

**COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2012
WITH COMPARATIVE 2011 INFORMATION**

**COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY**

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COUNTY OF CATTARAUGUS INDUSTRIAL DEVELOPMENT AGENCY
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH COMPARATIVE 2011 INFORMATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
County of Cattaraugus
Industrial Development Agency
Ellicottville, New York 14731

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the County of Cattaraugus Industrial Development Agency, a component unit of Cattaraugus County, as of and for the year ended December 31, 2012, 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 preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's judgment, including the assessment of the 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 the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the 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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Agency, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 the management's discussion and analysis on pages 7-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of bonds, schedule of leases, and schedule of entities participating in payments in lieu of taxes program are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of bonds, schedule of leases, and schedule of entities participating in payments in lieu of taxes program are the responsibility of management and were derived from and relate 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 schedule of bonds, schedule of leases, and schedule of entities participating in payments in lieu of taxes program are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of bonds, schedule of leases, and schedule of entities participating in payments in lieu of taxes program have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013 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 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 the Agency's internal control over financial reporting and compliance.

R.A. MERCER & CO., P.C.

RA Mercer Co, P.C.

Cattaraugus, New York
February 8, 2013

**COUNTY OF CATTARAUGUS INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012 WITH COMPARATIVE 2011 INFORMATION**

As management of the County of Cattaraugus Industrial Development Agency, a component unit of Cattaraugus County, we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

The Agency's assets exceeded its liabilities by \$1,565,401 for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,562,308.

Total net position comprises the following:

1. Net investment in capital assets of \$248,294 includes property and equipment, net of accumulated depreciation.
2. Unrestricted net position of \$1,317,107 represents the portion available to maintain the Agency's continuing obligations to citizens and creditors.

The Agency received grant funds in the amount of \$2,496 that were passed through to the New York and Lake Erie Railroad to make repairs for damage sustained in the flood of August 2009. Agency revenue (excluding the pass through grant) for the year ended December 31, 2012 totaled \$230,425 of which \$218,842 was from charges for services provided by the Agency, \$7,500 was from the service agreement between the Agency and the Cattaraugus County Capital Resource Corporation, \$138 was from miscellaneous sources, and \$3,945 was earned from investments.

In 2012, the Agency induced six direct projects for a net investment of nearly \$20,000,000 in total private sector project costs. The Agency was also very instrumental in the assistance and point of contact that led to the expansion of an area manufacturer into a new facility that had been vacant for over two years.

In 2012, the Agency reported its highest income in over six years. Since January 1, 2011 the Agency has conducted sixteen Board meetings, which in turn has induced eighteen "direct" projects. The Agency has also acted as an advisor on an additional project for a total private sector investment of nearly \$255,620,000. These numbers reflect the confidence and the fortitude of the private sector to continue to invest and grow here in the County. We are cautiously optimistic that 2013 will again be another busy year with continued private sector investment.

In late 2009, with the help of the Cattaraugus County Legislature, the Agency formed the Capital Resource Corporation (CRC) to assist 501 (c) (3) entities within Cattaraugus County. The CRC has closed a tax-exempt bond issuance of roughly \$22,000,000 with Olean General Hospital. In addition, the CRC closed a tax-exempt bond issuance with the YMCA for nearly \$4,500,000. The CRC continues to receive inquiries in regard to the issuance of tax-exempt bond financing throughout the County, with a possible project on the horizon. The activity of the CRC is presented within these financial statements.

The Agency's investment income is substantially lower than previous years due to interest rates associated with the Agency's funds that are in Certificates of Deposit.

The Agency's expenses totaled \$225,588, excluding the pass through grant and the loss on disposition of property. This includes the administrative expense of the CRC. The largest share of this total was personal services and related employee benefits. This expense accounted for 71.3 percent of all expenses. Contractual expenses, such as rent, utilities, and professional services, are the Agency's second largest expense, and accounted for 28.7 percent of the Agency's total expense.

In 2012 the Agency saw a renewed interest in private sector development and an upswing in regards to project closings, and more importantly to some new potential projects that could transpire here within the County. The Agency was very instrumental in assisting the retention and growth of the following projects that were induced by the Agency in 2012:

| | | | |
|----|-------------------------------------|----|-------------------|
| 1. | 4646 Genesee, LLC | \$ | 5,303,087 |
| 2. | Win-Sum Ski Resort (Holiday Valley) | | 1,985,000 |
| 3. | HoliMont, Inc. | | 677,290 |
| 4. | Sprague's Washington Square, LLC | | 1,000,000 |
| 5. | Good Times of Olean | | 7,100,000 |
| 6. | The Woods at Bear Creek | | <u>3,850,000</u> |
| | Total CCIDA Inducements in 2012 | \$ | <u>19,915,377</u> |

The Agency acted as an advisor/business liaison with respect to Meritool company expanding their business into the former Luminite Facility in Salamanca, NY. We brought in the NYS Department of Labor, BNE, and Insyte Consulting.

Collaboration With The Other Economic Development Departments – Teammates Within Cattaraugus County

- Over the past two years, a newly formed group called "Cattaraugus County Economic Development Team" was formed. This group is comprised of the CCBDC, Southern Tier West, Cattaraugus County, Olean Chamber, City of Olean-Community Development, Salamanca IDA, Cattaraugus LDC, Cattaraugus County PTAC, WIB, CCIDA, etc. We meet every other Monday to discuss various projects, ideas, and ways of assisting each other for the overall betterment of Cattaraugus County. We are fortunate to be a member of this group.
- Our "team" website has also been upgraded and enhanced for business clients to utilize as a "virtual one stop" to help and assist their business needs here in Cattaraugus County. The website's address is as follows: <http://www.ccbizhelp.com>.
- Creation of "e-mail blast" to each member of the team when a client fills out a need/request form on our website. An e-mail notification gets sent out to each team member to notify us that a prospective business client is requesting information, help, guidance, etc. We use an "internal listserv" to keep all members in the loop and communication going.

- Creation of a new tri-fold marketing collateral brochure that outlines all of the pertinent general and contact information for each member of the Cattaraugus County Economic Development Team.

Newly Created Policies & Procedures To Further Assist Economic Development Throughout Cattaraugus County:

- CCIDA Brownfield Redevelopment PILOT Policy: Over the past several months we have begun to compile a listing of Brownfield's Properties in Cattaraugus County and thinking of ways to further offer incentives to Regional Developers to redevelop these various properties that are scattered throughout the County. The topic of "Brownfield-Remediation Development Sites" was also largely discussed in great detail throughout the Regional Economic Development Councils this past fall as well as they are high on the State's radar screen to redevelop these types of sites across the State and County.
 - Currently there are twenty-five Brownfield-Remediation sites in Cattaraugus County. In order to encourage "reuse" and upgrading of existing environmentally damaged properties commonly referred to as Brownfields, the Agency adopted an enhanced real property tax benefit and abatement policy for projects involving vacant Brownfields on June 19, 2012.
- Adaptive Reuse Policy: The Agency adopted this newly created policy on June 7, 2011, which allows the Agency to offer incentives to developers looking to reinvest in older/vacant structures and sites for new purposes. We are happy to report that we assisted three projects that are a direct result of the Agency adopting this policy. We also presented at a conference/seminar in November 2012 in Buffalo the highlights/merit of this policy. This newly adopted policy has helped create roughly 65 jobs in 2011-2012.
- CCIDA-CCBDC Small Business Program: This program was designed to help and assist approved small business loan applicants, who are approved with the Cattaraugus County Business Development Corporation (CCBDC), to offer at no cost to the applicant, New York Sales Tax Abatement on all purchased equipment. This program proves the Agency's position on developing programs that allow us to help small business growth throughout the County.
- Continued Business Outreach & Marketing Campaigns: Working with our partners at Buffalo Niagara Enterprise and Empire State Development to further help and assist us with the retention and attraction of businesses to Cattaraugus County. To date we have the following to report:
 - Working with an out of state manufacturing firm to bring roughly 25 jobs into the County.
 - Working with a Canadian firm to bring 25-35 jobs into the County.
 - We have sent in seventeen "BNE Site Requests" over the past seven months to possible outside businesses looking to relocate in WNY, introducing these businesses to the advantages of locating in Cattaraugus County.

- New York and Lake Erie Railroad: Many improvements have been made to the Agency owned rail line in 2012 by the railroad operator. In conjunction with the railroad operator, we are actively going after CFA awards, Federal Grants, DOT awards, etc. to obtain further funds to improve the rail line to better serve its customers. The rail line is now delivering raw material to Cherry Creek Woodcrafters. In December 2012, a Christmas themed train excursion was held with over 315 riders participating in the event. Additional train rides will be scheduled for 2013.
- Regional Economic Development Council: Our Executive Director continues to sit on two regional economic development sub-councils for the Western New York Region.
- Newly Created Property Acquisition/Property Disposition Policies: These are more “internal” newly created polices, however, their significance is not to be understated. With the increasing accountability by IDA’s across the State, these newly created policies put the Agency in the “proactive” column with the State’s Authority Budget Office. These policies were followed with respect to the search and acquisition (lease) of the Agency’s new Office (occupancy July 2012).

Over the past year, the Agency has spent considerable time and effort working with state and local elected officials to combat a great deal of potential harmful legislation, some of which may eliminate IDAs across New York State. This includes the proposal to slash benefits that project applicant’s would be able to obtain from the Agency (sales tax portion only) as well as the “IDA Reform Legislation.” In addition, the Agency has also taken on a very active role with the New York State Economic Development Council (NYSEDC), Unshackle Upstate, and Continental 1.

It is our hope that some of the larger projects that the Agency has been working on over the past few years will come to fruition. We are seeing continued growth with our ski resorts, camp grounds (The Woods at Bear Creek), and family fun centers (Good Times of Olean), along with some growth relating to “niche” manufacturers that are not only staying here within the County, but who are investing in new facilities.

As with everything, many challenges face us as well. The ever changing economy, along with more and more companies having a global footprint (i.e. corporate headquarters no longer in Cattaraugus County), pose some obstacles for us. There is not always an easy solution when it comes to economic development, rather lines of communication and processes will always have to be identified, refined and implemented to the best of our ability. We will continue to work with the private sector through hard work, communication and a continued Team approach.

In 2013 we will continue to modify, change and implement programs and policies to help keep the businesses that are located here more competitive in this global market that we live and operate in.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis introduces the Agency's basic financial statements. The basic financial statements include the governmentwide financial statements and the notes to the financial statements. The Agency also includes additional information to supplement the basic financial statements.

Governmentwide Financial Statements

The Agency's annual report includes two governmentwide financial statements. These statements provide both long-term and short-term information about the Agency's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these governmentwide statements is the statement of net position. This is the governmentwide statement of position presenting information that includes all of the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency as a whole is improving or deteriorating. In addition to the information provided in this report, an evaluation of the overall economic health of the Agency would extend to other nonfinancial factors, such as the overall economic climate in Cattaraugus County.

The second governmentwide statement is the statement of activities, which reports how the Agency's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Agency's distinct activities or functions on revenue earned by the Agency. Both of the governmentwide financial statements detail the Agency's business-type activities that are principally supported by application fees.

A fund is an accountability unit used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency has only one type of fund, a proprietary fund. This fund generally reports services for which the Agency charges a fee.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the governmentwide and fund financial statements. The notes to the financial statements are located directly after the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the Agency. Supplemental information follows the notes to the financial statements.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

As of December 31, 2012, the County of Cattaraugus Industrial Development Agency had a net position of \$1,565,401. The following table provides a summary of the Agency's net position as of the years ended December 31, 2012 and December 31, 2011.

| | <u>Business-Type Activities</u> | | |
|-------------------------------|---------------------------------|------------------|-----------------|
| | <u>2012</u> | <u>2011</u> | <u>Variance</u> |
| Assets: | | | |
| Current and Restricted Assets | \$1,325,137 | 1,329,864 | (4,727) |
| Capital Assets | 248,294 | 250,038 | (1,744) |
| Total Assets | <u>1,573,431</u> | <u>1,579,902</u> | <u>(6,471)</u> |
| Liabilities: | | | |
| Current Liabilities | 8,030 | 17,594 | (9,564) |
| Total Liabilities | <u>8,030</u> | <u>17,594</u> | <u>(9,564)</u> |
| Net Position: | | | |
| Net Investment In | | | |
| Capital Assets | 248,294 | 250,038 | (1,744) |
| Unrestricted | 1,317,107 | 1,312,270 | 4,837 |
| Total Net Position | <u>\$1,565,401</u> | <u>1,562,308</u> | <u>3,093</u> |

The Agency's total assets decreased \$6,471 from \$1,579,902 at December 31, 2011. The Agency's net investment in capital assets decreased by \$1,744 from the prior year.

Total liabilities decreased by \$9,564 from \$17,594 at December 31, 2011.

The following table provides a summary of the Agency's changes in net position for the years ended December 31, 2012 and December 31, 2011.

| | Business-Type Activities | | | |
|---------------------------------|--------------------------|----------------|-----------------|----------------|
| | 2012 | % of Totals | 2011 | % of Totals |
| Revenues: | | | | |
| Charges for Services | \$ 218,842 | 93.9% | 175,309 | 71.4% |
| Grant Revenue | 2,496 | 1.1% | 51,635 | 21.1% |
| Other Income | 7,638 | 3.3% | 11,250 | 4.6% |
| Investment Earnings | 3,945 | 1.7% | 7,075 | 2.9% |
| Total Revenue | <u>232,921</u> | <u>100.0%</u> | <u>245,269</u> | <u>100.0%</u> |
| Expenses: | | | | |
| Personal Services | 115,976 | 50.4% | 104,901 | 38.8% |
| Contractual Expenses | 64,771 | 28.2% | 74,023 | 27.5% |
| Employee Benefits | 44,841 | 19.5% | 39,255 | 14.5% |
| Grant Expenses | 2,496 | 1.1% | 51,635 | 19.1% |
| Depreciation Expense | - | 0.0% | 319 | 0.1% |
| Loss on Disposition of Property | 1,744 | 0.8% | - | 0.0% |
| Total Expense | <u>229,828</u> | <u>100.0%</u> | <u>270,133</u> | <u>100.0%</u> |
| Change in Net Position | <u>\$ 3,093</u> | | <u>(24,864)</u> | |

The Agency's total net position increased \$3,093. The following summarizes results of operations for 2012:

- Operating revenue for the year ended December 31, 2012, was \$226,480 which consisted of \$218,842 from Charges for Services, \$7,500 from the service agreement between the Agency and the Cattaraugus County Capital Resource Corporation, and \$138 from miscellaneous sources. In the prior year the total operating revenue was \$186,559.
- Grant revenue was received from the State Emergency Management Office in the amount of \$2,496. This grant was obtained to allow repairs to the New York and Lake Erie Railroad from damage sustained in the August 2009 flood.
- Net nonoperating revenue was \$3,945 which consisted of interest income earned on the Agency's bank certificates of deposit and bank accounts, down from \$7,075 from the prior year.
- Operating expenses for the year ended December 31, 2012, were \$225,588.
- Nonoperating expenses included \$2,496 in grant expenses related to the Railroad and a \$1,744 loss on disposition of property related to the disposition of a furnace upon change in office locations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's net investment in capital assets as of December 31, 2012, totaled \$248,294. This net investment in capital assets includes land, railroad and leasehold improvements, and equipment. The following table summarizes the change in the Agency's net investment in capital assets from December 31, 2011 to December 31, 2012.

| | 2012 | 2011 | Difference |
|--------------------------|-------------------|----------------|----------------|
| Land | \$ 151,205 | 151,205 | - |
| Improvements | 941,540 | 943,865 | (2,325) |
| Furniture and Equipment | 30,650 | 30,650 | - |
| Accumulated Depreciation | (875,101) | (875,682) | 581 |
| | <u>\$ 248,294</u> | <u>250,038</u> | <u>(1,744)</u> |

Long-Term Liabilities

There was no debt outstanding at December 31, 2012.

BACKGROUND AND MISSION

The County of Cattaraugus Industrial Development Agency is a public benefit corporation created in 1971 to retain, promote, and assist private sector industrial and business development, thereby advancing job opportunities and economic welfare to the people of Cattaraugus County. The Agency is a self-funded entity.

The Agency serves as a partner with the other various economic development agencies within the County, for retaining and assisting not only those businesses that are already located in Cattaraugus County, but those that want to relocate here as well. Assistance is available for locating potential buildings or building sites for interested companies. Over the past three decades the Agency has assisted over 175 companies with over \$1.45 billion in total projects. The Agency has assisted many nonprofit entities as well, including Olean General Hospital, Saint Bonaventure University, and the YMCA; each of which has added to the overall quality of life in Cattaraugus County. The Agency has also assisted companies such as Ellicottville Brewing Company, SolExpoxy Inc., Sprague's Washington Square, LLC and Scott Rotary Seals. The Agency has also been very instrumental in the growth of the county's tourism industry by assisting in the financing of tourism destinations such as Holiday Valley, HoliMont and the Good Times of Olean.

The Agency helps companies take advantage of industrial revenue bonding by obtaining low-cost financing for eligible projects. Other benefits provided by the Agency include the abatement of an assortment of taxes to assist businesses as well as a variety of services to assist with the creation and retention of employment opportunities. The Agency has authorization over financing options and provides technical assistance to developers, industries, and other economic development organizations.

The mission of the Agency is to retain, promote, attract, and develop job and business opportunities; and to foster economically sound commerce and industry in the cities, towns, and villages, of Cattaraugus County. It strives to assist and promote growing industry in the county by helping businesses to be competitive and profitable by offering:

- Financial assistance, business incentives, tax exemptions, and bond financing
- Improved utilization and development of local infrastructure
- Creation of investment, employment, and wealth, in the community
- Recruitment of new businesses

The Agency also assists qualified applicants in the implementation of a wide variety of projects, including but not limited to the following; manufacturing, industrial, warehousing, research, commercial, pollution control, recreation, tourism destination, education, cultural, railroad, continuing care, retirement, and certain nonprofit facilities.

For more information regarding the County of Cattaraugus Industrial Development Agency, please visit its website at www.cattcoida.com.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the executive director (Corey R. Wiktor) of the County of Cattaraugus Industrial Development Agency, 9 East Washington Street, P.O. Box 1749, Ellicottville, New York 14731.

FINANCIAL STATEMENTS

EXHIBIT A

COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012 WITH COMPARATIVE 2011 INFORMATION

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|------------------|
| ASSETS | | |
| Unrestricted Cash and Cash Equivalents | \$ 724,280 | 718,144 |
| Unrestricted Investments | 600,387 | 600,000 |
| Accounts Receivable | 470 | 11,720 |
| Capital Assets | | |
| Land | 151,205 | 151,205 |
| Improvements | 941,540 | 943,865 |
| Furniture and Equipment | 30,650 | 30,650 |
| Less: Accumulated Depreciation | <u>(875,101)</u> | <u>(875,682)</u> |
| Total Assets | <u>1,573,431</u> | <u>1,579,902</u> |
| LIABILITIES | | |
| Accounts Payable | 1,396 | 12,977 |
| Accrued Liabilities | <u>6,634</u> | <u>4,617</u> |
| Total Liabilities | <u>8,030</u> | <u>17,594</u> |
| NET POSITION | | |
| Net Investment In Capital Assets | 248,294 | 250,038 |
| Unrestricted | <u>1,317,107</u> | <u>1,312,270</u> |
| Total Net Position | <u>\$ 1,565,401</u> | <u>1,562,308</u> |

See the accompanying notes to the financial statements.

EXHIBIT B

COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012 WITH COMPARATIVE 2011 INFORMATION

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|------------------|
| Operating Revenues | | |
| Charges for Services | \$ 218,842 | 175,309 |
| Other Income | 7,638 | 11,250 |
| Total Operating Revenue | <u>226,480</u> | <u>186,559</u> |
| Operating Expenses | | |
| Personal Services | 115,976 | 104,901 |
| Contractual Expenses | 64,771 | 74,023 |
| Employee Benefits | 44,841 | 39,255 |
| Depreciation-Unallocated | - | 319 |
| Total Operating Expense | <u>225,588</u> | <u>218,498</u> |
| Operating Income (Loss) | <u>892</u> | <u>(31,939)</u> |
| Nonoperating Revenues (Expenses) | | |
| Use of Money and Property | 3,945 | 7,075 |
| Grant Revenue - Railroad | 2,496 | 51,635 |
| Grant Expense - Railroad | (2,496) | (51,635) |
| Loss on Disposition of Property | (1,744) | - |
| Net Nonoperating Revenue | <u>2,201</u> | <u>7,075</u> |
| Change in Net Position | 3,093 | (24,864) |
| Net Position - Beginning of the Year | 1,562,308 | 1,587,172 |
| Net Position - End of the Year | <u>\$ 1,565,401</u> | <u>1,562,308</u> |

See the accompanying notes to the financial statements.

COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

| | <u>Primary Government Business-Type Activities</u> |
|---|--|
| Cash Flows From Operating Activities: | |
| Cash Received From Providing Services | \$ 230,092 |
| Cash Paid to Suppliers | (76,352) |
| Cash Paid for Salaries and Benefits | (158,800) |
| Other Cash Receipts | 7,638 |
| Net Cash Provided by (Used in) Operating Activities | <u>2,578</u> |
| Cash Flows From Noncapital Financing Activities: | |
| Proceeds from Grants - Railroad | 2,496 |
| Grant Expenses - Railroad | (2,496) |
| Principal Payments on Debt | - |
| Interest Payments on Debt | - |
| Net Cash Provided by (Used in) Noncapital Financing Activities | <u>-</u> |
| Cash Flows From Capital and Related Financing Activities: | |
| Acquisition of Capital Assets | - |
| Proceeds From the Sale of Capital Assets | - |
| Net Cash Provided by (Used in) Capital Related Financing Activities: | <u>-</u> |
| Cash Flows From Investing Activities: | |
| Proceeds From Maturing Certificates of Deposit | 600,000 |
| Purchases of Certificates of Deposit | (600,387) |
| Interest Income | 3,945 |
| Net Cash Provided by (Used in) Investing Activities | <u>3,558</u> |
| Net Cash and Cash Equivalents Increase (Decrease) for the Year | 6,136 |
| Cash and Cash Equivalents- Beginning of the Year | 718,144 |
| Cash and Cash Equivalents- End of the Year | <u>\$ 724,280</u> |
| Cash Flows From Operating Activities: | |
| Operating Income (Loss) | \$ 892 |
| Adjustments: | |
| Depreciation | - |
| Changes in Assets and Liabilities: | |
| Increase in Accounts Receivable | 11,250 |
| Increase in Accounts Payable | (11,581) |
| Increase in Accrued Liabilities | 2,017 |
| Net Cash Used in Operating Activities | <u>\$ 2,578</u> |
| Reconciliation of Unrestricted and Restricted Cash and Cash Equivalents: | |
| Cash and Cash Equivalents, Unrestricted | 724,280 |
| Cash and Cash Equivalents, Restricted | - |
| Total Unrestricted and Restricted Cash and Cash Equivalents | <u>\$ 724,280</u> |

See the accompanying notes to the financial statements.

**COUNTY OF CATTARAUGUS INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 WITH COMPARATIVE 2011 INFORMATION**

NOTE A - ORGANIZATION

The County of Cattaraugus Industrial Development Agency was created in 1971 by the Cattaraugus County Legislature under the provisions of Chapter 536 of the laws of New York State for the purpose of encouraging economic growth in Cattaraugus County. The Agency is a component unit of Cattaraugus County, based on several criteria set forth in GASB Statement No. 39 of the *Governmental Accounting Standards Board Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. The County of Cattaraugus Industrial Development Agency is exempt from federal, state, and local income taxes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

The basic financial statements of the County of Cattaraugus Industrial Development Agency have been prepared in conformity with generally accepted accounting principles (GAAP) that provide for proprietary fund accounting for Industrial Development Agencies. Management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. These estimates and accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. The following is a summary of the more significant accounting policies.

Financial Reporting Entity

The financial reporting entity consists of the following, as defined by GASB Statement 39 of the *Governmental Accounting Standards Board Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14:

1. The primary government, which is the County of Cattaraugus Industrial Development Agency;
2. Organizations and programs for which the Agency is financially accountable;
3. Other organizations and programs of which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the Agency's reporting entity is based on several criteria set forth in GASB 39, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, all activities and functions performed for the Agency are its direct responsibility.

In May 2009, the Agency formed and incorporated a Capital Resource Corporation "CRC," which is a legally formed entity that has the ability to issue tax-exempt bonds to 501 (c) (3) entities. As set forth by the provisions of GASB 39, the activity of the CRC has been included in these financial statements.

Governmentwide Financial Statements

The governmentwide financial statements of the Agency include the statement of net position and the statement of activities. These statements report financial information for the Agency as a whole. The statements highlight business-type activities that are generally financed in whole or in part with fees charged to customers.

The statement of activities reports the change in the Agency's net position during the year, segregating the operating and nonoperating activities of the Agency.

Program revenue includes charges for services that report fees and other charges to users of the Agency's services. Program revenue may also include operating grants and contributions that finance annual operating activities including investment income earned by the Agency. These revenues are subject to externally imposed restrictions to these program uses.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Agency are prepared in accordance with generally accepted accounting principles (GAAP). The Agency's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The governmentwide financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The governmentwide statements of the Agency report using the economic resources measurement focus and the accrual basis of accounting applicable to proprietary fund accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in the Agency statements includes revenues and expenses related to the primary, continuing operations of the Agency. Principal operating revenues for proprietary funds are charges to customers for services provided. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, for authorized expenditures, then unrestricted resources as needed.

Estimates

The preparation of the 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, expenditures, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates and those differences could be significant.

Budgetary Policy and Practice

The Agency submits an annual budget to the Cattaraugus County Legislature. The county then has thirty days to submit its comments regarding the Agency's annual budget. Once approved, the Agency may amend the adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Budgetary Control

The Agency's budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by functional purpose.

Accounts Receivable / Allowance for Doubtful Accounts

The Agency has an accounts receivable balance of \$470 at December 31, 2012, which the Agency fully expects to collect.

Grant Accounting

Pass-through grants are recorded as accounts receivable and deferred revenue upon award; revenue is recognized as the Agency meets the performance requirements of the grant.

NOTE C - CASH AND INVESTMENTS

At December 31, 2012, the carrying amount of the Agency's current deposits included demand deposits, savings accounts, and cash on hand and totaled \$724,280.

Cash in excess of current requirements is invested in various certificates of deposit totaling \$600,387, which have original maturity terms in excess of three months and interest rates varying from .44 to .45 percent. As of December 31, 2012, the fair value of the certificates of deposit approximates the carrying values. For purposes of cash flows, cash equivalents are certificates of deposit with original maturities of three months or less.

The Agency's investment policies are governed by state statutes. In addition, the Agency has its own investment policy. Agency funds must be deposited in FDIC-insured commercial banks or trust companies located within the state. The executive director is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, obligations of New York State and its localities, and with permission of the state comptroller, obligations including revenue anticipation notes and tax anticipation notes of any municipality, school district, or municipal entity other than Cattaraugus County. Only reserve funds may be invested in obligations of Cattaraugus County.

Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by federal deposit insurance. The table presented below is designed to disclose the level of custody credit risk assumed by the Agency based upon how its deposits were insured or secured with collateral at December 31, 2012. The categories of credit risk are defined as follows:

Category 1 - Insured by the FDIC or collateralized with securities held by the Agency or by its agent in the Agency's name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name.

Category 3 - Uninsured and uncollateralized.

| Type of Deposit | Total Bank Balance | Custody Credit Risk Category | | | Total Carrying Value |
|-------------------|--------------------------|------------------------------|----------------|----------|----------------------------|
| | | 1 | 2 | 3 | |
| Checking Accounts | \$ 186,452 | 186,452 | - | - | 186,059 |
| Savings and CDs | 1,138,488 | 543,386 | 595,102 | - | 1,138,488 |
| Cash on Hand | - | - | - | - | 120 |
| Total Deposits | <u>\$1,324,940</u> | <u>729,838</u> | <u>595,102</u> | <u>-</u> | <u>1,324,667</u> |

Reconciliation to the Statement of Net Assets:

| | |
|--|--------------------|
| Unrestricted Cash and Cash Equivalents | \$ 724,280 |
| Investments | 600,387 |
| Total | <u>\$1,324,667</u> |

NOTE D - INTEREST RECEIVABLE

As of December 31, 2012, there was no accrued interest receivable.

NOTE E - CAPITAL ASSETS

Property and equipment acquired by the Agency is stated at cost including interest capitalized during construction where applicable. Contributed assets are recorded at fair market value at the date received and depreciated over their estimated useful lives. Infrastructure consisting of certain improvements other than buildings, such as roads, sidewalks, and railroads, is being capitalized and depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, ranging from 5 to 20 years as follows:

| | <u>Estimated Useful Lives</u> | <u>Capitalization Threshold</u> |
|---------------------------------|-----------------------------------|-------------------------------------|
| Improvements and Infrastructure | 20 years | \$500 |
| Furniture and Fixtures | 5 years | \$500 |
| Equipment | 5 years | \$500 |

A summary of the Agency's capital assets is as follows:

| | <u>Balance at 1/1/12</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at 12/31/12</u> |
|--------------------------|------------------------------|------------------|------------------|--------------------------------|
| <u>Nondepreciable:</u> | | | | |
| Land | \$ 151,205 | - | - | 151,205 |
| <u>Depreciable:</u> | | | | |
| Improvements | 943,865 | - | 2,325 | 941,540 |
| Furniture and Equipment | 30,650 | - | - | 30,650 |
| Subtotal | 1,125,720 | - | 2,325 | 1,123,395 |
| Accumulated Depreciation | (875,682) | - | (581) | (875,101) |
| Total | <u>\$ 250,038</u> | <u>-</u> | <u>1,744</u> | <u>248,294</u> |

There was no allocation of depreciation expense to expense functions as there was no depreciation expense for 2012.

NOTE F - ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable at December 31, 2012 was \$1,396 which included amounts due to vendors of the Agency.

There was \$4,918 in payroll and \$1,716 in payroll related liabilities requiring accrual at December 31, 2012.

NOTE G - NOTES PAYABLE

As of December 31, 2012, the Agency did not have any notes payable.

Compensated Absences

The Agency's personnel policy provides for vacation and sick leave benefits. Vacation benefits can accumulate up to a total of 15 days. Upon separation from the Agency for any reason, any unused vacation credits are paid at the current salary of the position. Sick leave is not payable upon retirement or termination of the employee. There was no material liability for compensated absences at December 31, 2012. Based on Agency policy, there is no required reporting under the provisions of GASB 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

NOTE H - INDUSTRIAL REVENUE BOND AND NOTE TRANSACTIONS

Certain industrial development revenue bonds and notes issued by the Agency are secured by property that is leased or transferred to companies and is retired by lease or note payments. The bonds and notes are not obligations of the Agency or the state of New York. The Agency does not record the assets or liabilities resulting from completed bond and note issues on its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders. The funds that arise from these transactions are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from borrowing companies. Such administrative fee income is recognized immediately upon issuance of the bonds and notes. A schedule of these transactions is presented as supplemental information in this report.

NOTE I - RAILROAD ACQUISITIONS AND IMPROVEMENTS

In 1978, the Agency purchased 19.35 miles of spur railroad lines from the Erie-Lackawanna Railroad. The acquisition was financed with grants from the Appalachian Regional Commission and Cattaraugus County, with the commission providing 80 percent of the funding and the County providing the balance. Phase two of the Appalachian Regional Commission grant agreement was started during the year ended December 31, 1980, with funding provided by both the commission and the County at 80 percent and 20 percent respectively. In 1982, a railroad line was purchased under phase three of the grant agreement. As with phases one and two, the commission and the County provided 80 percent and 20 percent of the funding, respectively. In the year ended December 31, 2001, the County of Cattaraugus Industrial Development Agency donated 12 miles of track line to the Cattaraugus Local Development Corporation for a rails-to-trails program. The Agency now owns roughly 35 miles of track line.

Under the grant agreements, the Agency acts as an independent contractor, assuming responsibility for the conduct of the program. The Agency has an agreement with a privately owned corporation for the operation of the railroad.

NOTE J - COMMITMENTS AND CONTINGENCIES

The Agency is exposed to various risks of loss such as torts, theft, damage, injuries, errors, omissions, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Any settled claims from these risks have not exceeded commercial insurance coverage for the past four years. In management's opinion, there are no material contingencies required to be accrued or disclosed.

NOTE K - PENSION PLAN

The Agency participates in the New York State and Local Employees' Retirement System. This system is a cost-sharing multiple employer, public employee retirement system. The system offers a wide range of plans and benefits that are related to years of service and final average salary, vesting of retirement benefits, death and disability. All full-time employees of the Agency are covered by the pension plan.

a. Plan Description

Employees' Retirement System

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and benefits to employees. The system issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

b. Funding Policies

Employees who joined the system after July 27, 1976, are required to contribute 3 percent of their salary. Employees in the system more than ten years are no longer required to contribute. Under the authority of the New York State Retirement and Social Security Law, the comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Agency is required to contribute at an actuarially determined rate. The Agency's required contribution for the current year was \$22,342. For 2011 the Agency's required contribution was \$14,745. For 2010 the Agency's required contribution was \$11,009. Each of these payments represents 100 percent of the required contribution.

NOTE L - RESTRICTIONS, RESERVES AND DESIGNATIONS

The business-type activities utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

> *Net Investment In Capital Assets* - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets, reduce the balance in this category.

> *Restricted* - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

> *Unrestricted* - This category represents the net position of the Agency not restricted for any project or other purpose.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 8, 2013, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF BONDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| Project Name | Project No. | Issue Date | Interest Rate | Maturity Date | Balance at 1/1/12 | Issued During Fiscal Year | Paid During Fiscal Year | Balance at 12/31/12 |
|--------------------------------|-------------|------------|---------------|---------------|-------------------|---------------------------|-------------------------|---------------------|
| CCIDA: | | | | | | | | |
| Cattaraugus County Rehab | 401-0004A | 10/03 | Variable | 6/24 | 1,266,184 | - | 73,774 | 1,192,410 |
| Gernatt Asphalt Products, Inc. | 401-9905A | 9/99 | Variable | 9/14 | 1,525,000 | - | 485,000 | 1,040,000 |
| Jamestown Community College | 401-9903A | 6/05 | 3.0-4.5 | 6/30 | 4,945,000 | - | 180,000 | 4,765,000 |
| Parent Education Program | 401-0203A | 12/02 | 5.5 | 12/22 | 245,173 | - | 17,257 | 227,916 |
| St. Bonaventure University | 401-9803A | 11/98 | 4.0-5.0 | 9/13 | 1,775,000 | - | 865,000 | 910,000 |
| St. Bonaventure University | 401-9804A | 11/98 | 4.0-5.0 | 9/13 | 2,510,000 | - | 1,225,000 | 1,285,000 |
| St. Bonaventure University | 401-9902A | 5/99 | 5.0-5.5 | 9/19 | 1,230,000 | - | 125,000 | 1,105,000 |
| St. Bonaventure University | 401-2006A | 5/06 | 4.9-5.1 | 5/31 | 8,000,000 | - | - | 8,000,000 |
| Suburban Adult Services, Inc. | 401-0305A | 10/03 | 2.6 | 5/16 | 262,024 | - | 56,746 | 205,278 |
| CRC: | | | | | | | | |
| Olean General Hospital | 401-0906A | 10/10 | 2.5 | 10/30 | 19,605,000 | - | 1,735,000 | 17,870,000 |
| Olean YMCA | 401-0301A | 6/11 | 5.0 | 5/31 | 4,422,399 | - | 241,796 | 4,180,603 |

The accompanying independent auditors' report should be read in conjunction with these financial statements

COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF LEASES
FOR THE YEAR ENDED DECEMBER 31, 2012

Name of Project: 4646 Genesee, LLC

Project Number: 401-1201A

Project Owner and Address: Ellicott Development
295 Main Street, Suite 210, Buffalo, NY 14203

Year of Origination: 2012

Purpose: Retail Plaza and Development

Estimated Project Amount: \$4,580,800

Amount of Tax Exemption: \$115,876

Name of Project: Holimont, Inc.

Project Number: 401-1203A

Project Owner and Address: Holimont, Inc.
6921 Route 242, PO Box 279, Ellicottville, NY 14731

Year of Origination: 2012

Purpose: Various Capital Projects

Estimated Project Amount: \$677,290

Amount of Tax Exemption: \$44,796

Name of Project: Sprague's Washington Square, LLC

Project Number: 401-1204A

Project Owner and Address: Sprague's Washington Square, LLC
11958 Rt. 16, PO Box 659, Yorkshire, NY 14173

Year of Origination: 2012

Purpose: Adaptive Reuse

Estimated Project Amount: \$700,000

Amount of Tax Exemption: \$40,000

Name of Project: Win-Sum Ski Corporation

Project Number: 401-1202A

Project Owner and Address: Win-Sum Ski Corporation
PO Box 370, Holiday Valley Road, Ellicottville, NY 14731

Year of Origination: 2012

Purpose: New Lodge

Estimated Project Amount: \$13,000,000

Amount of Tax Exemption: \$900,000

The accompanying independent auditors' report should be read in conjunction with these financial statements.

COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF LEASES
FOR THE YEAR ENDED DECEMBER 31, 2012

| | |
|----------------------------|---|
| Name of Project: | Win-Sum Ski Corporation |
| Project Number: | 401-1202A |
| Project Owner and Address: | Win-Sum Ski Corporation PO Box 370, Holiday Valley Road, Ellicottville, NY 14731 |
| Year of Origination: | 2012 |
| Purpose: | Equipment |
| Estimated Project Amount: | \$2,161,540 |
| Amount of Tax Exemption: | \$172,923 |

COUNTY OF CATTARAUGUS
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF ENTITIES PARTICIPATING IN PAYMENTS IN LIEU OF TAXES PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2012

Name of Project: **4646 Genesee, LLC**
Project Number: 401-1201A
Project Owner and Address: Ellicott Development
295 Main Street, Suite 210, Buffalo, NY 14203
Purpose: Retail Plaza and Development

Name of Project: **Sprague's Washington Square, LLC**
Project Number: 401-1204A
Project Owner and Address: Sprague's Washington Square, LLC
11958 Rt. 16, PO Box 659, Yorkshire, NY 14173
Purpose: Adaptive Reuse

INTERNAL CONTROLS AND COMPLIANCE

R.A. MERCER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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**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 Board of Directors of
the County of Cattaraugus
Industrial Development Agency
Ellicottville, New York 14731

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 the business-type activities of the County of Cattaraugus Industrial Development Agency, a component unit of Cattaraugus County, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated February 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.A. MERCER & CO., P.C.

R.A. Mercer & Co, P.C.

Cattaraugus, New York
February 8, 2013

R.A. MERCER & CO., P.C.

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February 8, 2013

To the Board of Directors
County of Cattaraugus
Industrial Development Agency

We have audited the financial statements of the business-type activities of the County of Cattaraugus Industrial Development Agency, a component unit of Cattaraugus County, for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 2, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note B to the financial statements. The Agency implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended December 31, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Agency's financial statements was:

Management's estimate of the useful lives of fixed assets is based on historical experience. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 8, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the audit committee, board of directors, and management of the Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,
R.A. MERCER & CO., P.C.
R.A. Mercer & Co, P.C.

Cattaraugus, New York
February 8, 2013

R.A. MERCER & CO., P.C.

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MANAGEMENT LETTER

Board of Directors
County of Cattaraugus Industrial Development Agency
Ellicottville, New York 14731

In connection with our audit of the financial statements of the County of Cattaraugus Industrial Development Agency for the year ended December 31, 2012, we noted the following immaterial matters to be considered as opportunities to strengthen operating efficiency and reporting.

Internal controls related to the expenditures transaction cycle

1. There is no consistent policy regarding dual signatures on disbursement checks. In most instances, dual signatures are used, however, we noted instances where checks contained only a single signature. The consistent use of dual signatures is recommended as it strengthens the internal control related to cash disbursements. We recommend that the Agency include, in their procurement policy, official language to address the consistent use of dual signatures.
2. We noted instances of improper backup documentation used for cash disbursements during the period in which the Agency moved its main office. The Board should consider implementing a provision in its procurement policy that formal invoices and/or vendor signatures (in the absence of formal invoices) be obtained/used as sufficient backup documentation for cash disbursements.

This report is intended solely for the use of the audit committee, Board of Directors, and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

We would like to compliment the executive director and his staff for their cooperation and assistance during the audit process.

R.A. MERCER & CO., P.C.
RA Mercer & Co, P.C.

Cattaraugus, New York
February 8, 2013