

TOWN OF LANCASTER
INDUSTRIAL DEVELOPMENT AGENCY

*Basic Financial Statements, Required Supplementary
Information and Supplemental Information for the
Years Ended December 31, 2011 and 2010 and
Independent Auditors' Reports*

TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Basic Financial Statements, Required Supplementary
Information and Supplemental Information
For the Years Ended December 31, 2011 and 2010

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Assets	6
Statements of Activities.....	7
Statements of Cash Flows	8
Notes to the Financial Statements	9
Supplemental Information For the Year Ended December 31, 2011:	
Schedule of Agency Investments	13
Real Property Listing.....	14
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of Town of Lancaster
Industrial Development Agency:

We have audited the accompanying basic financial statements of the Town of Lancaster Industrial Development Agency (the Agency") as of December 31, 2011 and 2010 and for the years then ended, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 financial position of the Agency as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 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 certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Schedule of Agency Investments and Real Property Listing are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was 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 basic 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 basic financial statements as a whole.

Handwritten signature of Deesch & Malin LLP in cursive script.

March 12, 2012

TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010

As management of the Town of Lancaster Industrial Development Agency (the "Agency") we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2011 and 2010. This narrative should be read in conjunction with the Agency's financial statements which follow this section.

Financial Highlights:

- The assets of the Agency exceed its liabilities at December 31, 2011 and 2010 by \$958,748 and \$815,757, respectively. These amounts are considered "unrestricted net assets" and may be used to fund the Agency's ongoing operations.
- The Agency's total net assets increased by \$142,991 and decreased by \$25,216 during the fiscal years ended December 31, 2011 and 2010, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. This report includes the independent auditors' report, management's discussion and analysis, financial statements and notes to financial statements.

Required Financial Statements – The financial statements are prepared using the accrual basis of accounting. The financial statements include:

- *Statements of Net Assets* – shows all assets, liabilities and net assets of the Agency at December 31, 2011 and 2010.
- *Statements of Activities* – shows the financial activity for the years ended December 31, 2011 and 2010 and displays how this financial activity changes the Agency's net assets.
- *Statements of Cash Flows* – shows the cash provided and used during 2011 and 2010 and how it affects the cash balance at December 31, 2011 and 2010.
- *Notes to the Financial Statements* – provide information regarding the Agency and explain in more detail information included in the financial statements.

Financial Analysis – The Agency provides administrative assistance to companies within the Town of Lancaster and has limited operations. The Agency does not have any long-term debt or full time employees. When analyzing financial condition and the impact of current year operating activities, the Agency's management believes the most important issue is whether the Agency is better off than it was in the prior year. The *statement of net assets* and the *statement of activities* can assist in determining whether the Agency is better off. The *statement of cash flows* provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing and capital financing activities of the Agency during the year. This statement helps users assess the Agency's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing. Condensed financial highlights of these statements are included on the following page.

Net Assets – Agency assets exceeded its liabilities by \$958,748, \$815,757 and \$840,973 at December 31, 2011, 2010 and 2009, respectively. Key elements of the Agency’s statements of net assets are presented in Table 1 below:

TABLE 1 – CONDENSED STATEMENT OF NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 888,748	\$ 759,067	\$ 772,798
Noncurrent assets	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>
Total assets	<u>958,748</u>	<u>829,067</u>	<u>842,798</u>
Liabilities:			
Current liabilities	<u>-</u>	<u>13,310</u>	<u>1,825</u>
Net Assets:			
Unrestricted	<u>\$ 958,748</u>	<u>\$ 815,757</u>	<u>\$ 840,973</u>

The Agency’s net assets were entirely derived as a result of operating activities and there are no restrictions as to their use.

Agency activities – Agency activities increased net assets by \$142,991 and \$90,800 for the years ended December 31, 2011 and 2009, and decreased net assets by \$25,216 for the year ended December 31, 2010. Key elements of these increases and decrease are shown in Table 2:

TABLE 2 – REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 229,250	\$ 79,765	\$ 275,687
Operating expenses	<u>89,511</u>	<u>108,713</u>	<u>195,191</u>
Net operating income (loss)	139,739	(28,948)	80,496
Nonoperating revenues	<u>3,252</u>	<u>3,732</u>	<u>10,304</u>
Increase (decrease) in net assets	142,991	(25,216)	90,800
Net assets - beginning	<u>815,757</u>	<u>840,973</u>	<u>750,173</u>
Net assets - ending	<u>\$ 958,748</u>	<u>\$ 815,757</u>	<u>\$ 840,973</u>

Operating revenues are administrative and application fees derived from transactions that assist businesses within the Town of Lancaster. This assistance can take the form of lease transactions, assistance with bond issuance or sales tax and mortgage tax exemptions (which generally allow businesses to expand). During 2011, the Agency assisted with several such transactions.

Operating expenses consist of the cost of administration and consultants, who assist in locating, communicating and matching business needs to Agency programs of assistance.

Cash flows – Agency cash and cash equivalents increased by \$131,381 and \$140,793 for the years ended December 31, 2011 and 2009, whereas cash and cash equivalents decreased by \$15,431 for the year ended December 31, 2010. Key elements of these changes are presented in Table 3:

TABLE 3 – CASH FLOWS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash flows from:			
Operating activities	\$ 128,129	\$ (19,163)	\$ 130,489
Investing activities	<u>3,252</u>	<u>3,732</u>	<u>10,304</u>
Net increase (decrease)	131,381	(15,431)	140,793
Cash and cash equivalents - beginning	<u>757,367</u>	<u>772,798</u>	<u>632,005</u>
Cash and cash equivalents - ending	<u>\$ 888,748</u>	<u>\$ 757,367</u>	<u>\$ 772,798</u>

The change in cash and cash equivalents in each year is reflective of the results of operations for each of the years presented.

Capital Assets and Debt – The Agency acquired 30.11 acres of land in 2005 for \$70,000. The land is being held for future industrial development. The Agency has not issued any debt instruments.

Economic Factors – The Agency’s financial status and level of activity have remained relatively steady over the past few years. The local economic environment continues to be supportive of business development and expansion. There are several projects in the planning and development stages.

Contacting the Agency – Questions regarding this report or requests for additional information should be directed to the Town of Lancaster Industrial Development Agency, 21 Central Avenue, Lancaster, New York 14086.

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TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Statements of Net Assets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 888,748	\$ 757,367
Accounts receivable	<u>-</u>	<u>1,700</u>
Total current assets	<u>888,748</u>	<u>759,067</u>
Noncurrent assets:		
Land acquired for industrial development	<u>70,000</u>	<u>70,000</u>
Total noncurrent assets	<u>70,000</u>	<u>70,000</u>
Total assets	<u>958,748</u>	<u>829,067</u>
LIABILITIES		
Current liabilities:		
Accrued liabilities	<u>-</u>	<u>13,310</u>
Total current liabilities	<u>-</u>	<u>13,310</u>
NET ASSETS		
Unrestricted	<u>\$ 958,748</u>	<u>\$ 815,757</u>

The notes to the financial statements are an integral part of these statements.

TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Statements of Activities
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Administrative and application fees	\$ 219,878	\$ 79,765
Other revenues- refund	<u>9,372</u>	<u>-</u>
Total operating revenues	<u>229,250</u>	<u>79,765</u>
Operating expenses:		
Administrative services	35,000	35,000
Consultants	14,400	24,393
Professional fees	19,856	16,097
Insurance	2,951	2,841
Office and administrative	7,016	4,368
Legal notices	387	324
Advertising	2,921	7,101
Miscellaneous	6,980	9,217
New York State assessment	<u>-</u>	<u>9,372</u>
Total operating expenses	<u>89,511</u>	<u>108,713</u>
Operating income (loss)	139,739	(28,948)
Nonoperating revenue:		
Interest earnings	<u>3,252</u>	<u>3,732</u>
Change in net assets	142,991	(25,216)
Net assets—beginning	<u>815,757</u>	<u>840,973</u>
Net assets—ending	<u>\$ 958,748</u>	<u>\$ 815,757</u>

The notes to the financial statements are an integral part of these statements.

TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for services provided	\$ 234,074	\$ 78,065
Payments made for operating costs	<u>(105,945)</u>	<u>(97,228)</u>
Net cash provided by (used in) operating activities	<u>128,129</u>	<u>(19,163)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	<u>3,252</u>	<u>3,732</u>
Net cash provided by investing activities	<u>3,252</u>	<u>3,732</u>
 Net increase (decrease) in cash and cash equivalents	131,381	(15,431)
 Cash and cash equivalents—beginning	<u>757,367</u>	<u>772,798</u>
 Cash and cash equivalents—ending	<u>\$ 888,748</u>	<u>\$ 757,367</u>
 Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	<u>\$ 139,739</u>	<u>\$ (28,948)</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Decrease (increase) in accounts receivable	1,700	(1,700)
(Decrease) increase in accrued liabilities	<u>(13,310)</u>	<u>11,485</u>
Total adjustments	<u>(11,610)</u>	<u>9,785</u>
 Net cash provided by (used in) operating activities	<u>\$ 128,129</u>	<u>\$ (19,163)</u>

The notes to the financial statements are an integral part of these statements.

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TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Notes to the Financial Statements
Years Ended December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations—The Town of Lancaster Industrial Development Agency (the “Agency”) is a public benefit corporation and was created in 1972 under Title I Article 18-A of New York State General Municipal Law for the purpose of encouraging financially sound companies to locate and expand in the Town of Lancaster, New York (the “Town”). The Agency is a separate entity and operates independently of the Town.

The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are listed below.

Basis of Accounting—The accounts of the Agency are maintained on the accrual basis of accounting.

Reporting Entity—The Agency is not considered a component unit of the Town of Lancaster. The Town has no authority to approve the Agency’s budget nor does it have any responsibility for the debt, financing deficits or fiscal management of the Agency.

Tax Status— The Agency is exempt from Federal income taxes and New York State franchise taxes.

Industrial Development Revenue Bond and Note Transactions—Industrial development revenue bonds and notes issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. The bonds and notes are not obligations of the Agency, the Town or the State of New York. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts, since its primary function is to arrange the financing between the borrowing companies and the bond and note holders. The funds arising there from are controlled by trustees or banks acting as fiscal agents. The Agency receives bond administrative fees from the borrowing companies for providing the service. Such administrative fee income is recognized immediately upon issuance of the bonds and notes.

Lease Transactions—The Agency has established a lease program to provide state and local tax benefits to companies developing industrial properties. Under this program, the Agency receives title to properties under development and leases the property to the previous titleholder (lessee). Title to those properties is transferred to the lessee at the end of the maximum tax benefit period or at any time during the lease period at the option of the lessee. The Agency does not record assets acquired under the lease program since the Agency’s primary function is to provide state and local benefits to the lessee. The Agency receives lease administrative fees from the lessee for providing this service. Such administrative fee income is recognized at lease inception or ratably over the term of the lease depending on the agreement terms between the lessee and the Agency.

Statements of Cash Flows and Cash Equivalents—For purposes of the statement of cash flows, the Agency considers cash and cash equivalents to be all cash accounts and short-term investments purchased with a maturity of three months or less.

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

Future Impacts of Accounting Pronouncements— The Agency has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (“GASB”) Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which are effective for the year ending December 31, 2012; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is effective for the year ending December 31, 2013. The Agency is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 57, 60, 61, 62, 63, and 64 will have on its financial position and results of operations.

During the year ended December 31, 2011, the Agency adopted the provisions of GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 59, *Financial Instruments Omnibus*. The adoption of GASB Statements No. 54 and 59 did not have a material impact on the Agency’s financial position or results of operations.

During the year ended December 31, 2010, the Agency adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The adoption of GASB Statements No. 51, 53, and 58 did not have a material impact on the Agency’s financial position or results of operations.

2. CASH AND CASH EQUIVALENTS

The Agency’s investment policies are governed by New York State statutes. There were no investments at December 31, 2011 and 2010. All deposits are carried at fair value.

Collateral is required for demand deposits and certificates of deposits for all deposits not covered by 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 school districts.

Cash and cash equivalents:

	December 31, 2011		December 31, 2010	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 252,767	\$ 250,020	\$ 250,065	\$ 250,065
Uninsured:				
Collateral held by bank's agent in the Agency's name	638,728	638,728	517,595	507,302
Total deposits	<u>\$ 891,495</u>	<u>\$ 888,748</u>	<u>\$ 767,660</u>	<u>\$ 757,367</u>

Custodial Credit Risk - Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2011 and 2010 the Agency's deposits in excess of FDIC coverage limits were collateralized.

3. NOTE RECEIVABLE

During 1999, the Agency and the Buffalo and Erie County Regional Development Corporation participated in a loan to the Village of Lancaster Community Development Corporation for \$300,000. The loan carries an annual interest rate of 4% with interest payable on a monthly basis. The note matured on August 1, 2009. The loan is collateralized by a mortgage (collateral security) and assignment of rents and leases. The Agency's portion of the \$300,000 loan is 50%, or \$150,000. At December 31, 2011 and 2010, the Agency's outstanding balance of the note receivable was \$150,000. However, the Agency determined that there was a potential for uncollectibility and determined that an allowance was appropriate. The balance of the allowance at December 31, 2011 and 2010 is \$150,000. Consequently, the balance of the note receivable, net of allowance is zero at December 31, 2011 and 2010.

4. LAND HELD FOR INDUSTRIAL DEVELOPMENT

During 2005, the Agency acquired 30.11 acres of land for \$70,000, which is being held for industrial development purposes. The land was acquired from the Town at the estimated fair market value.

5. RELATED PARTY TRANSACTIONS

While the Agency is not considered a component unit of the Town of Lancaster, the Town is considered a related entity since the Town Supervisor also serves as the Chairman of the Agency.

The Town of Lancaster provides the Agency with administrative services. The cost of these services has been included as expenses on the Agency's statement of activities. The Agency paid the Town of Lancaster \$35,000 for administrative expenses for each of the years ended December 31, 2011 and 2010.

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 12, 2012, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

Supplemental Information

Presented as supplemental information is certain information as required to be reported under New York State Public Authority Law.

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TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Schedule of Agency Investments
Year Ended December 31, 2011

Annual Investment Report - §2925(6) of Public Authorities Law of the State of New York requires that each public authority must annually prepare an investment report which shall include (a) investment guidelines, (b) amendments to such guidelines since the last investment report, (c) an explanation of the investment guidelines and amendments, (d) results of the annual independent audit, (e) the investment income record of the Agency, and (f) a list of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Agency since the last investment report.

- a. Investment guidelines – the Agency’s investment policy was adopted by the Board of Directors.
- b. Amendments to guidelines – none
- c. Explanation of guidelines and investments – the Agency has not made any amendments to its investment policy. These guidelines restrict investment of Agency funds to money market accounts and certificates of deposit.
- d. Results of the annual independent audit – the independent auditors have issued an unqualified opinion on the Agency’s financial statements for the year ended December 31, 2011.
- e. Investment income record – investment income for the year ended December 31, 2011 consisted of:

	Interest Earned
JP Morgan Chase Bank - premier money market account	\$ 3,252
	\$ 3,252

- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Agency since the last investment report – no such fees or commissions were paid during the year ended December 31, 2011.

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TOWN OF LANCASTER INDUSTRIAL DEVELOPMENT AGENCY
Real Property Listing
Year Ended December 31, 2011

1. **Real Property List** - §2896(3) of Public Authorities Law of the State of New York requires that each public authority must publish, at least annually, a report listing all real property of the authority. At December 31, 2011, the Agency owned the following real property:

<u>Date Acquired</u>	<u>Section/Block/Lot Identification</u>	<u>Property Location and Description</u>	<u>Recorded Value</u>
6/15/2005	105.00-1-23.1	Cemetery Road - 30.11 acres of vacant land	\$ 70,000

2. **Real Property Acquisitions/Dispositions** – during the year ended December 31, 2011, the Agency neither acquired nor disposed of any real property.

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Members of the Town of Lancaster
Industrial Development Agency:

We have audited the financial statements of Town of Lancaster Industrial Development Agency (the "Agency") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 12, 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.

The Internal Control over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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.

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 misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

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

 Drescher & Malin LLP

March 12, 2012