

**ALLEGANY COUNTY
INDUSTRIAL DEVELOPMENT AGENCY**

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010**

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Allegany County Industrial Development Agency
Belmont, New York

We have audited the accompanying financial statements of the **Allegany County Industrial Development Agency**, a component unit of Allegany County, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the **Allegany County Industrial Development Agency** as of December 31, 2011 and 2010, 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 14, 2012, on our consideration of **Allegany County Industrial Development Agency's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 2 through 5 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 limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding 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 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 **Allegany County Industrial Development Agency**. The Schedule of Tax-Exempt Bonds and Sale-Leaseback Transactions are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Tax-Exempt Bonds and Sale-Leaseback Transactions are the responsibility of management and were derived from and relate 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

Olean, New York
June 14, 2012

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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I. Discussion and Analysis

The following is a discussion and analysis of the *Allegany County Industrial Development Agency* financial performance for the year ended December 31, 2011. This section is a summary of the Agency's financial activities based on currently known facts, decisions, or conditions. It is based on the financial statements. The results of the current year in comparison with the prior year are discussed in the following paragraphs. This section is only an introduction and should be read in conjunction with the Agency's financial statements, which follow this section.

II. Financial Highlights

The following items are the financial highlights experienced by the *Allegany County Industrial Development Agency* during the year ended December 31, 2011:

- Overall fund equity of the Agency decreased approximately \$17,000 and \$13,000 during the years ended December 31, 2011 and 2010, respectively.
- The Agency's total revenue and other sources were approximately \$249,000 during 2011 as compared with approximately \$218,000 during 2010. This increase is primarily the result of an increase in rental income relating to a full year of rental activity with the Allegany County Office of the Aging in 2011 as compared to a partial year in 2010.
- The Agency's total expenses and other uses were approximately \$266,000 during 2011 as compared to approximately \$231,000 during 2010. This increase was primarily the result of an increase in interest expense, depreciation, gas and oil expense, and other utilities.
- The Agency had capital purchases during the current year in the amount of \$14,784 which was primarily related to the new water system installed in the IDA and OFA building, as well as driveway paving.

III. Overview of the Financial Statements

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information.

A. *Reporting the Agency as a Whole (Government-wide Financial Statements):*

The government-wide statements report information about the entity as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

1. Statement of Net Assets

The Statement of Net Assets (page 6) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled) of the Agency. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are designated for certain purposes or reserved for emergencies and cash flow purposes. Some assets are available to fund budgets of the following year.

2. Statement of Activities

The Statement of Activities (page 7) shows the amounts of program-specific and general Agency revenue used to support the Agency's various functions.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – is one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the Agency's overall health, you need to consider additional non-financial factors.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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IV. Financial Analysis of the Agency as a Whole

Fund Equity

The Agency's total net assets were at a deficit of approximately \$87,000 as of December 31, 2011.

Revenue

The Agency's total revenue and other sources were approximately \$249,000 during the year ended December 31, 2011. The Agency also received \$468,245 of pass-through revenue during the year ended December 31, 2011. The Agency acts as an intermediary for these funds, and appropriately recognizes each pass-through amount as an expenditure upon distribution.

Figure A-3 presents the major sources of revenue of the Agency. The most significant sources of governmental revenue in the Agency are more thoroughly discussed as follows:

- Rental revenue which represents approximately 69% of the Agency's total revenue increased approximately \$45,000 or 35% during the year ended December 31, 2011. This increase resulted from a full year of rental payments from the Allegany County Office of the Aging in 2011 compared with a partial year in 2010.
- Revenue from application fees decreased approximately \$20,000 during the current fiscal year. The decrease is related to the organization not providing assistance in the issuance of tax exempt industrial development bonds during the current year.
- During the current year, the Agency had in-kind donations of \$48,000 which related to estimated time spent for the Agency by employees of Allegany County.

**IV. Financial Analysis of the Agency as a Whole
(continued)**

Expenses

The total cost of all programs and services of the Agency was approximately \$266,000. The Agency's expenses consist primarily of occupancy expenses, in-kind expenditures, depreciation, interest expense, professional fees and general and administrative expenses.

The Agency's expenses are more thoroughly discussed as follows:

- The Agency's total costs were approximately \$266,000 during the year ended December 31, 2011 as compared with \$231,000 during the year ended December 31, 2010. This increase was the result of an increase in interest expense, depreciation, gas and oil costs, and other utilities.
- The Agency's occupancy costs were approximately \$57,000 during the year ended December 31, 2011 as compared with \$48,000 during the year ended December 31, 2010. This increase in costs was primarily related to an increase in equipment maintenance costs and an increase in oil and gas fees relating to the new building.
- The Agency's salaries and benefits were all in-kind services provided by employees of Allegany County and totaled approximately \$48,000 and \$45,000 for the years ended December 31, 2011 and 2010, respectively.
- All other costs of the Agency totaled \$161,000 in 2011 as compared with \$138,000 in 2010. This is primarily the result of an increase in depreciation and in interest expense.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Figure A-1 – Statement of Net Assets

<i>Allegany County Industrial Development Agency</i> Statement of Net Assets			
	Total Government-wide		
	2011	2010	% Change
Assets			
Current and other assets	\$ 38,241	\$ 55,752	-31%
Capital assets, net	1,203,597	1,232,188	-2%
Total assets	\$ 1,241,838	\$ 1,287,940	-4%
Liabilities			
Current liabilities	\$ 214,577	\$ 195,028	10%
Long-term liabilities	1,114,063	1,162,405	-4%
Total liabilities	1,328,640	1,357,433	-2%
Net assets			
Unrestricted accumulated deficit	(86,802)	(69,493)	25%
Total liabilities and net assets	\$ 1,241,838	\$ 1,287,940	-4%

Figure A-3 Sources of Revenue

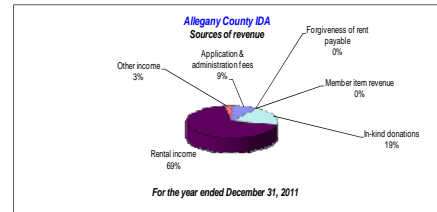


Figure A-4 - Expenses

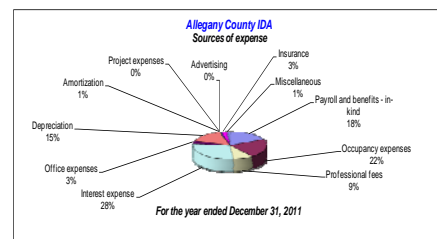


Figure A-2 Statement of Activities

<i>Allegany County Industrial Development Agency</i> Statement of Activities (in thousands of Dollars)			
	Total Government-wide		
	2011	2010	% Change
Revenue			
Application & administration fees	\$ 22,500	\$ 40,500	-44%
In-kind donations	47,750	45,480	5%
Rental income	171,666	127,336	35%
Other income	6,683	5,149	30%
Total revenue	248,599	218,465	14%
Expenses			
Payroll and benefits - in-kind	47,750	45,480	5%
Occupancy expenses	56,797	48,254	18%
Professional fees	23,145	28,497	-19%
Interest expense	74,478	59,468	25%
Office expenses	8,457	9,467	-11%
Depreciation	43,375	29,637	46%
Amortization	1,250	--	100%
Advertising	483	1,630	-70%
Insurance	6,657	5,568	20%
Miscellaneous	3,516	3,065	15%
	265,908	231,066	15%
Change in net assets	(17,309)	(12,601)	
Pass-through transactions			
Revenue	468,245	450,236	4%
Expenditures	(468,245)	(450,236)	4%
Net pass-through transactions	--	--	--
Change in net assets	\$ (17,309)	\$ (12,601)	

VI. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-5, as of December 31, 2011, the Agency had invested approximately \$1,204,000 in a broad range of capital assets, including improvements, vehicles and furniture and equipment. Capital additions during the year ended December 31, 2011, totaled approximately \$14,800 which consisted primarily of the installation of the water line at the IDA and Office of the Aging buildings.

Long-term Debt

As depicted in Figure A-6, as of December 31, 2011, the Agency had approximately \$1,163,000 in notes payable, a decrease of approximately 3% as compared with the previous year. This decrease was primarily related to scheduled payments on the IDA's mortgage.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

VI. Capital Asset and Debt Administration

Figure A-5 – Capital Assets

<i>Allegany County Industrial Development Agency</i>			
Capital Assets			
	2011	2010	Change
Land	\$ 16,704	\$ 16,704	0%
Building and improvements	1,280,886	1,266,102	1%
Equipment	17,659	17,659	0%
Vehicle	13,999	13,999	0%
Accumulated depreciation	(125,651)	(82,276)	53%
Capital Assets - net	\$ 1,203,597	\$ 1,232,188	-2%

Figure A-6 – Long-term Debt

<i>County of Allegany Industrial Development Agency</i>			
Long-term debt			
	2011	2010	Change
Notes payable - long-term	\$ 8,753	\$ 14,045	-38%
Notes payable - vehicle	4,140	6,510	-36%
Mortgage payable - crossroads	741,802	762,000	-3%
Mortgage payable - building	408,318	421,730	-3%
Long-term debt	\$ 1,163,013	\$ 1,204,285	-3%

VII. Factors Bearing on the Agency's Future

At the time these financial statements were prepared and audited, the Agency was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Development of Exit 30 on Interstate 86 at New York State Route 19. A 30 acre project for warehouse/distribution and hospitality/lodging that is projected to have \$25 million in investment and create several hundred new jobs which could generate substantial revenue streams.
- Proposed development on County Route 20 should yield at least two projects, possibly more within the next eighteen months. IDA assistance is planned for each project.

VIII. Contacting the Agency's Financial Management

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the Agency and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Attention: Mr. John Foels, Executive Director
Allegany County Industrial Development Agency
6087 State Route 19N
Belmont, New York 14813

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS

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<i>As of December 31,</i>	2011	2010
Assets		
Current		
Cash	\$ 25,750	\$ 42,596
Accounts receivable	600	--
Total current assets	<u>26,350</u>	<u>42,596</u>
Property and equipment, net	<u>1,203,597</u>	<u>1,232,188</u>
Other assets		
Restricted cash - building reserve	339	354
Security deposits	222	222
Loan issuance fees, net of amortization	11,330	12,580
Total other assets	<u>11,891</u>	<u>13,156</u>
Total assets	<u>\$ 1,241,838</u>	<u>\$ 1,287,940</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and retainage payable	\$ 43,067	\$ 32,661
Line of credit	49,981	50,000
Deferred revenue/advances	--	700
Due to Allegany County - PILOT reimbursement	72,579	69,787
Mortgages payable - current portion	41,129	34,604
Notes payable - current portion	7,821	7,276
Total current liabilities	<u>214,577</u>	<u>195,028</u>
Long-term liabilities		
Mortgages payable - long-term portion	1,108,991	1,149,126
Notes payable - long-term portion	5,072	13,279
Total long-term liabilities	<u>1,114,063</u>	<u>1,162,405</u>
Total liabilities	<u>1,328,640</u>	<u>1,357,433</u>
Net assets		
Accumulated deficit	(86,802)	(69,493)
Total accumulated deficit	<u>(86,802)</u>	<u>(69,493)</u>
Total liabilities and net assets	<u>\$ 1,241,838</u>	<u>\$ 1,287,940</u>

See accompanying independent auditors' report and notes to the financial statements.

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
STATEMENTS OF ACTIVITIES

<i>For the years ended December 31,</i>	2011	2010
Support and revenue		
Fees	\$ 22,500	\$ 40,500
Rental income	171,666	127,336
In-kind donations	47,750	45,480
Other income	6,683	5,149
Total support and revenue	248,599	218,465
Expenses		
Payroll and benefits - in-kind	47,750	45,480
Occupancy expenses	56,797	48,254
Legal and professional	23,145	28,497
Interest expense	74,478	59,468
Office expenses	8,457	9,467
Depreciation	43,375	29,637
Amortization	1,250	--
Advertising	483	1,630
Insurance	6,657	5,568
Miscellaneous	3,516	3,065
Total expenses	265,908	231,066
<i>Decrease in unrestricted net assets before pass-through transactions</i>	(17,309)	(12,601)
Pass-through transactions		
Revenue	468,245	450,236
Expenditures	(468,245)	(450,236)
Net pass-through transactions	--	--
<i>Decrease in unrestricted net assets</i>	(17,309)	(12,601)
Net deficit, beginning of year	(69,493)	(56,892)
Net deficit, end of year	\$ (86,802)	\$ (69,493)

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS

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<i>For the years ended December 31,</i>	2011	2010
Net Cash from operating activities		
Reconciliation of decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Decrease in unrestricted net assets	\$ (17,309)	\$ (12,601)
Adjustments for items not affecting cash flows:		
Depreciation	43,375	29,637
Change in assets and liabilities		
Accounts receivable	(600)	--
Other assets	1,250	(4,226)
Accounts payable	10,406	(91,591)
Deferred revenue/advances	(700)	700
Due to Allegany County (PILOT Reimbursements)	2,792	69,787
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	39,214	(8,294)
Net cash from investing activities		
Decrease in restricted cash	15	--
Property improvements and equipment purchases	(14,784)	(694,289)
	<hr/>	<hr/>
Net cash used in investing activities	(14,769)	(694,289)
Net cash from financing activities		
Repayment of short-term debt	(19)	--
Proceeds from long-term debt	--	762,000
Repayment of long-term debt	(41,272)	(19,366)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	(41,291)	742,634
Change in cash	(16,846)	40,051
Cash, beginning balance	42,596	2,545
	<hr/>	<hr/>
Cash, ending balance	\$ 25,750	\$ 42,596
	<hr/> <hr/>	<hr/> <hr/>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 74,478	\$ 59,468
	<hr/> <hr/>	<hr/> <hr/>

See accompanying independent auditors' report and notes to the financial statements.

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Allegany County Industrial Development Agency was created in 1973 by the Allegany County Board of Legislators under the provisions of the 1973 Laws of New York State for the purpose of encouraging economic growth in Allegany County. The Agency is exempt from federal, state, and local income taxes. The Agency, although established by the Allegany County Board of Legislators, is a separate legal entity and operates independently of Allegany County, however, it is considered to be a component unit of the County.

Basis of Accounting

The financial statements of the *Allegany County Industrial Development Agency* have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Donated Services

Amounts have been reflected in the statements for the estimated value of donated services.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those results.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Agency considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of 7 and 40 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Lease Program

The Agency maintains tax lease and PILOT (payment in lieu of tax) programs. These programs are offered to companies who acquire, construct or substantially renovate facilities suitable for manufacturing, warehousing, research and development and other industrial purposes. Under the tax lease program, title to the property is conveyed to the Agency through the term of the lease agreement. Transfer of title removes the property from the tax rolls and the project assumes a tax-exempt nature, abating real property taxes, sales tax and mortgage taxes. A lease is written between the company as lessee and the *Allegany County Industrial Development Agency* as lessor, which specifies that the company will retain operational control of the project. At the end of the lease term, title to the assets is returned to the company. The Agency does not record assets acquired under the lease program since the Agency's primary function is to provide state and local tax benefits to the lessee. The Agency receives lease administrative fees from the lessee for providing the service.

Both the PILOT and tax lease programs are governed by New York State statute. The Agency has the local authority to offer real property tax abatement as an inducement for industrial development projects. The Agency can affix the tax abatement discount at a rate necessary to satisfactorily complete a project. Under special circumstances defined by NYS statute, the Agency has the authority to also provide real property tax abatement to both commercial and/or retail projects located within areas designated to be of high distress. The Agency's current standard PILOT program is a real property tax abatement of an average of 50% of the total tax liability over a period not to exceed ten years. The PILOT agreement is the instrument by which the discounted tax payments to be made are structured. All taxing jurisdictions receive payments in the same proportion as if the entire tax amount were paid. A PILOT agreement and tax lease can run concurrently, but are not required to be used together. It is possible to structure a PILOT without an accompanying tax lease agreement.

The Agency's PILOT program generated \$468,245 and \$450,236 for the years ended December 31, 2011 and 2010, respectively for local municipalities.

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Industrial Development Revenue Bonds and Civic Facility Bonds

Industrial development revenue bonds issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. Civic facility bonds issued by the Agency include facilities owned or operated by New York State Not-for-Profit Corporations. The industrial development revenue and civic facility bonds are not obligations of the Agency, County, or State. The Agency does not record the assets or liabilities resulting from bond issuance in its financial statements since its primary function is to arrange the financing between the borrowing companies and the bondholders and funds arising from the issuance are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administrative fees from the borrowing companies. Such administrative fee income is recognized immediately upon receipt after issuance of the bonds. The Agency received \$40,000 in administrative fees during the 2010 fiscal year relating to the refinancing of a previously existing Industrial development bond.

In July 2009, the Agency formed a non-profit organization under the name of Allegany County Capital Resource Corporation. This entity has the ability to provide such financing to non-profit organizations in the future. The Capital Resource Corporation did not have any activity during the years ended December 31, 2011 and 2010.

NOTE 2 – RESTRICTED CASH/RESERVES

As discussed in Note 6, when the Agency executed its mortgage agreement, \$50,000 was received to be utilized towards building improvements. As of December 31, 2011 and 2010, \$339 and \$354, respectively, was held in escrow as funds remaining for future improvements.

NOTE 3 - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 16,704	\$ 16,704
Building and improvements	1,280,886	1,266,102
Furniture and equipment	17,659	17,659
Vehicle	<u>13,999</u>	<u>13,999</u>
	1,329,248	1,314,464
Less: accumulated depreciation	<u>125,651</u>	<u>82,276</u>
	<u>\$ 1,203,597</u>	<u>\$ 1,232,188</u>

NOTE 3 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense for the years December 31, 2011 and 2010 totaled \$43,375 and \$29,637, respectively.

During November 2009, the Agency began an 8,179 square foot expansion of the Crossroads Commerce Center. The project was completed during the 2010 fiscal year and the Agency had incurred total costs of \$787,339 related to the project.

NOTE 4 – LINE OF CREDIT

During 2008, the Agency entered into a line of credit arrangement with Community Bank, N.A. which authorizes maximum borrowing up to \$50,000. The Agency had outstanding advances on the line as of December 31, 2011 and 2010 in the amounts of \$49,981 and \$50,000, respectively. The line is secured by all business assets of the Agency. Interest on outstanding advances is charged at prime rate plus 1.00% with a floor of 4.50%. Interest expense during the years ended December 31, 2011 and 2010 totaled \$2,286 and \$2,505 respectively. The line expired on June 30, 2011 at which time the terms were extended through June 23, 2012 at which time the line of credit was converted into a term loan.

NOTE 5 - LONG-TERM NOTES PAYABLE

During 2008, the Agency converted a \$24,091 short-term note payable into a five year-term note payable. The note carries a 7.25% interest rate and had an outstanding balance of \$8,753 and \$14,045 as of December 31, 2011 and 2010, respectively. Interest expense during the years ended December 31, 2011 and 2010 totaled \$930 and \$1,220, respectively.

On January 14, 2009, the Agency obtained a loan for the purchase of a vehicle from First Citizens National Bank in the amount of \$10,629. The loan calls for fifty-four monthly payments in the amount of \$232 including interest at 7.25% with final payment due on July 14, 2013. The outstanding balance on the loan as of December 31, 2011 and 2010 was \$4,140 and \$6,510, respectively. Interest expense paid on vehicle loans during the years ended December 31, 2011 and 2010 was \$179 and \$560, respectively.

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5 - LONG-TERM NOTE PAYABLES (CONTINUED)

Current maturities of long-term debt existing at December 31, 2011 are as follows:

<u>First Citizens Loan</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 5,255	\$ 489
2013	3,498	110
Total	<u>\$ 8,753</u>	<u>\$ 599</u>

<u>First Citizens Loan (Car)</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 2,566	\$ 215
2013	1,574	38
Total	<u>\$ 4,140</u>	<u>\$ 253</u>

NOTE 6 – MORTGAGES PAYABLE

In August, 2008, the Agency entered into a Mortgage with Community Bank, NA. The mortgage provided proceeds totaling \$450,000 for the purchase (\$400,000) of the Crossroads Commerce Center located at 6087 State Route 19 N, Belmont, New York from Willard J. Houghton Foundation and future improvements (\$50,000). The borrowings are being repaid over a term of twenty years with monthly payments of \$3,224, including interest, at a fixed interest rate of 6.00%. The interest rate will be reviewed every five years. On January 23, 2012, the mortgage was refinanced and calls for monthly payments of \$3,005 at an interest rate of 5.00%. The maturity date will remain at August 14, 2018. The unpaid principal and interest balance will be due in full at August 14, 2018 as the mortgage is based on a twenty year amortization period, with a ten year call. The final balloon payment principal and interest due on August 14, 2018 will be approximately \$297,000.

The following schedule represents the maturity of the mortgage over the term of the note:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 17,366	\$ 18,914
2013	16,908	19,153
2014	17,773	18,288
2015	18,682	17,379
2016	19,638	16,423
2017-2018	<u>317,739</u>	<u>25,113</u>
Total	<u>\$ 408,106</u>	<u>\$ 115,270</u>

NOTE 6 – MORTGAGES PAYABLE (CONTINUED)

On October 7, 2009, the Agency entered into a \$762,000 construction loan with Community Bank, N.A. The loan financed an 8,179 square foot expansion of the Agency's property located at 6085 State Route 19 N., Belmont, New York. The commercial construction loan agreement requiring interest only payments during the construction period expired on December 12, 2010 at which time the mortgage was entered into.

The Agency incurred loan fees of \$12,580 relating to the closing of the commercial mortgage loan. The costs are amortized over the life of the permanent mortgage loan. Amortization expense for the years ended December 31, 2011 and 2010 was \$1,250 and \$0, respectively.

The Agency began making principal and interest payments on the \$762,000 mortgage beginning January 5, 2011. The mortgage is being repaid over a term of ten years with monthly payments of \$5,500, including interest, at a fixed interest rate of 6.00%. The interest rate will be reviewed every five years. On January 23, 2012, the mortgage was refinanced and calls for monthly payments of \$5,035 at an interest rate of 5.00%. The unpaid principal and interest balance will be due in full at December 21, 2020 as the mortgage is based on a 20 year amortization period, with a ten year call. The final balloon payment due on December 21, 2020 will be approximately \$478,000 of principal and interest.

The following schedule represents the maturity of the mortgage over the term of the note:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 23,763	\$ 37,302
2013	25,079	35,341
2014	26,362	34,058
2015	27,710	32,710
2016	29,128	31,292
2017-2020	<u>609,972</u>	<u>111,474</u>
Total	<u>\$ 742,014</u>	<u>\$ 282,177</u>

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7 – OPERATING LEASES

The Agency leases office space to tenants under various operating leases expiring through 2014. The leases are cancelable with a stipulation that the tenant provides sixty days notice. The Allegany County lease is effective through 2013.

NOTE 8 - DONATED SERVICES

The employees of Allegany County provide administrative, accounting and other support services to the Agency. The value of donated services included in these financial statements as revenue and corresponding expenses for the years ended December 31, 2011 and 2010 totaled approximately \$47,750 and \$45,480, respectively.

NOTE 9 – PASS-THROUGH TRANSACTIONS

The Agency's responsibility regarding these transactions is to pass-through funds received to the primary recipients. Pass-through transactions are recorded as income or liabilities when received and expenses and reduction of liabilities when paid. The Agency has received and disbursed the following funds resulting from this pass-through activity during the years ended December 31, 2011 and 2010. As of December 31, 2011 and 2010, the Agency owed a balance of \$72,579 and \$69,787, respectively, to Allegany County for their share of the 2011 and 2010 PILOT receipts.

<u>Pass-through transactions</u>	<u>Receipts</u>	<u>Disbursements</u>
<u>December 31, 2011</u>		
PILOT payments collected from businesses and remitted to local governments.	\$ 468,245	\$ 468,245
<u>December 31, 2010</u>		
PILOT payments collected from businesses and remitted to local governments.	\$ 450,236	\$ 450,236

NOTE 10 – ACCUMULATED DEFICIT AND MANAGEMENT'S PLANS

As indicated in past and present audits, it has been noted that the Agency has had very modest revenues while aggressively undertaking various programs to focus the County of Allegany in a positive direction for corporate growth and quality of life.

The expansion of the Friendship Empire Zone into over ten additional communities has allowed many expanding corporate projects greater incentive packages than would be available through the IDA.

Management believes there are exceptional opportunities for deficit elimination and future financial stability well into the next decade for the following primary reasons:

1. Fiber Optic service project – The Agency is currently in discussions with a third party provider for the purpose of constructing, maintaining and operating a building for the services and operations of a wireless broadband system to serve Allegany County and other telecom services. It is estimated that the Agency will receive monthly rental payments and quarterly royalty income.
2. Administration Fees – The Agency is currently in discussions with Allegany County regarding administration fees related to the handling of the County's infrastructure bonds. The Agency anticipates being reimbursed by Allegany County for the services provided.
3. Ground lease Revenues - The Agency is currently in discussions to develop the 18.5 acres of land purchased on January 10, 2012 (see note 11). The development of this land would create a monthly flow of rental and potential royalty income.

The combination of these items, in conjunction with the expansion of existing industry and the projected growth at the Crossroads, are anticipated to provide a firm basis for future financial stability.

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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NOTE 11 – SUBSEQUENT EVENTS

Subsequent events were evaluated by Management through June 14, 2012, which is the date the financial statements were available to be issued.

On January 10, 2012, the Allegany County Industrial Development Agency purchased 18.5 acres of land located at 5884 County Road, Belmont, New York 14813 for \$286,000. The intended use of the land is for potential future site development. The funding for the purchase of the 5884 County Road property was to come from the \$3.5 million bond described in the following paragraph.

On February 1, 2012, the Allegany County Industrial Develop Agency entered into a bond purchase and disbursing agreement with Allegany County. Allegany County issued a Series 2012A bond in the amount of \$3.5 million. The bond proceeds will be utilized for the acquisition of an interest in various parcels of land along Route 20 in the towns of Friendship and Amity. The planned use of the land is for the construction of water, sewer, and other related infrastructure.

On January 23, 2012, the Agency refinanced its line of credit with a balance of \$49,981 into a term loan. This loan is to be repaid in sixty consecutive payments of \$944 including interest at 5%, beginning February 24, 2012.

SUPPLEMENTAL INFORMATION

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF TAX-EXEMPT BONDS AND SALE-LEASEBACK TRANSACTIONS

As of December 31, 2011

	Employees	Original Amount	Outstanding Principal	Date of Issuance	Date of Maturity	Interest Rate
Tax-exempt bonds						
Houghton College	300	\$ 14,685,000	\$ --	1998	2011	4.5% - 5.25%
Houghton College	300	9,995,000	--	2004	2011	Variable
Alfred University	612	23,035,000	10,615,000	1998	2028	4.25% - 5.25%
Cuba Memorial Hospital	220	3,000,000	2,475,000	2004	2014	8.00%
Atlantic Richfield	--	7,000,000	7,000,000	2003	2037	Variable
Sale-lease back transactions						
R, G & E	n/a	n/a	15,000,000	1993	2018	n/a



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

**To the President and
Members of the Board of Directors
Allegany County Industrial Development Agency
Belmont, New York**

We have audited the financial statements of *Allegany County Industrial Development Agency* as of and for the year ended December 31, 2011, which collectively comprise *Allegany County Industrial Development Agency's* basic financial statements and have issued our report thereon dated June 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Allegany County Industrial Development Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance the deficiencies, significant deficiencies and material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such as that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the Organization's internal control described in the accompanying schedule of findings and questioned costs as items II.A.2011-1, II.A.2011-2, II.A.2011-3 and II.A.2011-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Allegany County Industrial Development Agency's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item II.B.2011-5.

We noted certain matters that we have reported to management of *Allegany County Industrial Development Agency* in a separate letter dated June 14, 2012.

Allegany County Industrial Development Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *Allegany County Industrial Development Agency's* responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Board of Directors, management and 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. However, this report is a matter of public record and its distribution is not limited.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
June 14, 2012**

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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I. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of *Allegany County Industrial Development Agency*.
2. Four material weaknesses 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 "Governmental Auditing Standards".
3. There was one instance of noncompliance material to the financial statements of *Allegany County Industrial Development Agency* 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".

II. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended December 31, 2011

2011-1 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Condition and criteria: During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the Agency to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to recording assets and liabilities on the accrual basis of accounting. In addition, a draft of the financial statements was prepared by the auditors.

Effect: The American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards Number 115, entitled Communicating Internal Control Related Matters in an Audit. This standard considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency.

Auditors' Recommendations: Although auditors may continue to provide such assistance both now and in the future, under the pronouncement, the Agency should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the drafted financial statements.

Agency's Response: The Agency has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit. The Agency will continue to review and approve similar information in future years. Further, the Agency believes it has a thorough understanding of these financial statements and the ability to make informed judgments on those financial statements. Lastly, the Agency considers such assistance provided by the auditors to be the most cost effective manner to prepare such information.

Year ended December 31, 2010

A similar finding was reported in the prior year as finding 2010-1.

2011-2 Segregation of Duties

Conditions and Criteria: We noted that one individual is primarily responsible for opening the mail (cash receipts), maintaining the general ledger (including recording cash receipts and cash disbursements), depositing cash and reconciling cash. It is also our understanding that the personnel of the Agency are not currently bonded.

Effect: A fundamental element of an effective internal control system is the proper segregation of duties. Proper segregation of duties provides for a system of checks and balances and entails assigning responsibilities of authorizing and recording transactions among different people in the Agency.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

Year ended December 31, 2011 (continued)

2011-2 Segregation of Duties (continued)

Auditor's recommendation: We recommend that the Agency assign bank reconciliations to be prepared by a person independent of the individual responsible for the cash receipts and disbursements functions. After bank reconciliations are prepared, someone should be designated to then review the bank reconciliation and compare the balance to the cash accounts in the general ledger. If such division is not possible, we would suggest that the Executive Director or a member from the Board of Directors review bank reconciliations on a monthly basis. We would also recommend someone independent of the general ledger function, open all mail and maintain a daily cash receipts log. A person independent of the cash receipts function should be responsible for reconciling items recorded in this log as compared with that posted to the general ledger and deposited in the bank. This will enhance the segregation of duties in the cash receipts area.

Agency's Response: Due to the limited staff and unavailability of board members throughout the month the Agency feels that it not reasonable to have another person perform the reconciliations. The treasurer's report now includes the cash balances from the beginning and end of the period. We have also addressed the segregation of duties in the cash receipts area by dividing tasks between staff members.

Year ended December 31, 2010

A similar finding was reported in the prior year as finding 2010-2.

2011-3 Purchasing

Condition and criteria: During the audit, we noticed that the Agency currently is lacking controls over approval of purchases of goods and services. The Agency did, however, prepare an operating budget for the fiscal year ended December 31, 2011, and as a result there were some guidelines or stipulations on expenditure levels as authorized by the Board of Directors.

Effect: In the event purchases are made prior to approval, the Agency could incur expenditures that were not authorized by the Board of Directors or management. Also, expenditures may be incurred which do not coincide with Board and management's' expectations or philosophy in providing economic development to the County.

Auditors' Recommendations: An effective internal control system is necessary in the purchasing of goods and services to provide better control over expenditures. The Agency should develop an operating budget prior to the start of each fiscal year which is approved by the Board of Directors. Once approved, the Agency should continually monitor expenditures in comparison with the budget. During instances when purchases may exceed budgeted line items, management should seek Board approval to make appropriate budget transfers. Lastly, documentation should exist to substantiate that all purchases were first authorized by a member of management or the Board of Directors.

Agency's Response: The Agency has adopted a budget for the year ended December 31, 2011, which has been posted to the New York State site. Almost all our current expenses are monthly utilities. All expenses are authorized by the Board at the Agency's monthly meetings.

Year ended December 31, 2010

A similar finding was reported in the prior year as finding 2010-3.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

Year ended December 31, 2011 (continued)

2011-4 Financial Reporting

Conditions and Criteria: During the year, the Agency did not maintain a detailed general ledger or trial balance. Rather, monthly receipts and disbursements are maintained by the Agency in a checkbook and inserted manually into a monthly treasurer's report. We should mention, however, that a trial balance and general ledger were prepared by the Agency in preparation for the audit. Lastly, we noted that the Agency does not currently prepare an operating budget prior the commencement of the fiscal year.

Effect: The effect of not maintaining a detailed general ledger and trial balance is that the Agency does not have the ability to monitor total revenue and expenditures throughout the year, along with its financial position. The effect of not preparing a budget is that the Agency does not have a mechanism in place to monitor revenue and expenditures in comparison with expectations.

Auditors' Recommendation: We believe it is extremely important for the Agency to maintain a detailed general ledger and trial balance. We also recommend that budgeted information be entered into the Agency's general ledger software, so that actual revenue and expenditures can be compared against the budget on a regular basis. As part of this process, the Agency should investigate whether the general ledger software has the ability to generate a Treasurer's report electronically, which may provide efficiency gains.

Agency's Response: The Agency is currently reviewing its options with regards to financial software and will weigh the potential costs against the potential benefits of implementing.

Year ended December 31, 2010

A similar finding was reported in the prior year as finding 2010-4.

B. COMPLIANCE

Year ended December 31, 2011

2011-5 Reimbursement of Payment-In-Lieu Of Taxes (PILOT) Payments

Conditions and criteria: The Agency acts as a pass-through intermediary for a Payment in Lieu of Taxes (PILOT) arrangement established with a Corporation who holds real property located within Allegany County. The payouts were not timely in the current year. During the year, the Agency received semi-annual payments during January and June 2011 of approximately \$234,000 from the Corporation but failed to pass through these amounts to the participating municipalities in a timely manner. Approximately 180 days had lapsed from the date of the January 2011 receipt until full payment to the municipalities and approximately 220 days had lapsed from the date of the June 2011 receipt until full payment to the municipalities. As of December 31, 2011 there was an outstanding balance of \$72,579 due to Allegany County.

Effect: The Agency is utilizing funds that are required to be passed through to participating municipalities to support its operations during certain times of the year.

Auditors' Recommendation: The Agency should take steps to ensure that funds received from the PILOT agreements are immediately paid to the participating municipalities.

Agency's Response: The Agency is aware of our prior situation and is taking strides to ensure payments are made timely. The Agency anticipates larger revenues with the completion of projects which will make it easier to make these payments in the future.

Year ended December 31, 2010

A similar finding was reported in the prior year as finding 2010-5.