

**CITY OF HORNELL**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
*Basic Financial Statements Required Supplementary  
Information and Supplemental Information for the  
Years Ended March 31, 2008 and 2007  
and Independent Auditors' Reports*

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
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**Years Ended March 31, 2008 and 2007**

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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, 2008 and 2007, 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 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, 2008 and 2007, and the changes in financial position operations 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 26, 2008, 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 inquiries 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.

Handwritten signature of Drescher & Malecki LLP in cursive script.

June 26, 2008

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**  
**For the Years Ended March 31, 2008 and 2007**

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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, 2008 and 2007. 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, 2008 and 2007 by \$5,057,221 and \$5,012,832, respectively. Of these amounts, \$968,267 and \$917,517 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 \$44,389 and \$1,095,207 for the fiscal years ended March 31, 2008 and 2007, respectively. The 2008 increase is a result of current year operations while the increase in 2007 is attributable to a contribution of capital assets from another entity.

**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, 2008 and 2007.
- ◆ *Statements of Activities*—Presents the financial activity for the years ended March 31, 2008 and 2007 and displays how this financial activity changed the Agency's net assets.
- ◆ *Statements of Cash Flows*—Presents the cash provided and used during the 2008 and 2007 fiscal years and how it affects the cash balances at March 31, 2008 and 2007.
- ◆ *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 \$5,057,221 and \$5,012,832 at March 31, 2008 and 2007, 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>2008</b>	<b>2007</b>	<b>2006</b>
<b>Assets:</b>			
Current assets	\$ 1,054,095	\$ 896,299	\$ 848,538
Capital assets, net	5,913,613	6,145,262	5,232,285
Other noncurrent assets	118,702	210,644	180,361
Total assets	<u>7,086,410</u>	<u>7,252,205</u>	<u>6,261,184</u>
<b>Liabilities:</b>			
Current liabilities	479,326	457,621	322,671
Noncurrent liabilities	1,549,863	1,781,752	2,020,888
Total liabilities	<u>2,029,189</u>	<u>2,239,373</u>	<u>2,343,559</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	4,088,954	4,095,315	2,953,163
Unrestricted	968,267	917,517	964,462
Total net assets	<u>\$ 5,057,221</u>	<u>\$ 5,012,832</u>	<u>\$ 3,917,625</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>2008</b>	<b>2007</b>	<b>2006</b>
Current assets	\$ 1,054,095	\$ 896,299	\$ 848,538
Current liabilities	479,326	457,621	322,671
Ratio of current assets to current liabilities	2.20	1.96	2.63

The Agency had current ratios of 2.20 and 1.96 at March 31, 2008 and 2007, 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 \$44,389 and \$1,095,207 for the fiscal years ended March 31, 2008 and 2007, respectively. A condensed statement of revenues, expense and changes in net assets follows:

	<b>Year Ended March 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Operating revenues	\$ 1,017,458	\$ 990,670	\$ 863,495
Operating expenses	853,646	1,034,226	904,780
Net operating income (loss)	163,812	(43,556)	(41,285)
Nonoperating (expenses) revenues	(119,423)	1,138,763	(77,293)
Change in net assets	<u>\$ 44,389</u>	<u>\$ 1,095,207</u>	<u>\$ (118,578)</u>

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

- ◆ Operating expenses decreased by approximately \$180,580 in total, with the largest decreases noted in business development costs paid to the Hornell Area Industrial Development Corporation (the “HAIDC”). These costs were not incurred during 2008 since the South Yards capital project and the façade program were completed in the prior year.
- ◆ Nonoperating activities resulted in net expenses of \$119,423 for the 2008 fiscal year as compared to net revenues of \$1,138,763 for the 2007 fiscal year. The primary factor contributing to this decrease was a contribution of capital assets from the HAIDC during 2007 with no comparable contributions during 2008.

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,		
	2008	2007	2006
Cash flows from:			
Operating activities	\$ 572,202	\$ 207,374	\$ 264,857
Noncapital financing activities	175,834	104,517	(244,351)
Capital and related financing activities	(443,364)	(325,311)	(219,233)
Investing activities	36,058	22,442	12,761
Net change in cash and cash equivalents	<u>\$ 340,730</u>	<u>\$ 9,022</u>	<u>\$ (185,966)</u>

### Capital Assets and Debt Administration

**Capital Assets**—The Agency’s investment in capital (net of accumulated depreciation) as of March 31, 2008 and 2007, amounted to \$5,913,613 and \$6,145,262, 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,		
	2008	2007	2006
Land	\$ 433,930	\$ 433,930	\$ 448,056
Buildings and improvements	5,418,268	5,689,423	4,748,557
Machinery and equipment	61,415	21,909	35,672
Total	<u>\$ 5,913,613</u>	<u>\$ 6,145,262</u>	<u>\$ 5,232,285</u>

Capital asset events during the year ended March 31, 2008 included the installation of a new engine in the Agency’s Piper Navajo airplane. The cost of the new engine was \$51,219 and was recorded as an addition to Machinery and Equipment.

**Debt**—At March 31, 2008, the Agency had total debt outstanding of \$1,824,659 as compared to \$2,049,947 at March 31, 2007. There was no new debt issued during the years ended March 31, 2008 and March 31, 2007. All scheduled payments were made during each fiscal year.

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, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 891,694	\$ 550,964
Accounts receivable	141,333	101,075
Due from HAIDC	-	175,834
Notes receivable:		
Special project grants and loans	-	47,251
Mortgages receivable	21,068	21,175
Total current assets	<u>1,054,095</u>	<u>896,299</u>
Noncurrent assets:		
Special project grants and loans	-	70,877
Mortgages receivable	118,702	139,767
Capital assets:		
Land	433,930	433,930
Buildings and improvements	9,003,675	8,999,675
Machinery and equipment	428,350	369,756
Less accumulated depreciation	<u>(3,952,342)</u>	<u>(3,658,099)</u>
Total capital assets, net of depreciation	<u>5,913,613</u>	<u>6,145,262</u>
Total noncurrent assets	<u>6,032,315</u>	<u>6,355,906</u>
Total assets	<u>7,086,410</u>	<u>7,252,205</u>
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	274,796	268,195
Accounts payable—trade	-	43,289
Accounts payable—PILOTs	106,036	92,820
Accrued liabilities	98,494	53,317
Total current liabilities	<u>479,326</u>	<u>457,621</u>
Noncurrent liabilities:		
Notes payable	<u>1,549,863</u>	<u>1,781,752</u>
Total liabilities	<u>2,029,189</u>	<u>2,239,373</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,088,954	4,095,315
Unrestricted	968,267	917,517
Total net assets	<u>\$ 5,057,221</u>	<u>\$ 5,012,832</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, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Rental income	\$ 849,676	\$ 846,065
Airplane rental income	59,432	54,500
Empire Zone income	53,350	45,105
Administrative income	55,000	40,000
Miscellaneous	-	5,000
Total operating revenues	<u>1,017,458</u>	<u>990,670</u>
Operating expenses:		
Salaries and benefits	136,274	130,152
Repairs and maintenance	65,557	19,090
Auto expenses	6,169	8,074
Insurance—general and medical	61,657	64,694
Executive Director's life insurance	58,520	56,815
Legal and accounting	17,670	23,528
Dues and subscriptions	6,798	6,003
Equipment rental	4,436	3,884
Rent	8,400	8,400
Utilities	1,359	11,367
Telephone	5,814	7,451
Airplane expense	86,146	100,438
Depreciation	294,244	263,480
Office supplies	7,878	7,445
Postage	5,750	4,746
Outside services	4,485	284
Travel and entertainment	13,227	11,031
Empire Zone expense	55,823	90,503
Miscellaneous	13,439	13,628
Bad debt expense	-	3,468
Business development costs—HAIDC	-	199,745
Total operating expenses	<u>853,646</u>	<u>1,034,226</u>
Operating income (loss)	<u>163,812</u>	<u>(43,556)</u>
Nonoperating revenues (expenses):		
Contributions from HAIDC	-	1,338,312
Interest income	36,058	22,442
Net loss on disposal of property and equipment	-	(90,285)
Interest on debt	<u>(155,481)</u>	<u>(131,706)</u>
Total nonoperating (expenses) revenues	<u>(119,423)</u>	<u>1,138,763</u>
Change in net assets	44,389	1,095,207
Total net assets—beginning	<u>5,012,832</u>	<u>3,917,625</u>
Total net assets—ending	<u>\$ 5,057,221</u>	<u>\$ 5,012,832</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, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from providing services	\$ 1,116,500	\$ 848,131
Receipts from other operating activities	-	5,000
Payments for contractuals expenses	(346,450)	(462,107)
Payments for personal services and benefits	(197,848)	(183,650)
Net cash provided by operating activities	<u>572,202</u>	<u>207,374</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Loan repayments from HAIDC	<u>175,834</u>	<u>104,517</u>
Net cash provided by noncapital financing activities	<u>175,834</u>	<u>104,517</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(62,595)	-
Proceeds from the sale of capital assets	-	35,570
Principal paid on debt	(225,288)	(229,175)
Interest paid on debt	(155,481)	(131,706)
Net cash used in capital and related financing activities	<u>(443,364)</u>	<u>(325,311)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<u>36,058</u>	<u>22,442</u>
Net increase in cash and cash equivalents	340,730	9,022
Cash and cash equivalents—beginning	<u>550,964</u>	<u>541,942</u>
Cash and cash equivalents—ending	<u>\$ 891,694</u>	<u>\$ 550,964</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating income (loss)	<u>\$ 163,812</u>	<u>\$ (43,556)</u>
Adjustments for items not affecting cash flows:		
Depreciation	294,244	263,480
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(40,258)	(97,182)
Decrease (increase) in notes receivable	139,300	(40,357)
(Decrease) increase in accounts payable	(30,073)	71,672
Increase in accrued liabilities	45,177	53,317
Total adjustments	<u>408,390</u>	<u>250,930</u>
Net cash provided by operating activities	<u>\$ 572,202</u>	<u>\$ 207,374</u>

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

# CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY

## Notes to Financial Statements Years Ended March 31, 2008 and 2007

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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, 2008 and 2007; 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, 2008, the Agency implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The implementation of this pronouncement 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. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the year ending March 31, 2009; GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the year ending March 31, 2010; GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for the year ending March 31, 2009; GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, effective for the year ending March 31, 2009; GASB Statement No. 51, *Account and Financial Reporting for Intangible Assets*, effective for the year ending March 31, 2011; and GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for the year ending March 31, 2010. The Agency is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 43, 45, 49, 50, 51, and 52 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, 2008 and 2007 are carried at fair value, and presented on the following page.

	March 31, 2008		March 31, 2007	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 200,000	\$ 200,000	\$ 300,000	\$ 300,000
Uninsured:				
Collateral held pledging bank's agent in the Agency's name	636,687	691,694	236,267	232,772
Uninsured, uncollateralized	-	-	18,206	18,192
Total deposits	<u>\$ 836,687</u>	<u>\$ 891,694</u>	<u>\$ 554,473</u>	<u>\$ 550,964</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, 2008, the Agency's deposits were FDIC insured or collateralized. At March 31, 2007, \$18,206 of the Agency's bank balance of \$554,473 was exposed to custodial credit risk because it was neither insured nor collateralized.

### 3. RECEIVABLES

**A. Accounts receivable**—Accounts receivable at March 31, 2008 and 2007 is as follows:

	2008	2007
Rental payments	\$ 53,535	\$ 24,716
Payments in lieu of taxes, to be remitted to taxing authorities	87,798	74,145
Miscellaneous	-	2,214
Total	<u>\$ 141,333</u>	<u>\$ 101,075</u>

**B. Notes receivable**—Represents special project grants and mortgages and is comprised of the following at March 31, 2008 and 2007:

	2008	2007
Note receivable from Alstom. Receivable relating to an Industrial Access Project due over a five year period. Interest is not included on this note.	\$ -	\$ 118,128
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.	30,551	40,379
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.	19,848	21,854
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.	89,371	98,709
Total notes receivable	139,770	279,070
Less current portion	(21,068)	(68,426)
Non-current portion	<u>\$ 118,702</u>	<u>\$ 210,644</u>

#### 4. PROPERTY AND EQUIPMENT—NET

Property and equipment consisted of the following at March 31, 2008 and 2007:

	2008	2007
Land	\$ 433,930	\$ 433,930
Buildings and improvements	9,003,675	8,999,675
Machinery and equipment	428,350	369,756
Total	9,865,955	9,803,361
Less accumulated depreciation	(3,952,342)	(3,658,099)
Property and equipment—net	<u>\$ 5,913,613</u>	<u>\$ 6,145,262</u>

Depreciation expense recorded for the fiscal years ended March 31, 2008 and 2007 was \$294,244 and \$263,480, respectively.

#### 5. LONG-TERM DEBT

Long-term debt at March 31, 2008 and 2007 is as follows:

	2008	2007
Industrial Access Project loan payable to the NYSDOT. The loan is payable in annual installments, with the final payment due on September 3, 2008. No interest is included on this note.	\$ 70,876	\$ 118,128
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.	8,000	12,000
Steuben Trust Company loan payable in monthly installments of \$8,575 (with interest only due for the next 6 months), including interest at 7.70%, due October 2027. Collateralized by rental property.	1,025,000	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.	371,236	433,132
Steuben Trust Company loan payable in monthly installments of \$12,762 including interest at 7.75%, due November 2010. Collateralized by rental property.	349,547	461,687
Total long-term debt	1,824,659	2,049,947
Less current portion	(274,796)	(268,195)
Non-current portion	<u>\$ 1,549,863</u>	<u>\$ 1,781,752</u>

During the year ended March 31, 2008, the terms of the Steuben Trust Company loan payable in the amount of \$1,025,000 were amended. The new terms of the loan call for interest payments only from May 2008 through October 2008, with principal repayment commencing in November 2008 and final maturity in October 2027.

During fiscal year 2002, the Agency was awarded a grant for industrial access improvements around the train depot and Alstom Power facilities. The award to the Agency was for \$1,000,000 of which 60% is a grant and 40% is a loan which is to be repaid within five years of the completion of the project as determined by the New York State Department of Transportation ("NYSDOT"). In fiscal year 2002, the Agency received \$561,105 of which 40% (\$224,442) was reflected as notes payable (to NYSDOT) and a corresponding notes receivable (from Alstom Power). At March 31, 2008, the note payable balance is \$70,876, and there is no note receivable since that balance was received in full during the current year ended. At March 31, 2007, both the note payable and note receivable balances amounted to \$118,128.

Remaining planned principal and interest payments are as follows at March 31, 2008:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 274,796	\$ 117,164
2010	233,804	107,845
2011	197,291	90,850
2012	111,001	80,830
2013	108,442	73,029
2014 - 2018	204,483	310,044
2019 - 2023	300,142	214,385
2024 - 2028	394,700	74,606
Total	<u>\$ 1,824,659</u>	<u>\$ 1,068,753</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, 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, 2008.

During the year ended March 31, 2007, the Agency contributed \$199,745 to the HAIDC. This contribution consisted of \$40,000 for participation in the façade improvement program and \$159,745 in contributions to the South Yards Project.

During the year ended March 31, 2007, the HAIDC contributed \$1,338,312 to the Agency. This contribution consisted of a transfer of the completed South Yards Project assets in the amount of \$1,302,312, and \$36,000 payment for administrative services.

At March 31, 2007, the Agency had an amount due to the HAIDC of \$15,017. This amount was reimbursement for certain travel expenses and is recorded within accounts payable at March 31, 2007. The Agency had an amount due from the HAIDC of \$175,834, which consisted of a temporary loan made to assist with cash flow requirements for the South Yards Project.



## 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>	
2009	\$ 1,708,799
2010	1,741,014
2011	1,770,987
2012	1,820,591
2013	<u>1,871,679</u>
Total	<u>\$ 8,913,070</u>

Additionally, during the year ended March 31, 2007 the Agency 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, 2008 and March 31, 2007 for these leases amounted to \$12,048 and \$3,977, respectively, and the remaining future payments are as follows:

<u>Fiscal Year Ending March 31,</u>	
2009	\$ 12,048
2010	10,001
2011	3,860
2012	<u>1,930</u>
Total	<u>\$ 27,839</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, 2008 and 2007.

## 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.

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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 Investments**  
**Year Ended March 31, 2008**

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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, 2008.
- e. Investment income record—Investment income for the year ended March 31, 2008 consisted of:

	Interest Earned
Interest earned on cash and cash equivalents	\$ 26,955
Interest earned on notes receivable	9,103
	<u>\$ 36,058</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, 2008.

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Real Property Listing**  
**March 31, 2008**

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, 2007, 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 – 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	-
166.11-01-014.100	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
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>\$ 433,930</u>

2. **Real property acquisitions**—There were no real property acquisitions during the year ended March 31, 2008.
3. **Real property dispositions**— There were no real property dispositions during the year ended March 31, 2008.

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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 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, 2008 and 2007, and have issued our report thereon dated June 26, 2008. 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 a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency.

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 deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

*Significant Adjusting Journal Entries*—During our audit we proposed and the Agency accepted certain adjusting journal entries which changed the amounts recorded and reported in the financial statements.

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.

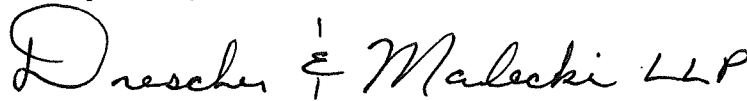
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

#### **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 26, 2008.

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.

A handwritten signature in cursive script that reads "Drescher & Malecki LLP". The signature is written in dark ink and is positioned above the date.

June 26, 2008