

**CITY OF HORNELL**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
*Basic Financial Statements Required Supplementary  
Information and Supplemental Information for the  
Years Ended March 31, 2012 and 2011  
and Independent Auditors' Reports*

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
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**Years Ended March 31, 2012 and 2011**

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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

To the Members of City of Hornell  
Industrial Development Agency:

We have audited the accompanying statements of net assets of the City of Hornell Industrial Development Agency (the "Agency") as of March 31, 2012 and 2011, and the related statements of activities 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of March 31, 2012 and 2011, and the changes in financial position 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 June 21, 2012 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 as listed in the forgoing table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Drescher & Malecki LLP*

June 21, 2012

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**  
**For the Years Ended March 31, 2012 and 2011**

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As management of the City of Hornell Industrial Development Agency (the "Agency") we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the years ended March 31, 2012 and 2011. This narrative should be read in conjunction with the Agency's financial statements which follow this section.

**Financial Highlights:**

- ◆ The assets of the Agency exceed its liabilities (*net assets*) at March 31, 2012 and 2011 by \$5,842,890 and \$5,482,642, respectively. Of these amounts, \$1,233,085 and \$1,324,584 were *unrestricted net assets*, meaning that these amounts are available for use in furthering the Agency's mission.
- ◆ The Agency's total net assets increased by \$360,248 and \$127,183 for the fiscal years ended March 31, 2012 and 2011, respectively. Both increases are the result of current year operations.

**Overview of the Financial Statements**

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

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

- ◆ *Statements of Net Assets*—Presents all assets, liabilities and net assets of the Agency at March 31, 2012 and 2011.
- ◆ *Statements of Activities*—Presents the financial activity for the years ended March 31, 2012 and 2011 and displays how this financial activity changed the Agency's net assets.
- ◆ *Statements of Cash Flows*—Presents the cash provided and used during the 2012 and 2011 fiscal years and how it affects the cash balances at March 31, 2012 and 2011.
- ◆ *Notes to the Financial Statements*—Provide information regarding the Agency and explain in more detail information included in the financial statements.

**Financial Analysis**

The Agency provides administrative assistance and has limited operations. The Agency's net assets may serve over time as a useful indicator of financial position. In the case of the Agency, assets exceeded liabilities by \$5,842,890 and \$5,482,642 at March 31, 2012 and 2011, respectively.

By far the Agency's largest types of assets are its capital assets, which are composed primarily of rental facilities and land being held for development purposes.

A condensed version of the Agency's statement of net assets follows:

	March 31,		
	2012	2011	2010
<b>Assets:</b>			
Current assets	\$ 1,503,054	\$ 1,454,205	\$ 1,338,125
Capital assets, net	5,565,750	5,305,482	5,424,768
Other noncurrent assets	16,789	65,500	13,050
Total assets	<u>7,085,593</u>	<u>6,825,187</u>	<u>6,775,943</u>
<b>Liabilities:</b>			
Current liabilities	374,628	221,958	278,948
Noncurrent liabilities	868,075	1,120,587	1,141,536
Total liabilities	<u>1,242,703</u>	<u>1,342,545</u>	<u>1,420,484</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	4,609,805	4,158,058	4,086,712
Unrestricted	1,233,085	1,324,584	1,268,747
Total net assets	<u>\$ 5,842,890</u>	<u>\$ 5,482,642</u>	<u>\$ 5,355,459</u>

A useful indicator of the financial status and ability to meet the Agency's current obligation is the current ratio, which is computed as follows:

	March 31,		
	2012	2011	2010
Current assets	\$ 1,503,054	\$ 1,454,205	\$ 1,338,125
Current liabilities	374,628	221,958	278,948
Ratio of current assets to current liabilities	4.01	6.55	4.80

The Agency had current ratios of 4.01 and 6.55 at March 31, 2012 and 2011, respectively. Such ratios imply that the Agency has sufficient assets on hand to cover its liabilities that will come due in the coming year.

The Agency's revenue and expense activity produced the change in net assets of \$360,248 and \$127,183 for the fiscal years ended March 31, 2012 and 2011, respectively. A condensed statement of revenues, expenses and changes in net assets follows:

	Year Ended March 31,		
	2012	2011	2010
Operating revenues	\$ 951,192	\$ 908,673	\$ 971,149
Operating expenses	<u>672,022</u>	<u>762,640</u>	<u>800,442</u>
Net operating income	279,170	146,033	170,707
Nonoperating (expenses)	<u>81,078</u>	<u>(18,850)</u>	<u>(63,349)</u>
Change in net assets	<u>\$ 360,248</u>	<u>\$ 127,183</u>	<u>\$ 107,358</u>

Significant changes in revenues and expenses from 2012 to 2011 include:

- ◆ Operating revenues increased by approximately \$42,519 in total, with the increase in rental income of \$68,033 and a decrease in airplane rental income of \$28,014. This is attributed to increased rental activity and the airplane taken out of service for repair and maintenance, respectively.
- ◆ Operating expenses decreased by approximately \$90,618 in total, with the largest decrease noted in website service fees. This decrease was caused by the completion of the Agency's website during the year ended March 31, 2011. Significant decreases were noted in airplane expense. The decrease was caused by decreased airplane activity.

Another important factor in the consideration of the fiscal condition is the Agency's cash position and annual cash flows. A condensed version of the Agency's statement of cash flows follows:

	Year Ended March 31,		
	2012	2011	2010
Cash flows from:			
Operating activities	\$ 601,697	\$ 387,801	\$ 799,791
Capital and related financing activities	(683,603)	(387,419)	(334,816)
Investing activities	10,021	5,476	13,473
Net change in cash and cash equivalents	<u>\$ (71,885)</u>	<u>\$ 5,858</u>	<u>\$ 478,448</u>

### Capital Assets and Debt Administration

**Capital Assets**—The Agency's investment in capital (net of accumulated depreciation) as of March 31, 2012 and 2011, amounted to \$5,565,750 and \$5,305,482, respectively. This investment in capital assets includes land, construction in progress, buildings and improvements, and machinery and equipment.

A summary of the Agency's capital assets net of accumulated depreciation is presented below:

	March 31,		
	2012	2011	2010
Land	\$ 676,910	\$ 557,710	\$ 455,608
Construction in progress	138,186	-	-
Buildings and improvements	4,713,611	4,697,844	4,905,470
Machinery and equipment	37,043	49,928	63,690
Total	<u>\$ 5,565,750</u>	<u>\$ 5,305,482</u>	<u>\$ 5,424,768</u>

**Debt**—At March 31, 2012, the Agency had total debt outstanding of \$955,945 as compared to \$1,147,424 at March 31, 2011. There was no new debt issued during the years ended March 31, 2012 and March 31, 2011. All scheduled payments were made during each fiscal year. The debt is not secured by the general assets of the Agency; rather, it is secured by the specific property for which such borrowing occurred.

Additional information on the Agency's debt can be found in the notes to the financial statements.

**Economic Factors**

The Agency's basic purpose is to assist business growth and expansion in the City of Hornell. The Agency does not rely on any form of taxpayer or other public support. The business and economic climate in the City have been relatively steady over the past two years.

**Contacting the Agency**

This financial report is designed to provide a general overview of the Agency's finances for interested individuals. Questions regarding this report or requests for additional information should be directed to the City of Hornell Industrial Development Agency, 40 Main Street, Hornell, New York 14843



**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Net Assets**  
**March 31, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,196,159	\$ 1,268,044
Accounts receivable	251,895	179,872
Notes receivable	55,000	6,289
Total current assets	<u>1,503,054</u>	<u>1,454,205</u>
Noncurrent assets:		
Notes receivable	16,789	65,500
Capital assets:		
Land	676,910	557,710
Construction in progress	138,186	-
Buildings and improvements	9,400,401	9,100,421
Machinery and equipment	475,800	472,475
Less accumulated depreciation	<u>(5,125,547)</u>	<u>(4,825,124)</u>
Total capital assets, net of depreciation	<u>5,565,750</u>	<u>5,305,482</u>
Total noncurrent assets	<u>5,582,539</u>	<u>5,370,982</u>
Total assets	<u>7,085,593</u>	<u>6,825,187</u>
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	87,870	81,837
Accounts payable—trade	68,018	12,063
Accounts payable—PILOTs	162,756	126,280
Accrued liabilities	984	1,778
Deferred revenue	55,000	-
Total current liabilities	<u>374,628</u>	<u>221,958</u>
Noncurrent liabilities:		
Notes payable	868,075	1,065,587
Deferred revenue	-	55,000
Total noncurrent liabilities	<u>868,075</u>	<u>1,120,587</u>
Total liabilities	<u>1,242,703</u>	<u>1,342,545</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,609,805	4,158,058
Unrestricted	<u>1,233,085</u>	<u>1,324,584</u>
Total net assets	<u>\$ 5,842,890</u>	<u>\$ 5,482,642</u>

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Activities**  
**Years Ended March 31, 2012 and 2011**

	2012	2011
Operating revenues:		
Rental income	\$ 936,192	\$ 868,159
Airplane rental income	-	28,014
Website grant	-	12,500
Miscellaneous	15,000	-
Total operating revenues	<u>951,192</u>	<u>908,673</u>
Operating expenses:		
Salaries and benefits	46,965	50,190
Repairs and maintenance	11,050	13,018
Airport tax expense	30,000	30,000
Auto expenses	7,800	6,499
Insurance—general and medical	55,477	52,915
Consulting fee	66,000	66,000
Legal and accounting	21,205	39,564
Dues and subscriptions	2,863	3,061
Equipment rental	1,930	3,860
Rent	8,400	8,400
Utilities	1,470	1,415
Telephone	7,554	7,451
Airplane expense	5,484	26,392
Depreciation	302,913	291,747
Office supplies	12,041	8,499
Postage	4,326	4,392
Outside services	6,500	21,251
Travel and entertainment	73,216	67,311
Empire Zone expense	6,828	27,460
Website services	-	32,738
Miscellaneous	-	477
Total operating expenses	<u>672,022</u>	<u>762,640</u>
Operating loss	<u>279,170</u>	<u>146,033</u>
Nonoperating revenues (expenses):		
Interest income	10,021	5,476
Miscellaneous income	119,200	-
Interest on debt	(48,143)	(24,326)
Total nonoperating (expenses)	<u>81,078</u>	<u>(18,850)</u>
Change in net assets	360,248	127,183
Total net assets—beginning	<u>5,482,642</u>	<u>5,355,459</u>
Total net assets—ending	<u>\$ 5,842,890</u>	<u>\$ 5,482,642</u>

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Cash Flows**  
**Years Ended March 31, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from providing services	\$ 879,169	\$ 788,501
Receipts from other operating activities	-	12,500
Payments for contractuals expenses	(229,713)	(363,191)
Payments for personal services and benefits	(47,759)	(50,009)
Net cash provided by operating activities	601,697	387,801
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(443,981)	(172,461)
Principal paid on debt	(191,479)	(190,632)
Interest paid on debt	(48,143)	(24,326)
Net cash (used in) capital and related financing activities	(683,603)	(387,419)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	10,021	5,476
Net increase in cash and cash equivalents	(71,885)	5,858
Cash and cash equivalents—beginning	1,268,044	1,262,186
Cash and cash equivalents—ending	\$ 1,196,159	\$ 1,268,044
 <b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income	\$ 279,170	\$ 146,033
Adjustments for items not affecting cash flows:		
Depreciation	302,913	291,747
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(72,023)	(116,551)
(Increase) in notes receivable	-	(46,121)
Increase in accounts payable	92,431	57,512
Increase (decrease) in accrued liabilities	(794)	181
Increase in deferred revenue	-	55,000
Total adjustments	322,527	241,768
Net cash provided by operating activities	\$ 601,697	\$ 387,801

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**Years Ended March 31, 2012 and 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Nature of Operations**

The City of Hornell Industrial Development Agency (the “Agency”) is a public benefit corporation and was created in 1974 under Title I Article 18-A of New York State General Municipal Law for the purpose of encouraging financially sound companies to locate and expand in the City of Hornell, New York (the “City”). The Agency is exempt from Federal income taxes and New York State franchise taxes.

**B. Basis of Accounting**

The accounts of the Agency are maintained on the accrual basis of accounting. The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are:

***Industrial Development Revenue Bond and Note Transactions***—Industrial development revenue bonds and notes issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. The bonds and notes are not obligations of the Agency, the City 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 is to arrange the financing between the borrowing companies and the bond and note holders. The funds arising there from are controlled by trustees or banks acting as fiscal agents. The Agency receives bond administrative fees from the borrowing companies for providing the service. Such administrative fee income is recognized immediately upon issuance of the bonds and notes.

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

***Investments***—The Agency’s investment policies are governed by State statutes. In addition, the Agency has its own written investment policy. The Agency reports no investments at March 31, 2012 and 2011; however, it is the Agency’s policy to state investments at fair value, when applicable.

***Grant Accounting***—Pass-through grants are recorded as receivables and deferred revenue upon award; revenues are recognized as the Agency meets performance requirements of the grants.

***Rental Property***—The Agency has developed various properties which it leases under operating leases to companies establishing or expanding new business activities in the Hornell area. The property is recorded at cost, which includes all costs incurred during the development stage, net of accumulated depreciation.

Depreciation is computed on the straight-line method over the estimated lives of the assets. The Agency acquired a Piper Navajo airplane in 1987 for use by the Hornell business community. The plane is owned by the Agency and leased to and operated by Jet Smart Aviation. The Agency receives monthly rental income based upon number of hours flown.

**Property and Equipment**—Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the following estimated useful lives of the assets:

Assets	Years
Buildings and improvements	30
Machinery and equipment	5 - 7

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

### C. Use of Estimates

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

### D. Future Impacts of Accounting Pronouncements

During the year ended March 31, 2012, the Agency completed the process of evaluating the impact that resulted from adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*. GASB Statements No. 54 and No. 59 did not have a material impact on the Agency's financial position or results from operations.

The Agency has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 5*, effective March 31, 2013; and No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; No. 65, *Items Previously Reported As Assets and Liabilities*; and No. 66, *Technical Corrections-2012—an amendment of GASB Statements No. 10 and No. 62*, effective March 31, 2014. The Agency is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63, 64, 65, and 66 will have on its financial position and results of operations when such statements are adopted.

## 2. CASH AND CASH EQUIVALENTS

Collateral is required for demand deposits and certificates of deposits for all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The Agency's cash and cash equivalents at March 31, 2012 and 2011 are carried at fair value as follows:

	March 31, 2012		March 31, 2011	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 778,238	\$ 778,238	\$ 1,254,925	\$ 1,254,925
Uninsured:				
Collateral held pledging bank's agent in the Agency's name	425,022	417,921	25,009	13,119
Total deposits	<u>\$ 1,203,260</u>	<u>\$ 1,196,159</u>	<u>\$ 1,279,934</u>	<u>\$ 1,268,044</u>

**Custodial credit risk**—Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At March 31, 2012 and 2011, the Agency's deposits were FDIC insured or collateralized.

## 3. RECEIVABLES

**A. Accounts receivable**—Accounts receivable at March 31, 2012 and 2011 is as follows:

	2012	2011
Payments in lieu of taxes, to be remitted to taxing authorities	<u>\$ 251,895</u>	<u>\$ 179,872</u>

**B. Notes receivable**—Represents special project grants and mortgages and is comprised of the following at March 31, 2012 and 2011:

	2012	2011
Mortgage receivable from Leon Babcock in the amount of \$24,500 at 6.0% to be paid over nine years. The Agency does not anticipate collecting any loan payments within a year. However, the Agency has a lien against the property and they expect to collect the mortgage receivable in its entirety. Mortgage is for the property located at 103-113 Main Street.	\$ 16,789	\$ 16,789
Note receivable due from the Hornell Chamber of Commerce. Funds were provided for repair and updating of building. The note is payable upon the Chambers sale of the building which is expected to occur within a year.	55,000	55,000
Total notes receivable	71,789	71,789
Less current portion	(55,000)	(6,289)
Non-current portion	<u>\$ 16,789</u>	<u>\$ 65,500</u>

#### 4. PROPERTY AND EQUIPMENT—NET

Property and equipment consisted of the following at March 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 676,910	\$ 557,710
Construction in progress	138,186	-
Buildings and improvements	9,400,401	9,100,421
Machinery and equipment	<u>475,800</u>	<u>472,475</u>
Total	10,691,297	10,130,606
Less accumulated depreciation	<u>(5,125,547)</u>	<u>(4,825,124)</u>
Property and equipment—net	<u>\$ 5,565,750</u>	<u>\$ 5,305,482</u>

Depreciation expense recorded for the fiscal years ended March 31, 2012 and 2011 was \$300,423 and \$291,747, respectively.

#### 5. LONG-TERM DEBT

Long-term debt at March 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Steuben Trust Company loan payable in monthly installments including interest at 5.24%, due February 2021. Collateralized by rental property.	\$ 955,945	\$ 989,439
Steuben Trust Company loan payable in monthly installments of \$7,410, including interest at 6.5%. Paid in full in September, 2011.	<u>-</u>	<u>157,985</u>
Total long-term debt	955,945	1,147,424
Less current portion	<u>(87,870)</u>	<u>(81,837)</u>
Non-current portion	<u>\$ 868,075</u>	<u>\$ 1,065,587</u>

Remaining planned principal and interest payments are as follows at March 31, 2012:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 87,870	\$ 48,277
2014	118,484	42,668
Other	<u>749,591</u>	<u>152,907</u>
Total	<u>\$ 955,945</u>	<u>\$ 243,852</u>

#### 6. RELATED ENTITY

The Hornell Area Industrial Development Corporation (the “HAIDC”) is a nonprofit corporation created to assist companies to establish themselves and prosper in the Hornell area. The HAIDC is considered a related entity since its members are also members of the Agency. HAIDC members have complete independent responsibility and accountability for their fiscal matters, therefore, the HAIDC functions and activities are not included in the Agency’s financial statements. During the year ended

March 31, 2012 and 2011 there were no transactions between the Agency and the HAIDC, and there are no amounts due from or due to the HAIDC at March 31, 2012 and 2011.

**7. RENTAL REVENUE**

The Agency leases certain of its real property and improvements thereon to various companies under non-cancelable operating leases through 2022. Future annual lease amounts to be received, which include amounts to be paid to certain taxing entities under payment-in-lieu-of tax agreements, under these leases over the next five years are as follows:

<u>Fiscal Year Ending March 31,</u>	
2013	\$ 994,749
2014	1,021,057
2015	1,048,154
2016	1,076,062
2017	<u>1,104,816</u>
Total	<u>\$ 5,244,838</u>

**8. LEASES**

The Agency has entered into operating lease agreements as lessee in order to secure the use of certain machinery and equipment. Expenses for the years ended March 31, 2012 and 2011 for these leases amounted to \$5,790. During the year ended March 31, 2012, the Agency purchased the machinery and equipment at its estimated fair market value.

The Agency also leases its office space from the City of Hornell Chamber of Commerce on a year-to-year operating lease. Rent expense was \$8,400 for both of the years ended March 31, 2012 and 2011.

**9. COMMITMENTS AND CONTINGENCIES**

Grants received by the Agency require the fulfillment of certain conditions as set forth in the various grant agreements. Failure to fulfill them could result in the forfeiture of the grants. Although the possibility exists of this occurring, management deems this likelihood to be remote.

**10. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 21, 2012, which is the date the financial statements are available for issuance, and determined there are no subsequent events that require disclosure under generally accepted accounting procedures.

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## **SUPPLEMENTAL INFORMATION**

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Schedule of Agency Investments**  
**Year Ended March 31, 2012**

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

- a. Investment guidelines—The Agency’s investment policies are governed by State statutes. In addition, the Agency has its own written investment policy which was adopted by the Board of Directors.
- b. Amendments to guidelines—None.
- c. Explanation of guidelines and investments—These guidelines restrict investment of Agency funds to money market accounts and certificates of deposit. The Agency has not made any amendments to its investment policy.
- d. Results of the annual independent audit—The independent auditors have issued an unqualified opinion on the Agency’s financial statements for the year ended March 31, 2012.
- e. Investment income record—Investment income for the year ended March 31, 2012 consisted of:

	Interest Earned
Interest earned on cash and cash equivalents	\$ 3,909
Interest earned on notes receivable	6,112
	\$ 10,021

- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Agency since the last investment report—No such fees or commissions were paid during the year ended March 31, 2012.

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Real Property Listing**  
**March 31, 2012**

**1. Real property list**—§2896(3) of Public Authorities Law of the State of New York requires that each public authority must publish, at least annually, a report listing all real property of the authority. At March 31, 2012, the Agency owned the following real property:

Section/Block/Lot Identification #	Municipality	Property Location and Description	Recorded Value
136.03-01-001.001	City of Hornell, NY	State Route 36 – Walmart Plaza vacant land	\$ -
136.03-01-001.002	City of Hornell, NY	State Route 36 – Walmart Plaza vacant land	-
136.03-01-001.004	City of Hornell, NY	State Route 36 – Walmart Plaza	-
136.03-01-001.005	City of Hornell, NY	State Route 36 – Walmart Plaza vacant land	-
136.03-01-001.006	City of Hornell, NY	State Route 36 – Walmart Plaza	-
136.17-01-001.200	City of Hornell, NY	Shawmut Drive – vacant land	16,000
151.05-02-001.300	City of Hornell, NY	Shawmut Drive – vacant land	-
151.05-02-002.100	City of Hornell, NY	Shawmut Drive – vacant land	-
151.05-02-002.200	City of Hornell, NY	Shawmut Drive – Trikeenan	-
151.05-02-007.000	City of Hornell, NY	Shawmut Drive – Alstom	-
151.05-02-009.000	City of Hornell, NY	Shawmut Drive – Alstom	-
151.10-01-001.200	City of Hornell, NY	Shawmut Drive – Alstom	-
151.10-01-044.000	City of Hornell, NY	195-203 Seneca St. – Alstom	-
151.10-01-048.000	City of Hornell, NY	185 Seneca St. – Alstom	-
151.10-01-067.000	City of Hornell, NY	Fulton Street – vacant land	-
151.15-01-001.000	City of Hornell, NY	Fulton Street – vacant land	4,500
151.15-01-093.000	City of Hornell, NY	Washington St. – vacant land	-
151.71-03-036.000	City of Hornell, NY	103-113 Main St – Erieline Antiques	-
166.06-07-045.001	City of Hornell, NY	111 Loder St. – Alstom	-
166.06-07-046.103	City of Hornell, NY	12 Park Drive - vacant land	119,200
166.06-07-044-111	City of Hornell, NY	Transit Drive –Rechichi parking lot	-
166.11-01-015.000	City of Hornell, NY	Transit Drive – Alstom	-
166.33-01-012.100	City of Hornell, NY	Transit Drive – Alstom	-
166.33-01-012.200	City of Hornell, NY	Transit Drive – Alstom	-
166.00-03-09.000	City of Hornell, NY	South Yards – Ice House Rd.	360,874
122.00-01-024.100	Town of Hornellsville, NY	Generalli Property	15,174
122.00-01-024.200	Town of Hornellsville, NY	Generalli Property	6,504
107.14-01- 016.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-072.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-005.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-007.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-70.000	Town of Hornellsville, NY	Shawmut Drive – vacant land	-
121.00-01-025.000	Town of Hornellsville, NY	Old railroad bed – Crowley Foods	-
121.00-01-046.200	Town of Hornellsville, NY	Pump station – Crowley Foods	-
122.00-01-27-111	Town of Hornellsville, NY	Ellis Farm – 51.4 acres of vacant land	49,056
136.00-01-64.000	Town of Hornellsville, NY	CR66 railroad bed – Crowley Foods	-
151.05-01-63.000	Town of Hornellsville, NY	Shawmut Drive – vacant land	1,000
151.05-01-64.400	Town of Hornellsville, NY	Shawmut Drive – vacant land	2,500
151.05-01-64.500	Town of Hornellsville, NY	Shawmut Drive – vacant land	-
150.00-01-62.000	City of Hornell, NY	Bocobo, Wood St. Ext - .16 Acres	102,102
150.00-01-64.000	City of Hornell, NY	Bocobo, Wood St. Ext - 1.27 Acres	-
151.17-01-64.000	City of Hornell, NY	Bocobo, West St. - 1.02 Acres	-
166.05-01-02.000	City of Hornell, NY	Bocobo, Fairlawn Ave. - 17.82 Acres	-
166.05-01-04.100	City of Hornell, NY	Bocobo, Ellsworth Place. - 49.5x159 feet	-
166.05-01-06.000	City of Hornell, NY	Bocobo, 87 Hartshorn - 3.30 Acres	-
Total recorded value			<u>\$ 676,910</u>

2. **Real property acquisitions**—Real property acquisitions during the year ended March 31, 2012 amounted to approximately \$119,200, which is the estimated fair market value of land donated to the Agency.
3. **Real property dispositions**—There were no real property dispositions during the year ended March 31, 2012.

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*Certified Public Accountants*

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

To the Members of City of Hornell  
Industrial Development Agency:

We have audited the financial statements of City of Hornell Industrial Development Agency (the "Agency") as of and for the years ended March 31, 2012 and 2011, and have issued our report thereon dated June 21, 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**

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

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

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Agency in a separate letter dated June 21, 2012.

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

*Drescher & Malecki LLP*

June 21, 2012