GREEN ISLAND POWER AUTHORITY
(A New York Public Benefit Corporation)

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

May 31, 2012 and 2011

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C O N T E N T S

BOLLAM, SHEEDY, TORANI & CO. LLP
Certified Public Accountants
Albany, New York

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Green Island Power Authority
Green Island, New York

We have audited the accompanying balance sheets of the Green Island Power Authority (a New York public benefit corporation) (Authority) as of May 31, 2012 and 2011, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 the Authority as of May 31, 2012 and 2011, and the results of its operations and its cash flows for the years 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 August 16, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Bollam Sheedy Torani & Co LLP

Albany, New York
August 16, 2012

GREEN ISLAND POWER AUTHORITY

BALANCE SHEETS

	May 31, 2012	May 31, 2011
ASSETS		
UTILITY PLANT, net		
Distribution facilities	$ 5,287,967	$ 5,168,274
Hydroelectric generating facility	6,757,129	6,757,129
	12,045,096	11,925,403
Less accumulated depreciation	5,124,327	4,816,276
	6,920,769	7,109,127
Construction work-in-process	4,966,689	4,888,527
Non-operating property	209,845	209,845
Total utility plant, net	12,097,303	12,207,499
RESTRICTED ASSETS		
Cash and cash equivalents, restricted	4,201,110	4,756,054
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	471,864	713,065
Accounts receivable, net	316,776	385,829
Inventory	118,700	122,909
Prepaid expenses	44,265	55,639
Due from other governments	95,808	11,500
Total current assets	1,047,413	1,288,942
OTHER ASSETS		
Premium paid on asset acquisition, net	56,658	67,715
Bond issuance costs, net	498,502	538,853
Project development costs	6,449,520	6,162,469
Total other assets	7,004,680	6,769,037
	$ 24,350,506	**$ 25,021,532**

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

	May 31, 2012	May 31, 2011
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 701,823	$ 49,968
Restricted	4,201,110	4,756,054
Unrestricted	612,594	1,161,889
Total net assets	5,515,527	5,967,911
LONG-TERM DEBT, less current installments		
Accrued post-retirement benefits	148,821	98,784
Bonds payable	17,120,000	17,665,000
Total other liabilities, less current installments	17,268,821	17,763,784
COMMITMENTS AND CONTINGENCIES		
CURRENT LIABILITIES		
Current installments of bonds payable	725,000	655,000
Accounts payable	172,073	276,896
Due to other governments	328,206	-
Interest payable	268,947	264,009
Other liabilities	71,932	93,932
Total current liabilities	1,566,158	1,289,837
	$ 24,350,506	**$ 25,021,532**

GREEN ISLAND POWER AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS

	Years Ended May 31, 2012	2011
OPERATING INCOME		
Distribution	$ 2,778,761	$ 2,801,202
Hydroelectric generation	1,657,938	2,197,641
Total operating income	4,436,699	4,998,843
OPERATING EXPENSES		
Purchased power	1,347,640	1,403,396
Transmission expenses	14,361	22,089
Distribution expenses	236,261	271,451
Street lighting	23,589	22,361
Consumer accounting	113,773	128,109
Hydroelectric generation	1,265,373	1,322,215
Administrative and general	832,155	797,384
Total operating expenses	3,833,152	3,967,005
Net operating income	**603,547**	**1,031,838**
OTHER INCOME (EXPENSE)		
Interest income	926	2,900
Sale of surplus property	-	790
Interest expense	(996,659)	(1,001,483)
Amortization expense	(60,198)	(61,857)
	(1,055,931)	(1,059,650)
CHANGE IN NET ASSETS	**(452,384)**	**(27,812)**
NET ASSETS, beginning of year	5,967,911	4,582,455
Contributions in aid of construction	-	1,413,268
NET ASSETS, end of year	**$ 5,515,527**	**$ 5,967,911**

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

GREEN ISLAND POWER AUTHORITY

STATEMENTS OF CASH FLOWS

	Years Ended May 31, 2012	2011
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from customers	$ 4,444,732	$ 4,805,633
Cash paid to suppliers and other vendors	(2,657,709)	(3,316,858)
Cash paid for salaries and employee benefits	(445,509)	(342,243)
	1,341,514	**1,146,532**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Use of cash and cash equivalents, restricted	554,944	1,381,796
Interest income	926	2,900
	555,870	**1,384,696**
CASH FLOWS PROVIDED (USED) BY CAPITAL AND FINANCING ACTIVITIES		
Principal payments of bonds payable	(655,000)	(630,000)
Proceeds from bond issuance	180,000	-
Proceeds from sale of surplus property	-	790
Acquisition of distribution facilities	(237,663)	(27,445)
Acquisition of hydroelectric generating facilities	-	(82,055)
Costs of construction work-in-process	(78,162)	(1,122,480)
Costs of project development	(287,051)	(855,785)
Interest paid	(991,721)	(1,010,908)
Amortization expense	(60,198)	(61,857)
Bond issuance cost	(8,790)	-
Contributions received in aid of construction	-	799,950
	(2,138,585)	**(2,989,790)**
Net decrease in cash and cash equivalents	**(241,201)**	**(458,562)**
CASH AND CASH EQUIVALENTS, beginning of year	713,065	1,171,627
CASH AND CASH EQUIVALENTS, end of year	**$ 471,864**	**$ 713,065**
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating income	$ 603,547	$ 1,031,838
Adjustments to reconcile net operating income to net cash provided (used) by operating activities		
Depreciation expense and other charges	426,021	326,917
Amortization expense	60,198	61,857
Uncollectible revenue	61,020	44,365
Decrease (increase) in		
Accounts receivable, net	8,033	(193,210)
Inventory	4,209	(4,407)
Prepaid expenses	11,374	(2,143)
Due from other governments	(84,308)	(11,500)
Increase (decrease) in		
Accounts payable	(104,823)	(159,955)
Accrued postretirement health benefits	50,037	49,392
Due to other governments	328,206	-
Other liabilities	(22,000)	3,378
	$ 1,341,514	**$ 1,146,532**

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Green Island Power Authority (Authority) is engaged in the distribution of retail electric power in the Village of Green Island, New York (Village) and in generating and selling electricity from its hydroelectric generating facility. The Authority is subject to regulation by the New York State Department of Public Service (PSC) with respect to wholesale power purchased, rate structure, accounting, and related matters.

The Authority is a body corporate and politic constituting a public benefit corporation, created by and existing under Title I-A of Article 5 of the New York Public Authorities Law, as enacted by Chapter 807 of Laws of 1986, as amended (Act). The Act provides that the Authority and its corporate existence shall continue for twelve years and thereafter until all its liabilities have been met and its bonds paid in full or otherwise discharged, whereupon all rights and properties of the Authority then remaining shall pass to and be vested in the Village.

Under the Act, the five members of the Authority, who must be residents of the Village, serve for overlapping terms of five years, or until their successors are appointed and qualified. The members were initially appointed for terms of varying duration, pursuant to the Act, by the Board of Trustees of the Village on designation of the Mayor. Subsequent appointments have been made in the same manner for terms of five years.

During July 2000, the Authority acquired the assets and certain liabilities of Erie Boulevard Hydropower, LP related to a hydroelectric generating facility located on the Hudson River.

During July 1987, the Authority acquired the assets and certain liabilities of the Village Electric Department (Department).

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) as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 balance sheets.

Net assets may be classified into three components, as follows:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances.
- *Restricted net assets* have constraints placed on use, either externally or internally. Constraints include those imposed by laws and regulations of other governments.
- *Unrestricted net assets* consist of assets and liabilities that do not meet the definition of "restricted net assets" or "invested in capital assets, net of related debt."

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

c. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements and the year then ended. Actual results could differ from those estimates.

d. Operations

The Authority owns, operates, and maintains the operating property used to distribute electricity within the Village. The Authority acquires its base electric load from the New York Power Authority (NYPA) under a supply contract that expires during September 2025. The Authority acquires its incremental power from the New York Municipal Power Agency (NYMPA).

The Authority owns, operates, and maintains a hydroelectric generating facility used to generate electricity which is sold to Niagara Mohawk Power Corporation, a National Grid Company (NIMO), on a day ahead pricing basis contract, which expires during June 2013. Generation of electricity is limited to run-of-the-river (natural flow of the river).

e. Utility Plant

Utility plant, including distribution facilities, a hydroelectric generating facility, construction work-in-process, and non-operating property, is stated at the original cost to the Authority and consists primarily of amounts expended for construction, acquisition, completion, and placing in operation the projects of the Authority. Such expenditures include labor, materials, services, and certain indirect costs. The costs of current repairs and maintenance are charged to operating expenses. The cost of renewals and betterments are capitalized to utility plant. Operating property constructed with capital fees received from customers or other parties is included in utility plant. Capital fees totaled $1,413,268 as of May 31, 2012 and 2011. When a utility plant is retired, the book cost, together with the cost of removal and any salvage value, is charged to accumulated depreciation.

Depreciation is provided, based on asset groups, on a straight-line basis over the estimated useful lives of the property in accordance with the Federal Energy Regulatory Commission (FERC) guidelines, ranging from 5 to 50 years.

The Authority periodically reviews long-lived assets for impairment to determine whether any events or circumstances indicate the carrying value of the assets may not be receivable. No impairment was identified in 2012 and 2011.

f. Cash and Cash Equivalents

The Authority's investment policies are governed by State statutes. Monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The Authority is authorized to use demand accounts, time deposit accounts, and certificates of deposit.

Collateral is required for demand deposits, time deposits, and certificates of deposit equal to or exceeding all deposits not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Cash accounts were fully collateralized at May 31, 2012.

Cash and cash equivalents include amounts in demand deposits and time deposits, which mature no more than three months from the date purchased.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

g. Accounts Receivable, Net

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts annually. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. The allowance was $34,905 and $10,000 at May 31, 2012 and , respectively. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. A late payment penalty of 1.5% per month is charged on all accounts receivable that are outstanding for more than 30 days and is recognized as it is charged. Late payment penalties are assessed up to the time the account receivable is collected or deemed uncollectible.

h. Inventory

Inventory is valued at cost, determined on a rolling average cost basis, and is expensed or capitalized when used. Inventory materials recovered and returned to stock in construction, maintenance, or the retirement of operating property are valued at current replacement prices. Inventory consists of components, parts, and tools held for consumption.

i. Other Assets

In accordance with guidance from NYPA and the PSC, certain costs have been capitalized. These costs are as follows:

1) Premium Paid on Asset Acquisition - The price paid by the Authority to the Village exceeded the net book value of assets acquired by $331,695. Management believes this premium reflects the increase in value of the system's distribution operating property over its historic cost, net of accumulated depreciation. The premium is being amortized over 30 years, on a straight-line basis, which approximates the average remaining economic lives of the distribution facilities. The accumulated amortization totaled $275,037 and $263,980 at May 31, 2012 and 2011, respectively.

2) Bond Issuance Costs - Represents the costs and discounts directly associated with the issuance of the Authority's revenue bonds. These costs have been capitalized and are being amortized over the terms of the bonds (Note 5) using either the straight-line method or effective interest method. Amortization expense for the years ended May 31, 2012 and 2011, was $49,141 and $50,800, respectively. The carrying amount of these costs, net of accumulated amortization, is as follows:

	2012	2011
Series 2000	$ 145,183	$ 156,245
Series 2004A	91,718	105,622
Series 2004B	23,203	26,684
Series 2008A	133,641	145,041
Series 2008B	97,432	105,261
Series 2011	7,325	-
	$ 498,502	$ 538,853

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

i. *Other Assets* - Continued

A summary of the next five years' amortization expense, related to the assets described in 1 and 2 above, is as follows:

For the year ending May 31, 2013	$ 58,668
2014	57,082
2015	55,431
2016	53,685
2017	51,848
	$ 276,714

3) Project Development Costs - These costs include legal, technical, and other expenses incurred for investigating the acquisition and licensing of an additional hydroelectric project (Cohoes Falls Project) and the relicensing and expansion of the existing hydroelectric facility (Hydro Expansion Project).

Cohoes Falls Hydroelectric Project - The project, when complete, will provide 100 megawatts of hydroelectric power that the Authority plans to sell to local and state government agencies, local businesses as an economic development incentive, and the open market. As of May 31, 2012 and 2011, the Authority had incurred $3,711,993 in project development costs related to this project.

Should the Authority be unable to obtain all required licenses and permits to construct the facility, or should project economics change in such a way that the Authority no longer wishes to construct the facility, the costs will be expensed in that period in accordance with GAAP. At this time, the Authority is actively and vigorously pursuing the necessary licenses and permits for the construction and operation of this facility (Note 8.e.).

Hydro Expansion Project - This project consists of two parts: (1) the costs associated with obtaining relicensure of the Authority's existing hydroelectric plant, which expires with automatic extensions in 2013, and (2) the physical expansion of the existing plant to fully utilize the public resource of the Hudson River at this location. The expansion will provide an additional 42 megawatts of hydroelectric power, provide significant environmental enhancements, fully utilize the recreational resources of the Hudson River, and provide enhanced security and reliability for the Authority's power generation and distribution facilities. As of May 31, 2012 and 2011, the Authority had incurred $2,737,527 and $2,450,476, respectively, in project development costs related to this project.

In the unlikely event that relicensing is not successful, or if management determines that expansion of the project is no longer economically feasible, these costs will be expensed in that period. At this time, management anticipates licensure will be granted in each case. Upon successful relicensing, accumulated costs will be reclassified to utility plant and depreciated in accordance with FERC guidelines.

j. *Revenue Recognition*

Distribution income is recorded on the accrual basis when consumers' meters are read and bills issued. Distribution income is determined based on customer usage and demand at base rates for each consumer class approved by the PSC. Purchase power costs incurred in excess of those costs included in the base rate calculation are passed on to the consumer at no profit or loss to the Authority by means of a "Purchased Power Adjustment" (PPA) factor.

Hydroelectric generating income is recorded on the accrual basis based on kilowatt generation reports, when billed to NIMO.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

j. *Revenue Recognition* - Continued

Revenue from government grants for which capital assets were not acquired, if any, is recognized as it is earned through expenditures in accordance with the grant agreements.

k. *Contributions to Other Governments*

Properties and income of the Authority are exempt from all taxes on distribution and hydroelectric generating facilities. However, the Authority is allowed to make contributions to the Village and school in lieu of taxes. Contributions to the Village and school were approximately $676,000 for both the years ended May 31, 2012 and 2011, and are included in hydroelectric generation expenses within these financial statements.

l. *Compensated Absences*

Vested or accumulated vacation and sick leave is recorded as an expense and a liability as the benefits accrue to employees. Accrued compensated absences totaled $58,345 and $78,620 as of May 31, 2012 and 2011, respectively, and are included in other liabilities.

m. *Subsequent Events*

The Authority has evaluated subsequent events that provide additional evidence about conditions that existed at the financial statement date through August 16, 2012, the date the financial statements were available to be issued.

n. *New Accounting Standards*

During June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. This statement is effective for all state and local governments for periods beginning after December 15, 2011.

During March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statements. This statement is effective for periods beginning after December 15, 2012.

Management has not estimated the extent of the potential impact of these statements on the Authority's financial statements.

NOTE 2 - PREMIUM PAID ON ASSET ACQUISITION

The Authority's initially acquired operating property (the distribution facilities) was recorded at the net historic book value to the Department. This amount differs from the acquisition cost by the premium assumed to have been paid of $331,695. The premium was capitalized and is being amortized as described in Note 1.i.

NOTE 3 - UTILITY PLANT

A summary of the Authority's utility plant is as follows:

	May 31, 2012			
	Balance at Beginning of Year	Additions	Disposals	Balance at End of Year
DISTRIBUTION FACILITIES				
Land	$ 88,520	$ -	$ -	$ 88,520
Buildings	693,490	-	-	693,490
Transmission and distribution equipment	3,570,541	63,208	(13,447)	3,620,302
Furniture, fixtures, transportation, and miscellaneous equipment	815,723	174,455	(104,522)	885,656
Total distribution facilities	5,168,274	237,663	(117,969)	5,287,968
HYDROELECTRIC GENERATING FACILITY				
Land	521,207	-	-	521,207
Structures	1,144,881	-	-	1,144,881
Reservoirs, dams, and waterways	1,054,439	-	-	1,054,439
Roads, trails, and bridges	10,063	-	-	10,063
Water wheels, turbines, and generators	2,062,631	-	-	2,062,631
Accessory electric equipment	1,629,919	-	-	1,629,919
Furniture, fixtures, transportation, and and miscellaneous equipment	333,989	-	-	333,989
Total hydroelectric generating facility	6,757,129	-	-	6,757,129
	11,925,403	237,663	(117,969)	12,045,097
ACCUMULATED DEPRECIATION	(4,816,276)	(426,022)	117,969	(5,124,329)
	$ 7,109,127	$ (188,359)	$ -	$ 6,920,768
NON-OPERATING PROPERTY	$ 209,845	$ -	$ -	$ 209,845
CONSTRUCTION IN PROCESS				
Distribution Upgrade Project	$ 3,589,035	$ 78,162	$ -	3,667,197
Transmission Voltage Support Project	1,299,492	-	-	1,299,492
	$ 4,888,527	$ 78,162	$ -	$ 4,966,689

NOTE 3 - UTILITY PLANT - Continued

	May 31, 2011			
	Balance at Beginning of Year	Additions	Disposals	Balance at End of Year
DISTRIBUTION FACILITIES				
Land	$ 88,520	$ -	$ -	$ 88,520
Buildings	692,230	1,260	-	693,490
Transmission and distribution equipment	3,520,439	74,149	(24,047)	3,570,541
Furniture, fixtures, transportation, and miscellaneous equipment	808,485	7,238	-	815,723
Total distribution facilities	5,109,674	82,647	(24,047)	5,168,274
HYDROELECTRIC GENERATING FACILITY				
Land	521,207	-	-	521,207
Structures	1,127,410	57,471	(40,000)	1,144,881
Reservoirs, dams, and waterways	1,054,439	-	-	1,054,439
Roads, trails, and bridges	10,063	-	-	10,063
Water wheels, turbines, and generators	2,054,340	8,291	-	2,062,631
Accessory electric equipment	1,613,627	16,292	-	1,629,919
Furniture, fixtures, transportation, and miscellaneous equipment	333,989	-	-	333,989
Total hydroelectric generating facility	6,715,075	82,054	(40,000)	6,757,129
	11,824,749	164,701	(64,047)	11,925,403
ACCUMULATED DEPRECIATION	(4,498,205)	(382,118)	64,047	(4,816,276)
	$ 7,326,544	$ (217,417)	$ -	$ 7,109,127
NON-OPERATING PROPERTY	$ 209,845	$ -	$ -	$ 209,845
CONSTRUCTION IN PROCESS				
Distribution Upgrade Project	$ 2,512,208	$ 1,076,827	$ -	$ 3,589,035
Transmission Voltage Support Project	1,253,839	45,653	-	1,299,492
	$ 3,766,047	$ 1,122,480	$ -	$ 4,888,527

Depreciation expense for operating property was $329,098 and $326,917 for 2012 and 2011, respectively. Depreciation charges on transportation and shop equipment have been allocated to the various expense or operating property accounts via the Department's work order system, as prescribed by the *Uniform System of Accounts for Municipal Utilities.* These depreciation charges totaled $71,091 and $55,178 for the years ended May 31, 2012 and 2011, respectively. In accordance with the *Uniform System of Accounts for Municipal Utilities,* net costs associated with retirement, removal, salvage, and proceeds upon disposition of fixed assets have been charged against accumulated depreciation. These costs totaled $143,804 and $64,067 for 2012 and 2011, respectively.

NOTE 4 - CASH AND CASH EQUIVALENTS, RESTRICTED

Cash and cash equivalents, restricted, represents cash reserved from the issuance of the 2000, 2004, and 2008 Serial Bonds. A summary is as follows:

	May 31,	
	2012	2011
Debt Service Reserve Funds, 2000, 2004, and 2008 Serial Bonds equal to the largest annual debt service requirement	$ 1,651,795	$ 1,651,629
Renewal and Replacement Fund, in anticipation of unforeseen repairs and replacements (a)	118,221	118,209
Proceeds restricted by 2004 and 2008 Bonds payable	2,431,094	2,986,216
Cash and cash equivalents, restricted	$ 4,201,110	$ 4,756,054

(a) There were no funds expended for repairs or replacements during the years ended May 31, 2012 and 2011. As required by the 2000 Serial Bond issue, the Authority is required to have a $100,000 balance in this account as of September 1 each year.

NOTE 5 - BONDS PAYABLE

A summary of bond transactions of the Authority is as follows:

	May 31,	
	2012	2011
Bonds payable, beginning of year	$ 18,320,000	$ 18,950,000
Bonds issued	180,000	-
Principal payments, including redemptions	(655,000)	(630,000)
Bonds payable, end of year	$ 17,845,000	$ 18,320,000

Series 2011 Bonds

During June 2011, the Authority obtained a $180,000 Series 2011 Power System Revenue Bond. The proceeds were used to purchase a bucket truck. Principal payments for the 2011 Bonds are due annually June 1, with semi-annual payments of interest on June 1 and December 1. Interest rates range from 4.75% to 5.0%. The bond matures on June 1, 2016.

Series 2008 Bonds

The Authority obtained $8,020,000 Series 2008A and $2,840,000 Series 2008B Power System Revenue Bonds. A portion of the proceeds of each bond was used to redeem an outstanding Bond Anticipation Note, the proceeds of which were originally used to finance certain projects, including (a) licensing and relicensing costs relating to the existing transmission and distribution facility, (b) substation and transmission upgrades, and (c) development costs relating to a new electrical generating project being considered by the Authority. The balance of the proceeds will be used to provide additional funds for (a) construction of upgrades to the Authority's existing substation and transmission system, (b) certain licensing and relicensing costs, (c) construction of upgrades to an expansion of the existing hydropower generating facility, (d) to fund a debt service reserve fund, and (e) to pay certain expenses incidental to the issuance of bonds.

Principal payments for the 2008 Bonds are due annually March 15, with semi-annual interest payable on March 15 and September 15. Interest rates range from 3.00% to 7.25%.

NOTE 5 - BONDS PAYABLE - Continued

Extraordinary Optional Redemption Without Premium

The Series 2008 Bonds are subject to optional redemption prior to maturity (i) as a whole, without premium, in the event of (a) a taking in Condemnation of, or failure of title to, all or substantially all of the Power System, (b) damage to or destruction of part or all of the Power System and election by the Authority to redeem the Series 2008 Bonds, or (c) a taking in Condemnation of part of the Power System and election by the Authority to redeem the Series 2008 Bonds, or (ii) in part, without premium, in the event that (a) excess insurance or Condemnation proceeds remain following damage or Condemnation of a portion of the Power System and completion of the repair, rebuilding, or restoration of the Power System and, pursuant to the Indenture, such excess monies are not paid to the Authority, or (b) excess monies remain in the Project Fund after the completion date. Upon the occurrence of any of the foregoing events, the 2008 Bonds will be redeemed, as a whole or in part, as applicable, at such time as the Authority determines, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Optional Redemption

The Series 2008A Bonds and Series 2008B Bonds maturing on or after March 15, 2019, are subject to optional redemption prior to maturity, as a whole or in part, on any interest payment date on or after March 15, 2018, at the option of the Authority, at par, plus accrued interest to the redemption date.

Sinking Fund Redemption

The Series 2008A Bonds maturing on March 15, 2023 and March 15, 2033, respectively, will also be subject to sinking fund redemption prior to maturity in part by lot commencing March 15, 2019 and March 15, 2024, respectively, and on each March 15 thereafter, at a Redemption Price equal to the principal amount to be redeemed plus accrued interest to the redemption date, from mandatory Sinking Fund Installment which are required to be made in amounts sufficient to redeem on March 15 of each year Series 2008A Bonds in the principal amounts set forth in the table below:

Series 2008A Term Bonds Maturing March 15, 2023

Redemption Date (March 15)	Sinking Fund Installment
2019	$ 265,000
2020	280,000
2021	295,000
2022	305,000
2023	320,000

Series 2008A Term Bonds Maturing March 15, 2033

Redemption Date (March 15)	Sinking Fund Installment	Redemption Date (March 15)	Sinking Fund Installment
2024	$ 340,000	2029	$ 435,000
2025	355,000	2030	455,000
2026	375,000	2031	480,000
2027	395,000	2032	505,000
2028	415,000	3033	530,000

NOTE 5 - BONDS PAYABLE - Continued

Sinking Fund Redemption - Continued

The Series 2008B Bonds maturing on March 15, 2026 and March 15, 2033, respectively, will also be subject to sinking fund redemption prior to maturity in part by lot commencing March 15, 2019 and March 15, 2027, respectively, and on each March 15 thereafter, at a Redemption Price equal to the principal amount to be redeemed plus accrued interest to the redemption date, from mandatory Sinking Fund installment which is required to be made in amounts sufficient to redeem on March 15 of each year Series 2008B Bonds in the principal amounts set forth in the table below:

Series 2008A Term Bonds Maturing March 15, 2026

Redemption Date (March 15)	Sinking Fund Installment
2019	$ 85,000
2020	90,000
2021	95,000
2022	105,000
2023	110,000
2024	120,000
2025	130,000
2026	140,000

Series 2008A Term Bonds Maturing March 15, 2033

Redemption Date (March 15)	Sinking Fund Installment
2027	$ 150,000
2028	160,000
2029	170,000
2030	185,000
2031	195,000
2032	210,000
2033	225,000

The amounts accumulated for each Sinking Fund Installment shall be applied by the 2008 Trustee, at the direction of the Authority, to the purchase or redemption of the Series 2008 Bonds due on such redemption date at prices not exceeding the applicable Redemption Price, plus accrued interest to the date of purchase.

Series 2004 Bonds

The Authority obtained $4,090,000 Series 2004A, $1,605,000 Series 2004B Power System Revenue Bonds, and $880,000 Series 2004C Power System Revenue Refunding Bonds. The 2004A and 2004B Bonds were used to redeem outstanding Bond Anticipation Notes, the proceeds of which were originally used to renovate the existing power house and bulkhead structure in the generating plant of the Authority and four hydroelectric generating units located therein; the renovation and improvement of the Authority's distribution system; the acquisition and installation of various machinery and equipment therein and thereof; and the funding of certain preliminary planning, study, and survey costs in connection with the consideration of the acquisition of a hydroelectric facility in the Capital District. The 2004A Bond proceeds also provided original funds for the construction of improvements to the Authority's distribution system. The 2004C Bonds provided funds to refund the outstanding principal amount of the Authority's Series 1993 Power System Revenue Refunding Bonds, which originally advance refunded the Authority's Series 1987A Power System Revenue Bonds. All of the Series 2004 Bonds funded a debt service reserve fund and paid certain expenses incidental to the issuance of the Series 2004 Bonds.

NOTE 5 - BONDS PAYABLE - Continued

Series 2004 Bonds - Continued

Principal payments on the 2004 Bonds are due annually on December 15, with semi-annual interest payable on June 15 and December 15. Interest rates range from 2.5% to 5.125% per annum.

Optional Redemption

The Series 2004A and Series 2004B Bonds maturing on or after December 15, 2015, are subject to redemption at the option of the Authority, in whole or in part, on any interest payment date on or after December 15, 2014, at par plus accrued interest to the date of redemption. The Series 2004C Bonds are not subject to redemption.

Mandatory Redemption

The Series 2004B Bonds maturing on December 15, 2024, are subject to mandatory redemption prior to maturity from mandatory Sinking Fund Installments on December 15, 2015, and each December 15 thereafter. In each case, a redemption price is equal to 100% of its principal amount plus accrued interest to the day of redemption.

December 15, 2024, Redemption

Amount	Year	Amount	Year
$ 70,000	2012	$ 105,000	2021
70,000	2013	110,000	2022
75,000	2014	115,000	2023
95,000	2019	120,000	2024
100,000	2020		

The Series 2004B Bonds are issued pursuant to and are secured under the 2000 Indenture, as supplemented by the 2004 Supplemental Indenture, and are payable from net revenues generated by the operation of the Authority's Power System and pledged under the Indenture and other amounts constituting trust revenues.

Series 2000 Bonds

The Authority obtained $5,165,000 Series 2000 Subordinate Power System Revenue Bonds, used to a) redeem outstanding bond anticipation notes, the proceeds of which were used to purchase and construct a hydroelectric facility; b) finance certain costs of issuance of the Series 2000 Bonds; and c) fund a debt service reserve and project fund to be used for additional capital improvements.

Principal payments on the 2000 Bonds are due annually on December 15, with semi-annual interest payable on June 15 and December 15. Interest rates range from 5.00% to 6.00% per annum.

Optional Redemption

The Series 2000 Bonds maturing on or after December 15, 2011, are subject to redemption at the option of the Authority, in whole or in part, on any interest payment date on or after December 15, 2010, at a redemption price set forth below, plus, in each case, accrued interest to the date of redemption.

Redemption Period	Redemption Price
December 15, 2010 to December 14, 2011	102%
December 15, 2011 to December 14, 2012	101%
December 15, 2012 and thereafter	100%

NOTE 5 - BONDS PAYABLE - Continued

Series 2000 Bonds - Continued

Mandatory Redemption

The Series 2000 Bonds maturing on December 15, 2020 and 2025, are subject to mandatory redemption prior to maturity from mandatory Sinking Fund Installments on December 15 in each of the years and in the respective principal amounts set forth below. In each case, a redemption price is equal to 100% of its principal amount plus accrued interest to the day of redemption.

December 15, 2020, Redemption

Amount	Year	Amount	Year
$ 180,000	2012	$ 250,000	2018
190,000	2013	265,000	2019
225,000	2016	285,000	2020
240,000	2017		

December 15, 2025, Redemption

Amount	Year
$ 300,000	2021
320,000	2022
335,000	2023
360,000	2024
380,000	2025

The Series 2000 Bonds are issued pursuant to and are secured under the 2000 Indenture and are payable from net revenues generated by the operation of the Authority's Power System and pledged under the 2000 Indenture and other amounts constituting Trust Revenues. The lien on the Authority's net revenues created by the 2000 Indenture is a second lien and is subordinate to the pledge of the Authority's net revenues under the Trust Indenture of the Authority dated as of October 1, 1993 (the "1993 Indenture"), securing the Authority's Power System Revenue Refunding Bonds Series 1993 (the "Series 1993 Bonds"). The Series 2000 Bonds constitute subordinate obligations under the 1993 Indenture. The subordination to the 1993 Indenture has been extinguished by the defeasance of the Series 1993 Bonds with funds provided by the Series 2004C Bonds.

A summary of the Authority's future minimum annual maturities for bonds payable is as follows:

	Principal	Interest
For the year ending May 31, 2013	$ 725,000	$ 956,963
2014	755,000	926,975
2015	790,000	890,488
2016	835,000	850,206
2017	880,000	806,969
2018 through 2022	4,870,000	3,333,512
2023 through 2027	5,025,000	1,897,758
2028 through 2032	3,210,000	790,158
2033	755,000	43,475
	$ 17,845,000	$ 10,496,504

NOTE 5 - BONDS PAYABLE - Continued

Series 2000 Bonds - Continued

Mandatory Redemption

A rate covenant of the Bonds requires that the Authority adopt an operating budget of no more than 110% of the prior year's adopted budget, as amended. The adopted budget for the 2012 fiscal year end was approximately 95.3% of the prior year modified budget. For the 2013 fiscal year end, the Authority adopted an operating budget equal to approximately 83.6% of the prior year modified budget.

Interest expense on bonds payable was $996,659 and $1,001,483 for the years ended May 31, 2012 and 2011, respectively. Interest paid was $991,721 and $1,010,908 during the years ended May 31, 2012 and 2011, respectively.

NOTE 6 - NEW YORK STATE RETIREMENT SYSTEMS

a. Plan Description

The Village participates in the New York State and Local Employees' Retirement System (ERS). Employees of the Authority are included in the Village's ERS account. ERS is a cost-sharing multi-employer retirement system. ERS 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 ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. The ERS 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.

b. Funding Policy

ERS is noncontributory except for employees who joined the ERS after July 27, 1976, who contribute 3% of their salary for the first ten years of service and employees who joined on or after January 1, 2010, who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions. The required contributions for the current year and the two preceding years were:

For the year ended May 31, 2012	$ 113,203
2011	76,495
2010	57,941

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

NOTE 7 - DUE FROM/TO OTHER GOVERNMENTS

The Authority provides the Village with electric service related to public street lighting and other types of lighting. Revenue from this service totaled $50,455 and $53,616 for the years ended May 31, 2012 and 2011, respectively.

The Authority also rents office space on a month-to-month basis from the Village for an annual rental of $8,400 for the years ended May 31, 2012 and 2011.

NOTE 7 - DUE FROM OTHER GOVERNMENTS - Continued

Amounts due from the Village, as a result of these transactions, were $30,172 and $ 11,500 as of May 31, 2012 and 2011, respectively.

In addition, the Authority is due reimbursement from the federal government in connection with costs incurred during various storms in the summer of 2011. This reimbursement, totaling $65,636, as of May 31, 2012, is included in due from other governments in these financial statements.

The Authority also makes contributions to the Village and school district (Note 1.k). Contributions due the Village at May 31, 2012, totaled $328,206.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

a. Power Supply Contracts

i. Distribution

Electric power distributed by the Authority is obtained from NYPA under a power supply contract which expires during September 2025. The Authority is entitled to certain kilowatts of firm hydroelectric power and associated energy. Demand, energy, and transmission charges under this contract are subject to change and approval of regulatory authorities. There are no minimum capacity or other fixed charge components to this contract. Electric purchases under this contract totaled $250,307 and $242,993 for the years ended May 31, 2012 and 2011, respectively.

The Village guarantees contractual electric payments to NYPA.

The Authority receives incremental power from a source other than NYPA, the New York Municipal Power Agency (NYMPA), a Joint Action Agency of which the Authority is a member. Electric purchases and related charges from NYMPA totaled $890,845 and $941,272 for the years ended May 31, 2012 and 2011, respectively.

The Authority also maintains an agreement with National Grid for the transmission of capacity on National Grid's circuits. Electric wheeling charges under this contract totaled $158,050 and $158,975 for 2012 and 2011, respectively.

ii. New York Independent System Operators (NYISO)

NYISO is a not-for-profit corporation under aegis of the Federal Electric Regulatory Commission, with responsibility to provide free access to the electric transmission facilities within New York State. All NYISO costs are billed to users of the electric transmission grid. Pricing is market based rather than cost based. NYISO charges totaled $100,958 and $131,134 for the years ended May 31, 2012 and 2011, respectively. These costs are included in the amounts charged from NYMPA, above.

iii. Hydroelectric

The Authority has a contract with National Grid to sell all energy produced from the hydroelectric generating facility at a day ahead pricing which expires June 30, 2013.

b. Significant Concentration

Approximately 37% and 44% of the Authority's operating income was derived from sales of hydroelectricity to NIMO for the years ended May 31, 2012 and 2011, respectively. No other customer accounted for more than 10% of the Authority's operating income during the years ended May 31, 2012 and 2011.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - Continued

c. Litigation

The Authority was involved in certain suits and claims arising from variety of sources. A claim with a former employee was settled during fiscal year 2012. As of the date of this report, there are no other suits and claims involving the Authority.

d. Economic Crisis and Other Risks and Uncertainties

The credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in the financial markets and the banking system. These and other economic events could have a negative financial impact on the Authority's customer base, which in turn, could have an impact on the Authority's future operations and financial performance.

In addition, the Authority is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale markets for short-term power transactions; water conditions; weather, and natural disaster disruptions; collective bargaining labor disputes, and government regulation.

e. Cohoes Falls Hydroelectric Project

The Authority has been involved in several proceedings that have arisen at FERC, in connection with the Authority's efforts to secure a license for the proposed Cohoes Falls Hydroelectric Project, FERC Project No. 12522. In connection with the same effort, the Authority sought intervention in the *School Street Project* relicensing case, FERC Project No. 2539-003. In order to develop the Cohoes Falls Hydroelectric Project, the Authority would need to utilize the same water now used by Erie Boulevard L.P.'s (an unrelated entity) existing *School Street Project.* Erie Boulevard has been engaged in renewing the license for the *School Street Project*, in a relicensing proceeding that had continued well over a decade.

FERC issued a series of orders during 2006 and 2007 in the *School Street Project* relicensing proceedings that, in management's opinion, were intended to preclude the Authority from submitting a better adapted alternative to the existing School Street facility for review and consideration. It is management's belief that the Authority's proposed Cohoes Falls Hydroelectric Project would produce significantly more renewable power and provide significant environmental improvements and recreational enhancements. However, on February 15, 2007, FERC issued a new, 40-year license to Erie Boulevard for the existing *School Street Project.*

Having been denied the right to participate in the School Street relicensing proceedings, the Authority appealed multiple FERC orders in connection with the *School Street Project* relicensing proceeding before the United States Court of Appeals for the Second Circuit. Oral argument was held in December 2008, and a decision favorable to the Authority was issued on August 10, 2009. That order vacated the FERC's order issuing a license to Erie Boulevard and directed FERC to reconsider its decision after making certain findings.

On remand, FERC issued an order on April 15, 2010, reinstating the prior invalidated license to Erie Boulevard. FERC asserted that it had made the requisite inquiries and found it had no reason why it should not simply reinstate its prior 2007 licensing order to Erie Boulevard. It also denied intervention by the Authority. The Authority filed an extensive rehearing request on May 17, 2010, raising many challenges to FERC's findings and determinations. On March 17, 2011, FERC denied the Authority's request for rehearing; and on May 13, 2011, the Authority filed a petition for appellate review of that decision with the U.S. Court of Appeals for the Second Circuit. FERC's March 17, 2011, order also denied several of the Authority's motions to take judicial notice and also introduced a new FERC performed study. Accordingly, the Authority filed a limited request for rehearing of those new FERC decisions on April 18, 2011. On July 21, 2011, FERC denied the Authority's request for rehearing.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - Continued

e. Cohoes Falls Hydroelectric Project - Continued

The Authority filed petitions for appellate review of FERC's decisions on remand with the U.S. Court of Appeals for the Second Circuit. Under the procedural schedule established by the Court for that appeal, briefing started in early 2012 and was completed on May 29, 2012. The Deferred Joint Appendix (consisting of copies of relevant parts of the FERC record), and final versions of the previously filed briefs containing new cross-references to the Deferred Joint Appendix, were filed with the Court in June 2012. The entire matter remains pending before the Court, and the Court has not yet set an oral argument date.

As of August 16, 2012, the Authority intends to continue its pursuit of the necessary licenses and permits for the construction and operation of the Cohoes Falls Hydroelectric Project.

f. Green Island Hydroelectric Project

The Authority is in the process of securing a new license for its existing Green Island Hydroelectric Project (FERC Project No. 13). On March 2, 2009, the Authority filed an application for a new license for the project. FERC has not yet acted on the Authority's application. The Authority's prior FERC license for the project expired on March 2, 2011; and on March 31, 2011, FERC issued a notice authorizing continued project operation until FERC acts on the Authority's pending license application. Management believes, with reasonable certainty, that FERC will approve its license application.

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

a. Plan Description

The Authority provides medical and prescription drug insurance benefits for retired Authority employees and their dependents. All Authority employees become eligible for such benefits when they attain certain age and service requirements while employed by the Department. Retirees are required to contribute a portion of the total cost of these benefits.

b. Reporting Requirements

The Authority reports its postemployment benefits in accordance with Governmental Accounting Standards Statement No. 45 (GASB No. 45). GASB No. 45 views a postemployment benefit plan as a deferred compensation arrangement, whereby an employer promises to exchange future benefits for employees' current services. GASB No. 45 specifies that accounting for these benefits should be determined under an accrual basis, where the expected value of the benefit is actuarially calculated and recognized as a cost over the working lifetime of employees.

c. Funding Policy

Currently, the Authority's cost of its postemployment benefits program is determined on a pay-as-you-go basis and is; therefore, unfunded.

During 2012 and 2011, premiums paid by the Authority on behalf of current retirees and their dependents totaled $15,375 and $15,295, respectively.

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - Continued

c. Funding Policy - Continued

Annual OPEB Cost and Net OPEB Obligation. The Authority's annual other postemployment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer (ARC).* The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the plan:

	May 31, 2012	May 31, 2011
Annual required contribution	$ 70,879	$ 66,420
Interest on net OPEB obligation	3,958	1,976
Adjustment ot annual required contribution	(5,710)	(2,796)
Annual OPEB cost	69,127	65,600
Expected contributions	(19,090)	(16,040)
Net OPEB obligation, beginning of year	98,784	49,224
Net OPEB obligation, end of year	$ 148,821	$ 98,784

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
5/31/2012	$ 69,127	27.9%	$ 148,821
5/31/2011	65,600	24.5%	98,784

Funded Status and Funding Progress. As of May 31, 2012 (the most recent actuarial calculation), the actuarial accrued liability for benefits was $559,606, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $599,139, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 93%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of costs to the employer to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial computations under GASB No. 45 were provided by Armory Associates, LLC, the Authority's independent actuaries for the year ended May 31, 2012. For 2011, management elected to prepare its own actuarial computations for this obligation, using similar assumptions and methods used by Armory Associates, LLC during 2010. In accordance with GASB No. 45, as a small governmental entity, management can elect to have this liability determined by an actuary on a tri-annual basis.

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - Continued

c. Funding Policy - Continued

The following simplifying assumptions were made:

Retirement Age and Service Period for Active Employees - An employee must be age 55 with 10 years of service to become eligible for postretirement health benefits.

Marital Status - It is assumed that 70% of retirees will be married at the time of their retirement, with the male spouse assumed to be approximately three years older than the female.

Mortality - Life expectancies were based on the RP-2000 Mortality Table for males and females.

Termination Rates - Termination rates consistent with GASB No. 45’s abbreviated methodology were selected and are based on the experience of the New York State and Local Retirement System.

Retirement Rates - Retirement rates are based on the experience of the New York State and Local Retirement System. This methodology is consistent with GASB No. 45 abbreviated methodology.

Healthcare Cost Trend Rate - National Health Expenditure Projections 2002 - 2017, were used as a basis for healthcare cost trend. This methodology is consistent with GASB No. 45 abbreviated methodology.

Other Related Information

The remaining actuarial assumptions and methods used for the valuation of the Authority’s postemployment benefits program as of May 31, 2012, were as follows:

Interest Rate:	4.00%
Valuation Method:	Projected Unit Credit
Amortization Method:	Level dollar closed
Amortization Period:	30 years

NOTE 10 - MANAGEMENT’S PLAN

The Authority has experienced net losses in each of its last three fiscal years. These losses can be primarily attributable to the significant amount of interest expense incurred on the Authority’s outstanding bond issuances. In addition to these losses, the Authority’s unrestricted operating cash balances have decreased $700,000 over the past two years. At May 31, 2012, the Authority’s current liabilities exceed current assets by approximately $500,000.

To help strengthen the Authority’s financial position and improve its results from operations, management has developed a specific plan that they believe will give the Authority a reasonable and timely remedy to its recent financial and operational issues. This plan is as follows:

Distribution Revenue

The Authority approved its first increase in retail rates on December 31, 2011. Base retail rates were increased 18%, which will result in an approximate 9% to 10% increase in distribution revenues. Annual base revenues are expected to increase approximately $300,000 over recent years’ experience. This increase comes with no additional expense to the Authority.

Hydroelectric Generation Revenue

Wholesale electric rates continue to be at low levels, and the futures market is predicting slow growth over the next 24 months. The Authority has budgeted accordingly for this grim outlook, and this fact is well documented in its fiscal year 2013 annual budget. Although the contract with National Grid will expire June 30, 2013, the Authority’s management believes that this contract will be renewed under similar terms (Note 8.a.).

NOTE 10 - MANAGEMENT'S PLAN - Continued

Operations

After the retirement of their salaried chairman in December 2011, all Authority Board members, including the new chairperson, decided to serve without compensation. This decision represents a savings of approximately $117,000 annually. In addition, the Authority has been operating effectively without a Director of Operations for the past eight months. There is no intention to fill this vacated position at this time, and therefore, a savings of approximately $75,000 will be recognized annually. Employee raises have also been suspended for the past two years.

Consultant fees have also been reduced considerably from past years, as more work has been done internally by Authority management and staff.

Contributions to Other Governments

During January 2012, the Authority informed the Village of Green Island and the Green Island Union Free School District that they would be suspending its contributions for the fiscal year 2013. This decision was made after all avenues for improving the Authority's liquidity were exhausted. In total, this will save the Authority approximately $676,000 annually. Once liquidity and financial position is restored to a reasonable level, the Authority will review its ability to continue these contributions.

Conclusion

Given the $300,000 increase in base revenues, as well as the approximate $955,000 decrease in fixed costs, management believes that these changes will provide significant improvement in the Authority's financial position and results of operations, as well as create sustainability well into the future.

BOLLAM, SHEEDY, TORANI & CO. LLP
Certified Public Accountants
Albany, New York

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*

Board of Trustees
Green Island Power Authority
Green Island, New York

We have audited the financial statements of the Green Island Power Authority (Authority) as of and for the year ended May 31, 2012, and have issued our report thereon dated August 16, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 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.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 12-01.

The Authority's response to the finding identified in our report is described in the accompanying schedule of findings and responses. We did not audit the Authority's responses, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Authority, and the New York State Authority Budget Office and is not intended to be and should not be used by anyone other than these specified parties.

Bollam Sheedy Torani & Co LLP

Albany, New York
August 16, 2012

GREEN ISLAND POWER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended May 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weaknesses identified?	________Yes	___X___	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

None.

Section III - Compliance Findings

12-01. Posting and Maintaining Reports and Policies on Public Authority Website

Criteria: The New York State Authority Budget Office (ABO), in response to the Public Authorities Reform Act (PARA) of 2009, issued guidance and requirements to public authorities to make specific information available to the public through the internet.

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

Effect: Required Authority reports are not currently available to the public through the internet as follows:

- Report on operations and accomplishments;
- Performance measures report, and
- Management's assessment of internal control structure and procedures.

Cause: The Authority has not updated its website for the inclusion of these reports.

Recommendation: Using available ABO guidance, the Authority should develop 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 is in the process of updating its website to be in compliance with ABO requirements.