

**CITY OF HORNELL**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
*Basic Financial Statements, Required Supplementary  
Information and Supplemental Information for the  
Years Ended March 31, 2009 and 2008  
and Independent Auditors' Reports*

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
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**Years Ended March 31, 2009 and 2008**

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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 City of Hornell Industrial Development Agency (the "Agency") as of March 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Agency. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, 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 16, 2009, 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.

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 audit 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 16, 2009

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**  
**For the Years Ended March 31, 2009 and 2008**

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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, 2009 and 2008. 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, 2009 and 2008 by \$5,248,101 and \$5,057,221, respectively. Of these amounts, \$1,130,821 and \$968,267 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 \$190,880 and \$44,389 for the fiscal years ended March 31, 2009 and 2008, respectively. The increases are the result of operating activities.

**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, 2009 and 2008.
- ◆ *Statements of Activities*—Presents the financial activity for the years ended March 31, 2009 and 2008 and displays how this financial activity changed the Agency's net assets.
- ◆ *Statements of Cash Flows*—Presents the cash provided and used during the 2009 and 2008 fiscal years and how it affects the cash balances at March 31, 2009 and 2008.
- ◆ *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 \$5,248,101 and \$5,057,221 at March 31, 2009 and 2008, 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:

	<b>March 31,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Assets:			
Current assets	\$ 1,175,791	\$ 1,054,095	\$ 896,299
Capital assets, net	5,677,160	5,913,613	6,145,262
Other noncurrent assets	97,092	118,702	210,644
Total assets	<u>6,950,043</u>	<u>7,086,410</u>	<u>7,252,205</u>
Liabilities:			
Current liabilities	375,096	479,326	457,621
Noncurrent liabilities	<u>1,326,846</u>	<u>1,549,863</u>	<u>1,781,752</u>
Total liabilities	<u>1,701,942</u>	<u>2,029,189</u>	<u>2,239,373</u>
Net Assets:			
Invested in capital assets, net of related debt	4,117,280	4,088,954	4,095,315
Unrestricted	<u>1,130,821</u>	<u>968,267</u>	<u>917,517</u>
Total net assets	<u>\$ 5,248,101</u>	<u>\$ 5,057,221</u>	<u>\$ 5,012,832</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:

	<b>March 31,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Current assets	\$ 1,175,791	\$ 1,054,095	\$ 896,299
Current liabilities	375,096	479,326	457,621
Ratio of current assets to current liabilities	3.13	2.20	1.96

The Agency had current ratios of 3.13 and 2.20 at March 31, 2009 and 2008, 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 \$190,879 and \$44,389 for the fiscal years ended March 31, 2009 and 2008, respectively. A condensed statement of revenues, expense and changes in net assets follows:

	<b>Year Ended March 31,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Operating revenues	\$ 1,325,377	\$ 1,017,458	\$ 990,670
Operating expenses	<u>864,406</u>	<u>853,646</u>	<u>1,034,226</u>
Net operating income (loss)	460,971	163,812	(43,556)
Nonoperating (expenses) revenues	<u>(270,091)</u>	<u>(119,423)</u>	<u>1,138,763</u>
Change in net assets	<u>\$ 190,880</u>	<u>\$ 44,389</u>	<u>\$ 1,095,207</u>

Significant changes in revenues and expenses from 2007 to 2008 include:

- ♦ Operating revenues increased by \$307,919 in total, with the largest increases noted in rental income revenue. Tri-Kennan Tileworks, Inc. had been delinquent on making payments relating to their facility, with such payments being made directly to a bank as part of a financing arrangement. However, during the year ended March 31, 2009, Tri-Kennan Tileworks made significant improvements with such payments, thus both rental income and interest expense increased.

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,		
	2009	2008	2007
Cash flows from:			
Operating activities	\$ 482,933	\$ 572,202	\$ 207,374
Noncapital financing activities	-	175,834	104,517
Capital and related financing activities	(608,511)	(443,364)	(325,311)
Investing activities	17,622	36,058	22,442
Net change in cash and cash equivalents	<u>\$ (107,956)</u>	<u>\$ 340,730</u>	<u>\$ 9,022</u>

### Capital Assets and Debt Administration

**Capital Assets**—The Agency's investment in capital (net of accumulated depreciation) as of March 31, 2009 and 2008, amounted to \$5,677,160 and \$5,913,613, 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,		
	2009	2008	2007
Land	\$ 455,608	\$ 433,930	\$ 433,930
Buildings and improvements	5,147,279	5,418,268	5,689,423
Machinery and equipment	74,273	61,415	21,909
Total	<u>\$ 5,677,160</u>	<u>\$ 5,913,613</u>	<u>\$ 6,145,262</u>

Capital asset events during the year ended March 31, 2009 included an autopilot for the Agency's Piper Navajo airplane and additional land. The cost of the autopilot was \$34,145 and was recorded as an addition to Machinery and Equipment. Additionally, the Agency purchased two properties at a total cost of \$21,678 which was recorded as an addition to Land.

**Debt**—At March 31, 2009, the Agency had total debt outstanding of \$1,559,880 as compared to \$1,824,659 at March 31, 2008. There was no new debt issued during the years ended March 31, 2009 and March 31, 2008. 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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 783,738	\$ 891,694
Accounts receivable	370,443	141,333
Notes receivable:		
Mortgages receivable	<u>21,610</u>	<u>21,068</u>
Total current assets	<u>1,175,791</u>	<u>1,054,095</u>
Noncurrent assets:		
Mortgages receivable	97,092	118,702
Capital assets:		
Land	455,608	433,930
Buildings and improvements	9,003,676	9,003,675
Machinery and equipment	462,691	428,350
Less accumulated depreciation	<u>(4,244,815)</u>	<u>(3,952,342)</u>
Total capital assets, net of depreciation	<u>5,677,160</u>	<u>5,913,613</u>
Total noncurrent assets	<u>5,774,252</u>	<u>6,032,315</u>
Total assets	<u>6,950,043</u>	<u>7,086,410</u>
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	\$ 233,034	\$ 274,796
Accounts payable	8,388	-
Accounts payable—PILOTs	82,330	106,036
Accrued liabilities	<u>51,344</u>	<u>98,494</u>
Total current liabilities	<u>375,096</u>	<u>479,326</u>
Noncurrent liabilities:		
Notes payable	<u>1,326,846</u>	<u>1,549,863</u>
Total liabilities	<u>1,701,942</u>	<u>2,029,189</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,117,280	4,088,954
Unrestricted	<u>1,130,821</u>	<u>968,267</u>
Total net assets	<u>\$ 5,248,101</u>	<u>\$ 5,057,221</u>

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Activities**  
**Years Ended March 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Rental income	\$ 1,033,868	\$ 849,676
Airplane rental income	66,767	59,432
Empire Zone income	3,450	53,350
Administrative income	134,250	55,000
Miscellaneous	87,042	-
Total operating revenues	<u>1,325,377</u>	<u>1,017,458</u>
Operating expenses:		
Salaries and benefits	214,085	136,274
Administrative expenses	50,000	-
Repairs and maintenance	13,552	65,557
Airport tax expense	30,000	-
Auto expenses	6,253	6,169
Insurance—general and medical	80,288	61,657
Executive Director's life insurance	-	58,520
Legal and accounting	30,429	17,670
Dues and subscriptions	3,697	6,798
Equipment rental	4,090	4,436
Rent	8,400	8,400
Utilities	-	1,359
Telephone	5,705	5,814
Airplane expense	64,843	86,146
Depreciation	292,472	294,244
Office supplies	6,475	7,878
Postage	3,405	5,750
Outside services	373	4,485
Travel and entertainment	28,091	13,227
Empire Zone expense	11,831	55,823
Miscellaneous	10,417	13,439
Total operating expenses	<u>864,406</u>	<u>853,646</u>
Operating income	<u>460,971</u>	<u>163,812</u>
Nonoperating revenues (expenses):		
Interest income	17,622	36,058
Interest on debt	(287,713)	(155,481)
Total nonoperating (expenses) revenues	<u>(270,091)</u>	<u>(119,423)</u>
Change in net assets	190,880	44,389
Total net assets—beginning	<u>5,057,221</u>	<u>5,012,832</u>
Total net assets—ending	<u>\$ 5,248,101</u>	<u>\$ 5,057,221</u>

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Cash Flows**  
**Years Ended March 31, 2009 and 2008**

	<u><b>2009</b></u>	<u><b>2008</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from providing services	\$ 1,030,293	\$ 1,116,500
Receipts from other operating activities	87,042	-
Payments for contractual expenses	(420,317)	(346,450)
Payments for personal services and benefits	<u>(214,085)</u>	<u>(197,848)</u>
Net cash provided by operating activities	<u>482,933</u>	<u>572,202</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Loan repayments from HAIDC	<u>-</u>	<u>175,834</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>175,834</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(56,019)	(62,595)
Principal paid on debt	(264,779)	(225,288)
Interest paid on debt	<u>(287,713)</u>	<u>(155,481)</u>
Net cash used in capital and related financing activities	<u>(608,511)</u>	<u>(443,364)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>17,622</u>	<u>36,058</u>
Net increase in cash and cash equivalents	(107,956)	340,730
Cash and cash equivalents—beginning	<u>891,694</u>	<u>550,964</u>
Cash and cash equivalents—ending	<u>\$ 783,738</u>	<u>\$ 891,694</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income	<u>\$ 460,971</u>	<u>\$ 163,812</u>
Adjustments for items not affecting cash flows:		
Depreciation	292,472	294,244
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(229,110)	(40,258)
Decrease in notes receivable	21,068	139,300
(Decrease) in accounts payable	(15,318)	(30,073)
(Decrease) increase in accrued liabilities	<u>(47,150)</u>	<u>45,177</u>
Total adjustments	<u>21,962</u>	<u>408,390</u>
Net cash provided by operating activities	<u>\$ 482,933</u>	<u>\$ 572,202</u>

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

# CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY

## Notes to Financial Statements Years Ended March 31, 2009 and 2008

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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, 2009 and 2008; 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, 2009, the Agency implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. The implementation of these pronouncements did not have a significant impact on the Agency's financial position or results of operations.

The Agency has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, No. 52, *Land and Other Real Estate Held as Investments by Endowments*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective for the year ending March 31, 2010; and GASB Statement No. 51, *Account and Financial Reporting for Intangible Asset* and No. 53, *Accounting and Financial Reporting for Derivative Instruments* effective for the year ending March 31, 2011.

The Agency is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 45, 51, 52, 53, 55, and 56 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, 2009 and 2008 are carried at fair value, as follows:

	March 31, 2009		March 31, 2008	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 500,000	\$ 500,000	\$ 200,000	\$ 200,000
Uninsured:				
Collateral held pledging bank's agent in the Agency's name	353,282	283,738	636,687	691,694
Total deposits	<u>\$ 853,282</u>	<u>\$ 783,738</u>	<u>\$ 836,687</u>	<u>\$ 891,694</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, 2009 and 2008, the Agency's deposits were FDIC insured or collateralized.

## 3. RECEIVABLES

**A. Accounts receivable**—Accounts receivable at March 31, 2009 and 2008 is as follows:

	2009	2008
Rental payments	\$ 66,945	\$ 53,535
Payments in lieu of taxes, to be remitted to taxing authorities	68,303	87,798
City of Hornell - Small Cities Grant	235,195	-
Total	<u>\$ 370,443</u>	<u>\$ 141,333</u>

**B. Notes receivable**—Represents special project grants and mortgages and is comprised of the following at March 31, 2009 and 2008:

	<u>2009</u>	<u>2008</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.	\$ 20,068	\$ 30,551
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.	17,716	19,848
Mortgage receivable from Xlyon, L.L.C. in the amount of \$100,000 at 5.0% to be paid over 10 years. Mortgage is for the property located at 18 North Main Street.	<u>80,918</u>	<u>89,371</u>
Total notes receivable	118,702	139,770
Less current portion	<u>(21,610)</u>	<u>(21,068)</u>
Non-current portion	<u>\$ 97,092</u>	<u>\$ 118,702</u>

#### **4. PROPERTY AND EQUIPMENT—NET**

Property and equipment consisted of the following at March 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 455,608	\$ 433,930
Buildings and improvements	9,003,676	9,003,675
Machinery and equipment	<u>462,691</u>	<u>428,350</u>
Total	9,921,975	9,865,955
Less accumulated depreciation	<u>(4,244,815)</u>	<u>(3,952,342)</u>
Property and equipment—net	<u>\$ 5,677,160</u>	<u>\$ 5,913,613</u>

Depreciation expense recorded for the fiscal years ended March 31, 2009 and 2008 was \$292,472 and \$294,244, respectively.

## 5. LONG-TERM DEBT

Long-term debt at March 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Industrial Access Project loan payable to the NYSDOT. The loan is payable in annual installments, the final payment was paid on September 3, 2008.	\$ -	\$ 70,876
REDEC rural development grant payable to REDEC. The loan is payable in annual installments of \$4,000 with no interest included. Payments conclude in the year 2010.	4,000	8,000
Steuben Trust Company loan payable in monthly installments of \$8,575, including interest at 5.50%, due March 2028. Collateralized by rental property.	1,024,532	1,025,000
Steuben Trust Company loan payable in monthly installments of \$7,410, including interest at 6.5%, due February 2013. Collateralized by rental property.	304,743	371,236
Steuben Trust Company loan payable in monthly installments of \$12,762 including interest at 7.75%, due November 2010. Collateralized by rental property.	<u>226,605</u>	<u>349,547</u>
Total long-term debt	1,559,880	1,824,659
Less current portion	<u>(233,034)</u>	<u>(274,796)</u>
Non-current portion	<u>\$ 1,326,846</u>	<u>\$ 1,549,863</u>

Remaining planned principal and interest payments are as follows at March 31, 2009:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 233,034	\$ 108,615
2011	196,460	91,681
2012	110,104	81,728
2013	107,473	73,998
2014	33,824	69,081
2015-2019	214,168	300,359
2020-2024	314,358	200,169
2025-2028	<u>350,459</u>	<u>57,168</u>
Totals	<u>\$ 1,559,880</u>	<u>\$ 982,799</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 years ended March 31, 2009 and 2008, 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, 2009 and 2008, respectively.

## 7. LEASES

The Agency leases certain of its real property and improvements thereon under non-cancelable operating leases through 2020. Future minimum lease amounts to be received under these leases over the next five years are as follows:

<u>Fiscal Year Ending March 31,</u>	
2010	\$ 1,741,014
2011	1,770,987
2012	1,820,591
2013	1,871,679
2014	<u>1,924,295</u>
Total	<u>\$ 9,128,566</u>

Additionally, 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, 2009 and March 31, 2008 for these leases amounted to \$12,048. The remaining future payments are as follows:

<u>Fiscal Year Ending March 31,</u>	
2010	\$ 10,001
2011	3,860
2012	<u>1,930</u>
Total	<u>\$ 15,791</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, 2009 and 2008.

## 8. 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, 2009**

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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, 2009.
- e. Investment income record—Investment income for the year ended March 31, 2009 consisted of:

	Interest Earned
Interest earned on cash and cash equivalents	\$ 10,539
Interest earned on notes receivable	7,083
	<u>\$ 17,622</u>

- 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, 2009.

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Real Property Listing**  
**March 31, 2009**

- 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, 2009, 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	-
136.03-01-001.010	City of Hornell, NY	State Route 36 – Walmart Plaza pond area	-
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 – Trikeenon	-
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	-
166.11-01-014.100	City of Hornell, NY	Park Drive – 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	City of Hornell, NY	Generalli Property	15,174
122.00-01-024.200	City of Hornell, 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	-
107.19-01-006.000	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	-
Total recorded value			<u>\$ 455,608</u>

2. **Real property acquisitions**—There were two real property acquisitions, Generalli Property, during the year ended March 31, 2009.
3. **Real property dispositions**— There were no real property dispositions during the year ended March 31, 2009.

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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 year ended March 31, 2009, and have issued our report thereon dated June 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

### **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 other matters that we reported to management of the Agency in a separate letter dated June 16, 2009.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's responses and, accordingly, we express no opinion on it.

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 16, 2009

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Schedule of Findings and Responses**  
**March 31, 2009**

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**2008-1 – Segregation of Duties**

Criteria— The Agency does not maintain segregation of duties within all financial functions.

Condition— During the course of the audit, it was noted that the Agency has one individual, the Chief Financial Officer (“CFO”), who performs many accounting duties, including, but not limited to, receiving and depositing, cash, preparing disbursements and recording entries relating to those duties.

Cause— The Agency has one employee. Due to small size of the entity, it utilizes one individual for many of the day-to-day tasks.

Effect— The Agency has some exposure relating to such lack of segregation.

Recommendation— The Board should evaluate the CFO’s duties and responsibilities and, to the extent possible, assign them to other staff.

Management’s Corrective Action Plan— The Agency’s small size makes hiring several staff members prohibitive. However, the Agency has identified the internal control risk and has taken many actions to mitigate any potential risk related to such lack of segregation. Actions taken to mitigate risk include:

- The hiring of an accounting firm to perform monthly bank reconciliations and review accounting activity on a monthly basis.
- The CFO cannot sign any checks. Therefore, all disbursements are reviewed and approved by several individuals, including the Agency’s audit committee and check signors.
- All activity (cash balances, receipts and disbursements) are reviewed at each Board of Directors meeting and, with the small size of the Agency, all Board members are aware of appropriate activity.

In summary, while the Board does recognize segregation of duties as a potential risk, the Agency has taken substantial action to mitigate any such potential risk.

**2008-2 - Supporting Documentation - Expenses**

Criteria— The Agency’s direct connection between the expenditure of funds and the purpose for such expense should be better documented.

Condition— During the testing of expenses, it was noted that certain travel and entertainment expenses lacked full supporting documentation and explanation.

Cause— The Agency relies on Board approval, discretion, and past practices.

Effect— The Agency’s expenses lacked full documentation.



Recommendation— We recommend that the Agency further improve the documentation for expenses. Some examples include:

- Including justification (conference invitations, banquet letters, etc.) with credit card statements and restaurant receipts.
- A list of attendees for lunch or dinner meetings and the business purpose of such meeting.
- A mileage log for travel directly related to Agency meetings or events.
- Supporting documentation for to draw downs justify.
- Supporting documentation (travel destinations, purpose of travel) for airplane hours used.

Management's Corrective Action Plan— The Agency will review current practices with Counsel and will make appropriate changes based on the advice of counsel.