

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Independent Auditors' Report and
Audited Financial Statements

Years Ended December 31, 2011 and 2010



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COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Counties of Warren and Washington
Industrial Development Agency

We have audited the accompanying financial statements of the Counties of Warren and Washington Industrial Development Agency as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Counties of Warren and Washington Industrial Development Agency'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 that our audit provides 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 Counties of Warren and Washington Industrial Development Agency as of December 31, 2011 and 2010 and the changes in net assets and 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 March 2, 2012, on our consideration of the Counties of Warren and Washington Industrial Development Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Whittemore, Downen & Ricciardelli, LLP

Whittemore, Downen & Ricciardelli, LLP

March 2, 2012

COUNTIES OF WARREN AND WASHINGTON INDUSTRIAL DEVELOPMENT AGENCY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Counties of Warren and Washington Industrial Development Agency's financial performance provide an overview of the Agency's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Agency's financial statements.

HIGHLIGHTS

Financial Highlights:

- Current assets were decreased by \$106,425.
- Net Assets decreased by \$83,621.
- PILOT Project Revenues in the amount of \$1,203,746.03 were disbursed to taxing jurisdictions throughout the Counties of Warren and Washington.

Agency Highlights:

- During 2011, a separate non-profit corporation was formed (Counties of Warren & Washington Civic Development Corporation) for the purpose of promoting financing for eligible civic facility projects.
- The Agency transferred ownership of the Hudson Falls Burn Plant to Wheelabrator (WTI) in November 2011 pursuant to the Purchase Option Agreement of 2003.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Required Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's special purpose financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Special purpose financial statements. The *special purpose financial statements* are designed to provide readers with a broad overview of the Agency's finances.

The *Balance Sheet* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *Statement of Income* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Notes to Financial Statements. The Notes provide additional information that is essential to a full understanding of the data provided in the *special purpose financial statements*.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government agency's financial position. In the case of the Agency, assets exceeded liabilities by \$1,004,985 as of December 31, 2011.

The Agency's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following tables present a summary of the Agency's derivation of net assets for the fiscal year ended December 31, 2011.

Table 1

| | <u>2011</u> | | <u>2010</u> |
|-----------------------------------|------------------------|-----------------------------------|------------------------|
| Total Current Assets | \$ 406,722 | Total Current Assets | \$ 513,147 |
| Total Fixed Assets (net) | 620,997 | Total Fixed Assets (net) | 621,480 |
| Total Other Assets | <u>100</u> | Total Other Assets | <u>100</u> |
| Total Assets | <u>\$1,027,819</u> | Total Assets | <u>\$1,134,717</u> |
| Total Liabilities | \$ 22,834 | Total Liabilities | \$ 46,121 |
| Total Net Assets | <u>1,004,985</u> | Total Net Assets | <u>1,088,606</u> |
| Total Liabilities & Net Assets | <u>\$1,027,819</u> | Total Liabilities & Net Assets | <u>\$1,134,727</u> |

Changes in the Agency's Net Assets can be determined by reviewing the following condensed Statement of Income at the end of the year.

Table 2

| | <u>2011</u> | | <u>2010</u> |
|--|------------------------|--|------------------------|
| Total Operating Revenues | \$ 147,948 | Total Operating Revenues | \$ 153,486 |
| Total Operating Expenses | <u>245,218</u> | Total Operating Expenses | <u>277,359</u> |
| Net Operating Revenue (Expenses) | (\$97,270) | Net Operating Revenue (Expenses) | (\$123,873) |
| Net Non-Operating Revenue (Expenses) | <u>13,649</u> | Net Non-Operating Revenue (Expenses) | <u>(21,647)</u> |
| Increase (Decrease) in Net Assets | (83,621) | Increase (Decrease) in Net Assets | (145,520) |
| Net Assets at Beginning of Year | <u>1,088,606</u> | Net Assets at Beginning of Year | <u>1,234,126</u> |
| Net Assets at End of Year | <u>\$1,004,985</u> | Net Assets at End of Year | <u>\$1,088,606</u> |

CASH AND INVESTMENT POLICY

The Warren-Washington Industrial Development Agency finds it necessary to place funds in various deposit accounts or certificates of deposit. Article 18A, Section 858(14) of the State General Municipal Law authorizes the Agency to designate depositories. In accordance with this Article, one (1) bank is designated as a depository for the Agency's funds. Rates are competitively procured for deposits.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Agency at (518) 792-1312.

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Balance Sheets

December 31, 2011 and 2010

| ASSETS | <u>2011</u> | <u>2010</u> |
|---|----------------------------|----------------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 381,455 | \$ 499,426 |
| Accounts receivable | 2,699 | - |
| Other receivables | 19,834 | 11,740 |
| Prepaid expenses | <u>2,734</u> | <u>1,981</u> |
| Total Current Assets | <u>406,722</u> | <u>513,147</u> |
| Other Assets: | | |
| Restricted assets (non-operating) | 100 | 100 |
| Fixed assets (net) | <u>620,997</u> | <u>621,480</u> |
| Total Other Assets | <u>621,097</u> | <u>621,580</u> |
| Total Assets | <u><u>\$ 1,027,819</u></u> | <u><u>\$ 1,134,727</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 11,334 | \$ 36,121 |
| Deposits held | <u>11,500</u> | <u>10,000</u> |
| Total Liabilities | <u>22,834</u> | <u>46,121</u> |
| Net Assets: | | |
| Investment in capital assets, net of related debt | 620,997 | 621,480 |
| Unrestricted | <u>383,988</u> | <u>467,126</u> |
| Total Net Assets | <u>1,004,985</u> | <u>1,088,606</u> |
| Total Liabilities and Net Assets | <u><u>\$ 1,027,819</u></u> | <u><u>\$ 1,134,727</u></u> |

See Independent Auditors' Report and Notes

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Statements of Operations

Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Operating Revenues: | | |
| Charges for services | \$ 2,575 | \$ 602 |
| Reimbursements | 145,373 | 152,884 |
| Total Operating Revenues | 147,948 | 153,486 |
| Operating Expenses: | | |
| Personal services | 19,754 | 18,587 |
| Contractual expenses | 222,514 | 255,814 |
| Employee benefits | 2,467 | 2,412 |
| Depreciation | 483 | 546 |
| Total Operating Expenses | 245,218 | 277,359 |
| Operating Loss | (97,270) | (123,873) |
| Non-Operating Revenues (Expenses): | | |
| Use of money and property | 4,347 | 9,970 |
| NYS assessment reimbursed (paid) | 19,523 | (19,523) |
| Real property tax | (12,888) | (12,094) |
| Sale of property and property rights | 2,667 | - |
| Total Non-Operating Revenues (Expenses) | 13,649 | (21,647) |
| Decrease in Net Assets | (83,621) | (145,520) |
| Net Assets at Beginning of Year | 1,088,606 | 1,234,126 |
| Net Assets at End of Year | \$ 1,004,985 | \$ 1,088,606 |

See Independent Auditors' Report and Notes

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|--|------------|------------|
| Cash Flows From Operating Activities: | | |
| Cash received from providing services | \$ 2,543 | \$ 4,250 |
| Cash payments contractual expenses | (248,054) | (245,050) |
| Cash payments personal services and benefits | (22,221) | (20,999) |
| Other operating revenue | 138,779 | 157,092 |
| Net Cash Provided (Used) by Operating Activities | (128,953) | (104,707) |
| Cash Flows From Investing Activities: | | |
| Interest income | 4,347 | 9,970 |
| Net Cash Provided (Used) by Investing Activities | 4,347 | 9,970 |
| Cash Flows From Non-Capital and Financing Activities: | | |
| Real property taxes | (12,888) | (12,094) |
| NYS assessment reimbursement (paid) | 19,523 | (19,523) |
| Net Cash Provided (Used) by Non-Capital and Financing Activities | 6,635 | (31,617) |
| Cash Flows From Capital and Related Financing Activities: | | |
| Payments to contractors (land development) | - | (46,652) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | - | (46,652) |
| Net Decrease in Cash and Cash Equivalents | (117,971) | (173,006) |
| Cash and Cash Equivalents at Beginning of Year | 499,426 | 672,432 |
| Cash and Cash Equivalents at End of Year | \$ 381,455 | \$ 499,426 |

See Independent Auditors' Report and Notes

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Reconciliation of Operating Loss to Net Cash | | |
| Provided (Used) by Operating Activities: | | |
| Operating Loss | \$ (97,270) | \$ (123,873) |
| Adjustments to Reconcile Operating Loss to Net Cash | | |
| Provided (Used) by Operating Activities: | | |
| Depreciation | 483 | 546 |
| (Increase) Decrease in: | | |
| Accounts receivable | (32) | 3,648 |
| Other receivables | (8,094) | 4,208 |
| Prepaid expenses | (753) | 244 |
| Decrease (Increase) in: | | |
| Accounts payable | (24,787) | 10,520 |
| Deposits held | 1,500 | - |
| | \$ (128,953) | \$ (104,707) |
| Net Cash Provided (Used) by Operating Activities | \$ (128,953) | \$ (104,707) |

See Independent Auditors' Report and Notes

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

Summary of Significant Accounting Policies

The financial statements of the Counties of Warren and Washington Industrial Development Agency (the "Agency") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

Organization and Purpose

The Agency was created in 1971 by the Warren and Washington County Boards of Supervisors under the provisions of Chapter 862 of the 1971 Laws of New York State. The purposes of the Agency are to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing industrial, manufacturing, warehousing, commercial, research and recreational facilities including industrial pollution control facilities, educational or cultural facilities, railroad facilities and horse racing facilities and thereby advance the job opportunities, health, general prosperity and economic welfare of the Counties of Warren and Washington and the residents thereof; and to improve their recreational opportunities, prosperity and standards of living.

The Agency accomplishes its purposes through arranging for issuance of taxable and tax-exempt Industrial Development Revenue Bonds, granting of sales and mortgage tax exemptions and the arranging and administration of payment-in-lieu-of-taxes agreements, to prospective businesses upon an application and approval process. The Agency also owns approximately 84 acres of land located in Warren and Washington counties of which its primary purpose is to add business properties to an existing industrial park in order to attract prospective businesses.

The Agency performs the billing and collection of trash plant hauler fees for the Hudson Falls Resource Recovery Project. All fees collected are deposited into a separate Agency bank account and are then disbursed to the bond trustee, in accordance with the Project's service agreement. The Agency does not recognize any revenues or expenses on its books for these transactions.

The Agency is exempt from federal, state and local income taxes. The members of the Board of the Agency are appointed by the Warren and Washington County Boards of Supervisors.

During 2011, the Counties of Warren and Washington Civic Development Corporation, an exempt organization under Sec. (501)(c)(3) of the Internal Revenue Code was created for the purpose of promoting community and economic development and the creation of jobs in the non-profit and for-profit sectors for the citizens of the Counties by developing and providing programs for not-for-profit institutions, manufacturing and industrial businesses and other entities to access low interest tax-exempt and non-tax-exempt financing for their eligible projects; and undertaking projects and activities within the Counties for the purpose of relieving and reducing unemployment, bettering and maintaining job opportunities, carrying on scientific research for the purpose of aiding the Counties by attracting new industry to the Counties or by encouraging the development of, or retention of, an industry in the Counties, and lessening the burdens of government and acting in the public interest.

For the year ended December 31, 2011, expenses for the creation of the Civic Development Corporation were paid by the Agency and are recorded in other receivables as a due from Warren and Washington Civic Development Corporation in the amount of \$7,750.

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

Summary of Significant Accounting Policies – Continued

Basis of Presentation – Fund Accounting

Enterprise Fund – The Agency records its transactions in this proprietary-type fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The financial statements of the Agency are prepared using the accrual basis of accounting. Sales of real estate lots owned by the Agency are reported using the accrual method, which requires that the entire profit on the sale is recognized when the sale occurs.

Fixed Assets (Net)

The Agency's fixed assets are recorded at cost, and consist mainly of land and related development costs.

Land is recorded at cost when acquired, and consists of approximately 84 acres. The Agency is developing sections of the land for sale to prospective businesses. Various legal, surveying, engineering and other development costs are capitalized as incurred. At both December 31, 2011 and 2010, the accumulated costs recorded on the Agency's books associated with the land is \$620,273.

Depreciation of office equipment and signs and mailboxes is recognized on a straight-line basis over the estimated useful lives of the assets, five and ten years, respectively.

Accounts Receivable

The Agency considers accounts receivable to be fully collectible. Accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made. The Agency has no stated policy for deeming receivables to be delinquent and no interest is charged to receivables.

Cash Flows

The Agency considers all checking, savings and certificates of deposit accounts with a maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Industrial Revenue Bond and Note Transactions

Industrial development revenue bonds and notes issued by the Agency are secured by property which is leased to companies and is retired by lease payments. The bonds and notes are not obligations of the Agency or the State of New York. The Agency does not record the assets or liabilities resulting from completed bonds and notes issued in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and funds arising therefrom are controlled by trustees or banks acting as fiscal agents.

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

Industrial Revenue Bond and Note Transactions – Continued

The Agency receives an administration fee calculated as a percentage of the amount of bonds issued or cost of the project in the case of a straight lease transaction, in addition to reimbursements for any legal costs incurred by the Agency. Such administrative fee income is recognized immediately upon the closing of the project.

Industrial development revenue bonds and notes outstanding as of December 31, 2011 total \$74,494,069.

Cash and Investments

The Agency's investment policies are governed by State statutes. Agency monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities. At December 31, 2011 and 2010, the Agency had no investments.

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. While the Agency does not have a specific policy for custodial credit risk, New York State statutes govern the Agency's investment policies, as described above.

The Agency's aggregate bank balances included balances not covered by depository insurance at year-end, collateralized as follows:

| | | |
|---|----|---------|
| Uncollateralized | \$ | - |
| Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Agency's name | | 439,216 |

The Agency does not typically purchase investments for a long enough duration to cause it to believe that it is exposed to any material interest rate risk. The Agency does not typically purchase investments denominated in a foreign currency, and is not exposed to foreign currency risk.

Other Receivables

At December 31, the Agency had other receivables consisting of the following:

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| Due from attorney escrow deposit | \$ 6,500 | \$ 5,000 |
| Due from Warren Washington Community Development Corporation | 7,750 | - |
| Reimbursement of Agency expenses | 5,584 | 6,740 |
| Total | <u>\$ 19,834</u> | <u>\$ 11,740</u> |

Management has determined all amounts are fully collectible as of December 31, 2011 and 2010.

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

Fixed Assets

Fixed assets at December 31 are comprised as follows:

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Land | \$ 620,273 | \$ 620,273 |
| Office equipment | 1,614 | 1,614 |
| Sign and mailboxes | 7,584 | 7,584 |
| | 629,471 | 629,471 |
| Less: accumulated depreciation | (8,474) | (7,991) |
| Fixed assets, net | \$ 620,997 | \$ 621,480 |

Depreciation expense for 2011 and 2010 was \$483 and \$546, respectively. Changes in land during 2011 and 2010 consisted of development costs capitalized in the amount of \$0 and \$4,938, respectively.

During 2008, the Agency sold Warren County the rights to approximately 4.2 of wetland acres for \$150,500. The fee title to the wetlands remains with the Agency; only the wetland rights were conveyed.

Restricted Assets

At December 31, 2011, restricted assets consisted of the following:

| | 2011 | 2010 |
|---|--------|--------|
| PILOT monies to be disbursed to local governments | \$ 100 | \$ 100 |

Contingencies and Commitments

The Agency has a sewer facility ownership and services agreement with Washington County and the Town of Kingsbury for the establishment and maintenance of the Kingsbury Sewer District Number One (District). Based on the agreement, the Agency will be responsible for reimbursing the Town of Kingsbury for capital costs incurred in the construction of the District. These payments will be based on the payment schedule associated with the debt incurred by the Town of Queensbury in financing the capital costs. During 2011 and 2010, the Agency was billed and paid amounts of \$12,888 and \$12,986, respectively.

COUNTIES OF WARREN AND WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

Other

In 1989, the Agency, in connection with operation of the Hudson Falls Resource Recovery Project (Project), had an installment sale agreement in connection with the issuance of its industrial development revenue bonds to provide the funds necessary to finance the costs of acquiring, constructing, installing and equipping the Project. In addition, the Agency entered into a service agreement with the owners of the Project, Adirondack Resource Recovery Associates (ARRA), requiring the Agency to make monthly service payments to include debt service and operation costs to the project owners. In connection with that agreement, the Agency entered into a Waste Disposal Contract with Washington County requiring the County to submit the required monthly service payments directly to the bond trustee. Under an Intermunicipal Waste Disposal Agreement with Warren and Washington County (Counties), the Agency delegated its responsibilities of preparing and delivering to Washington County the amounts due for the monthly service payments to the Intercounty Solid Waste Committee, as established by Warren and Washington Counties.

On October 3, 2003, the Agency, Counties and ARRA entered into amendments of the above documents as well as the installment sale agreement between the Agency and ARRA. The effect on these was that ARRA assigned its rights and obligations under its installment sale agreement to the Agency, resulting in the Agency becoming the beneficial owner of the Project and primarily liable to make the required monthly service payments. This obligation is non-recourse to the Agency and remains limited to the revenues from the Project, as stated under the original Bond Indenture.

On May 1, 2004, the original bonds were refinanced as special limited obligations of the Agency, and under the terms of the refinancing, the bonds do not constitute a charge against the general credit of the Agency, and are to be paid solely from the net revenues generated by the Project, as set forth in the Bond Indenture. Under the amended Waste Disposal Agreement and the Intermunicipal Waste Disposal Agreement, the Counties continue to remain obligated to submit the required monthly service payments.

In addition, the service agreement was amended to replace ARRA as the operator of the Project with a new operator, Wheelabrator Hudson Falls, LLC (WTI). At the termination of the amended service agreement, WTI has an option to purchase the Project from the Agency or to continue to operate the Project under a lease agreement. The Counties and the Agency also have the option to "put" the Project to WTI at that time. WTI, as operator of the plant, is obligated to make the payments under a payment in lieu of tax agreement originally entered into between ARRA and the Agency. The Agency has determined that as a result of the amendments, the bonds related to the Project continue to be a limited obligation of the Agency, payable solely from revenues from the Project, and are not a general obligation of the Agency.

The Agency does not record on its books the transactions that occur with respect to the operations of the Hudson Falls Resource Recovery Project as a result of the above agreements. No provision has been made on the books of the Agency for any potential liability as a result of the above agreements.

On October 19, 2010, WTI elected to exercise its option pursuant to the Purchase Option Agreement to purchase the Project from the Agency. On November 14, 2011, the transfer of the Project from the Agency to WTI was completed. The special limited obligations for the Project were fully paid as of November 1, 2011.

Subsequent Events

The Agency has evaluated all events through March 2, 2012, the date which these financial statements were available to be issued, and determined that there are no subsequent events which require disclosure.



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

To The Board of Directors
Counties of Warren and Washington
Industrial Development Agency

We have audited the financial statements of the Counties of Warren and Washington Industrial Development Agency as of and for the year ended December 31, 2011, and have issued our report thereon dated March 2, 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

In planning and performing our audit, we considered Counties of Warren and Washington Industrial Development Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Counties of Warren and Washington Industrial Development Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Counties of Warren and Washington Industrial Development Agency'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Counties of Warren and Washington Industrial Development Agency'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, the NYS Office of the State Comptroller, Empire Development and the Counties of Warren and Washington and is not intended to be and should not be used by anyone other than these specified parties.

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March 2, 2012