

CITY OF HORNELL
INDUSTRIAL DEVELOPMENT AGENCY
*Basic Financial Statements Required Supplementary
Information and Supplemental Information for the
Years Ended March 31, 2011 and 2010
and Independent Auditors' Reports*

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
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Years Ended March 31, 2011 and 2010

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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 statement of net assets of City of Hornell Industrial Development Agency (the "Agency") as of March 31, 2011 and 2010, 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of March 31, 2011 and 2010, and the changes in financial position and cash flows for the year 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 23, 2011, 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 audits.

The Management's Discussion and Analysis listed in the foregoing Table of Contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were 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. This supplemental information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Drescher & Malecki LLP

June 23, 2011

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
For the Years Ended March 31, 2011 and 2010

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, 2011 and 2010. This narrative should be read in conjunction with the Agency's financial statements which follow this section.

Financial Highlights:

- ◆ The assets of the Agency exceed its liabilities (*net assets*) at March 31, 2011 and 2010 by \$5,482,642 and \$5,355,459, respectively. Of these amounts, \$1,324,584 and \$1,268,747 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 \$127,183 and \$107,385 for the fiscal years ended March 31, 2011 and 2010, respectively. Both increases are the result of current year operations.

Overview of the Financial Statements

This discussion and analysis are 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, 2011 and 2010.
- ◆ *Statements of Activities*—Presents the financial activity for the years ended March 31, 2011 and 2010 and displays how this financial activity changed the Agency's net assets.
- ◆ *Statements of Cash Flows*—Presents the cash provided and used during the 2011 and 2010 fiscal years and how it affects the cash balances at March 31, 2011 and 2010.
- ◆ *Notes to the Financial Statements*—Provide information regarding the Agency and explain in more detail information included in the financial statements.

Financial Analysis

The Agency provides administrative assistance 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 \$5,482,642 and \$5,355,459 at March 31, 2011 and 2010, 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,		
	2011	2010	2009
Assets:			
Current assets	\$ 1,454,205	\$ 1,338,125	\$ 1,175,791
Capital assets, net	5,305,482	5,424,768	5,677,160
Other noncurrent assets	65,500	13,050	97,092
Total assets	<u>6,825,187</u>	<u>6,775,943</u>	<u>6,950,043</u>
Liabilities:			
Current liabilities	221,958	278,948	375,096
Noncurrent liabilities	1,120,587	1,141,536	1,326,846
Total liabilities	<u>1,342,545</u>	<u>1,420,484</u>	<u>1,701,942</u>
Net Assets:			
Invested in capital assets, net of related debt	4,158,058	4,086,712	4,117,280
Unrestricted	1,324,584	1,268,747	1,130,821
Total net assets	<u>\$ 5,482,642</u>	<u>\$ 5,355,459</u>	<u>\$ 5,248,101</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,		
	2011	2010	2009
Current assets	\$ 1,454,205	\$ 1,338,125	\$ 1,175,791
Current liabilities	221,958	278,948	375,096
Ratio of current assets to current liabilities	6.55	4.80	3.13

The Agency had current ratios of 6.55 and 4.80 at March 31, 2011 and 2010, 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 \$127,183 and \$107,358 for the fiscal years ended March 31, 2011 and 2010, respectively. A condensed statement of revenues, expense and changes in net assets follows:

	Year Ended March 31,		
	2011	2010	2009
Operating revenues	\$ 908,673	\$ 971,149	\$ 1,325,377
Operating expenses	762,640	800,442	864,406
Net operating income	146,033	170,707	460,971
Nonoperating (expenses)	(18,850)	(63,349)	(270,091)
Change in net assets	<u>\$ 127,183</u>	<u>\$ 107,358</u>	<u>\$ 190,880</u>

Significant changes in revenues and expenses from 2011 to 2010 include:

- ◆ Operating revenues decreased by approximately \$62,746 in total, with the decreases in airplane rental income of \$23,823 and empire zone income of \$39,229. This is attributed to decreased airplane activity and lack of state funding respectively.
- ◆ Operating expenses decreased by approximately \$37,802 in total, with the largest decrease noted in consulting fees. This decrease was caused by a contract renewal for the Chief Executive Officer. Significant increases were noted in outside services and website services. The increases were caused by additional building repairs and completion of the IDA website respectively.

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,		
	2011	2010	2009
Cash flows from:			
Operating activities	\$ 387,801	\$ 799,791	\$ 482,933
Capital and related financing activities	(387,419)	(334,816)	(608,511)
Investing activities	5,476	13,473	17,622
Net change in cash and cash equivalents	<u>\$ 5,858</u>	<u>\$ 478,448</u>	<u>\$ (107,956)</u>

Capital Assets and Debt Administration

Capital Assets—The Agency's investment in capital (net of accumulated depreciation) as of March 31, 2011 and 2010, amounted to \$5,305,482 and \$5,425,774 respectively. This investment in capital assets includes land, buildings and improvements, and machinery and equipment.

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

	March 31,		
	2011	2010	2009
Land	\$ 557,710	\$ 455,608	\$ 455,608
Buildings and improvements	4,697,844	4,905,470	5,147,279
Machinery and equipment	49,928	63,690	74,273
Total	<u>\$ 5,305,482</u>	<u>\$ 5,424,768</u>	<u>\$ 5,677,160</u>

Debt—At March 31, 2011, the Agency had total debt outstanding of \$1,147,424 as compared to \$1,338,056 at March 31, 2010. There was no new debt issued during the years ended March 31, 2011 and March 31, 2010. 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, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,268,044	\$ 1,262,186
Accounts receivable	179,872	63,321
Notes receivable	6,289	12,618
Total current assets	1,454,205	1,338,125
Noncurrent assets:		
Notes receivable	65,500	13,050
Capital assets:		
Land	557,710	455,608
Buildings and improvements	9,100,421	9,033,869
Machinery and equipment	472,475	468,668
Less accumulated depreciation	(4,825,124)	(4,533,377)
Total capital assets, net of depreciation	5,305,482	5,424,768
Total noncurrent assets	5,370,982	5,437,818
Total assets	6,825,187	6,775,943
LIABILITIES		
Current liabilities:		
Notes payable	81,837	196,520
Accounts payable—trade	12,063	1,658
Accounts payable—PILOTs	126,280	79,173
Accrued liabilities	1,778	1,597
Total current liabilities	221,958	278,948
Noncurrent liabilities:		
Notes payable	1,065,587	1,141,536
Deferred revenue	55,000	-
Total noncurrent liabilities	1,120,587	1,141,536
Total liabilities	1,342,545	1,420,484
NET ASSETS		
Invested in capital assets, net of related debt	4,158,058	4,086,712
Unrestricted	1,324,584	1,268,747
Total net assets	\$ 5,482,642	\$ 5,355,459

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, 2011 and 2010

	2011	2010
Operating revenues:		
Rental income	\$ 868,159	\$ 865,208
Airplane rental income	28,014	51,837
Empire Zone income	-	39,229
Administrative income	-	2,375
Website grant	12,500	12,500
Total operating revenues	<u>908,673</u>	<u>971,149</u>
Operating expenses:		
Salaries and benefits	50,190	50,240
Repairs and maintenance	13,018	36,498
Airport tax expense	30,000	30,000
Auto expenses	6,499	6,001
Insurance—general and medical	52,915	71,363
Consulting fee	66,000	121,000
Legal and accounting	39,564	26,339
Dues and subscriptions	3,061	3,621
Equipment rental	3,860	5,022
Rent	8,400	8,400
Utilities	1,415	4,249
Telephone	7,451	8,164
Airplane expense	26,392	28,622
Depreciation	291,747	288,562
Office supplies	8,499	9,191
Postage	4,392	5,396
Outside services	21,251	2,950
Travel and entertainment	67,311	62,211
Empire Zone expense	27,460	20,113
Website services	32,738	12,500
Miscellaneous	477	-
Total operating expenses	<u>762,640</u>	<u>800,442</u>
Operating income	<u>146,033</u>	<u>170,707</u>
Nonoperating revenues (expenses):		
Interest income	5,476	13,473
Interest on debt	(24,326)	(76,822)
Total nonoperating (expenses)	<u>(18,850)</u>	<u>(63,349)</u>
Change in net assets	127,183	107,358
Total net assets—beginning	<u>5,355,459</u>	<u>5,248,101</u>
Total net assets—ending	<u>\$ 5,482,642</u>	<u>\$ 5,355,459</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from providing services	\$ 788,501	\$ 1,358,805
Receipts from other operating activities	12,500	12,500
Payments for contractuals expenses	(363,191)	(522,871)
Payments for personal services and benefits	<u>(50,009)</u>	<u>(48,643)</u>
Net cash provided by operating activities	<u>387,801</u>	<u>799,791</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(172,461)	(36,170)
Principal paid on debt	(190,632)	(221,824)
Interest paid on debt	<u>(24,326)</u>	<u>(76,822)</u>
Net cash (used in) capital and related financing activities	<u>(387,419)</u>	<u>(334,816)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>5,476</u>	<u>13,473</u>
Net increase in cash and cash equivalents	5,858	478,448
Cash and cash equivalents—beginning	<u>1,262,186</u>	<u>783,738</u>
Cash and cash equivalents—ending	<u>\$ 1,268,044</u>	<u>\$ 1,262,186</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	<u>\$ 146,033</u>	<u>\$ 170,707</u>
Adjustments for items not affecting cash flows:		
Depreciation	291,747	288,562
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(116,551)	307,122
(Increase) decrease in notes receivable	(46,121)	93,034
Increase (decrease) in accounts payable	57,512	(9,887)
Increase (decrease) in accrued liabilities	181	(49,747)
Increase in deferred revenue	<u>55,000</u>	<u>-</u>
Total adjustments	<u>241,768</u>	<u>629,084</u>
Net cash provided by operating activities	<u>\$ 387,801</u>	<u>\$ 799,791</u>

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, 2011 and 2010

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, 2011 and 2010; 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 Sterling Airways, Inc. 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:

<u>Assets</u>	<u>Years</u>
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, 2011, the Agency implemented GASB Statement No. 51, *Account and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

The Agency has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 GASB and AICPA pronouncements* effective for the year ending March 31, 2012; and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending March 31, 2013; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* effective for year March 31, 2014. The Agency is, therefore, unable to disclose the impact that adopting GASB Statements No 54, 57, 60, 61 and 62 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, 2011 and 2010 are carried at fair value as follows:

	March 31, 2011		March 31, 2010	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 1,254,925	\$ 1,254,925	\$ 1,050,000	\$ 1,050,000
Uninsured:				
Collateral held pledging bank's agent in the Agency's name	<u>25,009</u>	<u>13,119</u>	<u>213,094</u>	<u>212,186</u>
Total deposits	<u>\$ 1,279,934</u>	<u>\$ 1,268,044</u>	<u>\$ 1,263,094</u>	<u>\$ 1,262,186</u>

Custodial credit risk – deposits—Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At March 31, 2011 and 2010, the Agency's deposits were FDIC insured or collateralized.

3. RECEIVABLES

A. Accounts receivable—Accounts receivable at March 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Payments in lieu of taxes, to be remitted to taxing authorities	<u>\$ 179,872</u>	<u>\$ 63,321</u>

B. Notes receivable—Represents special project grants and mortgages and is comprised of the following at March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Mortgage receivable from Gene Boccia in the amount of \$51,800 at 6.5% to be paid over five years. Mortgage is for the property located at 130 Main Street.	\$ -	\$ 8,879
Mortgage receivable from Leon Babcock in the amount of \$24,500 at 6.0% to be paid over nine years. 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.	<u>55,000</u>	<u>-</u>
Total notes receivable	71,789	25,668
Less current portion	<u>(6,289)</u>	<u>(12,618)</u>
Non-current portion	<u>\$ 65,500</u>	<u>\$ 13,050</u>

4. PROPERTY AND EQUIPMENT—NET

Property and equipment consisted of the following at March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 557,710	\$ 455,608
Buildings and improvements (see Note 6)	9,100,421	9,033,869
Machinery and equipment	<u>472,475</u>	<u>468,668</u>
Total	10,130,606	9,958,145
Less accumulated depreciation	<u>(4,825,124)</u>	<u>(4,533,377)</u>
Property and equipment—net	<u>\$ 5,305,482</u>	<u>\$ 5,424,768</u>

Depreciation expense recorded for the fiscal years ended March 31, 2011 and 2010 was \$291,747 and \$288,562 respectively.

5. LONG-TERM DEBT

Long-term debt at March 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Steuben Trust Company loan payable in monthly installments of \$8,575 including interest at 5.50%, due March 2028. Collateralized by rental property (see Note 6).	\$ 989,439	\$ 1,010,312
Steuben Trust Company loan payable in monthly installments of \$7,410, including interest at 6.5%, due February 2013. Collateralized by rental property.	157,985	233,772
Steuben Trust Company loan payable in monthly installments of \$12,762 including interest at 7.75%. Final payment was made in November 2010.	<u>-</u>	<u>93,972</u>
Total long-term debt	1,147,424	1,338,056
Less current portion	<u>(81,837)</u>	<u>(196,520)</u>
Non-current portion	<u>\$ 1,065,587</u>	<u>\$ 1,141,536</u>

Remaining planned principal and interest payments are as follows at March 31, 2010:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 81,837	\$ 7,833
2013	76,148	2,418
Other (see Note 6)	<u>989,439</u>	<u>886,240</u>
Total	<u>\$ 1,147,424</u>	<u>\$ 896,491</u>

6. DEBT AND ASSET TRANSFER

During the Agency's fiscal year end March 31, 2011, Trikeenan Inc. filed for bankruptcy. Trikeenan occupied a facility owned by the Agency. The facility had an outstanding mortgage on the property with Steuben Trust Company with a balance at March 31, 2011 of \$989,439 that is recorded within the Agency's long-term debt (see Note 5). The facility is also recorded as an asset of the Agency within buildings and improvements, with a historical cost of \$1,025,000 and a book value (net accumulated depreciation) of \$848,472. The agreement between the Agency and Steuben Trust Company allows only for the transfer of ownership of the facility as security for the outstanding debt. Upon completion of bankruptcy proceedings ownership of the facility will be transferred to Steuben Trust Company and the debt will be extinguished.

7. 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, 2011 and 2010 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, 2011 and 2010, respectively.

8. RENTAL REVENUE

The Agency leases certain of its real property and improvements thereon to various companies under non-cancelable operating leases through 2020. 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>	
2012	\$ 1,820,591
2013	1,871,679
2014	1,924,295
2015	1,978,489
2016	<u>2,034,305</u>
Total	<u>\$ 9,629,359</u>

Included in the lease schedule above are operating lease payments due from Trikeenan, Inc. As described in Note 6, Trikeenan is in bankruptcy. Annual lease payments due from Trikeenan are \$117,819, for a total of \$589,095 over the five year period disclosed.

9. 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, 2011 and 2010 for these leases amounted to \$10,120. The remaining future payments are as follows:

<u>Fiscal Year Ending March 31,</u>	
2012	<u>\$ 1,930</u>
Total	<u>\$ 1,930</u>

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, 2011 and 2010.

10. 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.

* * * * *

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, 2011

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

- a. Investment guidelines—The Agency’s investment 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, 2011.
- e. Investment income record—Investment income for the year ended March 31, 2011 consisted of:

	Interest Earned
Interest earned on cash and cash equivalents	\$ 5,255
Interest earned on notes receivable	221
	\$ 5,476

- 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, 2011.

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Real Property Listing
March 31, 2011

1. Real property list—§2896(3) of Public Authorities Law of the State of New York requires that each public authority must publish, at least annually, a report listing all real property of the authority. At March 31, 2010, 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	-
166.06-07-044-111	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>\$ 557,710</u>

2. **Real property acquisitions**—Real property acquisitions during the year ended March 31, 2011 amounted to approximately \$102,102.
3. **Real property dispositions**— There were no real property dispositions during the year ended March 31, 2011.

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, 2011 and 2010, and have issued our report thereon dated June 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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 would not necessarily 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 23, 2011.

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 23, 2011