	Subtotal Brought Forward	Septic Maintenance	Land Acquisition	Stream Corridor Protection	Community Wastewater Management	Sand & Salt Storage Program	Subtotal Carried Forward
Revenue:							
Grant Revenue	\$ 4,594,439	\$ -	\$ 17,709	\$ 94,691	\$ -	\$ 49,754	\$ 4,756,593
Interest and Other Income	11,813	2,334	-	272	5,375	246	20,040
Total Revenue	<u>4,606,252</u>	<u>2,334</u>	<u>17,709</u>	<u>94,963</u>	<u>5,375</u>	<u>50,000</u>	<u>4,776,633</u>
Expenditures:							
Salary	624,622	2,400	-	550	-	-	627,572
Fringe Benefits	238,460	921	-	197	-	-	239,578
Program	3,576,182	17,975	17,709	93,830	800	50,000	3,756,496
Occupancy Costs	34,570	-	-	-	-	-	34,570
Advertising & Promotion	3,201	-	-	-	-	-	3,201
Office Supplies	21,030	-	-	-	-	-	21,030
Communication	17,312	86	-	6	-	-	17,404
Grants	-	-	-	-	-	-	-
Travel	29,267	-	-	-	-	-	29,267
Conferences and Seminars	920	-	-	15	-	-	935
Insurance	30,226	-	-	-	-	-	30,226
Repairs & Maintenance	12,566	-	-	-	-	-	12,566
Subscriptions & Publications	2,828	-	-	-	-	-	2,828
Professional Fees	94,778	-	-	-	-	-	94,778
Administrative	(273,415)	1,674	-	364	-	-	(271,377)
Depreciation	33,873	-	-	-	-	-	33,873
Dues, Licenses, and Memberships	1,292	-	-	-	-	-	1,292
Miscellaneous	86,382	-	-	-	-	-	86,382
Impairment Loss	67,220	-	-	-	-	-	67,220
Interfund Transfers Out	-	-	-	-	-	-	-
Total Expenditures	<u>4,601,314</u>	<u>23,056</u>	<u>17,709</u>	<u>94,962</u>	<u>800</u>	<u>50,000</u>	<u>4,787,841</u>
Change in Net Assets	4,938	(20,722)	-	1	4,575	-	(11,208)
Net Assets, Beginning	<u>223,278</u>	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268,278</u>
Net Assets, Ending	<u>\$ 228,216</u>	<u>\$ 24,278</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 4,575</u>	<u>\$ -</u>	<u>\$ 257,070</u>

Note: Totals may not add due to rounding.

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF ACTIVITIES - BY PROGRAM (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

	Subtotal Brought Forward	Community Wastewater Management II	Public Education Program	Stormwater Retrofits	Stormwater Technical Assistance	Tax Consulting	Subtotal Carried Forward
Revenue:							
Grant Revenue	\$ 4,756,593	\$ 2,862,017	\$ 138,100	\$ 960,024	\$ 23,184	\$ 149,632	\$ 8,889,550
Interest and Other Income	20,040	225,487	16	5,161	50	13,914	264,668
Total Revenue	<u>4,776,633</u>	<u>3,087,504</u>	<u>138,116</u>	<u>965,185</u>	<u>23,234</u>	<u>163,546</u>	<u>9,154,218</u>
Expenditures:							
Salary	627,572	77,068	12,235	12,215	14,187	16,632	759,909
Fringe Benefits	239,578	22,440	3,494	6,938	9,046	6,220	287,716
Program	3,756,496	2,939,174	-	912,649	-	-	7,608,319
Occupancy Costs	34,570	-	-	-	-	-	34,570
Advertising & Promotion	3,201	32	317	16	-	-	3,566
Office Supplies	21,030	-	-	-	-	184	21,214
Communication	17,404	121	585	54	-	100	18,264
Grants	-	-	111,386	-	-	-	111,386
Travel	29,267	275	667	-	-	78	30,287
Conferences and Seminars	935	-	-	-	-	-	935
Insurance	30,226	-	-	-	-	-	30,226
Repairs & Maintenance	12,566	-	-	-	-	-	12,566
Subscriptions & Publications	2,828	-	-	-	-	119	2,947
Professional Fees	94,778	90	-	2,983	-	132,271	230,122
Administrative	(271,377)	48,303	9,433	25,101	-	7,933	(180,607)
Depreciation	33,873	-	-	5,229	-	-	39,102
Dues, Licenses, and Memberships	1,292	-	-	-	-	-	1,292
Miscellaneous	86,382	-	-	-	-	9	86,391
Impairment Loss	67,220	-	-	-	-	-	67,220
Interfund Transfers Out	-	-	-	-	-	-	-
Total Expenditures	<u>4,787,841</u>	<u>3,087,503</u>	<u>138,117</u>	<u>965,185</u>	<u>23,233</u>	<u>163,546</u>	<u>9,165,425</u>
Change in Net Assets	(11,208)	1	(1)	-	1	-	(11,207)
Net Assets, Beginning	268,278	-	-	(1)	-	-	268,277
Net Assets, Ending	<u>\$ 257,070</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 257,070</u>

Note: Totals may not add due to rounding.

See independent auditors' report and notes to the financial statements.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF ACTIVITIES - BY PROGRAM (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

	Subtotal Brought Forward	WOH Future Stormwater Controls	Local Technical Assistance	Catskill Fund for the Future	Totals
Revenue:					
Grant Revenue	\$ 8,889,550	\$ 388,304	\$ 195,410	\$ -	\$ 9,473,264
Interest and Other Income	264,668	273,768	402	2,023,080	2,561,918
Total Revenue	<u>9,154,218</u>	<u>662,072</u>	<u>195,812</u>	<u>2,023,080</u>	<u>12,035,182</u>
Expenditures:					
Salary	759,909	18,653	364	231,950	1,010,876
Fringe Benefits	287,716	10,055	110	90,430	388,311
Program	7,608,319	239,076	194,932	1,331,938	9,374,265
Occupancy Costs	34,570	-	-	2,010	36,580
Advertising & Promotion	3,566	16	-	3,895	7,477
Office Supplies	21,214	-	-	1,129	22,343
Communication	18,264	38	18	4,223	22,543
Grants	111,386	-	-	2,246,333	2,357,719
Travel	30,287	825	-	906	32,018
Conferences and Seminars	935	-	-	-	935
Insurance	30,226	-	-	2,155	32,381
Repairs & Maintenance	12,566	-	-	1,382	13,948
Subscriptions & Publications	2,947	-	-	2,347	5,294
Professional Fees	230,122	-	-	161,348	391,470
Administrative	(180,607)	15,820	388	164,399	-
Depreciation	39,102	2,652	-	4,965	46,719
Dues, Licenses, and Memberships	1,292	-	-	405	1,697
Miscellaneous	86,391	35	-	42	86,468
Impairment Loss	67,220	-	-	2,098,818	2,166,038
Interfund Transfers Out	-	-	-	-	-
Total Expenditures	<u>9,165,425</u>	<u>287,170</u>	<u>195,812</u>	<u>6,348,675</u>	<u>15,997,082</u>
Change in Net Assets	(11,207)	374,902	-	(4,325,595)	(3,961,900)
Net Assets, Beginning	<u>268,277</u>	<u>3,573,212</u>	<u>-</u>	<u>6,150,913</u>	<u>9,992,402</u>
Net Assets, Ending	<u>\$ 257,070</u>	<u>\$ 3,948,114</u>	<u>\$ -</u>	<u>\$ 1,825,318</u>	<u>\$ 6,030,502</u>

Note: Totals may not add due to rounding.

SICKLER ♦ TORCHIA ALLEN & CHURCHILL

CERTIFIED PUBLIC ACCOUNTANTS, PC

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

INDEPENDENT AUDITORS' 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
Catskill Watershed Corporation
Margaretville, New York

We have audited the financial statements of Catskill Watershed Corporation (a nonprofit organization), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated February 28, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered Catskill Watershed Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Catskill Watershed Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

CATSKILL WATERSHED CORPORATION

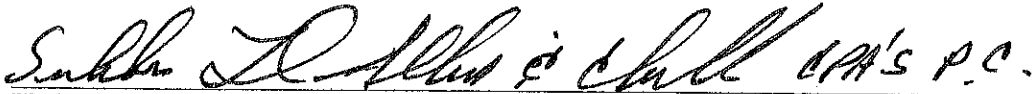
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether Catskill Watershed Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Catskill Watershed Corporation in a separate letter dated February 28, 2012.

This report is intended for the information and use of the Board of Directors, management, and grantor agencies. However, this report is a matter of public record and its distribution is not limited.



Hudson, New York
February 28, 2012