

CATSKILL WATERSHED CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, 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, 2010 and 2009, 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 24, 2011, 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 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.

Sickler, Lonkin, Allen + Churchill, CPAs P.C.

Hudson, New York

February 24, 2011

CATSKILL WATERSHED CORPORATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 26,534,799	\$ 28,900,241
Cash and Cash Equivalents - Reserved	1,898,273	3,757,160
Short-Term Investments	19,806,668	25,128,336
Grants Receivable	30,399	-
Accounts Receivable	461	1,580
Accrued Interest Receivable	440,022	151,639
Loans Receivable, Net of Allowance for Doubtful Accounts	1,836,514	1,888,224
Prepaid Expenditures	24,355	21,956
Total Current Assets	<u>50,571,491</u>	<u>59,849,135</u>
 PROPERTY, PLANT, AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	 <u>355,778</u>	 <u>360,042</u>
 LONG-TERM ASSETS:		
Long-Term Investments	26,639,972	31,126,025
Long-Term Investments - Reserved	8,154,000	6,864,000
Loans Receivable, Net of Allowance for Doubtful Accounts	24,242,929	20,930,164
CWC Holdings I LLC	-	67,242
CWC Holdings II LLC	2,829,567	1,229,567
Total Long-Term Assets	<u>61,866,468</u>	<u>60,216,998</u>
	<u>\$ 112,793,737</u>	<u>\$ 120,426,175</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts Payable	\$ 700,535	\$ 1,599,610
Accrued Expenditures	316,270	287,235
Deferred Grant Revenue	101,784,529	107,612,777
Total Current Liabilities	<u>102,801,334</u>	<u>109,499,621</u>
 NET ASSETS:		
Unrestricted	9,992,403	10,926,554
Temporarily Restricted	-	-
Permanently Restricted	-	-
Total Net Assets	<u>9,992,403</u>	<u>10,926,554</u>
	<u>\$ 112,793,737</u>	<u>\$ 120,426,175</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
REVENUE:		
Grant Revenue	\$ 16,572,689	\$ 19,222,609
Interest and Other Income	<u>1,389,749</u>	<u>1,370,146</u>
Total Revenue	<u>17,962,437</u>	<u>20,592,755</u>
EXPENDITURES:		
Program Services	19,514,434	21,773,064
Administrative and General	<u>290,892</u>	<u>282,212</u>
Total Expenditures	<u>19,805,325</u>	<u>22,055,276</u>
	(1,842,888)	(1,462,520)
OPERATING REVENUES, GAINS, AND OTHER SUPPORT:		
Investment Return Designated for Current Operations	<u>908,737</u>	<u>1,904,257</u>
Changes in Net Assets	(934,151)	441,737
Net Assets, Beginning	<u>10,926,554</u>	<u>10,484,817</u>
Net Assets, Ending	<u>\$ 9,992,403</u>	<u>\$ 10,926,554</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, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from Funding Agencies	\$ 10,715,163	\$ 25,296,000
Interest Income and Other	2,064,604	3,470,375
Cash Paid for Operating Activities	<u>(19,602,126)</u>	<u>(21,566,676)</u>
Net Cash Provided (Used) by Operating Activities	<u>(6,822,360)</u>	<u>7,199,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceed from Investment Maturities	60,960,402	37,509,398
Purchase of Investments	(54,451,300)	(41,046,421)
Loan Payments Received	3,014,105	1,829,438
Loans Issued	(7,292,273)	(2,522,250)
Purchase of Fixed Assets	(41,522)	(32,567)
Purchase CWC Holdings II	<u>(1,600,000)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>589,412</u>	<u>(4,262,402)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,232,948)	2,937,297
CASH AND CASH EQUIVALENTS, BEGINNING	<u>51,472,009</u>	<u>48,534,712</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 45,239,061</u>	<u>\$ 51,472,009</u>

*RECONCILIATIONS OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED)
BY OPERATING ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009:*

Changes in Net Assets	\$ (934,151)	\$ 441,737
Adjustments to Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	47,233	52,586
Impairment Loss on Property	-	216,690
Change in Market Value	54,501	8,252
Bad Debt Expense	<u>1,028,407</u>	<u>-</u>
Working Capital Provided by Operating Activities	<u>195,990</u>	<u>719,265</u>
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Grants Receivable	(30,399)	4,940
Accounts Receivable	1,119	(1,580)
Accrued Interest Receivable	(288,383)	187,720
Prepaid Expenditures	(2,399)	547
(Decrease) Increase in:		
Accounts Payable	(899,075)	350,087
Accrued Expenditures	29,035	(131,314)
Deferred Grant Revenue	<u>(5,828,248)</u>	<u>6,070,034</u>
	<u>(7,018,350)</u>	<u>6,480,434</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,822,360)</u>	<u>\$ 7,199,699</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, 2010 AND 2009

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 19 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, 2010 AND 2009

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

- II. *Operating II* – The Operating II is a continuation of the Operating Program. Funds are recorded in the Operating Program. All inter-program activity has been eliminated through consolidation.
- III. *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.
- IV. *Septic Program* – The Septic Program represents resources that are expendable to rehabilitate and/or replace failing septic systems serving single or two-family residences. All inter-program activity has been eliminated through consolidation. *This program has been closed.*
- V. *Septic Program II* – The Septic Program II represents funds that are expendable to rehabilitate, replace or upgrade failing individual sewage treatment systems or substandard underground sewage treatment systems, or the individual components thereof, serving single family or two family residences in the West of Hudson Watershed. All inter-program activity has been eliminated through consolidation. *This program has been closed.*
- VI. *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.
- VII. *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.
- VIII. *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.
- IX. *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. All inter-program activity has been eliminated through consolidation.

See independent auditors’ report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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

- X. *Sand & Salt Storage Program* - 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.
- XI. *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.
- XII. *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.
- XIII. *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.
- XIV. *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.
- XV. *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.
- XVI. *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.
- XVII. *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.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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

XVIII. *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.

XIX. *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.

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, 2010 AND 2009

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 \$45,238,762 and \$51,471,709 as of December 31, 2010 and 2009, respectively.

The bank balance was \$45,652,182 and \$44,683,948 as of December 31, 2010 and 2009, 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, 2010 AND 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED):

Balances held in each category as of December 31, 2010, 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	769,555	189,389	Collateral Held by Unit's Custodial Bank
Operating II	150,786	150,786	Collateral Held by Unit's Custodial Bank
Alternate Design	1,156,251	1,156,251	Collateral Held by Unit's Custodial Bank
Septic Program III	3,451,915	3,451,915	Collateral Held by Unit's Custodial Bank
Septic Maintenance	1,532,497	1,532,497	Collateral Held by Unit's Custodial Bank
Stream Corridor Protection	457,444	457,444	Collateral Held by Unit's Custodial Bank
Sand & Salt Storage Facilities II	499,908	499,908	Collateral Held by Unit's Custodial Bank
Community Wastewater	2,710,217	2,710,217	Collateral Held by Unit's Custodial Bank
Community Wastewater II	10,904,202	10,904,202	Collateral Held by Unit's Custodial Bank
Public Education	3,943	3,943	Collateral Held by Unit's Custodial Bank
Stormwater Retrofits	2,925,257	2,925,257	Collateral Held by Unit's Custodial Bank
Stormwater Retrofits - Technical Assist.	61,861	61,861	Collateral Held by Unit's Custodial Bank
Stormwater Retrofits - Maintenance	316,103	316,103	Collateral Held by Unit's Custodial Bank
Tax Consulting	647,753	647,753	Collateral Held by Unit's Custodial Bank
WOH Future Stormwater	10,052,170	10,052,170	Collateral Held by Unit's Custodial Bank
WOH Future Stormwater - Lateral Repair Program	291,681	291,681	Collateral Held by Unit's Custodial Bank
Local Technical Assistance	901,996	901,996	Collateral Held by Unit's Custodial Bank
Catskill Fund for the Future	8,318,643	8,322,999	Collateral Held by Unit's Custodial Bank
Subtotal	<u>45,152,182</u>	<u>44,576,371</u>	
	<u>\$ 45,652,182</u>	<u>\$ 45,076,371</u>	

Note: Totals not add due to rounding.

Deposits in the Catskill Fund for the Future Program were \$5,194,959 and \$7,164,253 as of December 31, 2010 and 2009, respectively. Of these deposits, \$162,390 and \$7,164,253 were maintained by New York State Environmental Facilities Corporation (NYSEFC), respectively. NYSEFC is a public benefit corporation. Their financial statements for the year ended March 31, 2010, indicate that they comply with the Investment Guidelines for Public Authorities. In 2010, NYSEFC transferred the majority of the deposits to CWC.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 3 – RESERVED CASH AND INVESTMENTS:

The Septic Program, Community Wastewater Management, and the Catskill Fund for the Future have reserved cash and/or money markets of \$756,371, \$1,121,643, and \$20,258, respectively. The Catskill Fund for the Future also has reserved investments of \$8,154,000. The reserves were established for the Septic Hardship Program, 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, 2010 and 2009, is as follows:

Program	2010	2009
Catskill Fund for the Future		
- Empire State Development Grant	\$ 30,399	\$ -

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, 2010 and 2009, amounted to \$440,022 and \$151,639, respectively.

C. Loans Receivable:

Within the Catskill Fund for the Future Program, there are 135 loans receivable from a variety of entities totaling, \$28,476,727. The years of maturity range from 2010 to 2025 and the interest rates range from 1.125 percent to 5.75 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 \$2,397,283.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment as of December 31, 2010 and 2009, is summarized as follows:

	2010		2009	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 13,300	\$ -	\$ 13,300	\$ 13,300
Building	186,700	59,870	126,830	131,557
Equipment	177,120	154,809	22,311	33,425
Vehicle	81,030	61,326	19,704	31,350
Furniture & Fixtures	258,868	223,088	35,780	42,862
Improvements	192,400	62,549	129,851	104,887
Software	40,804	32,802	8,002	2,661
	<u>\$ 950,223</u>	<u>\$ 594,445</u>	<u>\$ 355,778</u>	<u>\$ 360,042</u>

Note: Totals may not add due to rounding.

Depreciation expense for the years ended December 31, 2010 and 2009, are \$47,233 and \$52,586, 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	\$ 666,675
Net Realized Gains	152,542
Net Unrealized Gains/(Losses)	<u>(44,302)</u>
Return on Long-Term Investments	774,915
Interest on Short-Term Investments	<u>133,822</u>
Total Return on Investments	<u>\$ 908,737</u>
Investment Return Designated for Current Operations	<u>\$ 908,737</u>

Note: Totals may not add due to rounding.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 6 – INVESTMENTS (CONTINUED):

In addition to investing in money markets and/or certificates of deposits, the CWC and the EFC, for the benefit of the CWC - Catskill Fund for the Future Program, have 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:

	2010		2009	
	Carry Value	Unrealized Gain/(Loss)	Market Value	Market Value
Municipal & Agency Bonds	\$ 2,969,638	\$ 31,041	\$ 3,000,678	\$ 6,313,728
Municipal & Agency Bonds	\$ 26,725,514	\$ (85,542)	\$ 26,639,972	\$ 31,126,025
M & A Bonds - Reserved *	8,154,000	-	8,154,000	6,864,000
Total Long-Term	\$ 34,879,514	\$ (85,542)	\$ 34,793,972	\$ 37,990,025

* 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, 2010 and 2009, of \$55,300 and \$51,683, 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, 2010 and 2009, is as follows:

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED).

DECEMBER 31, 2010 AND 2009

NOTE 8 – DEFERRED GRANT REVENUE (CONTINUED):

Program	2010	2009
Operating	\$ 700,411	\$ 988,423
Alternate Design	1,182,988	1,182,988
Septic Program	-	(6,171)
Septic Program II	-	1
Septic Program III	3,362,984	3,661,078
Septic Maintenance	1,486,706	1,486,706
Land Acquisition	-	156
Stream Corridor Protection	456,065	603,459
Sand & Salt Storage II	499,906	500,000
Community Wastewater	2,710,342	3,370,900
Community Wastewater II	10,576,847	12,863,347
Public Education	199	9,907
Stormwater Retrofits	3,176,772	4,475,939
Stormwater Technical Assistant	61,866	80,939
Tax Consulting	1,225,840	1,381,656
WOH Future Stormwater	15,734,294	16,062,005
Local Technical Assistance	884,578	1,226,712
Catskill Fund for the Future	59,724,733	59,724,733
	<u>\$ 101,784,529</u>	<u>\$ 107,612,777</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:

	2010	2009
New York City Department of Environmental Protection	\$ 16,572,689	\$ 19,222,609
Federal	-	-
Other	33,751	100,000
	<u>\$ 16,606,440</u>	<u>\$ 19,322,609</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 2010 and 2009 were \$71,677 and \$68,925, respectively.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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:

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.

NOTE 13 – EMPIRE STATE DEVELOPMENT GRANT:

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

NOTE 14 – 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	\$ 350,000	\$ -
Operating II	-	350,000
Total Inter-Program Transfers	\$ 350,000	\$ 350,000

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 15 – CWC HOLDINGS:

The CWC sold the CWC Holdings I, LLC and owns 100% of the CWC Holdings II, LLC which are consolidated in the financial statements.

	Balance Sheets			
	December 31, 2010		December 31, 2009	
	CWC Holdings I, LLC	CWC Holdings II, LLC	CWC Holdings I, LLC	CWC Holdings II, LLC
Assets				
Checking	\$ -	\$ 409,347	\$ 3,085	\$ 201,733
Prepaid Accounts	-	-	13,957	-
Building (net)	-	2,420,362	56,000	1,120,730
Total Assets	\$ -	\$ 2,829,709	\$ 73,042	\$ 1,322,463
Liabilities				
Current Liabilities	\$ -	\$ 142	\$ 5,800	\$ 92,896
Equity	-	2,829,567	67,242	1,229,567
Total Liabilities & Equity	\$ -	\$ 2,829,709	\$ 73,042	\$ 1,322,463
	Income Statements			
	December 31, 2010		December 31, 2009	
	CWC Holdings I, LLC	CWC Holdings II, LLC	CWC Holdings I, LLC	CWC Holdings II, LLC
Income	\$ 1,335	\$ -	\$ -	\$ -
Expenses				
Advertising & Promotion	253	-	58	-
Depreciation Expense	1,447	-	7,272	-
Insurance Expense	1,462	-	7,600	-
Legal Services	229	-	1,768	-
Misc. Expense	9	-	9	-
Taxes	3,094	-	7,217	-
Repair & Maintenance	-	-	640	-
Utilities	(1,023)	-	388	-
Loss on Impairment	-	-	216,690	-
Expenses	5,471	-	241,642	-
Net Income (Loss)	\$ (4,136)	\$ -	\$ (241,642)	\$ -

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. The CWC Holdings I, LLC was sold and the loss was reflected in the financial statements as a program activity. The CWC Holdings II, LLC is still under construction and all related costs are capitalized.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 16 – SUBSEQUENT EVENTS:

The date to which events occurring after December 31, 2010, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is February 24, 2011, which is the date on which the financial statements were available to be issued.

NOTE 17 – 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 2007–2010. 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, 2010 and 2009, 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, 2010 and 2009, 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 2006.

See independent auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 18 – 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 Observable (Level 2)	Significant Unobservable Inputs (Level 3)
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>
As of December 31, 2009				
Assets				
Investments Held to Maturity	\$ 44,303,753	\$ 44,303,753	\$ -	\$ -
Loans Receivable, net	22,818,388	-	22,818,388	-
CWC Holdings I LLC	67,242	-	-	67,242
CWC Holdings II LLC	1,229,567	-	-	1,229,567
	<u>\$ 68,418,950</u>	<u>\$ 44,303,753</u>	<u>\$ 22,818,388</u>	<u>\$ 1,296,809</u>
Liabilities				
Deferred Grant Revenues	<u>\$ 107,612,777</u>	<u>\$ -</u>	<u>\$ 107,612,777</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, 2010 AND 2009

NOTE 18 – 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:

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Balance at Beginning of Period	\$ 1,296,809	\$ 828,450
Unrealized gains/(losses)		(216,690)
Realized losses	(67,242)	(24,952)
Purchases, issuances, sales and settlements	<u>1,600,000</u>	<u>710,001</u>
Transfers in and/or out of Level 3		
Balance at End of Period	<u>\$ 2,829,567</u>	<u>\$ 1,296,809</u>

Note: Totals may not add due to rounding.

Realized and unrealized gains and losses of \$67,242 and \$241,642 for 2010 and 2009, 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 or transfers out of Level 3 because of observable market data becoming available for either period. 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 auditors' report.

CATSKILL WATERSHED CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 19 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

In July 2010, the FASB issued Accounting Standards Update No. 2010-20 *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This update affects all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The objective of the amendments in this update is to provide disclosures that enable financial statements' users to evaluate the nature of credit risk inherent in the Organization's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reason for those changes in the allowance for credit losses. This pronouncement is effective for nonpublic entities for annual reporting periods ending on or after December 15, 2011.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

CATSKILL WATERSHED CORPORATION

SCHEDULE OF FINANCIAL POSITION - BY PROGRAM

DECEMBER 31, 2010

ASSETS

	Unrestricted Operating	Alternate Design	Septic Program III	Septic System Maintenance	Stream Corridor Protection	Subtotal Carried Forward
Current Assets:						
Cash - Checking	\$ 340,352	\$ 197,786	\$ 2,945,544	\$ 309,102	\$ 457,444	\$ 4,250,227
Cash - Money Market	-	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-	-
Cash - Reserved	-	-	756,371	-	-	756,371
Short-Term Investments	122	1,208,465	-	1,223,395	-	2,431,983
Grants Receivable	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-
Accrued Interest Receivable	834	-	-	-	-	834
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-	-
Due from Other Funds	162,061	15	(49,453)	(491)	(221)	111,911
Prepaid Expenditures	23,855	-	-	-	-	23,855
Total Current Assets	527,224	1,406,267	3,652,462	1,532,006	457,222	7,575,181
Property, Plant, and Equipment, Net of Accumulated Depreciation	297,005	-	10,665	-	-	307,670
Long-Term Assets:						
Long-Term Investments	-	-	-	-	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts CWC Holdings II LLC	-	-	-	-	-	-
Total Long-Term Assets	-	-	-	-	-	-
	\$ 824,229	\$ 1,406,267	\$ 3,663,128	\$ 1,532,006	\$ 457,222	\$ 7,882,851
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts Payable	\$ 3,394	\$ -	\$ 300,143	\$ 300	\$ 1,157	\$ 304,994
Accrued Expenditures	120,424	-	-	-	-	120,424
Deferred Grant Revenue	700,411	1,182,988	3,362,984	1,486,706	456,065	7,189,154
Total Current Liabilities	824,229	1,182,988	3,663,128	1,487,006	457,222	7,614,573
Net Assets:						
Unrestricted	-	223,279	-	45,000	-	268,279
Temporarily Restricted	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-
Total Net Assets	-	223,279	-	45,000	-	268,279
	\$ 824,229	\$ 1,406,267	\$ 3,663,128	\$ 1,532,006	\$ 457,222	\$ 7,882,851

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, 2010

<i>ASSETS</i>	Subtotal Brought Forward	Sand & Salt II	Community Wastewater Management	Community Wastewater Management II	Public Education Program	Subtotal Carried Forward
Current Assets:						
Cash - Checking	\$ 4,250,227	\$ 499,908	\$ 1,588,574	\$ 10,904,202	\$ 3,943	\$ 17,246,853
Cash - Money Market	-	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-	-
Cash - Reserved	756,371	-	1,121,643	-	-	1,878,014
Short-Term Investments	2,431,983	-	-	-	-	2,431,983
Grants Receivable	-	-	-	-	-	-
Accounts Receivable	-	-	-	461	-	461
Accrued Interest Receivable	834	-	-	-	-	834
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-	-
Due from Other Funds	111,911	(2)	125	(15,118)	(3,714)	93,201
Prepaid Expenditures	23,855	-	-	-	-	23,855
Total Current Assets	7,575,181	499,906	2,710,342	10,889,545	229	21,675,202
Property, Plant, and Equipment, Net of Accumulated Depreciation	307,670	-	-	-	-	307,670
Long-Term Assets:						
Long-Term Investments	-	-	-	-	-	-
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-	-
CWC Holdings II LLC	-	-	-	-	-	-
Total Long-Term Assets	-	-	-	-	-	-
	\$ 7,882,851	\$ 499,906	\$ 2,710,342	\$ 10,889,545	\$ 229	\$ 21,982,872
<i>LIABILITIES AND NET ASSETS</i>						
Current Liabilities:						
Accounts Payable	\$ 304,994	\$ -	\$ -	\$ 194,880	\$ 30	\$ 499,904
Accrued Expenditures	120,424	-	-	117,818	-	238,242
Deferred Grant Revenue	7,189,154	499,906	2,710,342	10,576,847	199	20,976,447
Total Current Liabilities	7,614,573	499,906	2,710,342	10,889,545	229	21,714,593
Net Assets:						
Unrestricted	268,279	-	-	-	-	268,279
Temporarily Restricted	-	-	-	-	-	-
Permanently Restricted	-	-	-	-	-	-
Total Net Assets	268,279	-	-	-	-	268,279
	\$ 7,882,851	\$ 499,906	\$ 2,710,342	\$ 10,889,545	\$ 229	\$ 21,982,872

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, 2010

<i>ASSETS</i>	Subtotal	Stormwater	Stormwater	Tax	Subtotal
	Brought Forward	Stormwater Retrofits	Technical Assistance	Consulting	Carried Forward
Current Assets:					
Cash - Checking	\$ 17,246,853	\$ 2,197,094	\$ 61,861	\$ 84,990	\$ 19,590,798
Cash - Money Market	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-
Cash - Reserved	1,878,014	-	-	-	1,878,014
Short-Term Investments	2,431,983	1,044,266	-	562,763	4,039,012
Grants Receivable	-	-	-	-	-
Accounts Receivable	461	-	-	-	461
Accrued Interest Receivable	834	-	-	9,333	10,168
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	-	-
Due from Other Funds	93,201	(5,017)	5	(4,668)	83,521
Prepaid Expenditures	23,855	-	-	-	23,855
Total Current Assets	21,675,202	3,236,344	61,866	652,418	25,625,829
Property, Plant, and Equipment, Net of Accumulated Depreciation	307,670	17,864	-	-	325,535
Long-Term Assets:					
Long-Term Investments	-	-	-	611,982	611,982
Loans Receivable, Net of Allowance for Doubtful Accounts CWC Holdings II LLC	-	-	-	-	-
Total Long-Term Assets	-	-	-	611,982	611,982
	\$ 21,982,872	\$ 3,254,208	\$ 61,866	\$ 1,264,400	\$ 26,563,346
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts Payable	\$ 499,904	\$ 74,356	\$ -	\$ 7,363	\$ 581,622
Accrued Expenditures	238,242	3,080	-	31,198	272,520
Deferred Grant Revenue	20,976,447	3,176,772	61,866	1,225,840	25,440,925
Total Current Liabilities	21,714,593	3,254,208	61,866	1,264,400	26,295,067
Net Assets:					
Unrestricted	268,279	-	-	-	268,279
Temporarily Restricted	-	-	-	-	-
Permanently Restricted	-	-	-	-	-
Total Net Assets	268,279	-	-	-	268,279
	\$ 21,982,872	\$ 3,254,208	\$ 61,866	\$ 1,264,400	\$ 26,563,346

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, 2010

<i>ASSETS</i>	Subtotal Brought Forward	WOH Future Stormwater Controls	Local Technical Assistance	Catskill Fund for the Future	Totals
Current Assets:					
Cash - Checking	\$ 19,590,798	\$ 847,046	\$ 901,996	\$ 5,194,959	\$ 26,534,799
Cash - Money Market	-	-	-	-	-
Cash - Certificates of Deposit	-	-	-	-	-
Cash - Reserved	1,878,014	-	-	20,258	1,898,273
Short-Term Investments	4,039,012	9,496,806	-	6,270,850	19,806,668
Grant Receivable	-	-	-	30,399	30,399
Accounts Receivable	461	-	-	-	461
Accrued Interest Receivable	10,168	101,676	-	328,178	440,022
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	1,836,514	1,836,514
Due from Other Funds	83,521	(3,246)	2,833	(83,109)	-
Prepaid Expenses	23,855	-	-	500	24,355
Total Current Assets	25,625,829	10,442,282	904,829	13,598,550	50,571,491
Property, Plant, and Equipment, Net of Accumulated Depreciation					
	325,535	-	-	30,244	355,778
Long-Term Assets:					
Long-Term Investments	611,982	8,922,316	-	25,259,674	34,793,972
Loans Receivable, Net of Allowance for Doubtful Accounts	-	-	-	24,242,929	24,242,929
CWC Holdings II LLC	-	-	-	2,829,567	2,829,567
Total Long-Term Assets	611,982	8,922,316	-	52,332,171	61,866,468
	\$ 26,563,346	\$ 19,364,598	\$ 904,829	\$ 65,960,964	\$ 112,793,737
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts Payable	\$ 581,622	\$ 57,091	\$ 20,251	\$ 41,570	\$ 700,535
Accrued Expenses	272,520	-	-	43,750	316,270
Deferred Grant Revenue	25,440,925	15,734,294	884,578	59,724,733	101,784,529
Total Current Liabilities	26,295,067	15,791,385	904,829	59,810,052	102,801,334
Net Assets:					
Unrestricted	268,279	3,573,213	-	6,142,613	9,984,104
Temporarily Restricted	-	-	-	8,299	8,299
Permanently Restricted	-	-	-	-	-
Total Net Assets	268,279	3,573,213	-	6,150,912	9,992,403
	\$ 26,563,346	\$ 19,364,598	\$ 904,829	\$ 65,960,964	\$ 112,793,737

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, 2010

	Unrestricted Operating	Alternate Design	Septic Program	Septic Program II	Septic III	Subtotal Carried Forward
Revenue:						
Grant Revenue	\$ 288,012	\$ -	\$ (6,171)	\$ 1	\$ 5,498,093	\$ 5,779,935
Interest and Other Income	2,879	6,813	621	-	5,940	16,253
Total Revenue	290,892	6,813	(5,550)	1	5,504,033	5,796,188
Expenditures:						
Salary	381,877	-	-	-	245,971	627,848
Fringe Benefits	157,691	-	-	-	87,122	244,813
Program	2,693	18,032	895,666	1	4,830,644	5,747,035
Occupancy Costs	32,845	-	-	-	-	32,845
Advertising & Promotion	6,097	-	-	-	1,449	7,546
Office Supplies	16,431	-	-	-	553	16,983
Communication	17,134	-	-	-	1,435	18,570
Grants	-	-	-	-	-	-
Travel	36,274	-	-	-	922	37,196
Conferences and Seminars	362	-	149	-	950	1,461
Insurance	29,435	-	-	-	-	29,435
Repairs & Maintenance	9,386	-	-	-	-	9,386
Subscriptions & Publications	4,313	-	-	-	-	4,313
Professional Fees	227,773	-	-	-	1,670	229,443
Administrative	(663,361)	-	-	-	325,386	(337,976)
Depreciation	27,157	-	-	-	7,932	35,089
Dues, Licenses, and Memberships	1,347	-	-	-	-	1,347
Miscellaneous	3,438	-	-	-	-	3,438
Impairment Loss	-	-	-	-	-	-
Interfund Transfers Out	-	-	-	-	-	-
Total Expenditures	290,892	18,032	895,815	1	5,504,033	6,708,772
Change in Net Assets	-	(11,219)	(901,365)	-	-	(912,583)
Net Assets, Beginning	-	234,499	901,363	-	-	1,135,862
Net Assets, Ending	\$ -	\$ 223,280	\$ (2)	\$ -	\$ -	\$ 223,279

Note: Totals may not add due to rounding.

CATSKILL WATERSHED CORPORATION

SCHEDULE OF ACTIVITIES - BY PROGRAM (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2010

	Subtotal Brought Forward	Septic Maintenance	Land Acquisition	Stream Corridor Protection	Community Wastewater Management	Sand & Salt Storage Program	Subtotal Carried Forward
Revenue:							
Grant Revenue	\$ 5,779,935	\$ -	\$ 13,776	\$ 147,394	\$ 660,559	\$ 94	\$ 6,601,758
Interest and Other Income	16,253	3,687	-	785	9,006	678	30,409
Total Revenue	<u>5,796,188</u>	<u>3,687</u>	<u>13,776</u>	<u>148,179</u>	<u>669,565</u>	<u>773</u>	<u>6,632,167</u>
Expenditures:							
Salary	627,848	3,162	-	1,501	-	848	633,359
Fringe Benefits	244,813	1,179	-	437	-	248	246,677
Program	5,747,035	18,383	13,776	145,037	669,554	-	6,593,785
Occupancy Costs	32,845	-	-	-	-	-	32,845
Advertising & Promotion	7,546	-	-	-	-	-	7,546
Office Supplies	16,983	-	-	-	-	-	16,983
Communication	18,570	224	-	6	-	9	18,809
Grants	-	-	-	-	-	-	-
Travel	37,196	-	-	-	10	-	37,207
Conferences and Seminars	1,461	-	-	-	-	-	1,461
Insurance	29,435	-	-	-	-	-	29,435
Repairs & Maintenance	9,386	-	-	-	-	-	9,386
Subscriptions & Publications	4,313	-	-	-	-	-	4,313
Professional Fees	229,443	-	-	-	-	-	229,443
Administrative	(337,976)	3,210	-	1,198	-	664	(332,904)
Depreciation	35,089	-	-	-	-	-	35,089
Dues, Licenses, and Memberships	1,347	-	-	-	-	-	1,347
Miscellaneous	3,438	-	-	-	-	-	3,438
Impairment Loss	-	-	-	-	-	-	-
Interfund Transfers Out	-	-	-	-	-	-	-
Total Expenditures	<u>6,708,772</u>	<u>26,158</u>	<u>13,776</u>	<u>148,179</u>	<u>669,565</u>	<u>1,769</u>	<u>7,568,219</u>
Change in Net Assets	(912,583)	(22,472)	-	-	-	(996)	(936,051)
Net Assets, Beginning	<u>1,135,862</u>	<u>67,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>996</u>	<u>1,204,330</u>
Net Assets, Ending	<u>\$ 223,279</u>	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,279</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, 2010

	Subtotal Brought Forward	Community Wastewater Management II	Public Education Program	Stormwater Retrofits	Stormwater Technical Assistance	Tax Consulting	Subtotal Carried Forward
Revenue:							
Grant Revenue	\$ 6,601,758	\$ 7,151,500	\$ 166,504	\$ 1,808,193	\$ 19,073	\$ 155,816	\$ 15,902,844
Interest and Other Income	30,409	27,375	24	9,834	99	22,721	90,461
Total Revenue	<u>6,632,167</u>	<u>7,178,875</u>	<u>166,528</u>	<u>1,818,027</u>	<u>19,171</u>	<u>178,537</u>	<u>15,993,305</u>
Expenditures:							
Salary	633,359	61,579	10,043	13,243	11,484	13,211	742,919
Fringe Benefits	246,677	18,484	2,890	8,250	7,687	4,807	288,796
Program	6,593,785	7,037,979	835	1,756,560	-	-	15,389,159
Occupancy Costs	32,845	-	-	-	-	-	32,845
Advertising & Promotion	7,546	-	-	-	-	-	7,546
Office Supplies	16,983	-	-	-	-	-	16,983
Communication	18,809	56	435	226	-	153	19,679
Grants	-	-	141,447	-	-	-	141,447
Travel	37,207	460	555	13	-	71	38,305
Conferences and Seminars	1,461	-	10,323	-	-	-	11,784
Insurance	29,435	-	-	-	-	-	29,435
Repairs & Maintenance	9,386	-	-	-	-	-	9,386
Subscriptions & Publications	4,313	-	-	30	-	-	4,343
Professional Fees	229,443	-	-	3,863	-	149,668	382,973
Administrative	(332,904)	60,317	-	30,615	-	10,615	(231,358)
Depreciation	35,089	-	-	5,229	-	-	40,317
Dues, Licenses, and Memberships	1,347	-	-	-	-	-	1,347
Miscellaneous	3,438	-	-	-	-	12	3,450
Impairment Loss	-	-	-	-	-	-	-
Interfund Transfers Out	-	-	-	-	-	-	-
Total Expenditures	<u>7,568,219</u>	<u>7,178,875</u>	<u>166,528</u>	<u>1,818,028</u>	<u>19,171</u>	<u>178,537</u>	<u>16,929,357</u>
Change in Net Assets	(936,051)	-	-	(1)	-	-	(936,052)
Net Assets, Beginning	<u>1,204,330</u>	-	-	-	-	-	<u>1,204,330</u>
Net Assets, Ending	<u>\$ 268,279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,278</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, 2010

	Subtotal Brought Forward	WOH Future Stormwater Controls	Local Technical Assistance	Catskill Fund for the Future	Totals
Revenue:					
Grant Revenue	\$ 15,902,844	\$ 327,711	\$ 342,134	\$ -	\$ 16,572,689
Interest and Other Income	90,461	222,053	1,529	1,984,443	2,298,486
Total Revenue	<u>15,993,305</u>	<u>549,764</u>	<u>343,662</u>	<u>1,984,443</u>	<u>18,871,174</u>
Expenditures:					
Salary	742,919	11,247	1,302	208,336	963,804
Fringe Benefits	288,796	7,726	342	83,168	380,032
Program	15,389,159	557,211	340,601	1,249,902	17,536,874
Occupancy Costs	32,845	-	-	2,151	34,996
Advertising & Promotion	7,546	-	-	4,376	11,922
Office Supplies	16,983	-	-	693	17,677
Communication	19,679	28	42	4,103	23,853
Grants	141,447	-	-	-	141,447
Travel	38,305	749	-	3,098	42,152
Conferences and Seminars	11,784	100	-	3,210	15,094
Insurance	29,435	-	-	1,462	30,897
Repairs & Maintenance	9,386	-	-	1,032	10,418
Subscriptions & Publications	4,343	30	-	2,471	6,844
Professional Fees	382,973	6,240	-	156,987	546,201
Administrative	(231,358)	14,156	1,375	205,504	(10,323)
Depreciation	40,317	-	-	6,916	47,233
Dues, Licenses, and Memberships	1,347	-	-	1,260	2,607
Miscellaneous	3,450	103	-	45	3,598
Impairment Loss	-	-	-	-	-
Interfund Transfers Out	-	-	-	-	-
Total Expenditures	<u>16,929,357</u>	<u>597,591</u>	<u>343,662</u>	<u>1,934,715</u>	<u>19,805,325</u>
Change in Net Assets	(936,052)	(47,827)	-	49,728	(934,151)
Net Assets, Beginning	<u>1,204,330</u>	<u>3,621,039</u>	<u>-</u>	<u>6,101,185</u>	<u>10,926,554</u>
Net Assets, Ending	<u>\$ 268,278</u>	<u>\$ 3,573,212</u>	<u>\$ -</u>	<u>\$ 6,150,913</u>	<u>\$ 9,992,403</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
Timothy J. Doyle, CPA
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, 2010 and 2009, and have issued our report thereon dated February 24, 2011. 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 24, 2011.

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.

Seidler, Torchia, Allen & Churchill, C.P.A.s & C.

Hudson, New York
February 24, 2011

SICKLER ♦ TORCHIA ALLEN & CHURCHILL

CERTIFIED PUBLIC ACCOUNTANTS, PC

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Edward J. Gower II, CPA

February 24, 2011

To the Board of Directors
Catskill Watershed Corporation

We have audited the financial statements of Catskill Watershed Corporation for the year ended December 31, 2010, and have issued our report thereon dated February 24, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 3, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Catskill Watershed Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Allowance for Doubtful Accounts
- Depreciable Lives and Estimated Residual Value of Property
- Accrued Liability for Compensated Absences
- Accrued Liability for Payroll
- Market Value of Investments

Management's estimate of the allowance for doubtful accounts is based on an analysis of the collectability of individual promises. The estimate for residual value of property is calculated using the straight-line method of depreciation based upon the estimated useful lives of assets, ranging from 5 to 39.5 years. The estimate for the accrued liability for compensated absences is based on the value of accumulated days and related cost for fringes available to individual employees in the event of termination or retirement. The estimate of accrued liability for payroll is based on the value of wages earned, but not paid, as of December 31, 2010 and the related cost for fringes. The market value of investments is determined by amortizing bond discounts or premiums using the straight-line method. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 24, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of the Board of Directors and management of Catskill Watershed Corporation. However, this letter is a matter of public record.

Very truly yours,



Victor V. Churchill, CPA

Sickler, Torchia, Allen & Churchill, CPA's, PC