

*COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY*

FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To The Members of the County
Of Sullivan Industrial Development Agency
Monticello, NY 12701

We have audited the accompanying statements of net assets of the County of Sullivan Industrial Development Agency, a component unit of the County of Sullivan, as of December 31, 2011 and 2010 and the related statements of revenues, 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 have 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 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 Sullivan Industrial Development Agency, as of December 31, 2011 and 2010, and the results of its operations and 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 28, 2012, on our consideration of the County of Sullivan 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 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 6 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 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 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 County of Sullivan Industrial Development Agency's financial statements as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental schedule is the responsibility of management and was 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.

Cooper, Nemann & Co. CPA's LLP
Montgaup Valley, New York
March 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending December 31, 2011

This section of the County of Sullivan Industrial Development Agency's annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended on December 31, 2011. Please read it in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$341,154 (14%)
- Cash decreased \$112,848 (4%)
- Liabilities increased \$119,483 (12%)
- Operating revenues decreased \$260,013 (37%)
- Operating expenses decreased \$6,961 (1%)
- Operating income decreased \$253,502

The main reason for the decrease in net assets was the transfer of \$299,808 to the Sullivan County Funding Corporation, which is disclosed in Note 10 to the financial statements.

The main reason for the decrease in operating revenues and operating income was the \$295,000 federal grant received by the Agency in 2010, which increased both operating revenues and operating income.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Agency's statements follow the accrual basis of accounting and are presented in a manner similar to a private business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending December 31, 2011

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table summarizes the changes in Net Assets between December 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>	<u>% increase/ (decrease)</u>
Current Assets	\$ 2,517,438	\$ 2,686,691	(6%)
Capital Assets	281,105	296,828	(5%)
Restricted Assets	<u>460,033</u>	<u>496,728</u>	(7%)
 Total Assets	 <u>3,258,576</u>	 <u>3,480,247</u>	 (6%)
 Total Liabilities	 <u>1,129,808</u>	 <u>1,010,325</u>	 (12%)
 Invested In Capital Assets, net of related debt	 281,105	 296,828	 (5%)
Restricted	448,910	487,567	(8%)
Unrestricted	<u>1,398,753</u>	<u>1,685,527</u>	(17%)
 Total Net Assets	 <u>\$ 2,128,768</u>	 <u>\$ 2,469,922</u>	 (14%)

The balance of restricted net assets consists of the cash balances in the various escrow accounts and revolving loan accounts, plus the revolving loans outstanding, less any liabilities being held in the restricted accounts:

	<u>2011</u>	<u>2010</u>
Escrow Accounts - Cash	\$ 11,123	\$ 9,161
Revolving Loan Account – Cash	232,575	458,409
Revolving Loans Outstanding	216,335	29,158
Less: Liabilities Held In Escrow Accounts	<u>(11,123)</u>	<u>(9,161)</u>
 Restricted Net Assets	 <u>\$ 448,910</u>	 <u>\$ 487,567</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending December 31, 2011

Operating Income. The following table summarizes the changes in Operating Income between fiscal years 2011 and 2010.

	<u>2011</u>	<u>2010</u>	<u>% increase/ (decrease)</u>
Rental Income	\$ 44,407	\$ 20,000	122%
Administrative Fees	305,954	309,532	(1%)
Reimbursed Expenses	72,056	66,600	8%
Grant Income	10,194	295,000	(97%)
Other Revenues	<u>2,553</u>	<u>4,045</u>	(37%)
Total Operating Revenues	<u>435,164</u>	<u>695,177</u>	(37%)
Legal and Professional Fees	117,965	168,463	(32%)
Salaries and Benefits	142,919	131,910	8%
Other Expenses	<u>228,048</u>	<u>195,520</u>	17%
Total Operating Expenses	<u>488,932</u>	<u>495,893</u>	(1%)
Operating Income (Loss)	<u>\$ (53,768)</u>	<u>\$ 199,284</u>	(127%)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending December 31, 2011

BUSINESS ACTIVITY

In the spring of 2011, the IDA collected its Payment in Lieu of Tax (PILOT) payments from its projects and disbursed them back out to the local taxing jurisdictions. Over the last ten years the IDA has increased its PILOT disbursements from \$413,694 in 2001 to \$4,107,072 in 2011; an increase of over 992%.

The IDA continued its funding in 2011 for the Partnership for Economic Development in the amount of \$75,000, and it contracted with the Hudson Valley Agri-Business Development Corporation to assist the Sullivan County agricultural community in the amount of \$25,000.

Working on new initiatives to improve the economic climate in Sullivan County, in 2011 the IDA continued its work to develop a red meat processing facility within the County. Five grants have been approved for the financing of the proposed facility, these funds coming from the US Department of Agriculture through their Rural Business Enterprise Grant and Rural Business Opportunity Grant programs, the New York State Empire State Development Corporation through their Upstate Regional Blueprint Fund and Build Now New York programs, and the US Department of Commerce through the Economic Development Assistance Program. Site plan approval for the project was received from the Village of Liberty Planning Board late in 2011. Work is expected to start on the facility in 2012.

Additionally, in 2011, the Agency was involved in the following projects:

- The administration of 6 loans to small local businesses through the Agency's Revolving Loan Program. Five of these loans were approved in 2011 – The Bake Shop, Appel Produce, Carmine's Meat Market, K. Cee's Catering, and Eureka Market.
- The administration of 10 outstanding Industrial Development Bonds. Two of the bonds were for for-profit businesses and six were for not-for profit agencies. In December of 2011 all six of the bonds for Sullivan Diagnostic Treatment Center / The Center for Discovery were retired.
- The administration of 66 projects with IDA agreements, including 49 projects with property tax exemption agreements and seven projects with valid sales tax exemption letters.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31,

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash	\$ 2,495,814	\$ 2,384,790
Accounts Receivable	8,200	-
Due From State and Federal	-	295,000
Due From Other Governments	2,105	-
Due From Related Parties	3,333	-
Pre-Paid Expenses	<u>7,986</u>	<u>6,901</u>
Total Current Assets	<u>2,517,438</u>	<u>2,686,691</u>
Non-Current Assets		
Restricted Cash	243,698	467,570
Notes Receivable - Restricted	<u>216,335</u>	<u>29,158</u>
Restricted Assets	<u>460,033</u>	<u>496,728</u>
Property, Plant and Equipment		
Equipment - Distillery	295,000	295,000
Equipment	9,362	9,362
Less: Accumulated Depreciation	<u>(23,257)</u>	<u>(7,534)</u>
Net Property, Plant and Equipment	<u>281,105</u>	<u>296,828</u>
Total Non-Current Assets	<u>741,138</u>	<u>793,556</u>
TOTAL ASSETS	<u>\$ 3,258,576</u>	<u>\$ 3,480,247</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31,

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 2,425	\$ 22,409
Accrued Liabilities	27,461	28,166
Due To Other Governments	750,719	713,290
Due To Related Parties	125,107	-
Deferred Revenues	223,876	237,299
Escrow Balances	<u>220</u>	<u>9,161</u>
Total Current Liabilities	<u>1,129,808</u>	<u>1,010,325</u>
TOTAL LIABILITIES	<u>1,129,808</u>	<u>1,010,325</u>
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	281,105	296,828
Restricted	448,910	487,567
Unrestricted	<u>1,398,753</u>	<u>1,685,527</u>
TOTAL NET ASSETS	<u>2,128,768</u>	<u>2,469,922</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,258,576</u>	<u>\$ 3,480,247</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Rental Income	\$ 44,407	\$ 20,000
Interest on Notes Receivable	2,253	1,088
Administrative Fees	305,954	309,532
Reimbursed Expenses	72,056	66,600
Grant Income	10,194	295,000
Miscellaneous Income	<u>300</u>	<u>2,957</u>
 TOTAL OPERATING REVENUES	 <u>435,164</u>	 <u>695,177</u>
 OPERATING EXPENSES		
Salaries And Benefits	142,919	131,910
Legal and Professional Fees	117,965	168,463
Accounting Fees	7,100	6,800
Consulting Fees	38,994	38,994
Dues, Publications and Subscriptions	7,745	6,445
Office Expense	17,376	5,279
Business Promotion	110,000	100,000
Rent Expense	15,233	14,978
Telephone	2,458	2,123
Insurance	8,190	9,551
Repairs And Maintenance	-	249
Miscellaneous	2,819	2,254
Travel	2,410	2,001
Depreciation	15,723	2,203
Bad Debt Expense	<u>-</u>	<u>4,643</u>
 TOTAL OPERATING EXPENSES	 <u>488,932</u>	 <u>495,893</u>
 NET OPERATING REVENUE (LOSS)	 (53,768)	 199,284
 NON-OPERATING REVENUE (LOSS)		
Interest Income	12,422	24,555
Transfer To Sullivan County Funding Corp.(See Note 10)	<u>(299,808)</u>	<u>-</u>
 NET REVENUE (LOSS)	 (341,154)	 223,839
 NET ASSETS - Beginning of Year	 <u>2,469,922</u>	 <u>2,246,083</u>
 NET ASSETS – End of Year	 <u>\$ 2,128,768</u>	 <u>\$ 2,469,922</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 506,985	\$ 454,199
Cash payments for contractual expenses	(313,930)	(302,104)
Cash payments for personal services and benefits	(143,624)	(135,675)
Cash payments to Sullivan County Funding Corp.	<u>(174,701)</u>	<u>-</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(125,270)</u>	<u>16,420</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	-	(296,095)
Interest Income	<u>12,422</u>	<u>24,555</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>12,422</u>	<u>(271,540)</u>
NET INCREASE (DECREASE) IN CASH	(112,848)	(255,120)
CASH- BEGINNING OF YEAR	<u>2,852,360</u>	<u>3,107,480</u>
CASH- END OF YEAR	<u>\$ 2,739,512</u>	<u>\$ 2,852,360</u>
Reconciliation of operating revenue (loss) to net cash provided (used) by operating activities:		
Operating Revenue (Loss)	\$ (53,768)	\$ 199,284
Depreciation	15,723	2,203
Transfer to Sullivan County Funding Corp.	(174,701)	-
Decrease (Increase) in Operating Assets:		
Accounts Receivable	(8,200)	19,002
Due From State and Federal	295,000	(295,000)
Due From Other Governments	(5,438)	-
Pre-Paid Expenses	(1,085)	3,449
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(19,984)	20,114
Accrued Liabilities	(705)	(3,765)
Deferred Revenues	(13,423)	142,605
Due To Other Governments	37,429	31,470
Escrow Balances	(8,941)	(131,721)
Revolving Loans Repaid	12,823	24,136
Revolving Loans Issued	(200,000)	-
Bad Debt Expense	<u>-</u>	<u>4,643</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (125,270)</u>	<u>\$ 16,420</u>

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the County of Sullivan Industrial Development Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The County of Sullivan Industrial Development Agency follows the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred. Fixed assets and long-term liabilities related to these activities are recorded within the financial statements.

Financial Reporting Entity

The County of Sullivan Industrial Development Agency (the "Agency") was created in 1970 as public benefit corporation through state legislation to promote the economic welfare, recreation opportunities, and prosperity of the County's inhabitants. The Agency is exempt from federal, state, and local income taxes. The County's governing body appoints members of the Agency, and the County exercises some oversight responsibility for management of the Agency. Although the management is not accountable directly to the County for fiscal matters, a budget is submitted to the County, and the County assumes a financial burden from the Agency by assuming certain expenses incurred by the Agency through its bonding transactions. Accordingly, the Agency is considered a component unit of the County of Sullivan, and reports as such.

Administrative Fee Income

Administrative fees for Agency costs relating to the project are recognized as income upon consummation of the related transactions. The fees charged by the Agency are based on a percentage of the financing, individual negotiations, the size of the project, and/or on an "as incurred" basis.

Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would be immaterial. Accounts receivable at December 31, 2011 and 2010 amounted to \$8,200 and \$0, respectively.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

The Agency records equipment at historical cost and depreciates the assets on a straight-line basis over periods of 5 and 20 years.

Expenses

Certain payroll and payroll related expenses for one of the employees of the Agency are paid and recorded by the County of Sullivan, the primary government, and the Agency reimburses the County for these expenses. All reporting and filing requirements for payroll taxes and benefits related to this employee are the responsibility of the County.

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 these estimates.

Cash and Cash Equivalents

For the statement of cash flows, the Agency considers all highly liquid investments of three months or less as cash equivalents.

Operating Revenues and Expenses

In the statement of revenues, expenses and changes in net assets, operating revenues and expenses include all activity that is part of the Agency's normal operating activities. Interest earned on cash balances and unusual or infrequent items are included as non-operating activities.

NOTE 2 – CASH AND INVESTMENTS

The state statutes govern the Agency's investment policies. In addition, the Agency has its own written investment policy. Agency monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Chief Executive Officer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State of its localities.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 – CASH AND INVESTMENTS (Continued)

Collateral is required for demand deposits and certificates of deposit at 105 percent of 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.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the federal government. Underlying securities must have a market value of at least 105 percent of the cost of the repurchase agreement.

The Agency’s aggregate bank balances included balances not covered by depository insurance at year end, collateralized as follows:

Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Agency’s name.	<u>\$ 2,002,665</u>
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NOTE 3 – NOTES RECEIVABLE

Notes receivable consist of amounts due from various business entities within Sullivan County. The purpose of these notes is to help local businesses expand and develop.

A schedule of notes receivable at December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
The Bake House – 60 month term loan, due in equal installments of \$368 per month, with interest at 4.00% per annum.	\$ 19,092	\$ -
David and Donalette Appel – 60 month term loan, due in equal installments of \$449 per month, with interest at 3.00% per annum.	23,447	-
Carmine’s Meat Market – 60 month term loan, due in equal installments of \$539 per month, with interest at 3.00% per annum.	29,071	-
Davidson Sullivan Realty - 60 month term loan, due in equal installments of \$898 per month, with interest at 3.00% per annum.	48,451	-

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 – NOTES RECEIVABLE (Continued)

	<u>2011</u>	<u>2010</u>
Country House Realty (Eureka Market) - 132 month term loan, interest only payments for the first twelve months, then equal installments of \$724 per month for the remaining 120 months, with interest at 3.0% per annum.	75,000	-
Sara's Gourmet – 60 month term loan, due in equal installments of \$709 per month, with interest at 2.438% per annum.	<u>21,274</u>	<u>29,158</u>
Total Notes Receivable	<u>\$ 216,335</u>	<u>\$ 29,158</u>

NOTE 4 – REVENUE BONDS

Industrial Revenue Bonds

Certain industrial revenue bonds and notes issued by the Agency are not obligations of the Agency. The Agency does not record the assets or liabilities resulting from the completed bond and note issues since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and 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, which are negotiated on a project by project basis.

Industrial revenue bond activity for the year ended December 31, 2011 is as follows:

<u>PROJECT NAME</u>	<u>JANUARY 1, 2011</u>	<u>ISSUED</u>	<u>REDEEMED</u>	<u>DECEMBER 31, 2011</u>
KS Realty Associates, LLC	\$ 590,466	\$ -	\$ -	\$ 590,466
Sullivan Diagnostic Treatment Center	10,815,000	-	10,815,000	-
Sullivan Diagnostic Treatment Center	1,360,000	-	1,360,000	-
Sullivan Diagnostic Treatment Center	2,645,000	-	2,645,000	-
Sullivan Diagnostic Treatment Center	5,730,000	-	5,730,000	-

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 – REVENUE BONDS (Continued)

<u>PROJECT NAME</u>	<u>JANUARY 1, 2011</u>	<u>ISSUED</u>	<u>REDEEMED</u>	<u>DECEMBER 31, 2011</u>
Sullivan Diagnostic Treatment Center	\$ 4,770,000	\$ -	\$ 4,770,000	\$ -
Sullivan Diagnostic Treatment Center	34,490,000	-	34,490,000	-
Crystal Run Village	1,187,500	-	92,500	1,095,000
Hebrew Academy For Special Children	4,223,167	-	85,833	4,137,334
Frontier Insurance	<u>26,000,000</u>	<u>-</u>	<u>-</u>	<u>26,000,000</u>
Total	<u>\$ 91,811,133</u>	<u>\$ -</u>	<u>\$ 59,988,333</u>	<u>\$ 31,822,800</u>

NOTE 5 – DEFERRED REVENUE

The Agency had \$223,876 and \$237,299 in deferred revenue at December 31, 2011 and 2010, respectively. The balance in this account is made up of the following items:

	<u>2011</u>	<u>2010</u>
Sullivan County Grant	\$ 150,000	\$ 150,000
Administrative Fees	39,747	57,164
Reimbursed Legal Expenses	<u>34,129</u>	<u>30,135</u>
	<u>\$ 223,876</u>	<u>\$ 237,299</u>

NOTE 6 – BAD DEBT EXPENSE

During the year ended December, 31 2010, the revolving loan to Karen Van Craenenbroeck, in the amount of \$4,642, was deemed uncollectible and written off by the Agency.

NOTE 7 – EVENTS OCCURRING AFTER REPORTING DATE

The Agency has evaluated events and transactions that occurred between December 31, 2011 and March 28, 2012, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 8 – EQUIPMENT LEASE

The Agency has entered into a lease agreement with Catskill Distilling Company, LTD (Lessee), in which the Agency purchased equipment to be used by the lessee. The lessee will pay monthly payments of \$1,500 to the Agency, beginning on January 1, 2011 and continuing for 114 months until the end of the lease term on June 30, 2020. Upon expiration of the lease term, the lessee has the option to purchase the equipment for \$146,000.

The equipment being leased is carried on the Agency's books as follows:

Still		\$	236,545
Tanks			55,906
Pump			<u>2,549</u>
			295,0000
Accumulated Depreciation			<u>(15,979)</u>
Net Book Value		\$	<u>279,021</u>

NOTE 9 – CAPITAL ASSETS

The Agency's capital assets for the year ended December 31, 2011 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment - Distillery	\$ 295,000	\$ -	\$ -	\$ 295,000
Equipment	<u>9,362</u>	<u>-</u>	<u>-</u>	<u>9,362</u>
Historical Cost	<u>304,362</u>	<u>-</u>	<u>-</u>	<u>304,362</u>
Accumulated Depreciation:				
Equipment-Distillery	1,230	14,749	-	15,979
Equipment	<u>6,304</u>	<u>974</u>	<u>-</u>	<u>7,278</u>
Total Accumulated Depreciation	<u>7,534</u>	<u>15,723</u>	<u>-</u>	<u>23,257</u>
Net Cost	<u>\$ 296,828</u>	<u>\$ (15,723)</u>	<u>\$ -</u>	<u>\$ 281,105</u>

Depreciation expense for the years ended December 31, 2011 and 2010 was \$15,723 and \$2,203, respectively.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 10 – RELATED PARTIES

The County of Sullivan, New York formed the Sullivan County Funding Corporation on November 24, 2010 under Section 1411 of the Not For Profit Corporation Law, which covers local development corporations. The purpose of the Sullivan County Funding Corporation is to foster the creation, retention and expansion of jobs and economic opportunities within Sullivan County. Similar to the County of Sullivan Industrial Development Agency, the Sullivan County Funding Corporation is a component unit of the County of Sullivan.

During the year ended December 31, 2011, the Board of the County of Sullivan Industrial Development Agency authorized the Sullivan County Funding Corporation to take over certain functions that were previously carried out by the Agency. As a result, the Agency authorized the transfer of \$299,808 to the Sullivan County Funding Corporation, which represents the remaining balance of the funds received by the Agency for the years 2009 through 2011 related to the Millenium Pipeline agreement dated April 21, 2009.

Beginning in 2012, the Sullivan County Funding Corporation will take over the receipt and administration of the annual \$108,000 payments related to the Millenium Pipeline agreement for the remaining seven years of the agreement. In addition, the Sullivan County Funding Corporation will reimburse the County of Sullivan Industrial Development Agency on a monthly basis for bookkeeping and related administrative costs. For the year ended December 31, 2011, the Agency received \$3,333 from the Sullivan County Funding Corporation for administrative costs.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
INDUSTRIAL REVENUE BONDS
DECEMBER 31, 2011

<u>PROJECT NAME</u>	<u>TAX STATUS</u>	<u>ISSUE DATE</u>	<u>INTEREST RATE</u>	<u>ISSUE AMOUNT</u>	<u>TAX EXEMPTIONS</u>		
					<u>COUNTY</u>	<u>LOCAL</u>	<u>SCHOOL</u>
Hebrew Academy For Special Children, Inc. Brooklyn, NY 11219	Not-For-Profit	6/02	7.50%	\$ 4,750,000	0	0	0
KS Realty Associates, LLC Goshen, NY 10924	Taxable	12/91	8.00%	16,000,000	39,892	54,803	160,204
Frontier Insurance Rock Hill, NY 12775	Taxable	11/93	PRIME	26,000,000	37,441	19,709	94,773
Crystal Run Village Middletown, NY 10941	Not-For-Profit	6/06	4.15%	1,980,000	0	0	0



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 Members of the County
Of Sullivan Industrial Development Agency
Monticello, New York 12701

We have audited the financial statements of the County of Sullivan Industrial Development Agency, New York as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 28, 2012. We conducted our audit in accordance with generally accepted auditing standards 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 County of Sullivan Industrial Development Agency, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Sullivan Industrial Development Agency, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Sullivan Industrial Development Agency, New York's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting:

Management does not possess the necessary training required to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.

Management Response: The Agency's accounting office has the knowledge and ability to post the ongoing day to day activity in accordance with the accrual basis of accounting. However, management feels that it would not be cost effective to take the necessary educational courses to be able to prepare the complete financial statements, including all required notes, in accordance with generally accepted accounting principles.

Compliance and Other Matters

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

We noted other matters that we reported to the management of the County of Sullivan Industrial Development Agency, New York in a separate letter dated March 28, 2012.

This report is intended solely for the information and use of the Board Members, management, others within the entity 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.

The County of Sullivan Industrial Development Agency, New York's written response to the significant deficiency identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Cooper, Neumann & Co, CPA's LLP
Mongaup Valley, New York
March 28, 2012