DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

Financial Statements as of
March 31, 2012
Together with
Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

TABLE OF CONTENTS

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

June 21, 2012

To the Board of Directors of the
Development Authority of the North Country:

We have audited the accompanying financial statements of Development Authority of the North Country (the Authority) (a public benefit corporation of the State of New York) as of and for the year ended March 31, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Authority's 2011 financial statements and in our report dated June 20, 2011, we expressed an unqualified opinion on those financial statements.

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 Authority as of March 31, 2012 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 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 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.

115 Solar Street, Suite 100
Syracuse, New York 13204
p (315) 214-7575
f (315) 471-2128

ROCHESTER • BUFFALO
ALBANY • SYRACUSE • NYC
GENEVA • PERRY

www.bonadio.com

(Continued)

INDEPENDENT AUDITORS' REPORT
(Continued)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority as a whole. The accompanying supplemental information on Schedule I is presented for purposes of additional analysis and is not a required part of the financial statements of the Authority. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133*, Audits of States, Local Governments and Non-Profit Organizations,* and is also not a required part of the financial statements. The supplemental information in Schedule I and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bonadio & Co., LLP

The Development Authority of the North Country (the Authority) is a New York State public authority that serves the common interests of Jefferson, Lewis and St. Lawrence Counties by providing technical services and infrastructure, which will enhance economic opportunities in the region and promote the health and well-being of its communities.

As its mission states, the Authority is committed to environmental stewardship, fiscal integrity and partnerships. To achieve these objectives, the Authority works with its municipal partners through shared service solutions utilizing advanced technology and fostering municipal cooperation to achieve cost-effective services for the region. Services provided include water, wastewater, solid waste management, telecommunications and loans to businesses.

The Authority's Engineering and Water Quality Divisions provide for the operation and management of Authority owned infrastructure to include the Army Water Line, Army Sewer Line and the Regional Waterline. Also, the Engineering and Water Quality Divisions provide water and wastewater services to include operations and maintenance of municipal systems, comprehensive geographic information systems (GIS) development, supervisory control and data acquisition (SCADA) services, engineering and technical assistance to communities in the North Country.

The Solid Waste Management Facility provides an environmentally responsible solution for waste disposal in our region. The Authority continuously looks for innovative ways to efficiently operate the facility and maintain this asset for future generations. The Authority partnered with an energy company to create a gas-to-energy plant that converts methane, a by-product of waste, into electricity using three 1.6-megawatt generators. The electricity generated is equivalent to powering over 3,000 homes. The Authority continues to explore beneficial uses for the waste heat produced by the gas-to-energy process.

The Authority's telecommunications network plays a vital role in supporting rural businesses. Prior to constructing our carrier-class telecommunications network, many communities in the North Country were severely underserved by high-speed internet and other advanced telecommunications services. In 2004, the Authority completed its telecommunications network. Today, the Authority supports telecom providers, healthcare and educational institutions, government and industry in the region with state-of-the art telecommunications technology.

The Authority supports economic development and works to improve the economic viability and well being of the North Country by forming strong partnerships with local, state, and federal organizations to promote business and housing development throughout the region. The Authority administers several loan programs to promote job creation and retention among small businesses. The Authority also provides funding for the development of quality, affordable housing in Jefferson, Lewis and St. Lawrence Counties through its housing programs.

The financial statements of the Authority include the Statement of Net Assets; the Statement of Revenue, Expenses and Change in Net Assets; and the Statement of Cash Flows, and related notes to the financial statements. The Statement of Net Assets, or balance sheet, provides information about the nature and the amounts of investments and resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net assets.

The Statement of Revenue, Expenses and Changes in Net Assets, or income statement, shows how the Authority's net assets changed during the year. It accounts for all the year's revenues and expenses, measures the financial results of the Authority's operations for the year and can be used to determine how the Authority has funded its costs.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities. The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Authority's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Authority's financial position and activities. This overview is provided for the fiscal year ended March 31, 2012. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages.

Financial Highlights

- As of March 31, 2012 assets of the Authority exceeded its liabilities by $139,306,008. Of this amount $7,643,338 is unrestricted and undesignated and may be used to meet the Authority's ongoing obligations.
- The tipping fees charged to customers at the Solid Waste Management Facility include certain amounts to fund replacement of major equipment and facility improvements, planned extensions of the landfill liner system, closure and post closure care of the landfill. Tipping fees revenue (included in customer billings) increased during the current year from $8,458,838 for the 2011 fiscal year to $8,545,328 for the 2012 fiscal year. The change was primarily a result of an increase in tonnage.
- The gas-to-energy plant at the Solid Waste Management Facility converts methane gas produced by the landfill into energy. The landfill gas-to-energy plant revenue (included in other income) decreased during the current year from $683,805 for the 2011 fiscal year to $563,964 for the 2012 fiscal year. The decrease was primarily a result of a change in market conditions, which reduced the value of renewable energy credits and dollars per mega watt hour sold.
- Several years ago, the Authority installed a voluntary flare system at the Solid Waste Management Facility, which burns off methane gas. This flare system has generated carbon credits that may be sold on a public market. In 2012, the Authority recognized income from the sale of carbon credits of approximately $434,670. 2012 was the final year of carbon credit sales.
- The telecommunications division of the Authority partnered with a private company for an American Recovery and Reinvestment Act grant as part of the Broadband Stimulus Program. The Authority's portion of the grant is expected to be $17,000,000 through fiscal year 2014. This grant provides redundancy for the existing customer base by allowing the Authority to build a diverse ring from Lowville to Utica and back to Syracuse. It also enables the Authority to extend the existing network to Franklin, Clinton and Essex Counties. When complete, the telecommunications network will consist of over 1,000 miles of fiber network and will include 19 Central Office locations.
- The Authority has taken a very active role in working with its partners to reduce waste entering its Solid Waste Management Facility. In 2010, the Authority with its partners, introduced www.NorthCountryRecycles.org. This website and marketing campaign is designed to educate residents to reduce, reuse and recycle waste. By doing so, less waste goes in to the Solid Waste Management Facility. Additionally, as an incentive to recycle, the Authority rebated its partners tipping fees of $175,000 in 2012.

Overview of the Financial Statements

This annual report consists of a series of two parts, management's discussion and analysis (this section) and the financial statements. The 'Statement of Net Assets' and the 'Statement of Revenue, Expenses and Change in Net Assets' (on pages 11 and 12, respectively), and footnotes provide both long-term and short-term information about the Authority's overall financial status.

Financial Statements
The Authority's financial statements are prepared on an accrual basis in accordance with U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Government Accounting Standards Board (GASB). The Authority is a multi-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

Budget vs. Actual
The operations of the Authority remain stable with variations between budgets and actual considered minimal. The Authority is not aware of any circumstances or situations that would significantly impair its ability to operate its facilities as a going concern.

Summary of Operations and Changes in Net Assets

	2012	2011	Change	% Change
Operating revenue	$25,702,075	$21,669,507	$ 4,032,568	18.6%
Operating expenses	(17,062,851)	(16,832,692)	(230,159)	1.4%
Operating income	8,639,224	4,836,815	3,802,409	78.6%
Non-operating revenue, net	500,012	585,309	(85,297)	(14.6%)
Change in net assets	$ 9,139,236	$ 5,422,124	$ 3,717,112	68.6%

- The 18.6% increase in operating revenue is primarily due to Federal grants earned in 2012 and an increase in revenues from the Water Quality Division. The Authority earned approximately $3,163,000 in ARRA Federal Stimulus funding for expansion of the Telecommunications fiber network. The increase in Water Quality Division revenues was the result of additional contracts authorized and an increase in rate charged on the Army Water and Sewer Line.
- The 14.6% decrease in net non-operating revenue is primarily due to a decrease in interest income of $110,000 with a decline in interest rates.

Financial Position Summary
Net assets are an indication of the Authority's financial strength. The Authority's net assets increased by $9,139,236 during fiscal 2012 to $139,306,008 at March 31, 2012. A summary of the Authority's net assets is shown below.

	2012	2011	Change	% Change
Assets:				
Current assets	$ 15,808,213	$ 14,440,499	$ 1,367,714	9.5%
Loans receivable, net	25,269,378	24,562,795	706,583	2.9%
Investments	26,753,048	27,072,607	(319,559)	1.2%
Funds held by trustee	2,741,322	2,932,828	(191,506)	(6.5%)
Other postemployment benefit reserve fund	2,008,499	1,606,143	402,356	25.1%
Restricted assets	44,328,424	47,313,453	(2,985,029)	6.3%
Bond issue costs	223,592	274,889	(51,297)	(18.7%)
Capital assets, net	61,734,728	54,394,031	7,340,697	13.5%
Total assets	$ 178,867,204	$ 172,597,245	$ 6,269,959	3.6%
Liabilities:				
Current liabilities	$ 6,258,800	$ 5,617,616	$ 641,184	11.4%
Other liabilities (long-term)	33,302,396	36,812,857	(3,510,461)	(9.5%)
Total liabilities	$ 39,561,196	$ 42,430,473	$ (2,869,277)	(6.8%)

Financial Position Summary (Continued)

Net Assets:				
Invested in capital assets, net of related debt	42,748,631	33,779,063	8,969,568	26.6%
Restricted	49,379,538	53,754,532	(4,374,994)	(8.1%)
Unrestricted	47,177,839	42,633,177	4,544,662	10.7%
Total net assets	$ 139,306,008	$ 130,166,772	$ 9,139,236	7.0%

- The 9.5% increase in current assets is primarily due to an increase in cash and cash equivalents of $1,209,000, which was due to the operating surplus.
- Other postemployment benefit reserve fund assets increased by $402,356 or 25.1% with additional funding of $362,498 and interest earnings.
- Current liabilities increased $641,184 or 11.4% with an increase in payables relating to construction costs for the Warneck Pump Station expansion and the Telecommunications stimulus project.
- Other liabilities (long-term) decreased $3,510,461 or 9.5% with the pay down of the Authority's debt.
- Invested in capital assets, net of related debt increased by $8,969,568 or 26.6% due to capital project construction authorized pursuant to Board authorization. Significant capital outlays were made for the Liner Construction at the Solid Waste Management Facility, the Warneck Improvement Project and the expansion of the Telecommunications Network.

As a provider of essential services, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes: 1) approximately 45 miles of water and wastewater transmission pipelines and associated pumping stations servicing Fort Drum and North Country Communities, 2) a Solid Waste Management Facility located in Rodman, New York, and 3) a state-of-the-art telecommunications network. The Authority's net assets also include funds available to pay for ongoing and future construction of replacements and/or additions to this infrastructure.

At March 31, 2012, the board of directors designated the Authority's unrestricted net assets for the following uses:

Board designated net assets:

Supplemental insurance reserves	$ 7,000,000
Community Rental Housing	7,000,000
Infrastructure development	323,108
Capital reserves	16,734,701
Solid waste - tip fee stabilization, carbon credit, recycling and landfill gas reserves	2,777,848
Other postemployment benefits reserve	399,044
Community development loan fund	5,299,800
	$ 39,534,501

Revenue
The Authority sets its rates annually concurrent with the adoption of its annual operating budget.

The Solid Waste Management Facility revenue is derived from tipping fees. The per ton tipping fee charged to customers includes certain amounts to fund replacement of major equipment, planned extensions of the landfill liner system, closure of the landfill and post-closure care.

Rates for telecommunications network services are authorized by the Authority's Board of Directors and filed with the New York State Public Service Commission.

Rates for water quality services are reviewed and adjusted annually based on projected operating costs.

Grants from government sources include payments made to the Authority by New York State and Federal sources.

Summary of Operating Revenue

	2012	2011	Change	% Change
Service and usage revenue:				
Solid Waste Management Facility	$ 8,545,328	$ 8,458,838	$ 86,490	1.0%
Water Quality operations	5,279,767	4,469,157	810,610	18.1%
Telecommunications network	5,832,358	5,705,321	127,037	2.2%
Housing and economic development	4,945	4,945	-	0.0%
Administrative contracts	93,475	71,730	21,745	30.3%
Total service and usage revenue	19,755,873	18,709,991	1,045,882	5.6%
Interest received from outstanding loans	572,032	586,037	(14,005)	(2.4%)
Grants from government sources	4,240,520	882,494	3,358,026	380.5%
Miscellaneous operating revenue	1,133,650	1,490,985	(357,335)	(24.0%)
Total operating revenue	$ 25,702,075	$ 21,669,507	$ 4,032,568	(18.6%)

- Solid Waste Management Facility revenues increased $86,490 or 1.0%. The increase was a result of an increase in tonnage received at the facility from approximately 238,000 tons in 2011 to 243,000 tons in 2012.
- Water Quality revenues increased $810,610 or 18.1%, due to an increase in Army Sewer and Army Water user fees as well as increases in contract revenue through the addition of new contracts.
- Telecommunications network revenues increased $127,037 or 2.2%, due to an increase in the number of customers served.

Summary of Operating Expenses

The Authority's expenses are budgeted and tracked functionally by operating department. The Authority is functionally divided into the following departments: Solid waste management, Water Quality, Telecommunications network, Housing and economic development, and Administration.

The following is a breakdown of the Authority's expenses by operating department:

	2012	2011	Change	% Change
Functional expenses:				
Solid Waste Management Facility	$ 8,371,866	$ 8,034,962	$ 336,904	4.2%
Water Quality	4,512,150	4,706,652	(194,502)	(4.1%)
Telecommunications network	3,563,757	3,178,934	384,823	12.1%
Housing and economic development	383,766	672,749	(288,983)	(43.0%)
Administration	231,312	239,395	(8,083)	(3.4%)
Total functional expenses	$17,062,851	$16,832,692	$ 230,159	1.4%

- Solid Waste Management Facility expenses increased $336,904 or 4.2%. This increase was primarily due to an increase in depreciation expense of $194,907 due to numerous additions and an increase in operating and maintenance expenses of $190,274 relating to an increase in fuel and large part costs. These increases were offset by a decrease in the NYS administrative assessment of $61,987.
- Water Quality expenses decreased $194,502 or 4.1% due to a decrease in depreciation expense and amortization expenses of $437,844 due to numerous assets becoming fully depreciated in the current year. This decrease was offset by an increase in salaries and fringe benefits of $275,935 relating to a 2% raise given in 2012, the addition of an Operations Supervisor position and additional engineering wages related to the Warneck Pump Station expansion project.
- Telecommunication network expenses increased $384,823 or 12.1%. This increase is primarily due to an increase in depreciation expense of $183,099 due to numerous additions including the Ethernet upgrade and an increase in salaries and benefits of $201,804 with the addition of two part time temporary employees, two interns, and an increase in fringe benefit costs.
- Housing and economic development expenses decreased $288,983 or 43.0%. The decrease is due to the Authority providing $250,000 in grants for infrastructure costs supporting the creation of 200 units of affordable housing in 2011. No such grants were provided in 2012.

The following is a breakdown of the Authority's total operating expenses by natural classification:

	2012	2011	Change	% Change
Operating expenses:				
Depreciation and amortization	$ 5,283,834	$ 5,322,853	$ (39,019)	(.7%)
Salaries and fringe benefits	5,463,754	4,993,050	470,704	9.4%
Wastewater treatment	767,335	834,787	(67,452)	(8.1%)
Community benefits	750,329	815,928	(65,599)	(8.0%)
Water purchases	707,687	708,308	(621)	(.01%)
Operating and maintenance	3,127,033	3,270,198	(143,165)	(4.4%)
General and administrative	273,070	287,886	(14,816)	(5.1%)
Closure and post-closure costs	689,809	599,682	90,127	15.0%
Total operating expenses	$17,062,851	$16,832,692	$ 230,159	1.4%

Summary of Operating Expenses (Continued)

- Total operating expenses increased $230,159 or 1.4%.
- Salaries and fringe benefits were $5,463,754 for 2012 as compared to $4,993,050 in 2011, which is the result of new positions authorized, salary adjustments and increased fringe benefit costs.
- Wastewater treatment costs decreased $67,452 or 8.1% due to a decrease in flow on the Army Sewer Line, a $62,000 credit received from the City of Watertown as a result of a reconciliation to actual cost for the year ending 2011, offset by an increase in leachate treatment cost for the Solid Waste Management Facility in the amount of $75,000.
- Community benefits represent amounts paid to the Town of Rodman where the Solid Waste Management Facility is located. Community benefits decreased $65,599 or 8.0%. The decrease is due to a decrease in energy share revenue of $96,808, offset by an increase in tonnage at the facility.
- Operating and maintenance decreased by $143,165 or 4.4%. The decrease mainly relates to a decrease in the NYS administrative assessment.
- Closure and post-closure costs increased $90,127 or 15.0%, due to a change in the estimated future liability.

Non-Operating Revenue (Expense)

The Authority's non-operating revenue (expense) is composed of the following:

	2012	2011	Change	% Change
Non-operating revenue (expense):				
Interest income	$ 1,410,645	$ 1,520,973	$ (110,328)	(7.3%)
Amortization of refunding loss	(165,249)	(154,551)	(10,698)	6.9%
Gain on swap contract	12,782	22,739	(9,957)	(43.8%)
Interest expense	(758,166)	(803,852)	45,686	(5.7%)
Total	$ 500,012	$ 585,309	$ (85,297)	(14.6%)

- Interest income decreased $110,328 or 7.3% due to declines in interest rates received.
- The gain on swap contract of $12,782 was due to changes in interest rates during the year. This is a non-cash gain.

Postemployment Benefits

The Authority covers 90% of eligible retirees' individual health care premiums after 15 years of service, provided that the employee was employed at the Authority at the time of retirement. Employees hired after April 1, 2008 require 20 years of service. The Authority recorded a liability for other postemployment benefits in the amount of $1,609,455. The Authority has a board designated money market account in the amount of $2,008,499 for other postemployment benefits.

Capital Assets

At the end of 2012, the Authority had $61,734,728 (net of accumulated depreciation) invested in a broad range of capital assets, including the Solid Waste Management Facility, Telecommunications Network, Water Quality facilities, equipment and vehicles. This amount represents an increase (net of disposals and depreciation) of $7,340,697 or 13.5% over last year. The detail of capital asset activity and balances for the various categories is included in note 9 to the financial statements.

Long-Term Debt Administration
As of March 31, 2012, the Authority has three revenue bond series outstanding totaling $12,095,000.

Development Authority of the North Country Bond Series	Bonds Outstanding as of March 2012	Bonds Outstanding as of March 2011	Principal Due 2013
Series 1997	$ 3,445,000	$ 4,175,000	$ 775,000
Series 1995/2005D	5,875,000	7,230,000	1,410,000
Series 2010C	2,775,000	3,075,410	310,000
Total	$ 12,095,000	$ 14,480,410	$ 2,495,000

In addition to the bonds, the Authority had $9,219,413 of loans and contract payable as of March 31, 2012.

Loans, Contract and Capital Lease Payables	Outstanding as of March 2012	Outstanding as of March 2011	Principal Due 2013
Loans payable	$ 9,187,524	$ 10,782,596	$ 1,612,612
Contract payable	31,889	62,258	31,889
Total	$ 9,219,413	$ 10,844,854	$ 1,644,501

In total the Authority's debt decreased by $3,867,335 or 15.4%, which was the result of the Authority making principal payments of $4,010,851, the amortization of $165,249 in refunding losses and the amortization of $21,733 on the bond premium. There were no additional borrowings in 2012.

Credit Ratings
The Authority is the recipient of favorable credit ratings from both Moody's and Standard & Poor's. The Authority has an Aa3 rating assigned to its revenue bonds by Moody's Investors Service and an AA- by Standard & Poor's. The Authority's bond ratings were last reviewed by Moody's Investors Service in March 2012 and by Standard & Poor's in November 2011. The Authority issues revenue bonds subject to its Trust Indentures.

Request for Information
This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or a request for additional information should be addressed in writing to the Comptroller at the Dulles State Office Building, 317 Washington Street, Watertown, New York 13601.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

STATEMENT OF NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2012
(With Comparative Totals for 2011)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,699,552	$ 12,490,391
Accounts receivable	1,732,287	1,503,734
Accrued unbilled revenue	21,333	7,730
Interest receivable	137,905	242,809
Inventory	16,997	8,985
Prepaid expense and other assets	200,139	186,850
Total current assets	15,808,213	14,440,499
LOANS RECEIVABLE, net	25,269,378	24,562,795
INVESTMENTS	26,753,048	27,072,607
FUNDS HELD BY TRUSTEE	2,741,322	2,932,828
OTHER POSTEMPLOYMENT BENEFIT RESERVE FUND	2,008,499	1,606,143
RESTRICTED ASSETS	44,328,424	47,313,453
BOND ISSUE COSTS	223,592	274,889
CAPITAL ASSETS, net	61,734,728	54,394,031
Total assets	$ 178,867,204	$ 172,597,245
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 1,475,446	$ 1,003,364
Current portion of long-term debt	4,139,501	4,010,852
Accrued expenses	370,995	291,573
Interest payable	194,558	233,527
Current portion of deferred revenue	78,300	78,300
Total current liabilities	6,258,800	5,617,616
DUE TO U.S. ARMY	749,985	749,985
DEFERRED REVENUE, net of current portion	182,448	260,754
SWAP LIABILITY	129,378	142,160
LANDFILL CLOSURE AND POST-CLOSURE CARE LIABILITY	13,508,998	13,286,390
POSTEMPLOYMENT BENEFITS LIABILITY	1,609,455	1,255,452
LONG-TERM DEBT, net of current portion	17,122,132	21,118,116
Total liabilities	39,561,196	42,430,473
NET ASSETS:		
Invested in capital assets, net of related debt	42,748,631	33,779,063
Restricted -		
Community rental housing program	8,682,671	7,641,473
Community development loan fund	100,000	100,000
Affordable housing program	20,864,422	20,597,370
Army water and sewer line reserves	1,800,000	1,800,000
Regional waterline operating and debt service reserves	293,233	280,292
Reserve for liner expansion and replacement	12,100,101	17,877,821
Reserve for open access telecommunications network	5,539,111	5,457,576
Subtotal - restricted	49,379,538	53,754,532
Unrestricted	47,177,839	42,633,177
Total net assets	139,306,008	130,166,772
Total liabilities and net assets	$ 178,867,204	$ 172,597,245

The accompanying notes are an integral part of these statements.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2012
(With Comparative Totals for 2011)

	2012	2011
OPERATING REVENUE:		
Customer billings	$ 19,755,873	$ 18,709,991
Grant revenue	4,240,520	882,494
Loan interest income	572,032	586,037
Other revenue	1,133,650	1,490,985
Total operating revenue	25,702,075	21,669,507
OPERATING EXPENSES:		
Depreciation and amortization	5,283,834	5,322,853
Salaries	3,694,331	3,424,975
Fringe benefits	1,769,423	1,568,075
Operation and maintenance	1,719,667	1,412,002
Wastewater treatment	767,335	834,787
Community benefits	750,329	815,928
Water purchases	707,687	708,308
Closure and post-closure costs	689,809	599,682
Office and administrative	468,323	474,566
Insurance	200,538	190,567
Utilities	187,338	212,879
Professional fees	179,949	196,394
Automobile	176,801	148,679
Materials and supplies	147,193	161,055
NYS administrative assessment	112,440	236,421
Repairs and maintenance	110,298	84,557
Computer	97,556	170,964
Grants	-	270,000
Total operating expenses	17,062,851	16,832,692
Total operating income	8,639,224	4,836,815
NON-OPERATING REVENUE (EXPENSE):		
Interest income	1,410,645	1,520,974
Amortization of refunding loss	(165,249)	(154,551)
Gain on swap contract	12,782	22,738
Interest expense	(758,166)	(803,852)
Total non-operating expense, net	500,012	585,309
CHANGE IN NET ASSETS	9,139,236	5,422,124
NET ASSETS - beginning of year	130,166,772	124,744,648
NET ASSETS - end of year	$ 139,306,008	$ 130,166,772

The accompanying notes are an integral part of these statements.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012
(With Comparative Totals for 2011)

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 20,379,277	$ 19,965,139
Receipts from grants	4,240,520	882,494
Cash payments to suppliers	(7,002,061)	(7,169,982)
Cash payments to employees	(3,614,909)	(3,424,975)
Net cash flow from operating activities	14,002,827	10,252,676
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(12,594,967)	(5,665,406)
Proceeds from issuance of long-term debt	-	2,500,000
Payments on long-term debt	(4,010,851)	(3,542,664)
Interest paid	(797,135)	(867,237)
Net cash flow from financing activities	(17,402,953)	(7,575,307)
CASH FLOW FROM INVESTING ACTIVITIES:		
Receipts of interest	1,515,549	1,527,879
Net purchases of investments	319,559	(1,117,953)
Deposits into other postemployment benefit reserve fund	(402,356)	(366,895)
Net purchases of restricted assets	2,985,029	(884,475)
Change in funds held by trustee	191,506	89,392
Net cash flow from investing activities	4,609,287	(752,052)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,209,161	1,925,317
CASH AND CASH EQUIVALENTS - beginning of year	12,490,391	10,565,074
CASH AND CASH EQUIVALENTS - end of year	$ 13,699,552	$ 12,490,391
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income	$ 8,639,224	$ 4,836,815
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	5,283,834	5,322,853
Landfill closure and post-closure care costs	222,608	556,800
Postemployment benefits expense	354,003	362,498
Change in:		
Accounts receivable	(228,553)	27,675
Accrued unbilled revenue	(13,603)	7,600
Loans receivable	(706,583)	(630,008)
Inventory	(8,012)	7,826
Prepaid expenses and other assets	(13,289)	71,947
Accounts payable and accrued expenses	551,504	(232,868)
Deferred revenue	(78,306)	(78,462)
Net cash flow from operating activities	$ 14,002,827	$ 10,252,676

The accompanying notes are an integral part of these statements.

1. ORGANIZATION

Development Authority of the North Country (the Authority) is a public benefit corporation organized under the Public Authorities Law of the State of New York. The Authority was created to provide infrastructure services and economic development in Jefferson, Lewis and St. Lawrence Counties of New York State. The infrastructure services provided by the Authority include water, wastewater, solid waste management and telecommunications. The Authority assists in the economic development of these counties by financing housing and business development projects.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying basic financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles. The Authority is engaged only in business-type activities as defined in GASB Statement No. 34. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Presentation

GASB requires the classification of net assets into three components - invested in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Invested in capital assets - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted - This component of net assets consists of amounts which have external constraints placed on their use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of “invested in capital assets” or “restricted.” Unrestricted net assets may be designated for specific purposes by actions of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended March 31, 2011, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of presenting the statement of cash flows, the Authority considers all highly liquid short-term investments with maturities of three months or less from the date of purchase to be cash or cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of amounts due from customers for services provided. Management records an allowance for doubtful accounts based on past collection experience and an analysis of outstanding amounts. No allowance for doubtful accounts was considered necessary at March 31, 2012 or 2011.

Accrued Unbilled Revenues

Accrued unbilled revenues represents revenue earned in the current year but not billed to customers until future dates, usually within three months.

Loans Receivable

Loans receivable consist primarily of amounts loaned to businesses in Northern New York in order to enhance economic development, create housing and encourage job creation and retention. Loans are stated at unpaid principal balances, less the allowance for loan losses. Loans are collateralized by related property, plant and equipment. Interest income is accrued on the unpaid balance. Interest rates charged to outstanding loans range from 1% to 6.25% and are due at various dates through December 2040.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on past collection experience and an analysis of outstanding amounts. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged to the provision for loan losses. An allowance for loan loss of $192,737 and $202,738 was considered necessary at March 31, 2012 and 2011, respectively.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary because of uncertainties associated with local economic conditions and future cash flows on impaired loans.

Investments

Investments consist of certificates of deposit, and U.S. and other government obligations with maturities extending beyond a three-month period from the date of purchase and due within one year from the balance sheet date. The Authority reports certificates of deposit at cost and U.S. and other government obligations at fair value based on quoted market prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds Held by Trustee

Funds held by Bank of New York (the Trustee), as required by bond agreements, consist of certificates of deposit, U.S. and other government obligations, and money market funds. The Authority reports certificates of deposit at cost and U.S. and other government obligations at fair value based on quoted market prices.

Other Postemployment Benefit Reserve Fund

Funds held for other postemployment benefits consist of certificates of deposit and money market funds. The Authority reports these items at cost. Currently, New York State does not have legislation enabling the establishment of a separate trust to hold these funds. Until such time as such enabling legislation is enacted, these funds will be reflected as board designated on the accompanying statement of net assets.

Unamortized Bond Premium and Expenses

Bond premium and expenses related to the issuance of debt obligations are amortized over the term of the respective bond issues.

Capital Assets

Capital assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the capital assets, which range from three (3) to fifty (50) years. The Authority capitalizes all expenditures for capital assets in excess of $10,000 and which have useful lives greater than one year. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any unrelated gains or losses are recorded.

Deferred Revenue

Revenue collected in advance of service provision is recorded as deferred revenue and is recognized as revenue in the period in which it is earned.

Revenue Recognition

Revenues from sales of services are recognized at the time of service delivery based on actual or estimated rates. Revenues from grant agreements are recognized when earned.

Operating and Non-Operating Revenues and Expenses

Operating revenue consists of sales of services performed and other related revenue. The Authority defines non-operating revenue as interest earnings on investment assets and realized/unrealized gains or losses on sales of investments. Non-operating expenditures include interest expense on long-term debt and gains/losses on disposals of capital assets.

Landfill Closure and Post-Closure Care Liability

In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs*, the Authority records landfill closure and post-closure care costs as an operating expense based on the landfill capacity used as of the balance sheet date and the current estimated costs for closure and post-closure care.

Income Tax Status

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales taxes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. UNRESTRICTED NET ASSETS

Unrestricted net assets consist of Board designated net assets and undesignated net assets. Board designated net assets represent amounts specified by the Authority's Board for a particular use. The Board has the authority to release these funds for other purposes.

The Authority maintains the following unrestricted net assets:

Board designated net assets:

Supplemental insurance reserves	$ 7,000,000	$ 8,820,000
Community Rental Housing	7,000,000	-
Infrastructure development	323,108	323,108
Capital reserves	16,734,701	16,336,908
Solid waste - tip fee stabilization, carbon credit, recycling and landfill gas reserves	2,777,848	2,126,856
Other postemployment benefits reserve	399,044	350,691
Community development loan fund	5,299,800	5,289,112
	39,534,501	33,246,675
Undesignated net assets	7,643,338	9,386,502
	$ 47,177,839	$ 42,633,177

4. CONTRACTUAL AGREEMENTS

Solid Waste Management Agreement
The Authority entered into an agreement with the City of Watertown (the City) and Jefferson, Lewis and St. Lawrence Counties (collectively, the Municipalities) to construct and operate a solid waste management facility. Each year, the Authority submits its actual amounts of capital, operating, maintenance and overhead costs and revenues to the Municipalities. A deficit in any year requires an adjustment charge to each municipality for its percentage of usage during the year with the deficit. Since inception of the Solid Waste Management Facility, the Authority has not reported a deficit requiring an adjustment charge. This agreement expires on the date upon which the Authority's obligations for the facility are fully discharged.

Host Community Agreement
In 1993, the Authority entered into an agreement with the Town of Rodman (the Town) to locate a solid waste management facility within the Town. This agreement requires the Authority to pay a quarterly fee, which is adjusted each year by the consumer price index, on a per ton of waste received basis. Also, the agreement requires a minimum host community fee of $50,000 for each year the Solid Waste Management Facility is in actual operation. This agreement was revised in fiscal year 2011. Under the terms of the revised agreement, the Town receives a 75% reduction in tipping fees. Additionally, the Authority pays the Town 50% of the first $100,000 of the proceeds from the sale of energy at the gas-to-energy plant, 25% of the next $100,000 of proceeds and 10% thereafter. Host community benefits expense was $750,329 and $815,928 in 2012 and 2011, respectively.

4. CONTRACTUAL AGREEMENTS (Continued)

Gas-to Energy Plant Agreement

In fiscal year 2009, the Authority entered into a lease agreement with a Company for the construction and operation of a gas-to-energy plant at the Solid Waste Management Facility. The Company constructed the plant and installed the necessary equipment on the Authority's property in order to convert the methane gas produced by the Solid Waste Management Facility into energy. The title for the plant was transferred to the Authority. The Authority entered into a direct financing lease with the Company for the plant and equipment for $1 per year plus 50% of revenues derived from the energy created for a period of 20 years. As this lease is a direct financing lease, the related assets are not included in the Authority's financial statements at year-end. This lease includes two five-year renewal options and a $1 purchase agreement for the equipment at the end of the lease. The contingent rental benefits related to this agreement amounted to $563,964 and $683,805 in 2012 and 2011, respectively, and are recorded in other revenue on the accompanying Statement of Revenue, Expenses and Change in Net Assets.

Water Agreement

The Authority and the U.S. Army (the Army) entered into a water supply agreement in 1990. The City is also a party to this agreement as it provides the water to the Authority for transport to the Army. Under the terms of this agreement, the Army is entitled to use the Authority's water line at a rate that is established annually based on the combined annual capital, overhead, and operating and maintenance costs of the Authority.

The agreement requires the Authority to hold a repair reserve of $900,000. The use of these funds requires permission from the Army and has been recorded in the accompanying financial statements as restricted net assets.

Wastewater Agreement

The Authority and the Army entered into a wastewater usage agreement in 1986. The City is also a party to this agreement as it provides the sewage treatment services. Under the terms of this agreement, the Army is entitled to use the Authority's wastewater line at a rate that is established annually based on the combined annual capital, overhead, and operating and maintenance costs of the Authority and the City.

The agreement requires the Authority to hold a repair reserve of $900,000. The use of these funds requires permission from the Army and has been recorded in the accompanying financial statements as restricted net assets. Additionally, an administrative support advance of $749,985 was received from the Army. These monies are to be credited against the last two months service invoices prior to the termination of the agreement and have been recorded in the accompanying financial statements as a liability to the Army.

5. ACCOUNTS RECEIVABLE

Accounts receivable are due within one year and consisted of the following at March 31:

	2012	2011
Solid Waste Management Facility	$ 574,920	$ 681,352
Water Quality	562,608	630,495
Telecommunications network	582,645	181,366
Other	12,114	10,521
	$ 1,732,287	$ 1,503,734

6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The investment guidelines established by the Authority permit the investment of funds held by the Authority and funds held in trust for the Authority to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State of New York, obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government; and in collateralized time deposits or certificates of deposit issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC). The Authority's investment policy limits its deposit and investment activity to time deposits, demand deposits, certificates of deposit, State of New York Government obligations, United States Government obligations and repurchase agreements.

The Authority's investment policy requires its deposits and investments, not controlled by the Trustee, to be collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States or the State of New York. Collateral must be delivered to the Authority or an authorized custodial bank. Total deposits of cash and cash equivalents not controlled by the Trustee (including certificates of deposit and money market funds) are as follows at March 31:

	2012	2011
Demand deposits	$ 12,451,944	$ 11,224,788
Time deposits	1,247,608	1,265,603
	$ 13,699,552	$ 12,490,391

Custodial Credit Risk

For cash deposits or investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the Authority's investment policy, an investment of funds may be less than fully secured in the event that any one of the following occurs: the yield on the investment outweighs the risk, it involves an investment of less than $25,000, it is an investment with a duration of less than a week or it is not a customary practice that the investment be fully secured. All investments were fully secured at March 31, 2012. Total investments by type are as follows at March 31:

	2012	2011
United States Treasury obligations/Government agencies	$ 3,581,247	$ 4,683,216
Certificates of deposit	23,171,801	22,389,391
	$ 26,753,048	$ 27,072,607

Custodial Credit Risk - Deposits

At March 31, 2012, the carrying amount of the Authority's cash and cash equivalents was $13,699,552 and was exposed to custodial credit risk as follows:

	Bank Balance	Carrying Amount
Cash and cash equivalents	$ 18,976,956	$ 13,699,552
Covered by FDIC insurance	$ 750,000	
Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name	19,851,466	
	$ 20,601,466	

6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits (Continued)

Collateral is required for time deposits and certificates of deposit at 102 percent of all deposits not covered by the federal deposit 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 towns.

7. RESTRICTED ASSETS

Restricted assets are held for the following purposes at March 31:

	2012	2011
Landfill closure and post-closure care	$ 13,230,127	$ 12,905,958
Community rental housing program	3,283,462	169,735
Affordable housing program	5,190,454	6,527,199
Army water and wastewater line	3,174,170	3,092,985
Regional waterline operating and debt service reserves	280,413	220,621
Liner and replacement at solid waste management facility	13,874,057	19,182,748
Telecommunications network	5,295,741	5,214,207
	$ 44,328,424	$ 47,313,453

For restricted assets, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the Authority's investment policy, an investment of funds may be less than fully secured in the event that any one of the following occurs: the yield on the investment outweighs the risk, it involves an investment of less than $25,000, it is an investment with a duration of less than a week or it is not a customary practice that the investment be fully secured. All restricted assets were fully secured at March 31, 2012.

Restricted assets consisted of the following at March 31:

	2012	2011
Money market funds	$ 11,011,804	$ 8,975,706
United States Treasury obligations/Government agencies	4,974,441	5,661,212
Certificates of deposit	28,258,760	32,561,119
Accrued interest receivable	83,419	115,416
	$ 44,328,424	$ 47,313,453

8. LOANS RECEIVABLE

Loans receivable are summarized as follows at March 31:

	2012	2011
Loans receivable		
Affordable Housing Program - Commercial loans	$ 13,991,003	$ 14,449,082
Community Rental Housing Program - Commercial loans	8,873,563	7,853,083
Community Development Loan Fund - Commercial loans	2,597,549	2,463,368
Total loans receivable	$ 25,462,115	$ 24,765,533

The following tables present informative data by class of loans receivable regarding their age and interest accrual status at March 31, 2012.

	Current	30 - 59 Days	60 - 89 Days	≥ 90 Days	Total Past Due	Non-accrual	Total Loans Receivable
Affordable Housing Program	$ 13,925,803	$ -	$ -	$ 65,200	$ 65,200	$ -	$ 13,991,003
Community Rental Housing Program	8,873,563	-	-	-	-	-	8,873,563
Community Development loan fund	2,556,214	1,335	-	40,000	41,335	-	2,597,549
Total	$ 25,355,580	$ 1,335	$ -	$ 105,200	$ 106,535	$ -	$ 25,462,115

Activity in the allowance for loan losses is as follows for the years ended March 31:

	2012	2011
Balance, beginning of year	$ 202,738	$ 202,738
Loans charged off	(10,001)	-
Balance, end of year	$ 192,737	$ 202,738

The following summarizes the ending loan receivable balances individually and collectively evaluated for impairment, as well as the allowance for loan loss allocation for each at March 31, 2012.

	Ending Loan Balance			Allowance for Loan Losses		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
Commercial loans	$ 25,462,115	$ -	$25,462,115	$ 192,737	$ -	$ 192,737

There were no impaired loans at March 31, 2012 or 2011.

9. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2012 was as follows:

	Balance April 1, 2011	Additions	Transfers	Disposals	Balance March 31, 2012
Land	$ 1,598,124	$ -	$ -	$ -	$ 1,598,124
Construction-in-progress	5,811,556	12,476,137	(5,279,903)	-	13,007,790
Total non-depreciable assets	$ 7,409,680	$ 12,476,137	$ (5,279,903)	$ -	$ 14,605,914
Construction:					
Solid Waste Management Facility	$ 52,983,817	$ 9,081	$ 791,474	$ -	$ 53,784,372
Water Quality	32,835,519	-	2,500,781	-	35,336,300
Telecommunications Network	16,154,756	-	90,273	-	16,245,029
General and administrative	59,992	-	-	-	59,992
Equipment:					
Solid Waste Management Facility	5,266,246	-	579,347	-	5,845,593
Water Quality	655,990	-	39,895	-	695,885
Telecommunications Network	5,154,610	10,530	1,209,206	-	6,374,346
General and administrative	178,239	-	49,904	-	228,143
Vehicles:					
Solid Waste Management Facility	607,204	-	-	-	607,204
Water Quality	41,922	-	-	-	41,922
General and administrative	227,411	99,219	-	-	326,630
Leasehold improvements:					
Telecommunications Network	26,139	-	19,023	-	45,162
General and administrative	30,119	-	-	-	30,119
Total at cost	114,221,964	118,830	5,279,903	-	119,620,697
Less: Accumulated depreciation and amortization for:					
Construction	(57,652,581)	(4,235,336)	-	-	(61,887,917)
Equipment	(8,869,065)	(946,121)	-	-	(9,815,186)
Vehicles	(663,908)	(68,619)	-	-	(732,527)
Leasehold improvements	(52,059)	(4,194)	-	-	(56,253)
Total accumulated depreciation and amortization	(67,237,613)	(5,254,270)	-	-	(72,491,883)
Total depreciable assets - net	$ 46,984,351	$ (5,135,440)	$ 5,279,903	$ -	$ 47,128,814
Total capital assets - net	$ 54,394,031	$ 7,340,697	$ -	$ -	$ 61,734,728

9. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended March 31, 2011 was as follows:

	Balance April 1, 2010	Additions	Transfers	Disposals	Balance March 31, 2011
Land	$ 1,598,124	$ -	$ -	$ -	$ 1,598,124
Construction-in-progress	3,840,715	3,637,481	(1,666,640)	-	5,811,556
Total non-depreciable assets	$ 5,438,839	$ 3,637,481	$ (1,666,640)	$ -	$ 7,409,680
Construction:					
Solid Waste Management Facility	$ 51,898,633	$ 147,574	$ 937,610	$ -	$ 52,983,817
Water Quality	32,222,888	67,481	545,150	-	32,835,519
Telecommunications Network	15,849,698	275,894	29,164	-	16,154,756
General and administrative	-	59,992	-	-	59,992
Equipment:					
Solid Waste Management Facility	4,038,591	1,185,657	41,998	-	5,266,246
Water Quality	507,951	57,140	90,899	-	655,990
Telecommunications Network	5,104,241	28,550	21,819	-	5,154,610
General and administrative	178,239	-	-	-	178,239
Vehicles:					
Solid Waste Management Facility	607,204	-	-	-	607,204
Water Quality	41,922	-	-	-	41,922
General and administrative	21,774	205,637	-	-	227,411
Leasehold improvements:					
Telecommunications Network	26,139	-	-	-	26,139
General and administrative	30,119	-	-	-	30,119
Total at cost	110,527,399	2,027,925	1,666,640	-	114,221,964
Less: Accumulated depreciation and amortization for:					
Construction	(53,089,896)	(4,562,685)	-	-	(57,652,581)
Equipment	(8,197,109)	(671,956)	-	-	(8,869,065)
Vehicles	(609,742)	(54,166)	-	-	(663,908)
Leasehold improvements	(47,578)	(4,481)	-	-	(52,059)
Total accumulated depreciation and amortization	(61,944,325)	(5,293,288)	-	-	(67,237,613)
Total depreciable assets - net	$ 48,583,074	$ (3,265,363)	$ 1,666,640-	$ -	$ 46,984,351
Total capital assets - net	$ 54,021,913	$ 372,118	$ -	$ -	$ 54,394,031

Depreciation and amortization expense was $5,254,270 and $5,293,288 for the years ended March 31, 2012 and 2011, respectively.

10. FINANCING ARRANGEMENTS

Revenue Bonds

During fiscal year 1996, the Authority issued $14,950,075 of Series 1995A revenue refunding bonds and used $505,000 of unused project funds to refund a portion of the Series 1992A revenue bonds payable for the Solid Waste Management Facility. Principal and interest over the term of the retired debt totaled $24,597,989, while the principal and interest over the term of the refunding debt totals $21,444,180. The overall net effect of this transaction is a savings to the Authority of $3,153,809. The difference between the reacquisition price and the net carrying amount of the refunded bonds in the amount of $1,041,074 has been deferred and is being amortized over the term of the new bonds using the straight-line method in accordance with generally accepted accounting principles.

During fiscal year 1998, the Authority issued $11,125,000 of Series 1997 revenue refunding bonds to refund the remaining balance outstanding on the Series 1992A revenue bonds payable for the Solid Waste Management Facility. Principal and interest over the term of the retired debt totaled $19,599,563, while the principal and interest over the term of the refunding debt totals $17,574,563. The overall net effect of this transaction is a savings to the Authority of $2,025,000. The difference between the reacquisition price and the net carrying amount of the refunded bonds in the amount of $805,766 has been deferred and is being amortized over the term of the new bonds using the straight-line method in accordance with generally accepted accounting principles.

During fiscal year 2005, the New York State Environmental Facilities Corporation refunded the remaining $13,330,000 of the Authority's Series 1995A bonds with Series 2005D revenue refunding bonds. Principal and interest over the term of the retired debt totaled $16,193,252, while the principal and interest over the term of the refunding debt totals $15,542,333. The overall net effect of this transaction is a savings to the Authority of $650,919. There was no difference between the reacquisition price and the net carrying amount of the refunded bonds, and these bonds will be retired according to the Series 1995A maturity schedule.

During fiscal year 2011, the New York State Environmental Facilities Corporation refunded the remaining $3,185,000 of the Authority's Series 1998 bonds with Series 2010C revenue refunding bonds. Principal and interest over the term of the retired debt was $8,260,111, while the principal and interest over the term of the refunding debt totals $7,982,817. The overall net effect of this transaction is a savings to the Authority of $277,294. There was no difference between the reacquisition price and the net carrying amount of the refunding bonds, and these bonds will be retired according to the Series 1998 maturity schedule.

Long-term debt revenue bond activity for the year ended March 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Series 1997 revenue refunding bonds maturing in annual amounts ranging from $730,000 to $950,000 from 2012 to 2016 bearing interest at 6.00%.	$ 4,175,000	$ -	$ (730,000)	$ (775,000)	$ 2,670,000
Series 1995A / 2005D revenue refunding bonds maturing in annual amounts ranging from $1,355,000 to $1,520,000 from 2012 to 2016 bearing interest ranging from 3.60% to 4.67%.	7,230,000	-	(1,355,000)	(1,410,000)	4,465,000

10. FINANCING ARRANGEMENTS (Continued)

Revenue Bonds (Continued)

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Series 1998 / 2010C revenue refunding bonds maturing in annual amounts ranging from $300,411 to $395,000 from 2012 to 2020 bearing interest ranging from 1.24% to 3.38%.	3,075,411	-	(300,411)	(310,000)	2,465,000
Add: Unamortized bond premium	145,248	-	(21,733)	-	123,515
Add: Deferred loss on refunding	(341,544)	165,249	-	-	(176,295)
Long-term revenue bond liabilities	$ 14,284,115	$ 165,249	$ (2,407,144)	$ (2,495,000)	$ 9,547,220

Long-term debt revenue bond activity for the year ended March 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Series 1997 revenue refunding bonds maturing in annual amounts ranging from $730,000 to $950,000 from 2012 to 2016 bearing interest at 6.00%.	$ 4,865,000	$ -	$ (690,000)	$ (730,000)	$ 3,445,000
Series 1995A / 2005D revenue refunding bonds maturing in annual amounts ranging from $1,355,000 to $1,520,000 from 2012 to 2016 bearing interest ranging from 3.60% to 4.67%.	8,540,000	-	(1,310,000)	(1,355,000)	5,875,000
Series 1998 / 2010C revenue refunding bonds maturing in annual amounts ranging from $300,411 to $395,000 from 2012 to 2020 bearing interest ranging from 1.24% to 3.38%.	3,480,000	-	(404,590)	(300,411)	2,774,999
Add: Unamortized bond premium	166,981	-	(21,733)	-	145,248
Add: Deferred loss on refunding	(496,095)	154,551	-	-	(341,544)
Long-term revenue bond liabilities	$ 16,555,886	$ 154,551	$ (2,426,323)	$ (2,385,411)	$ 11,898,703

Loans and Contract Payable

In 2007, the Authority entered into a loan payable with Key Bank for $3,250,000 with interest at 65% of the adjusted LIBOR rate, which is defined as LIBOR plus 1.15%. In order to reduce the impact of changes in interest rates on this loan the Authority entered into an interest rate swap contract (the Swap). The Swap qualifies as a cash flow hedge under generally accepted accounting principles. As such, the Authority has assumed no ineffectiveness in the Swap due to the fact that, among other things, the notional amount of the Swap matches the principal amount of the related debt, the variable rate that the Authority receives under the Swap matches the variable rate of the related debt and the maturity date of the Swap matches the maturity date of the related debt. The fair value of the Swap is recorded as a liability in the accompanying Statement of Net Assets. The changes in the fair value of the Swap are accounted for as nonoperating gains or losses on interest rate swap contract in the accompanying Statement of Revenue, Expenses and Change in Net Assets.

10. FINANCING ARRANGEMENTS (Continued)

Loans and Contract Payable (Continued)

The notional amount of the Swap was $1,682,018 and $2,024,123 at March 31, 2012 and 2011, respectively. The change in the fair value of the Swap was an unrealized gain of $12,782 and $22,739 in 2012 and 2011, respectively, and is recorded as a increase in net assets in the accompanying Statement of Revenue, Expenses and Change in Net Assets. The gains and losses will never be realized as long as the underlying payments are made in accordance with the terms of the existing debt agreement and the swap contract remains in place until maturity.

Loans and contract payable activity for the year ended March 31, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Unsecured loan payable to the State of New York in annual payments of $50,000 through March 2040. This loan does not bear interest.	$ 1,414,000	$ -	$ (50,000)	$ (50,000)	$ 1,314,000
Contract payable in annual payments of $33,482, including interest at 5% through December 2012. This contract is secured by land that the solid waste management facility is located on.	62,257	-	(30,368)	(31,889)	-
Loan payable to Key Bank requiring monthly payments of principal at $28,509 and interest at 65% of the adjusted LIBOR rate, which is defined as LIBOR plus 1.15% (2.03% at March 31, 2012) are required through February 2017. The revenues derived from the Authority's wastewater line secure this loan.	2,024,123	-	(342,105)	(342,105)	1,339,913
Loan payable to the U.S. Department of Agriculture Rural Development in annual payments of $91,104, including interest at 4.50% through April 2036. The Authority's regional waterline assets secure this loan.	1,350,428	-	(30,336)	(31,700)	1,288,392
Loan payable to M&T Bank in monthly payments of principal at $45,833 and interest at 65% of the prime rate (2.11% at March 31, 2012) through March 2015. The Authority's telecommunications network assets secure this loan.	2,200,000	-	(550,000)	(550,000)	1,100,000
Unsecured note payable in monthly payments of $14,065, including interest at 4% through October 2015.	694,045	-	(143,638)	(149,490)	400,917
Note payable to NYS Housing Trust Fund. Principal is due in full on December 31, 2038 and is only payable upon loan repayment from ultimate loan recipient. This note does not bear interest. Funds were used to make an economic development loan.	600,000	-	-	-	600,000

10. FINANCING ARRANGEMENTS (Continued)

Loans and Contract Payable (Continued)

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Term loan payable to Key Bank requiring monthly payments of principal at $43,940 and interest at 2.11% through March 2016. Revenues derived from certain utilities service contracts secure this loan.	2,500,000	-	(478,993)	(489,317)	1,531,690
Loans and contract payable	$ 10,844,853	$ -	$ (1,625,440)	$ (1,644,501)	$ 7,574,912

Loans and contract payable activity for the year ended March 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Unsecured loan payable to the State of New York in annual payments of $50,000 through March 2040. This loan does not bear interest.	$ 1,464,000	$ -	$ (50,000)	$ (50,000)	$ 1,364,000
Contract payable in annual payments of $33,482, including interest at 5% through December 2012. This contract is secured by land that the solid waste management facility is located on.	91,182	-	(28,924)	(30,370)	31,888
Loan payable to Key Bank requiring monthly payments of principal at $28,509 and interest at 65% of the adjusted LIBOR rate, which is defined as LIBOR plus 1.15% (2.03% at March 31, 2012) are required through February 2017. The revenues derived from the Authority's wastewater line secure this loan.	2,366,229	-	(342,106)	(342,105)	1,682,018
Loan payable to the U.S. Department of Agriculture Rural Development in annual payments of $91,104, including interest at 4.50% through April 2036. The Authority's regional waterline assets secure this loan.	1,379,457	-	(29,029)	(30,335)	1,320,093
Loan payable to M&T Bank in monthly payments of principal at $45,833 and interest at 65% of the prime rate (2.11% at March 31, 2012) through March 2015. The Authority's telecommunications network assets secure this loan.	2,750,000	-	(550,000)	(550,000)	1,650,000
Unsecured note payable in monthly payments of $14,065, including interest at 4% through October 2015.	832,060	-	(138,015)	(143,638)	550,407

10. FINANCING ARRANGEMENTS (Continued)

Loans and Contract Payable (Continued)

	Beginning Balance	Increases	Decreases	Due Within One Year	Ending Balance
Note payable to NYS Housing Trust Fund. Principal is due in full on December 31, 2038 and is only payable upon loan repayment from ultimate loan recipient. This note does not bear interest. Funds were used to make an economic development loan.	600,000	-	-	-	600,000
Term loan payable to Key Bank requiring monthly payments of principal at $43,940 and interest at 2.11% through March 2016. Revenues derived from certain utilities service contracts secure this loan.	-	2,500,000	-	(478,993)	2,021,007
Loans and contract payable	$ 9,482,928	$ 2,500,000	$ (1,138,074)	$ (1,625,441)	$ 9,219,413

The future minimum payments for the Authority's financing arrangements are as follows as of March 31, 2012:

	Principal	Interest	Total
2013	$ 4,139,500	$ 705,235	$ 4,844,735
2014	4,240,553	543,922	4,784,475
2015	4,399,030	374,618	4,773,648
2016	3,798,256	198,729	3,996,985
2017	751,401	104,852	856,253
2018 – 2022	1,591,114	313,252	1,904,366
2023 – 2027	519,316	186,204	705,520
2028 – 2032	585,618	119,902	705,520
2033 – 2037	575,625	37,345	612,970
2038 – 2041	714,000	-	714,000
	$ 21,314,413	$ 2,584,059	$ 23,898,472

Covenants

As part of the Authority's loan agreement with Key Bank it must maintain a minimum debt service coverage ratio of 1.0 to 1.0 for all revenue derived from the wastewater line activities. The Authority was in compliance with this covenant at March 31, 2012 and 2011. As part of the Authority's loan agreement with M&T Bank it must maintain a minimum debt service coverage ratio of 1.0 to 1.0 for all revenue derived from telecommunications activities. The Authority was in compliance with this covenant at March 31, 2012 and 2011.

Interest Paid

Interest paid on all financing arrangements during 2012 and 2011 was $797,135 and $867,237, respectively.

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Authority modified its lease with the New York State Office of General Services, which is effective November 1, 2012. The modification provides for increased office space and extends the term of the lease until March 31, 2015. Under the terms of the modified lease, quarterly payments of $22,646 are required through March 31, 2015. Amounts due under this commitment are as follows for the years ending March 31:

2013	$ 90,584
2014	90,584
2015	90,584
	$ 271,752

Total rental expense charged to operations amounted to $82,301 and $76,445 during the years ended March 31, 2012 and 2011, respectively.

Contingencies

The Authority is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have a material adverse effect on the financial condition of the Authority.

Several years ago, the Authority installed a voluntary flare system at the Solid Waste Management Facility, which burns off methane gas. This flare system has created carbon credits that may be sold on a public market. Revenue from the sale of these credits is recorded when the credits are sold. In 2012 and 2011, the Authority recognized income from the sale of carbon credits of approximately $435,000 and $716,000, respectively. Carbon credit revenue is recorded in other revenue in the accompanying financial statements. 2012 was the final year for the sale of these credits.

12. LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws and regulations require the Authority to place a final cover on its Solid Waste Management Facility landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Closure costs are incurred in phases as needed and post-closure care costs will be paid near or after the date that the landfill stops accepting waste. The Authority reports a portion of these closure and post-closure care costs as a liability in each period based on landfill capacity used as of the balance sheet date. The $13,508,998 reported as landfill closure and post-closure care liability at March 31, 2012 represents the cumulative amount reported to date based on the use of 62% of the estimated capacity of the landfill. The Authority will recognize the remaining estimated cost of closure and post-closure care of approximately $8,280,000 as the remaining estimated capacity is filled. These amounts are based on what it is estimated it would cost to perform all closure and post-closure care through 2055. The Authority expects to close the currently permitted landfill in 2025. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The Authority is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The Authority is in compliance with these requirements, and, at March 31, 2012, investments of $13,230,127 are held for these purposes. These investments are reported as restricted assets on the balance sheet. The Authority expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

13. SOLID WASTE MANAGEMENT FACILITY

Liner Expansion and Replacement

The Authority charges various tipping fees depending on the type of waste accepted at the Solid Waste Management Facility (the Facility). Included in the tipping fee are charges per ton for liner expansion and replacement of the Facility's equipment. The Authority considers the funds collected from these fees as restricted net assets as the facility needs to expand the liner and replace capital assets in order to meet the future revenue bonds debt service payments. In 2012 and 2011, tipping fees of approximately $487,500 and $594,000, respectively were set aside for liner expansion and replacement. These charges have been recorded as revenue in the accompanying Statement of Revenue, Expenses and Changes in Net Assets and as a restricted net asset in the accompanying Statement of Net Assets. As funds are expended for their specific purpose they are reclassified to capital net assets.

Interest Income

The Authority has set aside funds in order to meet the future financial obligations of the Facility including closure and post-closure costs, liner expansion and replacement and debt repayments. Interest earned on these funds is recorded as revenue in the accompanying Statement of Revenue, Expenses and Changes in Net Assets and amounted to approximately $613,700 and $686,200 in 2012 and 2011, respectively.

14. PENSION PLAN

New York State and Local Employees' Retirement System Plan Description

Generally all of the Authority's employees (excluding part-time employees) participate in the New York State and Local Employees' Retirement System (the System). The System is a cost-sharing multiple-employer retirement system. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith Office Building, Albany, New York, 12244.

Total projected payroll for the Authority's employees covered by the System for the plan fiscal year ended March 31, 2012 was approximately $3,295,675.

Funding Policy

Employee contributions to the System are based on the date in which the employee became a member. 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 two preceding years were:

2012	2011	2010
$ 505,000	$ 337,000	$ 209,000

The Authority paid 100% of the required contributions for the years ended March 31, 2012 and 2011.

14. PENSION PLAN (Continued)

Funding Policy (Continued)

Effective May 14, 2003, the System requires a minimum employer contribution of 4.5% annually of the System's fund value at April 1 of the previous fiscal year. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ended March 31, 2012 (which otherwise were to have been paid on December 15, 2005) over a 5-year period, with an 7.00% interest factor added. Local governments were given the option to prepay this liability. The Authority elected to make the full payment.

15. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Authority provides for postretirement medical benefits to retiring employees after 15 years of service. Employees hired on or after April 1, 2008 will be required to complete 20 years of service. When a retiree reaches age 65, Medicare will provide primary coverage, except as otherwise provided by law. The Plan can be amended by action of the Authority and its Board of Directors. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The Plan has 52 participants, four of whom are retired.

Funding Policy

As of the date of these financial statements, New York State did not yet have legislation that would enable government entities to establish a Governmental Accounting Standards Board (GASB) qualifying trust for the purpose of funding OPEB benefits. For this reason the Authority has not funded its OPEB benefits. However, the Authority did, by Board resolution, establish a designated money market fund for this purpose. As of March 31, 2012, this account had a market value of $2,008,499. Pending such legislation, the Authority intends to transfer these funds into a qualifying OPEB reserve fund.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year plus the amortization of the unfunded actuarial accrued liability 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 the changes in the Authority's net OPEB obligation:

Annual required contribution	$ 359,769
Interest on net OPEB obligation	29,591
Adjustment to ARC	-
Annual OPEB cost	389,360
Contributions made	(35,357)
Increase in net OPEB obligation	354,003
Net OPEB obligation - beginning of year	1,255,452
Net OPEB obligation - end of year	$ 1,609,455

Percentage of Annual OPEB Cost
Contributed 5.0%

15. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress

The projection of future benefits 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.

Actuarial Accrued Liability (AAL) at March 31, 2010	$ 2,393,349
Covered payroll	$ 2,609,714
Ratio of unfunded AAL to covered payroll	91.7%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial 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.

In the March 31, 2010 actuarial valuation, the following methods and assumptions were used:

Actuarial Cost Method	Entry Age Actuarial Accrued Liability Cost Method
Discount Rate	5.0%
Medical Care Cost Trend Rate	5.0% blended rate
Unfunded Actuarial Accrued Liability (AAL)	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

Schedule of Funding Progress

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the AAL.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
March 31, 2010	$ -	$ 2,393,349	$ 2,393,349	0.0%	$ 2,609,714	91.7%

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SUPPLEMENTAL SCHEDULE OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS BY DEPARTMENT
FOR THE YEAR ENDED MARCH 31, 2012

	General and Administration	Solid Waste Management Facility	Water and Waste Water Operations	Telecommunications Network	Housing and Economic Development	Total
OPERATING REVENUE:						
Customer billings	$ 93,475	$ 8,545,328	$ 5,279,767	$ 5,832,358	$ 4,945	$ 19,755,873
Grant revenue	37,248	-	-	3,162,807	1,040,465	4,240,520
Loan interest income	-	-	-	-	572,032	572,032
Other income	57,753	1,018,313	612	16,240	40,732	1,133,650
Total operating revenues	188,476	9,563,641	5,280,379	9,011,405	1,658,174	25,702,075
OPERATING EXPENSES:						
Depreciation and amortization	68,957	3,098,588	715,134	1,401,155	-	5,283,834
Salaries	103,581	1,298,746	1,146,027	962,647	183,330	3,694,331
Fringe benefits	90,675	715,133	551,446	325,285	86,884	1,769,423
Operation and maintenance	3,577	938,841	216,308	540,941	20,000	1,719,667
Wastewater treatment	-	169,885	597,450	-	-	767,335
Community benefits	-	750,329	-	-	-	750,329
Water purchases	-	-	707,687	-	-	707,687
Closure and post-closure costs	-	689,809	-	-	-	689,809
Office and administrative	133,768	150,871	78,121	97,071	8,492	468,323
Insurance	10,575	105,081	39,417	45,465	-	200,538
Utilities	-	63,927	123,411	-	-	187,338
Professional fees	56,538	76,314	4,116	27,311	15,670	179,949
Automobile	1,251	2,814	128,244	44,492	-	176,801
Materials and supplies	-	147,193	-	-	-	147,193
NYS administrative assessment	-	46,921	31,664	33,855	-	112,440
Repairs and maintenance	-	18,517	91,781	-	-	110,298
Computer	35,460	23,872	24,556	13,668	-	97,556
Administrative allocation	(273,070)	75,025	56,788	71,867	69,390	-
Total operating expenses	231,312	8,371,866	4,512,150	3,563,757	383,766	17,062,851
Total operating income	(42,836)	1,191,775	768,229	5,447,648	1,274,408	8,639,224
NON-OPERATING REVENUE (EXPENSE):						
Interest income	166,635	1,036,040	75,701	87,737	44,532	1,410,645
Amortization of refunding loss	-	(165,249)	-	-	-	(165,249)
Gain on swap contract	-	-	12,782	-	-	12,782
Interest expense	-	(507,483)	(208,829)	(41,854)	-	(758,166)
Total non-operating revenue and expense	166,635	363,308	(120,346)	45,883	44,532	500,012
CHANGE IN NET ASSETS	$ 123,799	$ 1,555,083	$ 647,883	$ 5,493,531	$ 1,318,940	$ 9,139,236

The accompanying notes are an integral part of these schedules.

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2012

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Passed through Jefferson County:		
Home Investment Partnerships Program	14.239	$ 744,805
U.S. DEPARTMENT OF COMMERCE:		
Passed through ION NewCorp:		
Broadband Technology Opportunity Program	11.557	3,162,807
U.S. DEPARTMENT OF DEFENSE:		
Community Economic Adjustment Planning Assistance	12.607	40,465
Total federal expenditures		$ 3,948,077

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

General
The schedule of expenditures of federal awards presents the activity of all federal award programs of Development Authority of the North Country. The schedule includes expenditures of federal programs received directly from federal agencies, as well as federal assistance passed through other organizations.

Basis of Accounting
The accompanying schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The accompanying notes are an integral part of these schedules.

Bonadio & Co., LLP
Certified Public Accountants

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

June 21, 2012

To the Board of Directors of the
Development Authority of the North Country:

We have audited the financial statements of Development Authority of the North Country (the Authority) as of and for the year ended March 31, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States 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.

115 Solar Street, Suite 100
Syracuse, New York 13204
p (315) 214-7575
f (315) 471-2128

ROCHESTER • BUFFALO
ALBANY • SYRACUSE • NYC
GENEVA • PERRY

www.bonadio.com

(Continued)

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

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 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 the Board of Directors, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

June 21, 2012

To the Board of Directors of the
Development Authority of the North Country:

Compliance

We have audited Development Authority of the North Country's (the Authority), compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended March 31, 2012. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012.

115 Solar Street, Suite 100
Syracuse, New York 13204
p (315) 214-7575
f (315) 471-2128

ROCHESTER • BUFFALO
ALBANY • SYRACUSE • NYC
GENEVA • PERRY

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

DEVELOPMENT AUTHORITY OF THE NORTH COUNTRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2012

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Development Authority of the North Country (the Authority).

2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.

3. No instances of noncompliance material to the financial statements of the Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The independent auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.

6. There are no audit findings relative to the major federal award programs for the Authority.

7. The program tested as a major program was as follows:

    - Broadband Technology Opportunity Program, CFDA #11.557

8. The threshold for distinguishing Types A and B programs was $300,000.

9. The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. SUMMARY OF PRIOR YEAR FINDINGS

None