

**ALLEGANY COUNTY  
INDUSTRIAL DEVELOPMENT AGENCY**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2012 AND 2011**

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

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**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors**  
*Allegany County Industrial Development Agency*  
Belmont, New York

**Report on the Financial Statements**

We have audited the accompanying financial statements of the *Allegany County Industrial Development Agency* and its component unit, the Allegany County Capital Resource Corporation (which had no activity), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the *Allegany County Industrial Development Agency* as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Matters (continued)**

*Other information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **Allegany County Industrial Development Agency's** basic financial statements. The Schedule of Tax-Exempt Bonds and Sale-Leaseback Transactions are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Tax-Exempt Bonds and Sale-Leaseback Transactions are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Tax-Exempt Bonds and Sale-Leaseback Transactions has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2013, on our consideration of **Allegany County Industrial Development 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*, in considering **Allegany County Industrial Development Agency** internal control over financial reporting and compliance.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
April 11, 2013**

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Page 3**

**I. Discussion and Analysis**

The following is a discussion and analysis of the *Allegany County Industrial Development Agency* financial performance for the year ended December 31, 2012. This section is a summary of the Agency's financial activities based on currently known facts, decisions, or conditions. It is based on the financial statements. The results of the current year in comparison with the prior year are discussed in the following paragraphs. This section is only an introduction and should be read in conjunction with the Agency's financial statements, which follow this section.

**II. Financial Highlights**

The following items are the financial highlights experienced by the *Allegany County Industrial Development Agency* during the year ended December 31, 2012:

- Overall fund equity of the Agency increased approximately \$58,000 and decreased approximately \$17,000 during the years ended December 31, 2012 and 2011, respectively.
- The Agency's total revenue and other sources were approximately \$317,000 during 2012 as compared with approximately \$249,000 during 2011. This increase is primarily the result of an increase in project management fees and an addition of a new lease.
- The Agency's total expenses and other uses were approximately \$259,000 during 2012 as compared to approximately \$266,000 during 2011. This decrease was primarily the result of a decrease in interest expense and occupancy costs.
- The Agency had capital purchases during the current year in the amount of \$482,314 which was primarily related to the purchase of the Vandyke property and costs from the infrastructure project.

**III. Overview of the Financial Statements**

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information.

**A. Reporting the Agency as a Whole (Government-wide Financial Statements):**

The government-wide statements report information about the entity as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

**1. Statement of Net Assets**

The Statement of Net Assets (page 7) shows the "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled) of the Agency. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are designated for certain purposes or reserved for emergencies and cash flow purposes. Some assets are available to fund budgets of the following year.

**2. Statement of Activities**

The Statement of Activities (page 8) shows the amounts of program-specific and general Agency revenue used to support the Agency's various functions.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – is one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the Agency's overall health, you need to consider additional non-financial factors.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Page 4**

**IV. Financial Analysis of the Agency as a Whole**

Fund Equity

The Agency's total net position was at a deficit of approximately \$29,000 as of December 31, 2012.

Revenue

The Agency's total revenue and other sources were approximately \$317,000 during the year ended December 31, 2012. The Agency also received \$486,975 of pass-through revenue during the year ended December 31, 2012. The Agency acts as an intermediary for these funds, and appropriately recognizes each pass-through amount as an expenditure upon distribution.

Figure A-3 presents the major sources of revenue of the Agency. The most significant sources of governmental revenue in the Agency are more thoroughly discussed as follows:

- Rental revenue which represents approximately of the Agency's total revenue increased approximately \$4,000 or 3% during the year ended December 31, 2012. This increase resulted from a new lease to Venture ForThe, Inc.
- Revenue from application fees increased approximately \$39,500 during the current fiscal year. The increase is related to the Agency providing assistance in the issuance of tax exempt industrial development bonds to Lufkin Industries, Inc. during the current year.
- During the current year, the Agency had in-kind donations of \$49,000 which related to estimated time spent for the Agency by employees of Allegany County.

**IV. Financial Analysis of the Agency as a Whole  
(continued)**

Expenses

The total cost of all programs and services of the Agency was approximately \$259,000. The Agency's expenses consist primarily of occupancy expenses, in-kind expenditures, depreciation, interest expense, professional fees and general and administrative expenses.

The Agency's expenses are more thoroughly discussed as follows:

- The Agency's total costs were approximately \$259,000 during the year ended December 31, 2012 as compared with \$266,000 during the year ended December 31, 2011. This decrease was the result of a decrease in interest expense, depreciation, and occupancy costs.
- The Agency's occupancy costs were approximately \$50,000 during the year ended December 31, 2012 as compared with \$57,000 during the year ended December 31, 2011. This decrease in costs was primarily the result of the Agency not incurring additional costs related to maintenance of the buildings.
- The Agency's salaries and benefits were all in-kind services provided by employees of Allegany County and totaled approximately \$49,000 and \$48,000 for the years ended December 31, 2012 and 2011, respectively.
- All other costs of the Agency totaled \$160,000 in 2012 as compared with \$161,000 in 2011. This is primarily the result of a decrease in interest expense.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

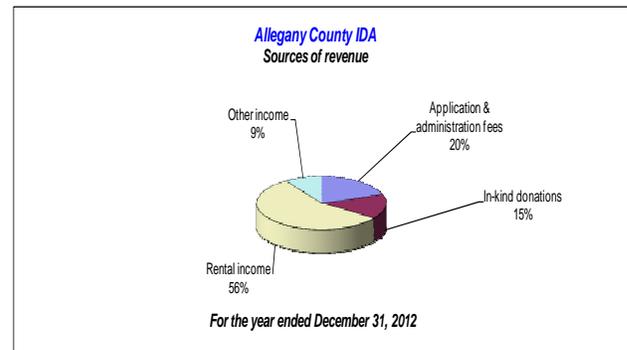
**Figure A-1 – Statement of Net Position**

<i>Allegany County Industrial Development Agency</i> Statement of Net Position			
	Total Government-wide		
	2012	2011	% Change
<b>Assets</b>			
Current and other assets	\$ 3,068,415	\$ 38,241	7924%
Capital assets, net	1,643,151	1,203,597	37%
<b>Total assets</b>	<b>\$ 4,711,566</b>	<b>\$ 1,241,838</b>	<b>279%</b>
<b>Liabilities</b>			
Current liabilities	\$ 137,970	\$ 214,577	-36%
Long-term liabilities	4,602,588	1,114,063	313%
<b>Total liabilities</b>	<b>4,740,558</b>	<b>1,328,640</b>	<b>257%</b>
<b>Net position</b>			
Unrestricted accumulated deficit	(28,992)	(86,802)	-67%
<b>Total liabilities and net position</b>	<b>\$ 4,711,566</b>	<b>\$ 1,241,838</b>	<b>279%</b>

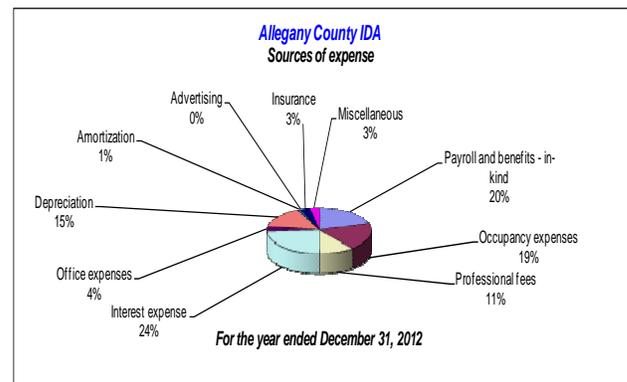
**Figure A-2 Statement of Activities**

<i>Allegany County Industrial Development Agency</i> Statement of Activities (in thousands of Dollars)			
	Total Government-wide		
	2012	2011	% Change
<b>Revenue</b>			
Application & administration fees	\$ 62,000	\$ 22,500	176%
In-kind donations	48,947	47,750	3%
Rental income	176,396	171,666	3%
Other income	29,376	6,683	340%
<b>Total revenue</b>	<b>316,719</b>	<b>248,599</b>	<b>27%</b>
<b>Expenses</b>			
Payroll and benefits - in-kind	48,947	47,750	3%
Occupancy expenses	49,847	56,797	-12%
Professional fees	28,003	23,145	21%
Interest expense	62,244	74,478	-16%
Office expenses	9,686	8,457	15%
Depreciation	42,760	43,375	-1%
Amortization	2,593	1,250	100%
Advertising	349	483	-28%
Insurance	7,002	6,657	5%
Miscellaneous	7,478	3,516	113%
	<b>258,909</b>	<b>265,908</b>	<b>-3%</b>
<b>Change in net position</b>	<b>57,810</b>	<b>(17,309)</b>	
<b>Pass-through transactions</b>			
Revenue	486,975	468,245	4%
Expenditures	(486,975)	(468,245)	4%
Net pass-through transactions	-	-	-
<b>Change in net position</b>	<b>\$ 57,810</b>	<b>\$ (17,309)</b>	

**Figure A-3 Sources of Revenue**



**Figure A-4 - Expenses**



**V. Component Unit**

**Allegany County Capital Resource Corporation**

In July 2009, the Agency formed a non-profit organization under the name of Allegany County Capital Resource Corporation. This entity has the ability to provide such financing to non-profit organizations in the future. The Allegany County Capital Resource Corporation did not have any activity during the years ended December 31, 2012 and 2011.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**VI. Capital Asset and Debt Administration**

Capital Assets

As depicted in Figure A-5, as of December 31, 2012, the Agency had invested approximately \$1,643,000 in a broad range of capital assets, including improvements, vehicles and furniture and equipment. Capital additions during the year ended December 31, 2012, totaled \$582,314 which consisted primarily of the purchase of the Van Dyke property, and engineering, architectural and legal fees associated with the infrastructure project.

Long-term Debt

As depicted in Figure A-6, as of December 31, 2012, the Agency had approximately \$4,659,481 in notes payable, an increase of approximately 301% as compared with the previous year. This increase was primarily related to the Agency receiving a \$3.5 million bond from Allegany County.

**Figure A-5 – Capital Assets**

<i>Allegany County Industrial Development Agency</i>			
<i>Capital Assets</i>			
	2012	2011	Change
Land	\$ 303,205	\$ 16,704	1715%
Building and improvements	1,284,172	1,280,886	0%
Construction-in-progress	192,527	--	100%
Equipment	17,659	17,659	0%
Vehicle	13,999	13,999	0%
Accumulated depreciation	(168,411)	(125,651)	34%
<b>Capital Assets - net</b>	<b>\$ 1,643,151</b>	<b>\$ 1,203,597</b>	<b>37%</b>

**Figure A-6 – Long-term Debt**

<i>County of Allegany Industrial Development Agency</i>			
<i>Long-term debt</i>			
	2012	2011	Change
Notes payable - long-term	\$ 46,383	\$ 8,753	430%
Notes payable - vehicle	1,580	4,140	-62%
Mortgage payable - crossroads	718,728	741,802	-3%
Mortgage payable - building	392,790	408,318	-4%
Bond Payable - infrastructure	3,500,000	--	
<b>Long-term debt</b>	<b>\$ 4,659,481</b>	<b>\$ 1,163,013</b>	<b>301%</b>

**VII. Factors Bearing on the Agency's Future**

At the time these financial statements were prepared and audited, the Agency was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Development of Exit 30 on Interstate 86 at New York State Route 19. A 30 acre project for warehouse/distribution and hospitality/lodging that is projected to have \$25 million in investment and create several hundred new jobs which could generate substantial revenue streams.
- Proposed development on County Route 20 should yield at least two projects, possibly more within the next eighteen months. IDA assistance is planned for each project.

**VIII. Contacting the Agency's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the Agency and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Attention: Mr. John Foels, Executive Director  
Allegany County Industrial Development Agency  
6087 State Route 19N  
Belmont, New York 14813

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**STATEMENTS OF NET POSITION**

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<i>As of December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 53,159	\$ 25,750
Accounts receivable	--	600
Total current assets	<u>53,159</u>	<u>26,350</u>
<b>Property and equipment, net</b>	<u>1,643,151</u>	<u>1,203,597</u>
<b>Other assets</b>		
Restricted cash - building reserve	339	339
Restricted cash- infrastructure project	2,959,238	--
Security deposits	222	222
Loan issuance fees, net of amortization	55,457	11,330
Total other assets	<u>3,015,256</u>	<u>11,891</u>
<b>Total assets</b>	<u>\$ 4,711,566</u>	<u>\$ 1,241,838</u>
<b>Liabilities and Net Position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,996	\$ 43,067
Line of credit	--	49,981
Advances from grantors	600	--
Due to Allegany County - PILOT reimbursement	75,481	72,579
Mortgages payable - current portion	41,917	41,129
Notes payable - current portion	14,976	7,821
Total current liabilities	<u>137,970</u>	<u>214,577</u>
<b>Long-term liabilities</b>		
Mortgages payable - long-term portion	1,069,601	1,108,991
Bond payable - long-term portion	3,500,000	--
Notes payable - long-term portion	32,987	5,072
Total long-term liabilities	<u>4,602,588</u>	<u>1,114,063</u>
<b>Total liabilities</b>	<u>4,740,558</u>	<u>1,328,640</u>
<b>Net position</b>		
Invested in capital assets, net of related debt	46,328	64,807
Accumulated deficit	(75,320)	(151,609)
Total accumulated deficit	<u>(28,992)</u>	<u>(86,802)</u>
<b>Total liabilities and net position</b>	<u>\$ 4,711,566</u>	<u>\$ 1,241,838</u>

See accompanying independent auditors' report and notes to the financial statements.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**STATEMENTS OF ACTIVITIES**

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<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Support and revenue</b>		
Fees	\$ 62,000	\$ 22,500
Rental income	176,396	171,666
In-kind donations	48,947	47,750
Other income	18,249	6,683
Interest income	11,127	--
<b>Total support and revenue</b>	<b>316,719</b>	<b>248,599</b>
<b>Expenses</b>		
Payroll and benefits - in-kind	48,947	47,750
Occupancy expenses	49,847	56,797
Legal and professional	28,003	23,145
Interest expense	62,244	74,478
Office expenses	9,686	8,457
Depreciation	42,760	43,375
Amortization	2,593	1,250
Advertising	349	483
Insurance	7,002	6,657
Miscellaneous	7,478	3,516
<b>Total expenses</b>	<b>258,909</b>	<b>265,908</b>
<b><i>Increase (decrease) in unrestricted net position before pass-through transactions</i></b>	<b>57,810</b>	<b>(17,309)</b>
<b>Pass-through transactions</b>		
Revenue	486,975	468,245
Expenditures	(486,975)	(468,245)
Net pass-through transactions	--	--
<b><i>Increase (decrease) in unrestricted net position</i></b>	<b>57,810</b>	<b>(17,309)</b>
Net position - accumulated deficit, beginning of year	(86,802)	(69,493)
<b>Net position - accumulated deficit, end of year</b>	<b>\$ (28,992)</b>	<b>\$ (86,802)</b>

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**STATEMENTS OF CASH FLOWS**

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<i>For the years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Net Cash from operating activities</b>		
Reconciliation of decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Increase (decrease) in unrestricted net assets	\$ 57,810	\$ (17,309)
Adjustments for items not affecting cash flows:		
Depreciation	42,760	43,375
Amortization	2,593	1,250
Change in assets and liabilities		
Accounts receivable	600	(600)
Accounts payable	(38,071)	10,406
Deferred revenue/advances	600	(700)
Due to Allegany County (PILOT Reimbursements)	2,902	2,792
	<hr/>	<hr/>
<b>Net cash provided by operating activities</b>	<b>69,194</b>	<b>39,214</b>
<b>Net cash from investing activities</b>		
Decrease (increase) in restricted cash	(2,959,238)	15
Property improvements and equipment purchases	(482,314)	(14,784)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(3,441,552)</b>	<b>(14,769)</b>
<b>Net cash from financing activities</b>		
Repayment of short-term debt	--	(19)
Bond issuance costs	(46,720)	--
Proceeds from long-term debt	3,500,000	--
Repayment of long-term debt	(53,513)	(41,272)
	<hr/>	<hr/>
<b>Net cash provided by (used in) financing activities</b>	<b>3,399,767</b>	<b>(41,291)</b>
<b>Change in cash</b>	<b>27,409</b>	<b>(16,846)</b>
Cash, beginning balance	25,750	42,596
	<hr/>	<hr/>
<b>Cash, ending balance</b>	<b>\$ 53,159</b>	<b>\$ 25,750</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for:		
Interest	\$ 62,244	\$ 74,478
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**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

*Allegany County Industrial Development Agency* was created in 1973 by the Allegany County Board of Legislators under the provisions of the 1973 Laws of New York State for the purpose of encouraging economic growth in Allegany County. The Agency is exempt from federal, state, and local income taxes. The Agency, although established by the Allegany County Board of Legislators, is a separate legal entity and operates independently of Allegany County, however, it is considered to be a component unit of the County.

Basis of Accounting

The financial statements of the *Allegany County Industrial Development Agency* have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Donated Services

Amounts have been reflected in the statements for the estimated value of donated services.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those results.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Agency considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of 7 and 40 years.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Tax Lease Program

The Agency maintains tax lease and PILOT (payment in lieu of tax) programs. These programs are offered to companies who acquire, construct or substantially renovate facilities suitable for manufacturing, warehousing, research and development and other industrial purposes. Under the tax lease program, title to the property is conveyed to the Agency through the term of the lease agreement. Transfer of title removes the property from the tax rolls and the project assumes a tax-exempt nature, abating real property taxes, sales tax and mortgage taxes. A lease is written between the company as lessee and the *Allegany County Industrial Development Agency* as lessor, which specifies that the company will retain operational control of the project. At the end of the lease term, title to the assets is returned to the company. The Agency does not record assets acquired under the lease program since the Agency's primary function is to provide state and local tax benefits to the lessee. The Agency receives lease administrative fees from the lessee for providing the service.

Both the PILOT and tax lease programs are governed by New York State statute. The Agency has the local authority to offer real property tax abatement as an inducement for industrial development projects. The Agency can affix the tax abatement discount at a rate necessary to satisfactorily complete a project. Under special circumstances defined by NYS statute, the Agency has the authority to also provide real property tax abatement to both commercial and/or retail projects located within areas designated to be of high distress. The Agency's current standard PILOT program is a real property tax abatement of an average of 50% of the total tax liability over a period not to exceed ten years. The PILOT agreement is the instrument by which the discounted tax payments to be made are structured. All taxing jurisdictions receive payments in the same proportion as if the entire tax amount were paid. A PILOT agreement and tax lease can run concurrently, but are not required to be used together. It is possible to structure a PILOT without an accompanying tax lease agreement.

The Agency's PILOT program generated \$486,975 and \$468,245 for the years ended December 31, 2012 and 2011, respectively for local municipalities.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Industrial Development Revenue Bonds and Civic Facility Bonds

Industrial development revenue bonds issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. Civic facility bonds issued by the Agency include facilities owned or operated by New York State Not-for-Profit Corporations. The industrial development revenue and civic facility bonds are not obligations of the Agency, County, or State. The Agency does not record the assets or liabilities resulting from bond issuance in its financial statements since its primary function is to arrange the financing between the borrowing companies and the bondholders and funds arising from the issuance are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administrative fees from the borrowing companies. Such administrative fee income is recognized immediately upon receipt after issuance of the bonds. The Agency received \$62,000 in administrative fees during the 2012 fiscal year relating to providing assistance to Lufkin Industries, Inc. in obtaining a tax-exempt bond.

Allegany County Capital Resource Corporation

In July 2009, the Agency formed a non-profit organization under the name of Allegany County Capital Resource Corporation. This entity has the ability to provide such financing to non-profit organizations in the future. The Capital Resource Corporation did not have any activity during the years ended December 31, 2012 and 2011.

**NOTE 2 – RESTRICTED CASH/RESERVES**

As discussed in Note 5, when the Agency executed its mortgage agreement, \$50,000 was received to be utilized towards building improvements. As of December 31, 2012 and 2011, \$339 was held in escrow as funds remaining for future improvements. In addition, in 2012 the Agency issued \$3.5 million in bonds for a capital infrastructure project. As of December 31, 2012, \$2,959,238 of the bond proceeds remained unspent and is required to be utilized towards to project.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Major classes of property and equipment consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 303,205	\$ 16,704
Building and improvements	1,284,172	1,280,886
Furniture and equipment	17,659	17,659
Vehicle	13,999	13,999
Construction in process	<u>192,527</u>	<u>-</u>
	1,811,562	1,329,248
Less: accumulated depreciation	<u>168,411</u>	<u>125,651</u>
	<u>\$ 1,643,151</u>	<u>\$ 1,203,597</u>

**NOTE 3 - PROPERTY AND EQUIPMENT (CONTINUED)**

Depreciation expense for the years December 31, 2012 and 2011 totaled \$42,760 and \$43,375, respectively.

On January 10, 2012, the Allegany County Industrial Development Agency purchased 18.5 acres of land located at 5884 County Road, Belmont, New York for \$286,500. The intended use of the land is for potential future site development. During the year ended December 31, 2012 Allegany County Industrial Development Agency also incurred \$265,018 in costs related to the infrastructure project, of which \$192,527 was included as construction in-progress. The funding for the purchase of the 5884 County Road property and infrastructure improvements were funded from proceeds received from the issuance of a \$3.5 million bond.

**NOTE 4 – LINE OF CREDIT**

During 2008, the Agency entered into a line of credit arrangement with Community Bank, N.A. which authorized maximum borrowing up to \$50,000. The Agency had outstanding advances on the line as of December 31, 2011 in the amount of \$49,981. The line was secured by all business assets of the Agency. Interest on outstanding advances was charged at prime rate plus 1.00% with a floor of 4.50%. Interest expense during the year ended December 31, 2011 totaled \$2,286. The line expired on June 30, 2011 at which time the terms were extended through June 23, 2012.

As disclosed in Note 5, on January 23, 2012, the Agency refinanced its line of credit with a balance of \$49,981 into a term loan.

**NOTE 5 - LONG-TERM DEBT**

Notes Payable

During 2008, the Agency converted a \$24,091 short-term note payable into a five year-term note payable. The note carries a 7.25% interest rate and had an outstanding balance of \$3,931 and \$8,753 as of December 31, 2012 and 2011, respectively. Interest expense during the years ended December 31, 2012 and 2011 totaled \$443 and \$930, respectively.

On January 14, 2009, the Agency obtained a loan for the purchase of a vehicle from First Citizens National Bank in the amount of \$10,629. The loan calls for fifty-four monthly payments in the amount of \$232 including interest at 7.25% with final payment due on July 14, 2013. The outstanding balance on the loan as of December 31, 2012 and 2011 was \$1,580 and \$4,140, respectively. Interest expense paid on vehicle loans during the years ended December 31, 2012 and 2011 was \$221 and \$179, respectively.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

Notes Payable (continued)

On January 23, 2012, the Agency refinanced its line of credit with a balance of \$49,981 into a term loan. This loan is to be repaid in sixty consecutive payments of \$944 including interest at 5%, beginning February 24, 2012. Interest expense paid on long-term debt during the year ended December 31, 2012 was \$3,012 and the balance outstanding as of December 31, 2012 was \$42,452.

Current maturities of long-term debt existing at December 31, 2012 are as follows:

<u>First Citizens Loan</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,931	\$ 110
Total	\$ 3,931	\$ 110

<u>First Citizens Loan (Car)</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,580	\$ 38
Total	\$ 1,580	\$ 38

Current maturities of long-term debt existing at December 31, 2012 are as follows:

<u>Community Bank</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 9,465	\$ 1,871
2014	9,949	1,387
2015	10,458	878
2016	10,993	342
2017	1,587	11
Total	\$ 42,452	\$ 4,489

Bonds Payable

On February 1, 2012, the Allegany County Industrial Develop Agency entered into a bond purchase and disbursing agreement with Allegany County. Allegany County issued a Series 2012A bond in the amount of \$3.5 million with interest at 2%. The net proceeds of \$3,453,280 (after bond issuance costs of \$46,720) were utilized for the acquisition of an interest in various parcels of land along Route 20 in the towns of Friendship and Amity and the construction of water, sewer, and other related infrastructure. Principal payments are not due until 2018.

The bond issuance costs were amortized over the life of the bonds payable. Amortization expense for the year ended December 31, 2012 was \$1,335.

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

Bonds Payable (continued)

The following schedule represents the maturity of the bond over its terms

	<u>Principal</u>	<u>Interest</u>
2013	\$ --	\$ 70,000
2014	--	70,000
2015	--	70,000
2016	--	70,000
2017	--	70,000
2018-2022	425,000	333,400
2023-2027	490,000	288,800
2028-2032	540,000	237,600
2033-2037	615,000	180,400
2038-2042	680,000	116,300
2043-2047	750,000	45,600
Total	\$ 3,500,000	\$ 1,552,100

Mortgages Payable

In August, 2008, the Agency entered into a Mortgage with Community Bank, NA. The mortgage provided proceeds totaling \$450,000 for the purchase (\$400,000) of the Crossroads Commerce Center located at 6087 State Route 19 N, Belmont, New York from the Willard J. Houghton Foundation and future improvements (\$50,000). The borrowings were to be repaid over a term of twenty years with monthly payments of \$3,224, including interest, at a fixed interest rate of 6.00%. The interest rate was to be reviewed every five years. On January 23, 2012, the mortgage was refinanced; the new terms call for monthly payments of \$3,005 with an interest rate of 5.00%. The maturity date will remain at August 14, 2018. The unpaid principal and interest balance will be due on that date as the mortgage is based on a twenty year amortization period, with a ten year call. The final balloon payment principal and interest due on August 14, 2018 will be approximately \$297,000.

The following schedule represents the maturity of the mortgage over the term of the note:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 16,838	\$ 19,153
2014	17,699	18,288
2015	18,604	17,379
2016	19,556	16,423
2017	20,557	15,418
2018	299,536	9,695
Total	\$ 392,790	\$ 96,356

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

Mortgages Payable (continued)

On October 7, 2009, the Agency entered into a \$762,000 construction loan with Community Bank, N.A. The loan financed an 8,179 square foot expansion of the Agency's property located at 6085 State Route 19 N., Belmont, New York. The commercial construction loan agreement required interest only payments through December 12, 2010.

The Agency incurred loan fees of \$12,580 relating to the closing of the commercial mortgage loan. The costs are being amortized over the life of the mortgage loan. Amortization expense for the years ended December 31, 2012 and 2011 was \$1,258 and \$1,250, respectively.

The Agency began making principal payments on the \$762,000 mortgage beginning January 5, 2011. The mortgage was being repaid over a term of ten years with monthly payments of \$5,500, including interest, at a fixed interest rate of 6.00%. The interest rate was to be reviewed every five years. On January 23, 2012, the mortgage was refinanced, the new terms call for monthly payments of \$5,035 at an interest rate of 5.00%. The unpaid principal and interest balance will be due in full at December 21, 2020 as the mortgage is based on a 20 year amortization period, with a ten year call. The final balloon payment due on December 21, 2020 will be approximately \$478,000.

The following schedule represents the maturity of the mortgage over the term of the note:

	<b>Principal</b>	<b>Interest</b>
2013	\$ 25,079	\$ 35,341
2014	26,362	34,058
2015	27,710	32,710
2016	29,128	31,292
2017	30,618	29,802
2018-2020	579,831	81,762
Total	<u>\$ 718,728</u>	<u>\$ 244,965</u>

**NOTE 6 – OPERATING LEASES**

The Agency leases office space to tenants under various operating leases expiring through 2014. The leases are cancelable with a stipulation that the tenant provides sixty days notice. The Allegany County lease is effective through April 2013 but contains options for renewal.

**NOTE 7 - DONATED SERVICES**

The employees of Allegany County provide administrative, accounting and other support services to the Agency. The value of donated services included in these financial statements are recorded as revenue and as a corresponding expense. In-kind salaries and receipts during the years ended December 31, 2012 and 2011 respectively, totaled \$48,947 and \$47,750.

**NOTE 8 – PASS-THROUGH TRANSACTIONS**

The Agency's responsibility regarding these transactions is to pass-through funds received to the primary recipients. Pass-through transactions are recorded as income or liabilities when received and expenses and reduction of liabilities when paid. The Agency has received and disbursed the following funds resulting from this pass-through activity during the years ended December 31, 2012 and 2011. As of December 31, 2012 and 2011, the Agency owed a balance of \$75,481 and \$72,579, respectively, to Allegany County for their share of the 2012 and 2011 PILOT receipts.

<b>Pass-through transactions</b>	<b>Receipts</b>	<b>Disbursements</b>
<u>December 31, 2012</u>		
PILOT payments collected from businesses and remitted to local governments.	\$ 486,975	\$ 486,975
<u>December 31, 2011</u>		
PILOT payments collected from businesses and remitted to local governments.	\$ 468,245	\$ 468,245

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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**NOTE 9 – ACCUMULATED DEFICIT AND  
MANAGEMENT’S PLANS**

As indicated in past and present audits, it has been noted that the Agency has had very modest revenues while aggressively undertaking various programs to focus the County of Allegany in a positive direction for corporate growth and quality of life.

The expansion of the Friendship Empire Zone into over ten additional communities has allowed many expanding corporate projects greater incentive packages than would be available through the IDA.

Management believes there are exceptional opportunities for deficit elimination and future financial stability well into the next decade for the following primary reasons:

1. Fiber Optic service project – The Agency is currently in discussions with a third party provider for the purpose of constructing, maintaining and operating a building for the services and operations of a wireless broadband system to serve Allegany County and other telecom services. It is estimated that the Agency will receive monthly rental payments and quarterly royalty income.

The combination of this items, in conjunction with the expansion of existing industry and the projected growth at the Crossroads, are anticipated to provide a firm basis for future financial stability.

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events were evaluated by Management through April 11, 2013, which is the date the financial statements were available to be issued.

***SUPPLEMENTAL INFORMATION***

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY**  
**SCHEDULE OF TAX-EXEMPT BONDS AND SALE-LEASEBACK TRANSACTIONS**

As of December 31, 2012

	Employees	Original Amount	Outstanding Principal	Date of Issuance	Date of Maturity	Interest Rate
<b>Tax-exempt bonds</b>						
Alfred University	627	23,035,000	10,180,000	1998	2028	4.25% - 5.25%
Cuba Memorial Hospital	220	3,000,000	2,420,000	2004	2014	8.00%
Atlantic Richfield	--	7,000,000	7,000,000	2003	2037	Variable
<b>Sale-lease back transactions</b>						
R, G & E	n/a	n/a	15,000,000	1993	2018	n/a
Lufkin Industries, Inc	63	2,525,000	n/a	2012	2023	n/a



**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"**

**INDEPENDENT AUDITORS' REPORT**

**To the President and  
Members of the Board of Directors  
*Allegany County Industrial Development Agency*  
Belmont, New York**

We have audited in accordance with the 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, the financial statements of *Allegany County Industrial Development Agency* as of and for the year ended December 31, 2012, which collectively comprise *Allegany County Industrial Development Agency's* basic financial statements and have issued our report thereon dated April 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered *Allegany County Industrial Development Agency's* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Allegany County Industrial Development Agency's* internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over that we consider to be material weaknesses.

A deficiency in internal control over financial reporting 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 as 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. We consider the deficiencies in the accompanying schedule of findings and questioned costs as items II.A.2012-1, II.A.2012-2, II.A.2012-3 and II.A.2012-4 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether *Allegany County Industrial Development Agency's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item II.B.2012-5.

**Allegheny County Industrial Development Agency Response to Findings**

*Allegheny County Industrial Development Agency* response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. *Allegheny County Industrial Development Agency* response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we have reported to management of *Allegheny County Industrial Development Agency* in a separate letter dated April 11, 2013.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Buffamante Whipple Buttafaro PC*

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

Olean, New York  
April 11, 2013

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**I. SUMMARY OF AUDIT RESULTS**

1. The independent auditors' report expresses an unmodified opinion on the financial statements of *Allegany County Industrial Development Agency*.
2. Four material weaknesses relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards".
3. There was one instance of noncompliance material to the financial statements of *Allegany County Industrial Development Agency* reported in the 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".

**II. FINANCIAL STATEMENTS AUDIT - FINDINGS**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Year ended December 31, 2012**

**2012-1 Adjusting Journal Entries and Required Disclosures to the Financial Statements**

*Condition and criteria:* During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the Agency to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to recording assets and liabilities on the accrual basis of accounting. In addition, a draft of the financial statements was prepared by the auditors.

*Effect:* The American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards Number 115, entitled Communicating Internal Control Related Matters in an Audit. This standard considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency.

*Auditors' Recommendations:* Although auditors may continue to provide such assistance both now and in the future, under the pronouncement, the Agency should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the drafted financial statements.

*Agency's Response:* The Agency has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit. The Agency will continue to review and approve similar information in future years. Further, the Agency believes it has a thorough understanding of these financial statements and the ability to make informed judgments on those financial statements. Lastly, the Agency considers such assistance provided by the auditors to be the most cost effective manner to prepare such information.

**Year ended December 31, 2011**

A similar finding was reported in the prior year as finding 2011-1.

**2012-2 Segregation of Duties**

*Conditions and Criteria:* We noted that one individual is primarily responsible for opening the mail (cash receipts), maintaining the general ledger (including recording cash receipts and cash disbursements), depositing cash and reconciling cash. It is also our understanding that the personnel of the Agency are not currently bonded.

*Effect:* A fundamental element of an effective internal control system is the proper segregation of duties. Proper segregation of duties provides for a system of checks and balances and entails assigning responsibilities of authorizing and recording transactions among different people in the Agency.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)**

**Year ended December 31, 2012 (continued)**

**2012-2 Segregation of Duties (continued)**

*Auditor's recommendation:* We recommend that the Agency assign bank reconciliations to be prepared by a person independent of the individual responsible for the cash receipts and disbursements functions. After bank reconciliations are prepared, someone should be designated to then review the bank reconciliation and compare the balance to the cash accounts in the general ledger. If such division is not possible, we would suggest that the Executive Director or a member from the Board of Directors review bank reconciliations on a monthly basis. We would also recommend someone independent of the general ledger function, open all mail and maintain a daily cash receipts log. A person independent of the cash receipts function should be responsible for reconciling items recorded in this log as compared with that posted to the general ledger and deposited in the bank. This will enhance the segregation of duties in the cash receipts area.

*Agency's Response:* Due to the limited staff and unavailability of board members throughout the month the Agency feels that it not reasonable to have another person perform the reconciliations. The treasurer's report now includes the cash balances from the beginning and end of the period. We have also addressed the segregation of duties in the cash receipts area by dividing tasks between staff members.

**Year ended December 31, 2011**

A similar finding was reported in the prior year as finding 2011-2.

**2012-3 Purchasing**

*Condition and criteria:* During the audit, we noticed that the Agency currently is lacking controls over approval of purchases of goods and services. The Agency did, however, prepare an operating budget for the fiscal year ended December 31, 2012, and as a result there were some guidelines or stipulations on expenditure levels as authorized by the Board of Directors.

*Effect:* In the event purchases are made prior to approval, the Agency could incur expenditures that were not authorized by the Board of Directors or management. Also, expenditures may be incurred which do not coincide with Board and management's' expectations or philosophy in providing economic development to the County.

*Auditors' Recommendations:* An effective internal control system is necessary in the purchasing of goods and services to provide better control over expenditures. The Agency should develop an operating budget prior to the start of each fiscal year which is approved by the Board of Directors. Once approved, the Agency should continually monitor expenditures in comparison with the budget. During instances when purchases may exceed budgeted line items, management should seek Board approval to make appropriate budget transfers. Lastly, documentation should exist to substantiate that all purchases were first authorized by a member of management or the Board of Directors.

*Agency's Response:* The Agency has adopted a budget for the year ended December 31, 2013, which has been posted to the New York State site. Almost all our current expenses are monthly utilities. All expenses are authorized by the Board at the Agency's monthly meetings.

**Year ended December 31, 2011**

A similar finding was reported in the prior year as finding 2011-3.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)**

**Year ended December 31, 2012 (continued)**

**2012-4 Financial Reporting**

*Conditions and Criteria:* During the year, the Agency did not maintain a detailed general ledger or trial balance. Rather, monthly receipts and disbursements are maintained by the Agency in a checkbook and inserted manually into a monthly treasurer's report. We should mention, however, that a trial balance and general ledger were prepared by the Agency in preparation for the audit.

*Effect:* The effect of not maintaining a detailed general ledger and trial balance is that the Agency does not have the ability to monitor total revenue and expenditures throughout the year, along with its financial position.

*Auditors' Recommendation:* We believe it is extremely important for the Agency to maintain a detailed general ledger and trial balance. We also recommend that budgeted information be entered into the Agency's general ledger software, so that actual revenue and expenditures can be compared against the budget on a regular basis. As part of this process, the Agency should investigate whether the general ledger software has the ability to generate a Treasurer's report electronically, which may provide efficiency gains.

*Agency's Response:* The Agency is currently reviewing its options with regards to financial software and will weigh the potential costs against the potential benefits of implementing.

**Year ended December 31, 2011**

A similar finding was reported in the prior year as finding 2011-4.

**B. COMPLIANCE**

**Year ended December 31, 2012**

**2012-5 Reimbursement of Payment-In-Lieu Of Taxes (PILOT) Payments**

*Conditions and criteria:* The Agency acts as a pass-through intermediary for a Payment in Lieu of Taxes (PILOT) arrangement established with a Corporation who holds real property located within Allegany County. The payouts were not timely in the current year. During the year, the Agency received semi-annual payments during January and June 2012 of approximately \$243,000 from the Corporation but failed to pass through these amounts to the participating municipalities in a timely manner. Approximately 155 days had lapsed from the date of the January 2012 receipt until full payment to the municipalities and approximately 229 days had lapsed from the date of the June 2012 receipt until full payment to the municipalities. As of December 31, 2012 there was an outstanding balance of \$75,481 due to Allegany County.

*Effect:* The Agency is utilizing funds that are required to be passed through to participating municipalities to support its operations during certain times of the year.

*Auditors' Recommendation:* The Agency should take steps to ensure that funds received from the PILOT agreements are immediately paid to the participating municipalities.

*Agency's Response:* The Agency is aware of our prior situation and is taking strides to ensure payments are made timely. The Agency anticipates larger revenues with the completion of projects which will make it easier to make these payments in the future.

**Year ended December 31, 2011**

A similar finding was reported in the prior year as finding 2011-5.



April 11, 2013

**To the Chairman and Members of the  
Board of Directors  
*Allegany County Industrial Development Agency*  
Belmont, New York**

We have completed our audit for the year ended December 31, 2012 of the Agency's financial statements and have issued our reports thereon dated April 11, 2013. Our audit report expressed an unqualified opinion which states that the Agency's financial statements are in accordance with generally accepted accounting principles for governments. In addition, we have issued a separate report on internal controls over financial reporting and compliance with laws and regulations as required by *Government Auditing Standards*.

In planning and performing our audit of the financial statements of the *Allegany County Industrial Development Agency* for the year ended December 31, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the Agency generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

The following items are a list of additional comments which we desire to bring to the audit committee, board of directors and management's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon by the Agency:

#### **Forecasting**

The Agency should consider preparing a five year forecast of revenue, expenditures, long-term debt, and forecast of cash flows. We realize that such a forecast will require the use of estimates and assumptions of information such as the amount of expected grant revenue, rental income and fees, along with expected rate increase in utilities, operating costs, etc. We believe, however, that a forecast would be a very useful tool that the Agency could utilize when developing a long-term financial plan which coincides with its economic development plan.

#### **Capitalization Thresholds**

We recommend that the Agency establish a fixed asset capitalization policy whereby equipment and capital improvements with costs exceeding a certain threshold are capitalized. Government Finance Officers Association (GFOA) suggests that the capitalization threshold should ensure that at least 80% of the value of assets are capitalized as fixed assets and that the threshold does not exceed \$5,000. If a higher threshold is selected, the Agency may wish to maintain an inventory of all assets, however, for insurance purposes only.

#### **Risk Assessment**

The Agency currently has not performed a formal assessment of risks, including an assessment of risk of the Agency's susceptibility to fraudulent activity. A risk assessment is a process in which an entity's internal control environment is evaluated against the potential for misappropriation of Agency assets and the potential for fraudulent financial reporting. An effective risk assessment will result in the evaluation of the internal controls in existence, and the development and implementation of additional controls in response to the determination of risks. We recommend that the Agency consider documenting such a risk assessment, and that management and the Board use this process as a guide in continuing to enhance its control environment in which fraud risks are reduce to a low level. This risk assessment should be evaluated periodically as conditions change.

### **In Kind Donations – Time Study**

During the course of the fiscal year the Agency receives in-kind services from Allegany County employees. The costs of these services are estimated based on anticipated time spent by County employees. We recommend the Agency perform a formal time study, which would document actual time spent on Agency activities. The time study would document and provide evidence as to the reasonableness in value of the in-kind services recorded by the Agency.

As part of the time study the Agency should develop formal job responsibilities that outline duties of each Allegany County employee. In addition, any payments made to Allegany County employees should continue to be approved by the Board of Directors. The Board of Directors should determine what type of documentation should exist to support such payments. Lastly, the Agency should complete an analysis as to whether the payments would be construed as wages or a payment to an independent contractor.

We would like to take this opportunity to thank the management and staff of the Agency for their assistance and cooperation during the course of our fieldwork. It has been a pleasure to be of service to the [County of Allegany Industrial Development Agency](#).

Sincerely,

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO**