

BARBARA S. DWYER
Certified Public Accountant
P.O. Box 775
5694 Cascade Road
Lake Placid, NY 12946
518-523-9892

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Essex County Industrial Development Agency, Inc.
Elizabethtown, New York

I have audited the accompanying financial statements of the Essex County Industrial Development Agency, Inc., a not-for-profit organization, for the year ended December 31, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Essex County Industrial Development Agency, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and an audit of federal grant programs in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and should refer to this report in this binder. Those standards require that I 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 statement presentation. An audit also includes assessing the accounting principles uses and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Essex County Industrial Development Agency, Inc. as of December 31, 2005, and results of its activities and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 14, 2006 on my consideration of the Essex County Industrial Development Agency, Inc.'s internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.


Barbara S. Dwyer, CPA

Lake Placid, New York
February 14, 2006

ESSEX COUNTY INDUSTRIAL DEVELOPEMENT AGENCY, INC.

Statement of Financial Position

	December 31	
	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets		
Cash	\$708,532	500,863
Cash-escrow deposit	5,000	—
Grants Receivable	—	43,165
Prepaid expenses	660	—
Current portion of notes receivable	<u>193,922</u>	<u>134,966</u>
Total Current Assets	908,114	678,994
Property, Plant and Equipment, net of accumulated depreciation		
	4,753,054	2,244,635
Construction in Progress	—	3,569,845
Other Assets		
Notes receivable, net of reserve for bad debts, \$114,500 in 2005 and \$106,500 in 2004	633,936	620,395
Total Other Assets	<u>633,936</u>	<u>620,395</u>
Total Assets	<u>\$6,295,104</u>	<u>7,113,869</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	2,338	3,300
Accrued payroll taxes	2,851	—
Deferred revenues	—	<u>9,667</u>
Total Current Liabilities	<u>5,189</u>	<u>12,967</u>
Total Liabilities	\$5,189	12,967
Net Assets		
Unrestricted	1,251,221	1,074,916
Investment in capital assets	4,753,054	5,814,480
Temporarily restricted	<u>285,640</u>	<u>211,506</u>
Total Net Assets	<u>6,289,915</u>	<u>7,100,902</u>
LIABILITIES AND NET ASSETS	<u>\$6,295,104</u>	<u>7,113,869</u>

See accompanying notes to financial statements

ESSEX COUNTY INDUSTRIAL DEVELOPEMENT AGENCY, INC.
Statement of Activities

	December 31	
	<u>2005</u>	<u>2004</u>
SUPPORT:		
County Allocation	\$250,000	\$310,000
Chesterfield Park Grants		120,453
HUD Program Fees	14,588	31,014
Industrial Park rents	51,710	61,842
Other Real Estate Income	6,200	—
Revenue Bond fees	120,225	25,000
Industrial Park Administrative fees	15,024	14,314
Application and administrative fees	4,660	3,917
Other Grants	129,589	—
Interest income	30,629	47,575
Miscellaneous income	<u>433</u>	<u>—</u>
TOTAL SUPPORT	623,058	614,115
EXPENDITURES:		
Program expense	144,433	193,767
Personnel expense	159,588	148,102
Administration expense	<u>29,079</u>	<u>26,941</u>
TOTAL EXPENDITURES	333,100	368,810
OTHER INCOME (EXPENSES):		
Loss on sale of Ticonderoga building	—	(124,767)
Transfer of infrastructure in Ticondroga Park	<u>(1,100,945)</u>	<u>—</u>
Change in Net Assets	(810,987)	120,538
Net Assets, beginning of year	<u>7,100,902</u>	<u>6,980,364</u>
Net assets, end of year	<u>\$6,289,915</u>	<u>\$7,100,902</u>

See accompanying notes to financial statements

ESSEX COUNTY INDUSTRIAL DEVELOPEMENT AGENCY, INC.

Statement of Cash Flows

	December 31,	
	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITES		
Change in net assets	(\$810,987)	120,538
Adjustments to reconcile net assets to net cash provided by operating activities:		
Transfer of Ticonderoga land	1,100,945	—
Depreciation	28,184	29,343
Reserve for bad debts	8,000	28,500
(Increase) decrease in:		
Accounts receivable	42,505	295,634
Notes receivable	(58,955)	(50,909)
Increase (decrease) in:		
Escrow liability	—	(10,000)
Accrued liabilities and payables	<u>(7,779)</u>	<u>(165,582)</u>
Net cash (used) provided by operating activities	\$301,913	247,524
CASH FLOWS FROM INVESTING ACTIVITES		
Deposit on building	(5,000)	—
Purchase of site improvements and equipment	<u>(63,558)</u>	<u>(309,083)</u>
Net cash used in investing activities	(\$68,558)	(309,083)
CASH FLOWS FROM FINANCING ACTIVITES		
Repayment of principal, notes receivable	138,314	63,250
Loans issued	(164,000)	(91,750)
Application of certificate of deposit	—	<u>166,446</u>
Net cash from financing activities	<u>(25,686)</u>	<u>137,946</u>
Net increase (decrease) in cash	207,669	76,387
Cash at beginning of year	<u>500,863</u>	<u>424,476</u>
Cash at end of year	<u>\$708,532</u>	<u>500,863</u>

See accompanying notes to financial statements

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.
Notes to Financial Statements
December 31, 2005

Note 1: ORGANIZATION

The Essex County Industrial Development Agency, Inc. (the Agency) is a public benefit corporation created by the New York State Legislature. The Essex County Board of Supervisors appoints the members to the Agency's Board of Directors. The Agency is empowered by law to issue tax-exempt bonds to finance qualified industrial firms. It also may purchase, develop, manage, sell and lease real property, including land and buildings, for the purpose of creating jobs and serving the public welfare generally. The real property used for such public purpose is exempt from property tax by law. The Agency can also loan funds and administer those loans to businesses to promote economic development.

In accordance with the contract, dated March 7, 1996, between Essex County Industrial Development Agency, Inc. and the County of Essex, it was agreed that each would be separate and independent entities of government effective January 1, 1982. According to the terms of the same contract the Industrial Development Agency was charged with the administration of the business of the Essex County Development Corporation.

As of January 1, 2006, it is the intent to dissolve the Essex County Empire Development Zone corporation and merge it with the Essex County Industrial Development Agency, Inc. The administration of the Empire Development Zones within Essex County, New York will then be through the Agency servicing existing certified businesses and administering the recertification of Empire Development Zone designated areas. The Agency will be responsible to provide a zone coordinator to service the Empire Development Zone within Essex County, New York.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Agency have been prepared on the accrual basis of accounting.

The Agency follows the Statement of Financial Accounting Standards (SFAS) 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and required that resources be classified for accounting and reporting purposes into three net asset categories according to grant imposed restrictions.

Under the provisions of SFAS No. 117, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of grant imposed restrictions. accordingly, net assets of the Agency and changes therein are classified and reported as follows:

- **Unrestricted net assets** include net assets that are not subject to grant or Board imposed stipulations.
- **Temporarily restricted net assets** include net assets subject to grant or Board imposed stipulations that may or will lapse either by actions of the Agency and/or the passage of time.

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.

Notes to Financial Statements

December 31, 2005

- **Permanently restricted net assets** include net assets subject to grant imposed restrictions with the intent that the Agency maintains the net assets permanently. Generally, the grantors of these assets permit the Agency to use all of the income earned or realized on related investments for general or specific purposes.

Revenues and Expenses

Revenues are reported as increase in unrestricted net assets unless use of the related assets is limited by grant-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Note 2: **CONTINUED**

Cash and Cash Equivalents

The Agency considers cash and any appropriate investment with the initial maturity date of the three months or less to be cash and cash equivalents.

Donated Services

The Agency has not received any donated services or goods. Thus, none has been reflected in the financial statements. On occasion it receives facilities and the policy on this is described below.

Plant

Land, buildings, furniture and equipment are recorded at cost and include expenditures for new facilities and improvements that substantially increase the useful lives of existing buildings and equipment. Expenditures in the nature of normal repairs and maintenance are accounted for as expenses in the statement of activities of unrestricted net assets. Depreciation of building and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation is recognized on general operating assets and industrial projects with current earnings.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and applicable disclosures at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates of the Corporation. Other revenues from nonexempt sources.

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.

Notes to Financial Statements

December 31, 2005

Note 3: **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment and related accumulated depreciation are as follows:

	2005	2004
INDUSTRIAL PROJECTS		
Chesterfield Industrial Park	\$3,567,802	
Essex Industrial Park Ticonderoga Land	23,000	\$1,117,756
Ausable Forks Hydro Project:		
Land	733	733
Willsboro:		
Land	61,600	61,000
Keeseville:		
Land	31,460	31,060
Survey expense	900	900
Railroad	619,920	619,920
Schroon Lake Land Project:		
Land	60,138	60,138
Improvements to land	23,218	23,218
Site development cost	<u>1,280</u>	<u>1,280</u>
	\$4,390,051	1,917,005
Less: Accumulated Depreciation	<u>619,920</u>	<u>619,920</u>
Total	\$3,770,131	\$1,297,085
Moriah Project		
Land	100,000	100,000
Building	851,876	851,876
Site development	95,435	32,510
Operating Assets of the Agency		
Furniture & Fixtures	25,055	25,055
Training Equipment	127,781	127,149
Office Equipment	<u>41,217</u>	<u>41,217</u>
	1,241,364	1,177,807
Less: Accumulated Depreciation	<u>258,441</u>	<u>230,257</u>
Total	\$982,923	947,550

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.

Notes to Financial Statements

December 31, 2005

Note 4: RAILROAD PROPERTY

The Agency received a railroad from NL Chemicals, Inc., (the "Company") with the stipulation that they would lease it back to the Company for a five year period with the option by the Agency to renew the lease for an additional five years. The lease has been extended for and additional five years, expiring in August 2004. The Company agreed to pay the Agency \$1.00 a year for rental and to make a payment in lieu of taxes to the two appropriate municipalities and school districts in which the 21 mile railroad operates. The Agency's portion of the railroad has been recorded on the books at \$619,920, which represents the fair market value at the time of the purchase on August 9, 1989 by the Company.

Although the lease has expired, the agency still owns the railroad property as of December 31, 2005.

Note 5: LEASE COMMITMENTS

The Company entered into a lease agreement with Kathleen E. Hall for office space in Elizabethtown New York. The lease agreement began on January 1, 1995 and ends on December 31, 2005. The lease was extended to June 30, 2006. Lease expense was \$9,950 for the year ended December 31, 2005. Lease obligations until the expiration of the lease following December 31, 2004 are as follows:

2005	\$5,100
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Note 6: MORIAH INDUSTRIAL PROJECT

The Industrial Development Agency received grants to construct a building in the Town of Moriah for the purposes of industrial development without an objective of creating jobs. The project involved the construction of a one-story 22,000 sq. ft. high bay manufacturing and distribution facility, access road, utility connection and parking for 18 trailers and 14 cars. The building was built on land owned by the Agency totaling 30 acres, which was purchased for the purposes of this project. Two more building sites are available on this land. The Agency is currently renting part of the building.

Note 7: CHESTERFIELD PARK PROJECT

The Agency is involved in a joint development project with the Town of Chesterfield. As project leader, the Agency received a grant of \$3,000,000 from the United States Department of Commerce for improvements to the water treatment plant and infrastructure to the proposed industrial park in the Town of Chesterfield. The Agency has disbursed its grant funds which are reflected in the Construction in Progress totaling \$3,565,830 as of December 31, 2005. The Town of Chesterfield has an obligation to match the Federal grant in improvements paid through the town. The final requisition had been submitted for the project as of December 31, 2004 and collected in the fiscal year ended December 31, 2005. Once complete, the assets will transfer to the Town of Chesterfield.

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.
Notes to Financial Statements
December 31, 2005

Note 8: AGREEMENT WITH ESSEX COUNTY DEVELOPMENT CORPORATION

On December 20, 2000 the Agency entered into an agreement with Essex County Development Corporation. (a not-for-profit corporation) in which the Agency will lease to the Development Corporation real property situated at lot 1 of the Ticonderoga Commerce Park, Ticonderoga, New York. The lease ends no earlier than December 20, 2099. The annual rent is \$1.00.

The Agency then assigned all rights, title and interest in this lease to Evergreen Bank N.A. as a security interest to secure the obligations of the Development Corporation's construction mortgage loan in the amount of \$625,000. The Development Corporation entered into an agreement with Reale Construction Company, Inc. of Ticonderoga to construct a commercial building at the aforementioned site. The building was available for rental or sale to potential businesses. As of December 31, 2003, the Agency had a deposit in escrow for the purchase of the building.

The Agency also had pledged a Certificate of Deposit of \$166,466 as collateral for this loan. This certificate is shown as a temporally restricted asset on the balance sheet as of December 31, 2003. The Agency has also incurred costs regarding this project, which are considered a transfer to the Development Corporation. Transfers of this nature are allowed between the two entities based upon the by-laws of the two companies.

As of December 31, 2003, the Agency has paid mortgage payment totaling \$127,811 on behalf of the Development Corporation. When the building is sold, the Agency will be reimbursed these funds.

On May 18, 2004, the Agency finalized the sale of the Ticonderoga commercial building. The funds in escrow related to the sale were released as was the certificate of deposit pledged as collateral. The outstanding mortgage loan from Evergreen Bank was paid in full. The loss realized was \$124,767.

Note 9: CASH BALANCES

The Essex County Industrial Development Agency, Inc. maintains cash accounts at various banks. The FDIC for up to \$100,000 insures cash accounts at banks. Amounts in excess of insured limits were approximately \$253,966 at December 31, 2005 and \$397,799 at December 31, 2004.

Note 10: CONTINGENCIES

The U.S. Department of Housing and Urban Development (HUD) gave Essex County a grant of \$291,500 for the development of the Ticonderoga Commerce Park. The Agency was the grant administrator of the grant and the creator of the Park. The Statutory objectives of the Grant were that 41 new jobs be created with 51 percent of the positions being made available to persons of low or moderate income.

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.
Notes to Financial Statements
December 31, 2005

On December 31, 2001, HUD received the Performance Assessment Report (PAR) for the grant. At the time, the job creation objective was not being met. After further review, HUD issued a letter dated December 31, 2002, that the prospective buyer of the building would meet the jobs creation objective of one job per \$25,000 of grant money or 12 jobs. HUD has reserved the right to review the project as a future date to ensure that the job creation objective continues to be met.

Note 11: COMMITMENTS

As of December 31, 2004, and December 31, 2004 the Agency has made no loan commitments to businesses as with the objective of stimulating economic growth and development.

As of December 31, 2005, the Agency has deposited \$5,000 in an attorney's escrow account as a commitment to purchase a commercial building in Elizabethtown, New York for approximately \$150,000. The closing scheduled early in the fiscal year ending December 31, 2006.

ESSEX COUNTY INDUSTRIAL DEVELOPEMENT AGENCY, INC.
Schedule of Functional Expenses

PROGRAM EXPENSE:	<u>2005</u>	<u>2004</u>
HUD Program expenses	\$6,503	4,557
Industrial Park expenses	24,064	38,639
Legal fees and notices	8,763	9,800
Marketing and advertising	29,205	58,135
Depreciation expense	28,184	29,343
Insurance	3,558	5,326
Telephone	7,699	11,492
Travel	4,619	3,349
Conferences and workshops	5,300	2,714
Dues and subscriptions	976	947
Training equipment maintenance	—	965
Bad debt expense	<u>25,562</u>	<u>28,500</u>
Total Program Expense	\$144,433	193,767
PERSONNEL EXPENSE		
Salaries	118,516	118,394
Payroll tax expense	12,939	12,083
Health Insurance	12,533	7,547
Retirement	<u>15,600</u>	<u>10,078</u>
Total Personnel Expense	\$159,588	148,102
ADMINISTRATIVE EXPENSE		
Office expense and supplies	3,251	3,183
Rent	9,950	8,847
Postage and printing	2,942	2,320
Accounting	8,883	8,740
Equipment leases and maintenance	2,235	3,667
Miscellaneous	981	—
Board expenses	278	184
Business meetings	<u>559</u>	<u>—</u>
Total Administrative Expense	\$29,079	26,941

ESSEX COUNTY INDUSTRIAL DEVELOPMENT AGENCY, INC.

Schedule of Industrial Parks Revenues and Expenses

	December 31					
	<u>2005</u>	Moriah	Ticonderoga	Total	Moriah	Ticonderoga
Rental Income	\$53,387	53,387		61,842	56,842	5,000
Expenses:						
Maintenance	7,493	7,493		2,800	2,800	
Landscaping	3,511	1,911	1,600	9,175	1,750	7,425
Real estate taxes	2,552	2,537	15	451		451
Insurance	2,831	787	2,044	21,782	16,376	5,406
Utilities	3,680	3,680		3,415	2,831	584
Total Expenses	\$20,067	16,408	3,659	37,623	23,757	13,866
Net Rental Income (Loss) Before Depreciation	33,320	36,979	(3,659)	24,219	33,085	(8,866)
Depreciation expense	<u>21,297</u>	<u>21,297</u>		<u>21,297</u>	<u>21,297</u>	
Net Rental Income (Loss)	<u>\$12,023</u>	<u>15,682</u>	<u>(3,659)</u>	<u>2,922</u>	<u>11,788</u>	<u>(8,866)</u>