

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

FINANCIAL REPORT

December 31, 2010

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

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INDEPENDENT AUDITOR'S REPORT

Authority Governing Board
Saratoga County Water Authority
Gansevoort, New York

We have audited the accompanying statement of net assets of the Saratoga County Water Authority (Authority) (a component unit of Saratoga County, New York) as of December 31, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 our audit 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 the Saratoga County Water Authority as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audit.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Bollam Sheedy Torani & Co. LLP

Albany, New York
May 3, 2011

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The accompanying Management's Discussion and Analysis of the Saratoga County Water Authority's (Authority) financial performance has been prepared to provide an overview of the Authority's financial activities for the year ended December 31, 2010. This discussion and analysis is only an introduction and should be read in conjunction with the Authority's financial statements, which immediately follow this section.

Organization

The Authority is a corporate governmental agency as defined by the Saratoga County Water Authority Act, Title 8-F of Article 5 of the New York State Public Authorities Law created by an act of the New York Legislature in 1990. The Authority is governed by a governing board of seven members, appointed by the chairperson of the Board of Supervisors of Saratoga County.

The Authority is charged with providing water services for public benefit. The Authority is empowered to borrow money and issue notes, bonds, or obligations in order to pay the costs of water projects or projects for corporate purposes.

The Authority issued revenue bonds to construct the Saratoga County Water Treatment and Transmission Facilities System (the System). The System will provide safe, reliable, and affordable drinking water to residents of Saratoga County by drawing water from the upper Hudson River in the Town of Moreau, treating the water using a membrane filtration system, and then transmitting the finished water along an approximately 28 mile line to municipal/commercial users and the Luther Forest Technology Park in the Town of Malta. The primary funding for the Authority will be from the users of the system.

Construction-in-progress costs from 2003 to 2007 were incurred by Saratoga County. During 2007, the Authority took control of the management and construction of the project, and those costs were transferred to the Authority.

Financial Highlights

As of December 31, 2010, \$70.6 million had been expended on water treatment and transmission facilities construction, and \$3.3 million had been expended on water tank construction. Based on an estimated total project cost of \$71.9 million, the water treatment and transmission construction was 98% complete and the water tank was 98% complete at December 31, 2010, with the 2% balance consisting of necessary stream improvements and completion of the security project.

In the condensed statements of revenues, expenses, and changes in net assets for the year ended December 31, 2009, there was neither operating revenue nor depreciation, other operating and non-operating expenses because operations of water treatment and transmission began on February 22, 2010. Previous to that date, non-operating revenues consisted of grant and contract revenue, as well as, interest income.

The water treatment plant was substantially complete on January 28, 2010. The finished water transmission main was substantially completed in 2009. Two additional segments of transmission main were constructed by others and dedicated over to the Authority. One segment was constructed by NYSDOT as part of the Round Lake Bypass Project (NYS Project ID 1807.01.301). The second segment was constructed by the Towns of Malta and Stillwater as the LFTC Site Roadways project. The Authority obtained New York State Department of Health approval to go into operation, and began serving customers on February 22, 2010. The 5 million gallon tank in the Luther Forest Technology Campus was completed and placed into service on October 13, 2010.

The Authority began serving the Wilton Water and Sewer Authority on February 22, 2010, the Clifton Park Water Authority on June 1, 2010, the Town of Ballston on September 1, 2010, and the Luther Forest Technology Campus Economic Development Corporation in the Luther Forest Technology Campus on October 13, 2010.

The Authority has published its first Annual Drinking Water Quality Report, reporting that in 2010 the Authority met all State drinking water health standards. Total water produced in 2010 was 421.9 million gallons.

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of the Authority's Financial Position

The Authority's net asset increase by 3.8 million in 2010 (7.2 million in 2009) to 38.3 million.

CONDENSED STATEMENTS OF NET ASSETS

	<u>December 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2010</u>	<u>2009</u>		
ASSETS				
Current assets	\$ 3,130,368	\$ 8,498,753	\$ (5,368,385)	-63.17%
Restricted assets	4,735,220	8,766,730	(4,031,510)	-45.99%
Property, plant, and equipment, net	79,967,161	71,254,519	8,712,642	12.23%
Other assets	259,010	-	259,010	100.00%
Total assets	<u>\$ 88,091,759</u>	<u>\$ 88,520,002</u>	<u>\$ (428,243)</u>	<u>-0.48%</u>
LIABILITIES AND NET ASSETS				
Current liabilities	\$ 2,009,156	\$ 4,992,613	\$ (2,983,457)	-59.76%
Long-term liabilities	47,818,810	49,076,875	(1,258,065)	-2.56%
Total liabilities	<u>49,827,966</u>	<u>54,069,488</u>	<u>(4,241,522)</u>	-7.84%
Net assets invested in capital assets, net of related debt	31,880,286	21,732,644	10,147,642	46.69%
Net assets, restricted	4,735,220	8,766,730	(4,031,510)	-45.99%
Net assets, unrestricted	<u>1,648,287</u>	<u>3,951,140</u>	<u>(2,302,853)</u>	-58.28%
Total net assets	<u>38,263,793</u>	<u>34,450,514</u>	<u>3,813,279</u>	11.07%
Total liabilities and net assets	<u>\$ 88,091,759</u>	<u>\$ 88,520,002</u>	<u>\$ (428,243)</u>	<u>-0.48%</u>

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS

	<u>Years Ended December 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2010</u>	<u>2009</u>		
Operating revenue	\$ 2,079,927	\$ -	\$ 2,079,927	100.00%
Non-operating revenue	7,141,104	7,241,303	(100,199)	-1.38%
Total revenues	<u>9,221,031</u>	<u>7,241,303</u>	<u>1,979,728</u>	27.34%
Depreciation expense	2,084,507	-	2,084,507	100.00%
Other operating expense	1,579,412	-	1,579,412	100.00%
Non-operating expense	1,799,800	-	1,799,800	100.00%
Total expenses	<u>5,463,719</u>	<u>-</u>	<u>5,463,719</u>	100.00%
CHANGE IN NET ASSETS	<u>3,757,312</u>	<u>7,241,303</u>	<u>(3,483,991)</u>	<u>-48.11%</u>
NET ASSETS, beginning net assets	34,450,514	27,209,211	7,241,303	26.61%
Prior period adjustment	<u>55,967</u>	<u>-</u>	<u>55,967</u>	-100.00%
NET ASSETS, beginning net assets, restated	<u>34,506,481</u>	<u>27,209,211</u>	<u>7,297,270</u>	26.82%
NET ASSETS, ending net assets	<u>\$ 38,263,793</u>	<u>\$ 34,450,514</u>	<u>\$ 3,813,279</u>	<u>11.07%</u>

SARATOGA COUNTY WATER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Administration

During 2008 the Authority issued \$45,000,000 in Water System Revenue Bonds with final maturity in 2048 and bearing interest at rates ranging from 3% to 5%. More detailed information about the Authority's long-term obligations is presented in the notes to the financial statements.

Economic Factors

During 2008 the Authority entered into a Service Agreement with the County whereby the Authority agrees to operate and maintain the Water System in accordance with good engineering and business practices for an essential public utility. Under the Service Agreement, the County is obligated to pay a Service Fee to the Authority on a quarterly basis so long as any Bonds remain outstanding and the Authority is meeting its performance obligations under the Service Agreement to build and operate the Water System. The amount of the Service Fee will be equal to the amount budgeted by the Authority to be due for operating costs and debt service in the period commencing on the day following that Service Fee payment date and concluding on the next ensuing Service Fee payment date, less the amount of cash held by the Authority or Trustee as of the 35th day before the Service Fee payment date in the Revenue Fund, Operating Fund, and the Bond Redemption and Accumulated Surplus Fund that is expected to be available during the covered period for the payment of debt service and operating costs. The Authority is obligated to repay the County for any and all amounts paid by the County as a Service Fee, with interest at the rate of 4 percent per annum compounded annually, but only to the extent that the annual revenues of the Authority from the operation of the System for any fiscal year exceed the total of operating costs, debt service, required deposits and amounts the Authority reasonably considers will be needed to pay for maintenance and repairs in the next fiscal year. The County is required to pay the Authority the Service Fee commencing on the date of issuance of the Series 2008 Bonds and on each quarterly Service Fee Payment Date thereafter.

In 2010, the Authority did not request, nor receive, a service fee. The Authority has budgeted for a \$792,000 service fee in 2011.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with an overview of the Authority's financial resources and to demonstrate the Authority's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact the Authority's Treasurer at the Saratoga County Water Authority, 260 Butler Road, Gansevoort, New York 12831.

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

STATEMENT OF NET ASSETS

	<u>December 31,</u> <u>2010</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,373,626
Accounts receivable	393,600
Grants receivable	351,919
Bond issuance discount, current portion	<u>11,223</u>
Total current assets	3,130,368
RESTRICTED ASSETS	
Cash and cash equivalents with fiscal agent	4,735,220
CAPITAL ASSETS	
Property, plant, and equipment, net	79,967,161
OTHER ASSETS	
Bond issuance discount, net of amortization, less current portion	<u>259,010</u>
	<u>\$ 88,091,759</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 834,068
Accrued interest payable	711,988
Current installment of revenue bond	455,000
Premium on bonds, current portion	<u>8,100</u>
Total current liabilities	<u>2,009,156</u>
LONG-TERM LIABILITIES	
Due to Saratoga County	3,531,875
Premium on bonds, net of amortization, less current portion	186,935
Revenue bond, less current installment	<u>44,100,000</u>
Total long-term liabilities	<u>47,818,810</u>
Total liabilities	<u>49,827,966</u>
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Invested in capital assets, net of related debt	31,880,286
Restricted	4,735,220
Unrestricted	<u>1,648,287</u>
Total net assets	<u>38,263,793</u>
	<u>\$ 88,091,759</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year Ended December 31, 2010
OPERATING REVENUES	
User fees	<u>\$ 2,079,927</u>
OPERATING EXPENSES	
Personal services	469,629
Contractual services	60,069
Insurance	29,756
Materials and supplies	8,262
Operations - water treatment and distribution	611,863
Repairs and maintenance	3,850
Utilities	230,015
Depreciation	2,084,507
Miscellaneous	165,968
	<u>3,663,919</u>
Operating loss	<u>(1,583,992)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	16,427
Interest expense	(1,799,800)
Construction grants	2,615,270
Contributed infrastructure	4,509,407
	<u>5,341,304</u>
CHANGE IN NET ASSETS	<u>3,757,312</u>
NET ASSETS, beginning of year	34,450,514
Prior period adjustments	<u>55,967</u>
NET ASSETS, beginning of year, as restated	<u>34,506,481</u>
NET ASSETS, end of year	<u><u>\$ 38,263,793</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

STATEMENT OF CASH FLOWS

	Year Ended December 31, 2010
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	
Received from customers	\$ 1,687,520
Paid to suppliers and vendors	(1,009,408)
Paid to employees, including benefits	(453,694)
	<u>224,418</u>
 CASH FLOWS PROVIDED BY INVESTING ACTIVITY	
Interest received	<u>16,427</u>
 CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	
Change in restricted cash and cash equivalents	4,031,510
Interest paid	(2,149,313)
Payments of revenue bond principal	(445,000)
Acquisition of capital assets	(8,633,212)
Construction grants	5,988,336
	<u>(1,207,679)</u>
 Net decrease in cash	 (966,834)
 CASH AND CASH EQUIVALENTS, beginning of year	 <u>3,340,460</u>
 CASH AND CASH EQUIVALENTS, end of year	 <u>\$ 2,373,626</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating loss	\$ (1,583,992)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities	
Depreciation	2,084,507
Increase in accounts receivable	(392,407)
Increase in accounts payable and accrued liabilities	116,310
	<u>\$ 224,418</u>
 SUPPLEMENTAL CASH FLOW INFORMATION	
Noncash transactions	
Construction grants paid directly to Saratoga County	\$ 1,000,000
Contributed infrastructure	4,509,407

The accompanying Notes to Financial Statements are an integral part of these statements.

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Saratoga County Water Authority (Authority) was created during 1990 as a public benefit corporation under New York State Public Authorities Law Title 8-F of Article 5. The Authority is a component unit of Saratoga County, New York (County). The Authority is charged with providing water services for public benefit. A governing board of seven members, appointed by the chairperson of the Board of Supervisors of Saratoga County governs the Authority.

The Authority began operations during February 2010 with the substantial completion of the Saratoga County Water Treatment and Transmission Facilities System (System). The System is designed to provide safe, reliable, and affordable drinking water to the residents of Saratoga County.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

b. Accounting Method

The Authority's financial statements are prepared using the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net assets. Net assets are segregated into restricted and unrestricted components, as follows:

- *Invested in capital assets, net of related debt* consisted of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances;
- *Restricted net assets* have constraints placed on use by the Authority's Revenue Bond, and
- *Unrestricted net assets* consist of assets and liabilities that do not meet the definition of "invested in capital assets, net of related debt."

Revenues are recognized when earned and expenses are recognized when incurred. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing water services. The principal operating revenues of the Authority are charges to customers for user services. Operating expenses include the costs associated with providing those user services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits and other short-term investments, whether unrestricted or restricted, with original maturities of three months or less.

Statutes authorize the Authority to maintain deposits with financial institutions and to invest in certificates of deposit obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Unrestricted and restricted cash and cash equivalents are either covered by federal depository insurance or collateralized by securities held by the pledging bank's trust department in Authority's name, or U.S. Government and/or federal agency securities held by the Trustee.

SARATOGA COUNTY WATER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

d. Accounts Receivable

Accounts receivable are carried at original invoice less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines if an allowance for doubtful accounts is needed by identifying troubled accounts and by using historical experience applied to an aging of accounts as well as regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. Management has deemed that an allowance for doubtful accounts is not necessary at December 31, 2010.

e. Property, Plant, and Equipment, Net

Property, plant, and equipment, net, are recorded at cost, except for contributed property and equipment, which is recorded at fair market value or the contributor's net book value if fair market value is not readily ascertainable. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. The Authority uses a capitalization threshold of \$1,000 to analyze expenditures for capitalization. When equipment is retired or otherwise disposed of, the appropriate accounts are relieved of costs, and accumulated depreciation and any resultant gain or loss is credited or charged to operations.

The Authority evaluated prominent events or changes in circumstances affecting property and equipment to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2010.

Interest expenses incurred during construction of assets are capitalized. Constructed assets financed with the proceeds of tax-exempt debt (if those funds are externally restricted to finance the acquisitions of the asset or used to service the related debt) include capitalized interest to the extent that interest cost (including any related financing costs) over the asset construction period exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing.

Depreciation is provided for in amounts to relate the cost of depreciable assets to operations over their estimated useful lives, using the straight-line method. The estimated useful lives established to determine depreciation for vehicles, machinery, and equipment vary from three to twenty years. Buildings and building improvements are depreciated over thirty years. Land improvements are depreciated over twenty years. Infrastructure is depreciated over forty years.

f. Intangible Assets, Net

Intangible assets, net, relate to discounts received on the bond issuance (Note 6). These amounts are being amortized over the life of the bond using the effective interest method.

g. Tax Status

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

h. Subsequent Events

In preparing the financial statements and notes thereto, the Authority has considered subsequent events through May 3, 2011, the date the financial statements were available to be issued.

SARATOGA COUNTY WATER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 - RESTRICTED ASSETS

In accordance with the terms of the Authority's bond indenture, the use of certain Authority assets is restricted for specific purposes as summarized below:

	December 31, 2010
Capital Interest Fund	\$ 11
Construction Fund	1,032,205
Cost of Issuance	36,038
Debt Service Fund	1,067,981
Debt Service Reserve Fund	2,598,985
Total cash and cash equivalents held with fiscal agent	\$ 4,735,220

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT, NET

A summary of the Authority's property and equipment, net, is as follows:

	January 1, 2010	Additions	Reclassifications	Prior Period Adjustment	December 31, 2010
Land	\$ -	\$ -	\$ 989,573	\$ -	\$ 989,573
Land improvements	-	-	1,753,182	-	1,753,182
Buildings and improvements	-	-	9,257,629	-	9,257,629
Infrastructure	-	225,000	60,425,522	-	60,650,522
Machinery and equipment	18,317	-	9,166,196	-	9,184,513
Vehicles	77,042	25,925	36,329	-	139,296
Office equipment and furniture	-	76,953	-	-	76,953
	95,359	327,878	81,628,431	-	82,051,668
Less accumulated depreciation and amortization	-	2,084,507	-	-	2,084,507
Capital assets in service, net	95,359	(1,756,629)	81,628,431	-	79,967,161
Construction in progress	71,159,160	9,855,711	(81,731,309)	716,438	-
Property, plant and equipment, net	\$ 71,254,519	\$ 8,099,082	\$ (102,878)	\$ 716,438	\$ 79,967,161

NOTE 4 - BOND ISSUANCE DISCOUNT, NET

The Authority had received a discount on the issuance of a \$45,000,000 Water System Revenue Bond dated September 2008. This discount, \$270,233 at December 31, 2010, is reported as bond issuance discount and is amortized over the life of the bond using the effective interest method, beginning with the issuance of the bond. Accumulated amortization at December 31, 2010, is \$26,131. Future amortization on the intangible asset is as follows for the next five years and thereafter:

2011	\$ 11,223
2012	11,104
2013	10,980
2014	10,852
2015	10,718
Thereafter	215,356
Total	\$ 270,233

SARATOGA COUNTY WATER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - DUE TO SARATOGA COUNTY

Amounts due to the County at December 31, 2010, consist of the following:

Project costs incurred by the County (2003 to 2007), non-interest bearing, due on demand	\$ 3,246,587
Cash advance, June 2007, interest at 4%, due on demand	250,000
Accrued interest	<u>35,288</u>
	<u><u>\$ 3,531,875</u></u>

Although these liabilities are due on demand, the intent of the County and the Authority is to have these amounts paid over a period of time, after the Authority has commenced significant operations. As such, these liabilities have been reported as long-term liabilities in these financial statements.

NOTE 6 - REVENUE BOND

At December 31, 2010, the Authority has outstanding \$44,555,000 related to a 2008 Water System Revenue Bond. The bond was originally issued at \$45,000,000 to finance costs incurred in connection with the construction of the Saratoga County Waste Treatment and Transmission Facilities System. The 2008 bond was issued at a premium of \$213,895, which is amortized over the life of the bond using the effective interest method. Amortization of the premium began in 2008. Accumulated amortization at December 31, 2010, totaled \$18,860. Interest is payable semi-annually at interest rates ranging from 3% to 5%. Principal payments range from \$455,000 to \$2,470,000 payable annually on March 1. The bond is secured by future operating revenues of the Authority.

Future debt service payments required on the Revenue Bond are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the year ending December 31, 2011	\$ 455,000	\$ 2,135,963	\$ 2,590,963
2012	470,000	2,122,313	2,592,313
2013	485,000	2,108,213	2,593,213
2014	505,000	2,088,813	2,593,813
2015	525,000	2,068,613	2,593,613
For the years ending December 31, 2016 through 2020	3,040,000	9,922,563	12,962,563
2021 through 2025	3,840,000	9,123,331	12,963,331
2026 through 2030	4,750,000	8,213,388	12,963,388
2031 through 2035	6,020,000	6,937,813	12,957,813
2036 through 2040	7,680,000	5,278,588	12,958,588
2041 through 2045	9,725,000	3,241,025	12,966,025
2046 through 2048	7,060,000	717,500	7,777,500
	<u>44,555,000</u>	<u>\$ 53,958,123</u>	<u>\$ 98,513,123</u>
Less current installments	<u>455,000</u>		
Revenue Bonds, less current installments	<u><u>\$ 44,100,000</u></u>		

Interest expense, incurred and paid during the year ended December 31, 2010, totaled \$2,144,863 and \$2,149,313, respectively.

SARATOGA COUNTY WATER AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 7 - PROVISION FOR COMPENSATED ABSENCES

All full-time employees meeting certain conditions are provided with vacation, sick pay, and certain other leave credits based on the terms of employment. Accumulated unpaid vacation and compensatory time are accrued when incurred, and are included in accounts payable and accrued liabilities in the statements of net assets, and totaled \$15,935 at December 31, 2010. Sick pay and other leave credits do not vest with the employee and are expensed when paid.

NOTE 8 - NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM

The Authority participates in the New York State and Local Employees' Retirement System (System). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

The System is noncontributory except for (a) employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, and (b) employees who join after January 1, 2010, will contribute 3% of their salary for their entire career. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions.

The required contributions to the System for the current year and two preceding years were:

2010	\$ 36,710
2009	5,517
2008	7,462

The Authority's contributions made to the System were equal to 100% of the contributions required for each year.

NOTE 9 - RELATED PARTY AGREEMENT

Saratoga County Service Agreement

On September 1, 2008, the Authority entered into a Service Agreement (Agreement) with the County. The Agreement will terminate when there are no Service Agreement Revenue Bonds outstanding. At December 31, 2010, the 2008 Revenue Bond (Note 6) is considered a Service Agreement Revenue Bond. The 2008 Revenue Bond will mature in 2048. The Agreement requires the Authority to construct, operate, and maintain the Saratoga County Water System. The Agreement requires the County to pay a service fee to the Authority based on the annual budget prepared by the Authority. The Authority is to repay the County for any and all amounts paid by the County as a service fee with interest at a rate of 4%. During 2010, the County did not make any service fee payments.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a. Water Service Agreements

The Authority has entered into four separate water service agreements with the Clifton Park Water Authority, Town of Ballston, Town of Wilton Water and Sewer Authority, and Luther Forest Technology Campus Economic Development Corporation. Terms of the agreements are for the provision of water services and other services as described by the individual agreements. These agreements expire in 2020. Eighty-nine percent of operating revenue in 2010 is comprised of user fees received by the Authority related to two of the water service agreements.

SARATOGA COUNTY WATER AUTHORITY
(A Component Unit of Saratoga County, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 10 - COMMITMENTS AND CONTINGENCIES - Continued

b. Postemployment Benefits

In addition to providing pension benefits, the Authority will also provide certain health care benefits for retired employees. Substantially all the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority.

Governmental Accounting Standards Board Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("GASB 45"), requires the Authority to recognize the cost of other postemployment benefits ("OPEB") in the financial statements in the periods in which the exchange occurs rather than in the periods when the benefits are paid. GASB 45 requires the services of an actuary to calculate current OPEB costs and to amortize prior service costs over a period not to exceed thirty years. The expense recognized under this policy would be significantly larger than prior practice which recognized expense on a pay-as-you-go basis.

Although the Authority did not adopt GASB 45, the effect on the financial statements has been determined to be immaterial.

NOTE 11 - RISK AND UNCERTAINTIES

a. Litigation

The Authority is involved in various lawsuits relating to the construction of the water plant and transmission line, including contractual claims and property condemnation. The Authority intends to defend all these claims vigorously. A summary of the more significant unrecorded claims is as follows:

- Condemnation claims have been filed concerning ten separate properties. A partial "settlement in principal" was reached regarding one of the properties with payment being made in 2009. In regard to the remaining claims, the Authority expects to prevail since no appraisals were filed by the claimants.
- A real property damage claim was filed by property owners alleging damages to the septic system in the amount of \$18,000,000. By a letter dated January 2011, a settlement offer in the amount of approximately \$428,000 has been presented to the Authority. The Authority will continue to negotiate a settlement, but the Authority is unable to reasonably estimate the final outcome of this claim, and no adjustment has been made to the financial statements.

The Authority is involved in other suits and claims arising from a variety of sources. It is the opinion of management and counsel that the liabilities that may arise from such actions would not result in losses that would materially affect the financial position of the Authority or the results of its operations.

b. Environmental Risks

Certain facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Authority expect such compliance to have, any material effect upon the capital expenditures or financial condition of the Authority. The Authority believes that its current practices and procedures for control and disposition of regulated wastes comply with applicable federal, state, and local requirements.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

During 2010, a prior period adjustment was recorded to accrue and capitalize \$716,438 in bond interest expense relating to the fiscal year ended December 31, 2009. This adjustment increased assets and liabilities at December 31, 2009; and therefore, did not affect net assets at December 31, 2009. During 2010, a prior period adjustment was recorded to reduce the December 31, 2009, grant receivable balance to the actual amount received. This adjustment decreased net assets by \$22,386. Additionally, during 2010, a prior period adjustment was recorded to record bond issuance discount and premium and the related accumulated amortization. This adjustment increased net assets by \$78,353.

NOTE 13 - SUBSEQUENT EVENT

During December 2010, the Authority Board approved the month-to-month lease of 49 Front Street, Ballston Spa, New York beginning January 1, 2011, as office space for distribution employees who are located near the termination of the Authority's pipeline.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Authority Governing Board
Saratoga County Water Authority
Gansevoort, New York

We have audited the financial statements of the Saratoga County Water Authority (Authority) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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 identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 10-01, that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 10-02, 10-03, 10-04, and 10-05.

We noted certain matters that we reported to management of the Authority in a separate letter dated May 3, 2011.

This report is intended solely for the information and use of management and the Board, and is not intended to be and should not be used by anyone other than those specified parties.

Bollam Sheedy Torani & Co. LLP

Albany, New York
May 3, 2011

SARATOGA COUNTY WATER AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ X _____ Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes _____ X None Reported
- Noncompliance material to financial statements? _____ Yes _____ X No

Section II - Financial Statement Findings

10-01. Accounting and Financial Reporting

Criteria: An entity is required to perform accounting duties sufficient to record the activities of the entity and prepare financial statements (both internal and external) for decision making and audit preparation purposes.

Condition: During the year ended December 31, 2010, the Authority relied on its auditors for assistance with adjusting various account balances and financial reporting in the Authority's internal and external financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause: Management did not have sufficient expertise or resources to perform/prepare appropriate financial reporting for the year ended December 31, 2010, and be up-to-date on the requirements of GAAP. As a result, management and the governing Board's ability to identify misstatements in a timely manner was restricted.

Effect: Without sufficient expertise or resources, the Board was provided with inaccurate and/or incomplete financial information, which might lead to inappropriate or ineffective operational or economic decisions.

Recommendation: Management and those charged with governance should gain the ability to identify potential misstatements and seek assistance to correct such misstatements. We encourage regular communications between our Firm, the Board, and management to keep the Authority aware of changes in GAAP, including changes to significant accounting policies, the potential for alternative accounting treatment, and financial reporting requirements.

View of Responsible Officials: The Authority is in the process of requesting proposals to provide additional accounting services to improve reporting. Additionally, financial training is being coordinated for the benefit of management and staff.

Section III - Compliance Findings

10-02. Posting and Maintaining Reports and Policies on the Public Authority Website

Criteria: The New York State Authority Budget Office (ABO) issued Policy Guidance on April 12, 2010, in response to The Public Authorities Reform Act (PARA) of 2009. This guidance states that effective immediately, public authorities are required to make specific information available to the public through the internet.

SARATOGA COUNTY WATER AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2010

Section III - Compliance Findings - Continued

10-02. Posting and Maintaining Reports and Policies on the Public Authority Website - Continued

Condition: The Authority is not in compliance with PARA requirements.

Effect: Required Authority reports and policies are currently not available to the public through the internet.

Cause: The Authority did not oversee proper maintenance of its website.

Recommendation: Using available ABO guidance, the Authority should update its website and schedule periodic maintenance and review to ensure required information is available to the public in a timely manner.

View of Responsible Officials: The Authority Board has instructed its Executive Director to properly maintain the Authority's website, and the Governance Committee of the Board will be reviewing the content of the website at regular intervals.

10-03. Budget Report Filed in the Public Authorities Reporting Information System (PARIS)

Criteria: In accordance with Section 2801 of Public Authorities Law, local authorities must file a budget report 60 days prior to the start of the fiscal year.

Condition: The Authority was not in compliance with Section 2801 of Public Authorities Law.

Effect: The Authority's budget information was not available to the public when required.

Cause: The Authority did not update and certify the budget in PARIS.

Recommendation: The Authority should timely post its budget and assign an individual to file the report prior to the ABO deadline.

View of Responsible Officials: The Finance Committee of the Authority Board will review the annual budget posting to attest to Section 2801 of the Public Authorities Law.

10-04. Audit Committees

Criteria: Public Authorities Law requires local authorities to establish an audit committee, finance committee, or governance committee.

Condition: The Authority is not in compliance with the Public Authorities Law.

Effect: The Authority does not have the oversight required by the Public Authorities Law.

Cause: The Authority has not established an audit committee, finance committee, or governance committee.

Recommendation: The Authority should establish an audit committee, finance committee, or governance committee in accordance with Public Authorities Law.

View of Responsible Officials: The Authority established and appointed members to the Board's Governance Committee at its February 2011 meeting and expects to establish and appoint members to the Audit and Finance Committee at the April 2011 monthly Board Meeting,

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SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2010

Section III - Compliance Findings - Continued

10-05. Annual Investment Report

Criteria: In accordance with Section 2925 of Public Authorities Law, local authorities must prepare and approve an investment report on an annual basis.

Condition: The Authority was not in compliance with Section 2925 of Public Authorities Law.

Effect: The Authority's annual investment report was not available to the public.

Cause: The Authority did not prepare an annual investment report.

Recommendation: The Authority should assign an individual to prepare the annual investment report.

View of Responsible Officials: The Authority Board has instructed its Executive Director to prepare an annual investment report, and the Finance Committee will review the report on a periodic basis.