

**YATES COUNTY CAPITAL RESOURCE
CORPORATION
(A Discretely Presented Component Unit
of the County of Yates, New York)**

**Financial Statements as of
December 31, 2011 and 2010
Together with
Independent Auditors' Report**

YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)

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AS OF DECEMBER 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

March 21, 2012

To the Board of Directors of
Yates County Capital Resource Corporation:

We have audited the accompanying financial statements of the business-type activities of Yates County Capital Resource Corporation (the Agency), a New York Public Benefit Corporation and a discretely presented component unit of Yates County, New York as of December 31, 2011 and 2010 and for the year ended December 31, 2011 and for the period from inception (February 17, 2010) to December 31, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 respective financial position of the business-type activities of Yates County Capital Resource Corporation, as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, thereof for the year ended December 31, 2011 and for the initial period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2012, on our consideration of the Yates County Capital Resource Corporation'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.

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INDEPENDENT AUDITORS' REPORT

(Continued)

Accounting principles generally accepted in the United States 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, 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 audits were conducted for the purpose of forming an opinion on the basic financial statements of the Agency as a whole. The supplementary information in Exhibit I is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information in Exhibit I is the responsibility of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2011 AND FOR THE PERIOD FROM
FEBRUARY 17, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010**

Introduction

Our discussion and analysis of Yates County Capital Resource Corporation's (the Agency) financial performance provides an overview of the Agency's financial activities for the year ended December 31, 2011 and for the initial period ended December 31, 2010. It should be read in conjunction with the basic financial statements to enhance understanding of the Agency's financial performance, which immediately follows this section.

The Agency is a local development corporation functioning under legislation passed by the State of New York. Four of its seven Board members are officers of the Yates County Industrial Development Agency (IDA) who are appointed by the Yates County Legislature. The Agency functions much like a municipality with annual reporting requirements, uniform policies and financial safeguards required and are subject to The Public Authority Accountability Act of 2005.

The mission of the Agency is to assist in the enhancement and diversity of the economy of Yates County (the County) by acting in support of projects in the County that create and/or retain jobs and/or promote private sector investment utilizing the statutory powers of the Corporation as set forth under the provisions of the laws of the State of New York.

Financial Highlights

- The Agency began business in 2010 and the only transaction in 2010 was the collection of a fee for the issuance of a Bond.
- During 2011, the Agency created a revolving loan fund and issued one loan totaling \$40,000.
- The assets of the Agency exceeded liabilities at the close of the 2011 year by \$77,662 (net assets), a decrease of \$1,088 from the prior year balance of \$78,750.

Overview of Financial Statements

The statements of net assets and the statement of revenue, expenses, and change in net assets report information about the Agency as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net assets and changes in them from one year to the next. The Agency's net assets, the difference between assets and liabilities, are one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other factors, such as changes in the Agency's fee income and the fluctuation of the Agency's expenses, to assess the overall health of the Agency.

Additionally, the statements of cash flows provide information about the Agency's cash receipts, cash disbursements, and net changes in cash resulting from operating, financing and investing activities.

Notes to Financial Statements

The financial statements also include notes that explain the information in the financial statements. They are essential to a full understanding of the data provided in the financial statements.

Financial Statements

The Agency is required to report as a proprietary fund similar to a private business. Financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles put forth by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

Summary of Operations and Changes in Net Assets

For the year ended December 31, 2011 and for the initial period ending December 31, 2010:

	<u>2011</u>	<u>2010</u>
Operating revenue	\$ -	\$ 78,750
Operating expenses	(1,508)	-
Non-operating revenue	<u>420</u>	<u>-</u>
Change in net assets	<u>\$ (1,088)</u>	<u>\$ 78,750</u>

Operating Revenues

The Agency did not have any operating revenue in 2011. The Agency's operating revenue in 2010 was from the issuance of tax-exempt and taxable revenue bonds on behalf of a not-for-profit organization in Yates County. The fee income of \$78,750 was recorded as revenue when the project closed.

Operating Expenses

The components of the operating expenses of \$1,508 in 2011 relate to accounting fees and bank fees. The Agency did not have any operating expenses in 2010.

Net Assets

As of December 31:

	<u>2011</u>	<u>2010</u>
Cash	\$ 40,801	\$ 78,750
Notes receivable	<u>36,861</u>	<u>-</u>
	<u>\$ 77,662</u>	<u>\$ 78,750</u>
Unrestricted net assets	<u>\$ 77,662</u>	<u>\$ 78,750</u>

The Agency's cash was in a non-interest bearing checking account at December 31, 2011 and 2010 and there are no restrictions on how the cash can be spent.

Long-Term Debt

The Agency has no long-term debt.

Future Factors

The Agency was formed for the purpose of providing financing opportunities for not-for-profit organizations in Yates County. Due to its limited purpose, at this time, the Agency does not expect to experience significant growth in the near future. As the credit market continues to tighten and as funding for not-for-profit organizations are effected by the New York State budget, the Agency envisions a greater role in providing financing for projects within the not-for-profit industry.

Requests for Information

This financial report is designed to provide a general overview of the Yates County Capital Resource Corporation's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Stephen Griffin, Chief Executive Officer
Yates County Capital Resource Corporation
1 Keuka Business Park Suite 104
Penn Yan, New York 14527

YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)

STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 40,801	\$ 78,750
Current portion of notes receivable, net	<u>7,656</u>	<u>-</u>
Total current assets	<u>48,457</u>	<u>78,750</u>
OTHER ASSETS:		
Notes receivable, net of current portion	<u>29,205</u>	<u>-</u>
Total assets	<u>\$ 77,662</u>	<u>\$ 78,750</u>
LIABILITIES AND NET ASSETS		
NET ASSETS:		
Unrestricted	<u>\$ 77,662</u>	<u>\$ 78,750</u>
Total net assets	<u>\$ 77,662</u>	<u>\$ 78,750</u>

The accompanying notes are an integral part of these statements.

YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND FOR THE PERIOD FROM
FEBRUARY 17, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE	\$ -	\$ 78,750
OPERATING EXPENSES	<u>1,508</u>	<u>-</u>
OPERATING INCOME (LOSS)	(1,508)	78,750
NONOPERATING REVENUE:		
Interest income	<u>420</u>	<u>-</u>
CHANGE IN NET ASSETS	(1,088)	78,750
NET ASSETS - beginning of the period	<u>78,750</u>	<u>-</u>
NET ASSETS - end of year	<u>\$ 77,662</u>	<u>\$ 78,750</u>

The accompanying notes are an integral part of these statements.

YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND FOR THE PERIOD FROM
FEBRUARY 17, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	<u>2011</u>	<u>2010</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ -	\$ 78,750
Cash payments for other than personal services	<u>(1,508)</u>	<u>-</u>
Net cash flow from operating activities	<u>(1,508)</u>	<u>78,750</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Collection of notes receivable	3,139	-
Issuance of notes receivable	(40,000)	-
Interest income	<u>420</u>	<u>-</u>
Net cash flow from investing activities	<u>(36,441)</u>	<u>-</u>
CHANGE IN CASH	(37,949)	78,750
CASH - beginning of the period	<u>78,750</u>	<u>-</u>
CASH - end of year	<u>\$ 40,801</u>	<u>\$ 78,750</u>
RECONCILIATION OF NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,508)	\$ 78,750
Net cash flow from operating activities	<u>\$ (1,508)</u>	<u>\$ 78,750</u>

The accompanying notes are an integral part of these statements.

**YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

1. THE ORGANIZATION

The Yates County Capital Resource Corporation (the Agency) was formed under the New York State Not-for-Profit Corporation Law in 2010 for the purpose of encouraging economic growth in Yates County (the County). The Agency is a public benefit organization that is subject to The Public Authority Accountability Act of 2005. The County is the sole member of the Agency and four of the Agency's seven Board members are the officers of Finger Lakes Industrial Development Agency (IDA) who are appointed by the Yates County Legislature. The Agency, however, is a separate entity and operates independently of the County and the IDA.

The Agency is a discretely presented component unit of the County.

All governmental activities and functions performed for the Agency are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States. The Agency applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The Agency reports its activities within a proprietary fund type. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Fixed assets and long-term liabilities related to these activities are recorded within the fund.

Basis of Presentation

GASB requires the classification of net assets into three components as defined below:

- **Invested in Capital Assets, net of related debt** - consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings, if any, that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** - consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Agency's net assets were unrestricted at December 31, 2011 and 2010.

Cash

Cash consists of a bank demand deposit account.

Notes Receivable

In 2011, the Agency started a loan fund for the purpose of making operating and capital loans to existing and potential new not-for-profit organizations located or locating operations in Yates County. These loans are made to create and retain jobs.

Management records an allowance for doubtful accounts based on past collection experience and an analysis of outstanding amounts. Amounts for which no payments have been received for several years are considered in default and when customary collection efforts are exhausted, the account is written off. An allowance was not considered necessary at December 31, 2011.

Revenue

The Agency earns fee income from the issuance of tax-exempt and taxable revenue bonds. Fee income is recorded as revenue when the financing closes.

Income Taxes

The Agency is a not-for-profit public benefit corporation and is exempt from income taxes under the Internal Revenue Code.

Estimates

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

3. CASH

Policies

The Agency follows a deposit and investment policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conform with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the investment officers, which consist of the Board Treasurer, Board Chairman and the Chief Executive Officer.

Agency monies must be deposited in commercial banks or trust companies located within and authorized to do business in New York State or with a private banker authorized to do business in New York State and maintaining a permanent capital of not less than \$1,000,000 in New York State. Permissible investments include special time deposit accounts, certificates of deposit and obligations of the United States or of federal agencies whose principal and interest payments are fully guaranteed by the federal government, or of New York State or in general obligations of the State's political subdivisions.

Collateral is required for deposits and certificates of deposit not covered by Federal Deposit Insurance Corporation (FDIC) insurance. Obligations that may be pledged as collateral are those identified in New York State General Municipal Law, Section 10 and outlined in the New York State Comptroller's Financial Management Guide.

3. CASH (Continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Agency's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Agency's deposit and investment policy limits the Agency to the following types of investments:

- Special time deposits;
- Certificates of deposit;
- Obligations of the United States of America;
- Obligations of the State of New York;
- Obligations issued by political subdivisions of the State of New York, with the approval of the New York State Comptroller.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Agency's deposit and investment policy, all deposits of the Agency including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities together with a security agreement and custodial agreement or a surety bond or letter of credit securing 100% of the Agency's funds.

At December 31, 2011 and 2010 cash held by the Agency in financial institutions was \$40,801 and \$78,750, respectively. This account is not subject to significant investment risk relating to changing interest rates and the balance was within the limits of FDIC at December 31, 2011 and 2010.

4. NOTES RECEIVABLE

Principal maturities of notes receivable from the Finger Lakes Museum, bearing interest at a rate of 2.6% and maturing at August 2016 were as follows at December 31, 2011:

2012	\$	7,656
2013		7,857
2014		8,064
2015		8,276
2016		<u>5,008</u>
		36,861
Current portion		<u>(7,656)</u>
	\$	<u>29,205</u>

5. CONDUIT FINANCING

In conjunction with its efforts to promote economic growth in Yates County, the Agency can issue Industrial Revenue Bonds to provide financial assistance to non-profit entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entities served by the bond issuance. The Agency is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Bond service fees earned in 2011 and 2010 were \$0 and \$78,750, respectively.

At December 31, 2011 and 2010, the outstanding bond related to a project with which the Agency was involved was \$10,147,306 and \$9,087,560, respectively, maturing on December 1, 2030.

YATES COUNTY CAPITAL RESOURCE CORPORATION
(A Discretely Presented Component Unit of the County of Yates, New York)

SCHEDULE OF BOND INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2011

Project name	Keuka College
Project type	Bond
Purpose of project	Commercial property construction, acquisition, revitalization, and improvement
Total project amount	\$ 10,500,000
Date of issue	9/2/2010
Interest rate	3.19%
Maturity date	2030
Federal tax status	Exempt
Amount outstanding at December 31, 2011	\$ 10,147,306
Owner of project	Keuka College 141 Central Avenue Keuka Park, NY 14478
Owner type	Not-for-profit
Tax exemptions authorized	None
Payments in lieu of taxes	None
Estimated number of full time equivalent jobs created	220
Current number of full time equivalent jobs	314.3

The accompanying notes are an integral part of this exhibit.

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

March 21, 2012

To the Board of Directors of
Yates County Capital Resource Corporation:

We have audited the financial statements of the business-type activities of Yates County Capital Resource Corporation (the Agency), a New York Public Benefit Corporation and a discretely presented component unit of Yates County, New York as of and for the year ended December 31, 2011, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Yates County Capital Resource Corporation'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 Yates County Capital Resource Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Yates County Capital Resource Corporation'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.

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**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***

(Continued)

Compliance and Other Matters

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

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