

COUNTY OF ORLEANS INDUSTRIAL
DEVELOPMENT AGENCY

Management's Discussion and Analysis,
Financial Statements and
Supplemental Information

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
County of Orleans Industrial Development Agency:

We have audited the accompanying statements of net assets of the County of Orleans Industrial Development Agency as of December 31, 2011 and 2010, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. 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 financial position of the County of Orleans Industrial Development Agency as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2012 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 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 8 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 an opinion on the financial statements as a whole. The supplemental information on pages 24 through 26 are presented for the purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 26, 2012

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2011

I. HISTORY OF THE AGENCY

The County of Orleans Industrial Development Agency (the Agency) a not-for-profit public benefit corporation established in 1971 by the Orleans County Legislature. Under the provisions of the New York Industrial Development Agency Act, the Agency is empowered to actively attract and develop economically sound commerce and industry, thereby fostering job opportunities, general prosperity, and economic welfare for all residents of Orleans County.

The Agency utilizes its resources to plan, implement and support economic development within Orleans County by promoting the stability and growth of the County's present business base, supporting the retention and creation of jobs, establishing regional and international collaborations and attracting capital investment and new business ventures.

As management of the County of Orleans Industrial Development Agency, we offer the readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements.

Overview of the Financial Statements

The financial statements in this annual report are those of a special-purpose government. The following statements are included:

- Statements of net assets - reports the Agency's current and long-term financial resources with capital assets and long-term debt obligations.
- Statements of revenue, expenses and changes in net assets - reports the Agency's operating and non-operating revenues, by major source along with operating and non-operating expenses.
- Statements of cash flows - reports the Agency's cash flows from operating, investing, and financing activities.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

II. COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS

The following is a condensed comparative financial statement analysis of the Agency, based on the audited financial statements as of December 31, 2011 and 2010.

<u>Statements of Net Assets</u>		
	2011	2010
<u>Assets</u>		
Cash and cash equivalents	\$ 1,970,493	1,795,630
Receivables	115,038	143,215
Prepaid expenses	<u>156</u>	<u>126</u>
Total current assets	2,085,687	1,938,971
Long-term receivables	344,507	368,013
Net capital assets	<u>1,453,741</u>	<u>1,468,193</u>
Total assets	<u>\$ 3,883,935</u>	<u>3,775,177</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ -	64,301
Accrued expenses	25,454	20,799
Accrued PILOT payable	1,275,304	1,254,235
Line of credit	60,724	57,360
Loan payable, current	<u>146,128</u>	<u>30,400</u>
Total current liabilities	1,507,610	1,427,095
Loans payable, long-term	<u>288,015</u>	<u>430,314</u>
Total liabilities	<u>1,795,625</u>	<u>1,857,409</u>
Invested in capital assets, net of related debt	1,019,599	1,007,479
Restricted net assets	1,185,054	1,099,667
Unrestricted net assets (deficit)	(116,343)	(189,378)
Total net assets	<u>2,088,310</u>	<u>1,917,768</u>
Total liabilities and net assets	<u>\$ 3,883,935</u>	<u>3,775,177</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
 Management's Discussion and Analysis, Continued

Cash and cash equivalents increased by \$174,863, which is primarily due to payments in lieu of taxes (PILOT) that the Agency collects on behalf of local taxing jurisdictions which have not yet been remitted.

Net capital assets decreased by \$14,452, which is due to depreciation expense charged during 2011.

Total liabilities decreased by \$61,784, which is primarily due to recipients paying loans off in 2011.

Total net assets increased by \$170,542 for 2011 primarily due to increases in Federal and State aid.

Statements of Revenue, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Operating revenue	\$ 539,425	321,309
Operating expenses	<u>(353,278)</u>	<u>(399,258)</u>
Income (loss) from operations	186,147	(77,949)
Non-operating expenses	<u>(15,605)</u>	<u>(21,833)</u>
Changes in net assets	<u>\$ 170,542</u>	<u>(99,782)</u>

Agency revenues increased primarily due to increases in grant revenues received in 2011. Operating expenses decreased primarily due to the fact that the Agency no longer pays the administrative service assessment fee to New York State and fees associated with the industrial park management.

Industrial revenue bonds and notes issued by the Agency are secured by property that is leased to companies and is retired by lease payments. The bonds and notes are not obligations of the Agency or the State. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function are to arrange financing between the borrowing companies and the bond and note holders. Funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds and notes.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

The Agency has one revolving loan fund with six loans outstanding.

Company	Location	Amount of Receivable
Virtual Polymer Compounds, LLC	Medina	\$142,926
Precision Packaging Products	Holley	\$141,262
3 Milardi Entrprise	Medina	\$19,244
Shelby Crushed Stone	Medina	\$6,671
Black North Associates	Kent	\$93,981
McCargo Lake Associates, LLC	Holley	\$51,833

III. BUDGETARY ANALYSIS - AGENCY OPERATING FUND

Annual operating budgets are based on management's best estimate of actual revenues. Operating expenses are also based on historical prior years' expenses with a best estimate of future increases due to market conditions and/or inflation. Therefore, budgeted income/expense will vary from the actual annual statement of revenue, expenses and changes in net assets.

In fiscal 2011, the Agency reported an overall variance in operating revenues of \$215,925, 67% more than anticipated when comparing actual to budget.

Actual operating expenses were more than anticipated expenses by \$49,292 or 16%. The primary components of this variance were \$31,967 for professional fees paid and \$13,123 in repairs and maintenance for building repairs.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

The table below details the actual revenues and expenses compared to budget for the Agency:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenue:			
Administrative fees	\$ 35,899	95,000	(59,101)
State and local aid	250,474	210,000	40,474
Interest income	16,059	-	16,059
Bad debt recovery	96,640	-	96,640
Rental income	10,000	10,000	-
Federal aid	5,810	-	5,810
Other	<u>124,543</u>	<u>8,500</u>	<u>116,043</u>
Total operating revenue	<u>539,425</u>	<u>323,500</u>	<u>215,925</u>
Operating expenses:			
Personnel services	163,138	167,600	(4,462)
Employee benefits	58,169	53,953	4,216
Occupancy	24,955	20,800	4,155
Professional fees	51,817	19,850	31,967
Dues and subscriptions	6,451	1,000	5,451
Industrial park management	-	3,700	(3,700)
Telephone	6,355	6,000	355
Repairs and maintenance	16,123	3,000	13,123
Auto and travel	7,222	7,700	(478)
Office supplies and expenses	2,711	2,600	111
Advertising	1,226	1,100	126
Real estate taxes	597	583	14
Depreciation	14,452	12,000	2,452
Miscellaneous	<u>62</u>	<u>4,100</u>	<u>(4,038)</u>
Total operating expenses	<u>353,278</u>	<u>303,986</u>	<u>49,292</u>
Net operating income	186,147	19,514	166,633
Non-operating expenses	<u>(15,605)</u>	<u>(18,100)</u>	<u>2,495</u>
Change in net assets	<u>\$ 170,542</u>	<u>1,414</u>	<u>169,128</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

IV. CAPITAL ASSETS

The Agency has \$1,613,767 of capital assets at December 31, 2011 and 2010. There is \$160,026 and \$145,574 of accumulated depreciation associated with these assets as of December 31, 2011 and 2010, respectively.

V. LOANS PAYABLE

At December 31, 2011, the Agency had three loans payable for a total of \$434,143 as further described on page 17.

**VI. FUTURE EVENTS AND OTHER CURRENTLY KNOWN FACTS,
DECISIONS OR CONDITIONS**

The Agency has major economic development tools in place including PILOTS, Empire Zones and the Revolving Loan Fund. These activities are intended to stimulate new construction, increase the local tax base, create employment opportunities for area residents, and generate new project fees to the Agency.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

For further information, please contact the Agency at:

Orleans Economic Development Agency
121 North Main Street
Albion, New York 14411
James R. Whipple
Chief Executive Officer/Chief Financial Officer

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Net Assets
 December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and equivalents:		
Operating	\$ 21,372	316
Restricted	<u>1,949,121</u>	<u>1,795,314</u>
Total cash and equivalents	<u>1,970,493</u>	<u>1,795,630</u>
Receivables:		
Accounts	3,628	1,098
Interest	-	13,357
Loans, current	<u>111,410</u>	<u>128,760</u>
Total receivables	<u>115,038</u>	<u>143,215</u>
Prepaid expenses	<u>156</u>	<u>126</u>
Total current assets	<u>2,085,687</u>	<u>1,938,971</u>
Loans receivable, less current installments and allowance for doubtful loans of \$122,001 in 2010	344,507	368,013
Capital assets:		
Land and site improvements	1,042,740	1,042,740
Buildings	548,696	548,696
Furniture and equipment	<u>22,331</u>	<u>22,331</u>
Total capital assets	1,613,767	1,613,767
Less accumulated depreciation	<u>(160,026)</u>	<u>(145,574)</u>
Net capital assets	<u>1,453,741</u>	<u>1,468,193</u>
Total assets	<u>\$ 3,883,935</u>	<u>3,775,177</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Statements of Net Assets, Continued

<u>Liabilities and Net Assets</u>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ -	64,301
Accrued expenses	25,454	20,799
Accrued PILOT payable	1,275,304	1,254,235
Note payable to bank	60,724	57,360
Current installments of loans payable	<u>146,128</u>	<u>30,400</u>
Total current liabilities	1,507,610	1,427,095
Loans payable, less current installments	<u>288,015</u>	<u>430,314</u>
Total liabilities	<u>1,795,625</u>	<u>1,857,409</u>
Net assets:		
Invested in capital assets, net of related debt	1,019,599	1,007,479
Restricted	1,185,054	1,099,667
Unrestricted	<u>(116,343)</u>	<u>(189,378)</u>
Total net assets	<u>2,088,310</u>	<u>1,917,768</u>
Contingencies (note 11)	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 3,883,935</u>	<u>3,775,177</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenue:		
Administrative fees	\$ 35,899	86,735
State and local aid	250,474	133,500
Federal aid	5,810	-
Interest income from loans receivable	16,059	21,510
Bad debt recovery	96,640	20,000
Rental income	10,000	10,000
Transfer from related party	47,946	-
Other income	<u>76,597</u>	<u>49,564</u>
Total operating revenue	<u>539,425</u>	<u>321,309</u>
Operating expenses:		
Personnel services	163,138	164,535
Employee benefits	58,169	46,339
Occupancy	24,955	24,831
Administrative services assessment	-	11,266
Professional fees	51,817	75,209
Dues and subscriptions	6,451	16,268
Industrial park management	-	13,187
Telephone	6,355	7,027
Repairs and maintenance	16,123	11,246
Auto and travel	7,222	10,216
Office supplies and expenses	2,711	2,423
Advertising	1,226	1,079
Real estate taxes	597	583
Depreciation	14,452	14,890
Miscellaneous	<u>62</u>	<u>159</u>
Total operating expenses	<u>353,278</u>	<u>399,258</u>
Operating income (loss)	<u>186,147</u>	<u>(77,949)</u>
Non-operating expenses:		
Interest expense	(15,605)	(21,807)
Loss on disposal of assets	<u>-</u>	<u>(26)</u>
Total non-operating expenses	<u>(15,605)</u>	<u>(21,833)</u>
Changes in net assets	170,542	(99,782)
Net assets at beginning of year	<u>1,917,768</u>	<u>2,017,550</u>
Net assets at end of year	<u>\$ 2,088,310</u>	<u>1,917,768</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS 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 from customers	\$ 62,785	108,653
Cash received from other governments	256,284	133,500
Cash transferred from related party	47,946	-
Other income received	<u>183,237</u>	<u>79,564</u>
Total cash received from operating activities	<u>550,252</u>	<u>321,717</u>
Cash paid to employees	(216,652)	(200,963)
Cash paid to suppliers for goods and services	<u>(181,850)</u>	<u>(137,250)</u>
Total cash paid for operating activities	<u>(398,502)</u>	<u>(338,213)</u>
Net cash provided by (used in) operating activities	<u>151,750</u>	<u>(16,496)</u>
Cash flows from investing activities:		
Collection of loans receivable	290,856	122,390
Issuance of loans receivable	<u>(250,000)</u>	<u>-</u>
Net cash provided by investing activities	<u>40,856</u>	<u>122,390</u>
Cash flows from financing activities:		
Net proceeds from note payable to bank	3,364	57,360
Interest expense	(15,605)	(21,807)
Receipts from PILOT	2,398,310	2,126,130
Payments made for PILOT	(2,377,241)	(2,148,718)
Repayments of loans payable	<u>(26,571)</u>	<u>(10,223)</u>
Net cash provided by (used in) financing activities	<u>(17,743)</u>	<u>2,742</u>
Net increase in cash and equivalents	174,863	108,636
Cash and equivalents at beginning of year	<u>1,795,630</u>	<u>1,686,994</u>
Cash and equivalents at end of year	<u>\$ 1,970,493</u>	<u>1,795,630</u>

(Continued)

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows, Continued

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 186,147	(77,949)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	14,452	14,890
Change in:		
Accounts receivable	(2,530)	408
Interest receivable	13,357	-
Prepaid expenses	(30)	2
Accounts payable	(64,301)	36,242
Accrued expenses	4,655	9,911
Net cash provided by (used in) operating activities	<u>\$ 151,750</u>	<u>(16,496)</u>
Supplemental disclosures of cash flow information - disposal of fully depreciated equipment	<u>\$ -</u>	<u>18,713</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

County of Orleans Industrial Development Agency (the Agency) is a public benefit corporation authorized under the laws of the State of New York (the State) and, in particular, the New York State Industrial Development Agency Act, constituting Title 2 of Article 18-A of the General Municipal Law, to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, importing, maintaining, equipping and furnishing of industrial, manufacturing, warehousing, commercial and research facilities and thereby advance the job opportunities, general prosperity and economic welfare of the people of Orleans County.

The Agency is empowered to issue Industrial Revenue Bonds for the purpose of constructing, acquiring, equipping and furnishing industrial manufacturing, warehousing and certain commercial research and recreational facilities. The Agency may acquire property, enter into lease agreements, mortgage agreements and pledge agreements.

(b) Financial Reporting Entity

The financial reporting entity includes organizations, functions, and activities over which appointed officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing Agency, designation of management, ability to significantly influence operations and accountability for fiscal matters. No other organizations have been included or excluded from the reporting entity.

(c) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Agency applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(d) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Agency considers all temporary cash investments with a maturity of three months or less to be cash equivalents.

State statutes govern the Agency's investment policies. Deposits are valued at cost or cost plus interest and are categorized as either insured or collateralized with securities held by the Agency or by its agent in the Agency's name, or collateralized with securities held by the pledging financial institution's trust department in the Agency's name, or uncollateralized. Cash deposits are covered by FDIC insurance of up to \$250,000 on time and savings deposits. At December 31, 2011, the Agency's cash balances were fully insured.

(f) Restricted Cash

Restricted cash represents amounts held for revolving loan purposes and payments in lieu of taxes (PILOT) that have not yet been paid to the appropriate taxing jurisdiction.

(g) Capital Assets

Capital assets acquired by Agency, are stated at cost. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets.

(h) Grant Accounting

Revenue from grants is recognized as the Agency meets performance requirements of the contracts.

(i) Allowance for Uncollectible Loans and Receivables

The allowance for doubtful loans is established through a provision for bad debts charged to expense. Loans are charged against the allowance for doubtful loans when management believes that collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Management believes that the allowance for doubtful loans is adequate. However, additions to the allowance may be necessary based on changes in economic conditions.

Interest is not accrued on loans receivable when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful. In such cases, interest is recognized on a cash basis when collection occurs.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Financial Instruments

The Agency makes loans to small businesses located in Orleans County. These loans are made at a favorable interest rate that varies with the prime rate. The governing board approves these loans after giving consideration to the major criteria, i.e., enhancement of the economic environment. These loans are collateralized by the businesses' assets and personal guarantees of the owners. Interest is recognized on these loans as it is paid (i.e., interest is not accrued when past due).

(k) Net Assets - Restricted

Restrictions of net assets are created to either satisfy legal requirements or to earmark resources unavailable for current operations.

(l) Budgetary Policies

The Agency's administration prepares a proposed budget for the operating fund, which is then approved by the Board of Directors. This budget is then submitted to the Orleans County Legislature for review. Such appropriations constitute a limitation on expenses that may be incurred. Appropriations lapse at the end of each fiscal year-end.

(m) Income Taxes

The Agency is a quasi-governmental organization. The Agency is not subject to federal or state income taxes, nor is it required to file federal or state income tax returns; therefore, no provision for income taxes is reflected in these financial statements.

(2) Cash Deposits

The carrying amount of the Agency's deposits with financial institutions at December 31, 2011 and 2010 was \$1,970,493 and \$1,795,630, respectively, and the bank balance was \$1,967,638 and \$1,852,871, respectively. New York State Municipal Law requires that the Agency's bank balance be secured or collateralized. At December 31, 2011 and 2010, the status of the Agency's bank balance is as follows:

	<u>2011</u>	<u>2010</u>
Amount insured by FDIC	\$ <u>1,967,638</u>	<u>1,852,871</u>

(3) Loans Receivable

The Agency has one revolving loan fund offering low interest loans to area businesses. The governing board approves loans after giving consideration to the major criteria, i.e., enhancement of the economic environment.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(3) Loans Receivable, Continued

A summary of the loans receivable at December 31, 2011 and 2010 is as follows:

	Interest rate	<u>2011</u>	<u>2010</u>
PMI Remley	4.00%	\$ -	170,141
Precision Packaging Products	2.44%	141,262	190,327
3 Milardi Enterprise	6.50%	19,244	24,631
Shelby Crushed Stone, Inc.	6.19%	6,671	25,016
Moss Codilis, LLP	3.00%	-	150,364
McCargo Lake Associates, LLC	2.44%	51,833	58,295
Black North Associates	5.00%	93,981	-
Virtual Polymer Compounds, LLC	2.44%	<u>142,926</u>	<u>-</u>
Total receivables		455,917	618,774
Less current installments		<u>(111,410)</u>	<u>(128,760)</u>
Loans receivable, less current installments		344,507	490,014
Less allowance for doubtful accounts		<u>-</u>	<u>(122,001)</u>
Net loans receivable		\$ <u>344,507</u>	<u>368,013</u>

There were no delinquent loans as of December 31, 2011.

(4) Loans Payable

The Agency had the following debt outstanding at December 31, 2011 and 2010:

	Date <u>issued</u>	Original <u>amount</u>	Interest <u>rate</u>	Maturity <u>date</u>	<u>Balance</u>	
					<u>2011</u>	<u>2010</u>
Robin Lake	2002	150,000	5.00%	2017	\$ 126,128	126,128
Farm Credit of Western New York	2002	487,500	6.50%	2013	308,015	328,015
Carlson Park	2003	75,000	10.00%	2011	<u>-</u>	<u>6,571</u>
Total loans payable					434,143	460,714
Less current installments					<u>(146,128)</u>	<u>(30,400)</u>
Loans payable, less current installments					<u>\$ 288,015</u>	<u>430,314</u>

Future principal payments for all loans as of December 31, 2011 are as follows:

2012	\$ 146,128
2013	<u>288,015</u>
	\$ <u>434,143</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(5) Note Payable to Bank

The Agency has a line of credit with a bank which provides for maximum borrowings of \$75,000. Outstanding borrowings are payable on demand and bear interest at the bank's prime lending rate plus 1.50% (4.75% at December 31, 2011). Borrowings under the line of credit are secured by the assets of the Agency. At December 31, 2011 and 2010, there was an outstanding balance of \$60,724 and \$57,360, respectively, on this line of credit.

(6) Pension

The Agency is a member of the New York State Retirement System (the System). The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) governs obligations of employers and employees to contribute and provides benefits to employees. The System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12236. The Agency is required to contribute at an actuarially determined rate. The Agency contributions made to the System were equal to 100 percent of the contributions required for the years ended December 31, 2011 and 2010. Total contributions for the years ended December 31, 2011 and 2010 were \$22,671 and \$13,587, respectively.

(7) Leases

In September 2006, the Agency and the Orleans Land Restoration Corporation (the Organizations) entered in to a lease agreement with Western New York Energy, LLC (WNY Energy) to receive rent for the Rail Spur Facility (the Facility). In 2007, the Organizations began receiving \$10,000 annually which will continue through August 1, 2015. The lease is cancelable by WNY Energy between 45 and 90 days upon giving notice of its intent. Upon expiration or termination of the lease, WNY Energy must purchase the facility for \$1 plus all remaining rental payments. WNY Energy has the option to extend the lease for an additional 99 years with rental payments equaling \$1 per year.

The following is a schedule of minimum future rentals receivable under the lease.

2012	\$ 10,000
2013	10,000
2014	10,000
2015	<u>10,000</u>
	\$ <u>40,000</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(8) Related Party Transactions

The Agency has a related party relationship with Orleans County Land Restoration Corporation (OLRC) and the Orleans County Local Development Corporation (OCLDC). All three entities are managed by the same personnel.

The Agency allocates a portion of its personnel costs to OLRC. These costs amounted to \$12,950 and \$7,760 for the years ended December 31, 2011 and 2010, respectively.

The Agency received funds from OLRC to pay for mortgage principal and interest on a loan held by the Agency and for repairs to a building owned by the Agency. These transfers amounted to \$47,946 for the year ended December 31, 2011.

(9) Commitments

The Agency entered into a rental lease agreement with the Village of Albion during March 2010. The lease term is for two years with an option to renew for one year with a 10% increase. The Agency is currently paying \$1,600 per month.

(10) Subsequent Event

On January 11, 2012, the Agency and OLRC entered a property ownership agreement with both entities having a 50% interest in four properties previously owned by the Agency. The Agency and OLRC also entered into a loan transaction to refinance existing mortgages on a portion of the properties and pay off a line of credit held by the Agency. This loan amounted to \$500,000 and is secured by a mortgage lien on the properties. The loan will be repaid over a seven-year term and will bear interest at 6% per year.

The Agency will provide staffing to monitor and manage the properties and shall provide in-kind services. OLRC will be responsible for routine and recurring costs associated with ownership of the properties and will pay debt service with respect to financing on the properties.

(11) Contingencies

Contingencies at December 31, 2011 are as follows:

(a) Risk-Financing and Related Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees, errors and omissions, natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(11) Contingencies, Continued

(b) Judgments

There are several lawsuits in which the Agency has been named as defendant due to a property's title being in the name of the Agency. Management does not expect the Agency to suffer any material liability by reason of such actions, nor does it expect that such actions will have a material effect on the Agency's liquidity or operating results, other than those items accrued.

(c) Other Items

The Agency has received grants that are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, management believes disallowances, if any, will be immaterial.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE
WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
County of Orleans Industrial Development Agency:

We have audited the financial statements of the County of Orleans Industrial Development Agency (the Agency) for the year ended December 31, 2011, and have issued our report thereon dated March 26, 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 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.

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 that all deficiencies, significant deficiencies, or 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 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 Agency's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described below to be material weaknesses.

Accounting Controls

The Agency is without a financial accountant that can accurately initiate, authorize or review accounting transactions in the financial records or adequately prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. Audit adjustments, approved by management, were required to correct the accounting records of the Agency for the financial statements to be prepared in accordance with accounting principles generally accepted in the United States of America. Significant adjustments were required to properly reflect liabilities at December 31, 2011.

We also noted substantial balances in the payments in lieu of taxes (PILOT) receivables and payable accounts. Combined, these accounts report a net PILOT payable of \$1,275,304 at December 31, 2011. The related cash balance amounted to \$1,221,112 at December 31, 2011. Net PILOT payables exceed the PILOT cash balance by \$54,192. The PILOT receipts from businesses are passed through the Agency and remitted to the taxing jurisdiction. The Agency's PILOT cash balance should always equal the net PILOT payable.

Recommendation

We recommend that the Agency continue to improve its accounting records with the assistance of a consultant with adequate accounting experience and knowledge to periodically assist the Chief Financial Officer in reviewing financial transactions and financial statements.

The Agency should reconcile the PILOT transaction difference and adjust its accounting records accordingly.

We also recommend that the Agency reconcile the PILOT transactions monthly to ensure that any discrepancies are resolved timely.

Management's Response

Management plans to review in detail the deficiencies in the balance sheet accounts with the Agency's consultant. After the review, management will request a plan that will eliminate any deficiencies from recurring in 2012.

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 grants, including Investment Guidelines for Public Authorities and the Agency's Investment Policy, 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 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 and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Touki & Co., CPAs, P.C.

Williamsville, New York
March 26, 2012

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Combining Statement of Net Assets by Fund
December 31, 2011

<u>Assets</u>	<u>Operating</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Current assets:			
Cash and equivalents:			
Operating	\$ 21,372	-	21,372
Restricted	<u>1,221,112</u>	<u>728,009</u>	<u>1,949,121</u>
Total cash and equivalents	<u>1,242,484</u>	<u>728,009</u>	<u>1,970,493</u>
Receivables:			
Accounts	2,500	1,128	3,628
Loans, current	<u>-</u>	<u>111,410</u>	<u>111,410</u>
Total receivables	<u>2,500</u>	<u>112,538</u>	<u>115,038</u>
Prepaid expenses	<u>156</u>	<u>-</u>	<u>156</u>
Total current assets	<u>1,245,140</u>	<u>840,547</u>	<u>2,085,687</u>
Loans receivable, less current installments	-	344,507	344,507
Capital assets:			
Land and site improvements	1,042,740	-	1,042,740
Buildings	548,696	-	548,696
Furniture and equipment	<u>22,331</u>	<u>-</u>	<u>22,331</u>
Total capital assets	1,613,767	-	1,613,767
Less accumulated depreciation	<u>(160,026)</u>	<u>-</u>	<u>(160,026)</u>
Net capital assets	<u>1,453,741</u>	<u>-</u>	<u>1,453,741</u>
Total assets	<u>\$ 2,698,881</u>	<u>1,185,054</u>	<u>3,883,935</u>

(Continued)

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Combining Statement of Net Assets by Fund, Continued

<u>Liabilities and Net Assets</u>	<u>Operating</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Current liabilities:			
Accrued expenses	\$ 25,454	-	25,454
Accrued PILOT payable	1,275,304	-	1,275,304
Note payable to bank	60,724	-	60,724
Current installments of loans payable	146,128	-	146,128
Total current liabilities	1,507,610	-	1,507,610
Loans payable, less current installments	288,015	-	288,015
Total liabilities	1,795,625	-	1,795,625
Net assets:			
Invested in capital assets, net of related debt	1,019,599	-	1,019,599
Restricted	-	1,185,054	1,185,054
Unrestricted	(116,343)	-	(116,343)
Total net assets	903,256	1,185,054	2,088,310
Total liabilities and net assets	<u>\$ 2,698,881</u>	<u>1,185,054</u>	<u>3,883,935</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Combining Statement of Revenue, Expenses and Changes in Net Assets by Fund
Year ended December 31, 2011

	<u>Operating</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Operating revenue:			
Administrative fees	\$ 35,899	-	35,899
State and local aid	250,474	-	250,474
Federal aid	5,810	-	5,810
Interest income from loans receivable	-	16,059	16,059
Bad debt recovery	-	96,640	96,640
Rental income	10,000	-	10,000
Transfer from related party	47,946	-	47,946
Other income	76,597	-	76,597
	<u>426,726</u>	<u>112,699</u>	<u>539,425</u>
Total operating revenue			
Operating expenses:			
Personnel services	163,138	-	163,138
Employee benefits	58,169	-	58,169
Occupancy	24,955	-	24,955
Professional fees	24,505	27,312	51,817
Dues and subscriptions	6,451	-	6,451
Telephone	6,355	-	6,355
Repairs and maintenance	16,123	-	16,123
Auto and travel	7,222	-	7,222
Office supplies and expenses	2,711	-	2,711
Advertising	1,226	-	1,226
Real estate taxes	597	-	597
Depreciation	14,452	-	14,452
Miscellaneous	62	-	62
	<u>325,966</u>	<u>27,312</u>	<u>353,278</u>
Total operating expenses			
Operating income	<u>100,760</u>	<u>85,387</u>	<u>186,147</u>
Non-operating expenses - interest expense	<u>(15,605)</u>	<u>-</u>	<u>(15,605)</u>
Net income	85,155	85,387	170,542
Net assets at beginning of year	<u>818,101</u>	<u>1,099,667</u>	<u>1,917,768</u>
Net assets at end of year	<u>\$ 903,256</u>	<u>1,185,054</u>	<u>2,088,310</u>