

COUNTY OF ORLEANS INDUSTRIAL
DEVELOPMENT AGENCY

Management's Discussion and Analysis,
Financial Statements and
Supplemental Information

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
County of Orleans Industrial Development Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of net position of the County of Orleans Industrial Development Agency (the Agency), 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 preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 audits 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 Agency'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 Agency'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 opinions.

Opinion

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

Other Matters

As described in note 1 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities."

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB 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.

Supplementary Information

Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on pages 23 through 25 is presented for purposes of additional analysis and is not a required party of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 26, 2013

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2012

I. HISTORY OF THE AGENCY

The County of Orleans Industrial Development Agency (the Agency) a not-for-profit public benefit corporation established in 1971 by the Orleans County Legislature. Under the provisions of the New York Industrial Development Agency Act, the Agency is empowered to actively attract and develop economically sound commerce and industry, thereby fostering job opportunities, general prosperity, and economic welfare for all residents of Orleans County.

The Agency utilizes its resources to plan, implement and support economic development within Orleans County by promoting the stability and growth of the County's present business base, supporting the retention and creation of jobs, establishing regional and international collaborations and attracting capital investment and new business ventures.

As management of the County of Orleans Industrial Development Agency, we offer the 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. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements.

Overview of the Financial Statements

The financial statements in this annual report are those of a special-purpose government. The following statements are included:

- Statements of net position - reports the Agency's current and long-term financial resources with capital assets and long-term debt obligations.
- Statements of revenue, expenses and changes in net position - reports the Agency's operating and non-operating revenues, by major source along with operating and non-operating expenses.
- Statements of cash flows - reports the Agency's cash flows from operating, investing, and financing activities.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

II. COMPARATIVE ANALYSIS OF FINANCIAL STATEMENTS

The following is a condensed comparative financial statement analysis of the Agency, based on the audited financial statements as of December 31, 2012 and 2011.

Statements of Net Position

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,851,493	1,970,493
Receivables	196,260	115,038
Prepaid expenses	<u>136</u>	<u>156</u>
Total current assets	2,047,889	2,085,687
Long-term receivables	394,327	344,507
Net capital assets	<u>609,438</u>	<u>1,453,741</u>
Total assets	<u>3,051,654</u>	<u>3,883,935</u>
<u>Liabilities</u>		
Accrued expenses	30,639	25,454
Accrued PILOT payable	1,284,853	1,275,304
Line of credit	3,655	60,724
Loan payable, current	<u>-</u>	<u>146,128</u>
Total current liabilities	1,319,147	1,507,610
Loans payable, long-term	<u>-</u>	<u>288,015</u>
Total liabilities	<u>1,319,147</u>	<u>1,795,625</u>
<u>Net Position</u>		
Investment in capital assets	609,438	1,019,599
Restricted net position	1,181,972	1,185,054
Unrestricted net position (deficit)	<u>(58,903)</u>	<u>(116,343)</u>
Net position	<u>\$ 1,732,507</u>	<u>2,088,310</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

Cash and cash equivalents decreased by \$119,000, which is primarily due to payments in lieu of taxes (PILOT) that the Agency collects on behalf of local taxing jurisdictions which have not yet been remitted.

Net capital assets decreased by \$844,303, which is due to depreciation expense charged during 2012.

Total liabilities decreased by \$476,478, which is primarily due to the Agency paying loans off in 2012.

Total net position decreased by \$355,803 for 2012 primarily due to decreases in State aid and recovery of bad debt.

Statements of Revenue, Expenses and Change in Net Position

	<u>2012</u>	<u>2011</u>
Operating revenue	\$ 341,903	491,479
Operating expenses	<u>(344,563)</u>	<u>(353,278)</u>
Income (loss) from operations	(2,660)	138,201
Non-operating expenses	(126,747)	(15,605)
Transfers	<u>(226,396)</u>	<u>47,946</u>
Change in net position	\$ <u>(355,803)</u>	<u>170,542</u>

Agency revenues decreased primarily due to decreases in grant revenues received in 2012 and in the recover of bad debt from loans. Operating expenses decreased primarily due to the fact that the Agency no longer pays the administrative service assessment fee to New York State and fees associated with the industrial park management.

Industrial revenue bonds and notes issued by the Agency are secured by property that is leased to companies and is retired by lease payments. The bonds and notes are not obligations of the Agency or the State. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function are to arrange financing between the borrowing companies and the bond and note holders. Funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds and notes.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

The Agency has one revolving loan fund with seven loans outstanding.

Company	Location	Amount of Receivable
Virtual Polymer Compounds, LLC	Medina	\$116,616
Precision Packaging Products	Holley	\$90,986
3 Milardi Enterprise	Medina	\$13,496
Black North Associates	Kent	\$79,012
McCargo Lake Associates, LLC	Holley	\$44,884
Save-a-Lot	Holley	\$85,765
Liberty Fresh Farm	Albion	\$126,671

III. BUDGETARY ANALYSIS - AGENCY OPERATING FUND

Annual operating budgets are based on management's best estimate of actual revenues. Operating expenses are also based on historical prior years' expenses with a best estimate of future increases due to market conditions and/or inflation. Therefore, budgeted income/expense will vary from the actual annual statement of revenue, expenses and changes in net assets.

In fiscal 2012, the Agency reported an overall variance in operating revenues of \$30,903, 10% more than anticipated when comparing actual to budget.

Actual operating expenses were more than anticipated expenses by \$29,580 or 9%. The primary components of this variance were \$36,148 for professional fees.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

The table below details the actual revenues and expenses compared to budget for the Agency:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenue:			
Administrative fees	\$ 92,514	83,000	9,514
State and local aid	173,144	200,000	(26,856)
Interest income	3,124	-	3,124
Bad debt recovery	20,645	-	20,645
Rental income	7,500	-	7,500
Federal aid	10,000	10,000	-
Other	34,976	18,000	16,976
	<u>341,903</u>	<u>311,000</u>	<u>30,903</u>
Total operating revenue			
Operating expenses:			
Personnel services	168,609	173,000	(4,391)
Employee benefits	68,657	60,813	7,844
Occupancy	24,593	21,120	3,473
Professional fees	56,148	20,000	36,148
Dues and subscriptions	1,326	650	676
Telephone	6,957	6,000	957
Repairs and maintenance	3,462	3,700	(238)
Auto and travel	9,933	7,500	2,433
Office supplies and expenses	3,514	5,900	(2,386)
Advertising	545	500	45
Real estate taxes	-	600	(600)
Depreciation	382	12,000	(11,618)
Miscellaneous	437	3,200	(2,763)
	<u>344,563</u>	<u>314,983</u>	<u>29,580</u>
Total operating expenses			
Net operating loss	(2,660)	(3,983)	(6,643)
Non-operating expenses	<u>(126,747)</u>	<u>-</u>	<u>(126,747)</u>
Change in net position	<u>\$ (129,407)</u>	<u>(3,983)</u>	<u>(133,390)</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

IV. CAPITAL ASSETS

The Agency has \$700,524 of capital assets at December 31, 2012 and \$1,613,767 at December 31, 2011. There is \$91,086 and \$160,026 of accumulated depreciation associated with these assets as of December 31, 2012 and 2011, respectively. The decrease in 2012 relates to the transfer of properties to Orleans County Land Restoration Corporation and recognition of an asset impairment on property held for sale.

**V. FUTURE EVENTS AND OTHER CURRENTLY KNOWN FACTS,
DECISIONS OR CONDITIONS**

The Agency has major economic development tools in place including PILOTS, Empire Zones and the Revolving Loan Fund. These activities are intended to stimulate new construction, increase the local tax base, create employment opportunities for area residents, and generate new project fees to the Agency.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

For further information, please contact the Agency at:

Orleans Economic Development Agency
121 North Main Street
Albion, New York 14411
James R. Whipple
Chief Executive Officer/Chief Financial Officer

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Net Position
 December 31, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and equivalents:		
Operating	\$ 359	21,372
Restricted	<u>1,851,134</u>	<u>1,949,121</u>
Total cash and equivalents	<u>1,851,493</u>	<u>1,970,493</u>
Receivables:		
Accounts	33,157	3,628
Loans, current	<u>163,103</u>	<u>111,410</u>
Total receivables	<u>196,260</u>	<u>115,038</u>
Prepaid expenses	<u>136</u>	<u>156</u>
Total current assets	<u>2,047,889</u>	<u>2,085,687</u>
Loans receivable, less current installments	394,327	344,507
Capital assets:		
Land and site improvements	521,370	1,042,740
Building	-	548,696
Property held for sale	87,500	-
Furniture and equipment	<u>22,331</u>	<u>22,331</u>
Total capital assets	631,201	1,613,767
Less accumulated depreciation	<u>(21,763)</u>	<u>(160,026)</u>
Net capital assets	<u>609,438</u>	<u>1,453,741</u>
Total assets	<u>3,051,654</u>	<u>3,883,935</u>

(Continued)

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Statements of Net Position, Continued

<u>Liabilities</u>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accrued expenses	\$ 30,639	25,454
Accrued PILOT payable	1,284,853	1,275,304
Note payable to bank	3,655	60,724
Current installments of loans payable	<u>-</u>	<u>146,128</u>
Total current liabilities	1,319,147	1,507,610
Loans payable, less current installments	<u>-</u>	<u>288,015</u>
Total liabilities	<u>1,319,147</u>	<u>1,795,625</u>
Contingencies (note 11)	<u> </u>	<u> </u>
<u>Net Position</u>		
Net position:		
Investment in capital assets, net of related debt	609,438	1,019,599
Restricted	1,181,972	1,185,054
Unrestricted	<u>(58,903)</u>	<u>(116,343)</u>
Total net position	<u>\$ 1,732,507</u>	<u>2,088,310</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Revenue, Expenses and Changes in Net Position
 Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Administrative fees	\$ 92,514	35,899
State and local aid	173,144	250,474
Federal aid	3,124	5,810
Interest income from loans receivable	20,645	16,059
Bad debt recovery	7,500	96,640
Rental income	10,000	10,000
Other income	34,976	76,597
Total operating revenue	<u>341,903</u>	<u>491,479</u>
Operating expenses:		
Personnel services	168,609	163,138
Employee benefits	68,657	58,169
Professional fees	56,148	51,817
Occupancy	24,593	24,955
Auto and travel	9,933	7,222
Telephone	6,957	6,355
Office supplies and expenses	3,514	2,711
Repairs and maintenance	3,462	16,123
Dues and subscriptions	1,326	6,451
Advertising	545	1,226
Miscellaneous	437	62
Depreciation	382	14,452
Real estate taxes	-	597
Total operating expenses	<u>344,563</u>	<u>353,278</u>
Operating income (loss)	<u>(2,660)</u>	<u>138,201</u>
Non-operating expenses:		
Interest expense	(9,222)	(15,605)
Loss on impairment	(117,525)	-
Total non-operating expenses	<u>(126,747)</u>	<u>(15,605)</u>
Changes in net position	(129,407)	122,596
Net position at beginning of year	2,088,310	1,917,768
Transfers, net (note 8)	<u>(226,396)</u>	<u>47,946</u>
Net position at end of year	<u>\$ 1,732,507</u>	<u>2,088,310</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Cash Flows
 Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 83,630	62,785
Cash received from other governments	176,268	256,284
Other income received	52,476	183,237
Cash paid to employees	(232,081)	(216,652)
Cash paid to suppliers for goods and services	<u>(106,895)</u>	<u>(181,850)</u>
Net cash provided by (used in) operating activities	<u>(26,602)</u>	<u>103,804</u>
Cash flows from investing activities:		
Collection of loans receivable	143,487	290,856
Issuance of loans receivable	(245,000)	(250,000)
Transfer received from Orleans County Land Restoration Corporation	<u>500,000</u>	<u>47,946</u>
Net cash provided by investing activities	<u>398,487</u>	<u>88,802</u>
Cash flows from financing activities:		
Net proceeds from note payable to bank	(57,069)	3,364
Interest expense	(9,222)	(15,605)
Receipts from PILOT	2,026,326	2,398,310
Payments made for PILOT	(2,016,777)	(2,377,241)
Repayments of loans payable	<u>(434,143)</u>	<u>(26,571)</u>
Net cash used in financing activities	<u>(490,885)</u>	<u>(17,743)</u>
Net increase (decrease) in cash and equivalents	(119,000)	174,863
Cash and equivalents at beginning of year	<u>1,970,493</u>	<u>1,795,630</u>
Cash and equivalents at end of year	<u>\$ 1,851,493</u>	<u>1,970,493</u>

(Continued)

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows, Continued

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (2,660)	138,201
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	382	14,452
Change in:		
Receivables	(29,529)	10,827
Prepaid expenses	20	(30)
Accounts payable	-	(64,301)
Accrued expenses	<u>5,185</u>	<u>4,655</u>
Net cash provided by (used in) operating activities	<u>\$ (26,602)</u>	<u>103,804</u>
Supplemental schedule of cash flow information:		
Non-cash investing and financing activities - transfer of property and equipment, net of accumulated depreciation to Orleans County Land Restoration Corporation	<u>\$ (726,396)</u>	<u>-</u>
Cash paid for interest	<u>\$ 9,222</u>	<u>-</u>

See accompanying notes to financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

County of Orleans Industrial Development Agency (the Agency) is a public benefit corporation authorized under the laws of the State of New York (the State) and, in particular, the New York State Industrial Development Agency Act, constituting Title 2 of Article 18-A of the General Municipal Law, to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, importing, maintaining, equipping and furnishing of industrial, manufacturing, warehousing, commercial and research facilities and thereby advance the job opportunities, general prosperity and economic welfare of the people of Orleans County.

The Agency is empowered to issue Industrial Revenue Bonds for the purpose of constructing, acquiring, equipping and furnishing industrial manufacturing, warehousing and certain commercial research and recreational facilities. The Agency may acquire property, enter into lease agreements, mortgage agreements and pledge agreements.

(b) Financial Reporting Entity

The financial reporting entity includes organizations, functions, and activities over which appointed officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing Agency, designation of management, ability to significantly influence operations and accountability for fiscal matters. No other organizations have been included or excluded from the reporting entity.

(c) Basis of Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's financial statement presentation is prepared in accordance with the provisions of GASB Statement No. 20 - "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." Beginning in 2012, the Agency adopted the provisions of GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature. Also, during 2012, the Agency adopted GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." These statements provide guidance on presenting deferred outflows, deferred inflows and net position. The more significant accounting policies are described below:

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies

(c) Basis of Accounting, Continued

- The Agency's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, revenues, and expenses are accounted for through enterprise funds with revenue recorded when earned and expenses recorded at the time liabilities are incurred.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Agency considers all temporary cash investments with a maturity of three months or less to be cash equivalents.

State statutes govern the Agency's investment policies. Deposits are valued at cost or cost plus interest and are categorized as either insured or collateralized with securities held by the Agency or by its agent in the Agency's name, or collateralized with securities held by the pledging financial institution's trust department in the Agency's name, or uncollateralized. The Agency's cash balances were fully insured by the FDIC at December 31, 2012 and 2011.

(f) Restricted Cash

Restricted cash represents amounts held for revolving loan purposes and payments in lieu of taxes (PILOT) that have not yet been paid to the appropriate taxing jurisdiction.

(g) Capital Assets

Capital assets acquired by Agency, are stated at cost. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets.

(h) Grant Accounting

Revenue from grants is recognized as the Agency meets performance requirements of the contracts.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Allowance for Doubtful Loans

The allowance for doubtful loans is established through a provision for bad debts charged to expense. Loans are charged against the allowance for doubtful loans when management believes that collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Management believes that the allowance for doubtful loans is adequate. However, additions to the allowance may be necessary based on changes in economic conditions.

Interest is not accrued on loans receivable when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful. In such cases, interest is recognized on a cash basis when collection occurs.

Management believes that all loans are fully collectable and has made no provision for doubtful loans at either December 31, 2012 or 2011.

(j) Financial Instruments

The Agency makes loans to small businesses located in Orleans County. These loans are made at a favorable interest rate that varies with the prime rate. The governing board approves these loans after giving consideration to the major criteria, i.e., enhancement of the economic environment. These loans are collateralized by the businesses' assets and personal guarantees of the owners. Interest is recognized on these loans as it is paid (i.e., interest is not accrued when past due).

(k) Net Position - Restricted

Restrictions of net assets are created to either satisfy legal requirements or to earmark resources unavailable for current operations.

(l) Budgetary Policies

The Agency's administration prepares a proposed budget for the operating fund, which is then approved by the Board of Directors. This budget is then submitted to the Orleans County Legislature for review. Such appropriations constitute a limitation on expenses that may be incurred. Appropriations lapse at the end of each fiscal year-end.

(m) Subsequent Events

The Agency has evaluated events after December 31, 2012, and through March 26, 2013, which is the date these financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(n) Income Taxes

The Agency is a quasi-governmental organization. The Agency is not subject to federal or state income taxes, nor is it required to file federal or state income tax returns; therefore, no provision for income taxes is reflected in these financial statements.

(2) Cash Deposits

The carrying amount of the Agency's deposits with financial institutions at December 31, 2012 and 2011 was \$1,851,493 and \$1,970,493, respectively, and the bank balance was \$1,850,667 and \$1,967,638, respectively. New York State Municipal Law requires that the Agency's bank balance be secured or collateralized. At December 31, 2012 and 2011, the Agency's bank balance were fully insured.

(3) Loans Receivable

The Agency has one revolving loan fund offering low interest loans to area businesses. The governing board approves loans after giving consideration to the major criteria, i.e., enhancement of the economic environment. There were no delinquent loans as of December 31, 2012 and 2011. A summary of the loans receivable at December 31, 2012 and 2011 is as follows:

	<u>Interest rate</u>	<u>2012</u>	<u>2011</u>
Liberty Fresh Farms, Inc.	2.44%	\$ 126,671	-
Precision Packaging Products	2.44%	90,986	141,262
3 Milardi Enterprise	6.50%	13,496	19,244
Shelby Crushed Stone, Inc.	6.19%	-	6,671
HJP Foods, LLP/Save-A-Lot	2.44%	85,765	-
McCargo Lake Associates, LLC	2.44%	44,884	51,833
Black North Associates	5.00%	79,012	93,981
Virtual Polymer Compounds, LLC	2.44%	<u>116,616</u>	<u>142,926</u>
Total loans receivables		557,430	455,917
Less current installments		<u>(163,103)</u>	<u>(111,410)</u>
Loans receivable, less current installments		\$ <u>394,327</u>	<u>344,507</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(4) Loans Payable

The Agency had the following debt outstanding at December 31, 2011:

	<u>Date issued</u>	<u>Original amount</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Balance</u>
Robin Lake	2002	\$ 150,000	5.00%	2017	\$ 126,128
Farm Credit of Western New York	2002	487,500	6.50%	2013	<u>308,015</u>
Total loans payable					434,143
Less current installments					<u>(146,128)</u>
Loans payable, less current installments					<u>\$ 288,015</u>

All loans were extinguished in January of 2012.

(5) Note Payable to Bank

The Agency has a line of credit with a bank which provides for maximum borrowings of \$75,000. Outstanding borrowings are payable on demand and bear interest at the bank's prime lending rate plus 1.50% (4.75% at December 31, 2012). Borrowings under the line of credit are secured by the assets of the Agency. At December 31, 2012 and 2011, there were outstanding balances of \$3,655 and \$60,724, respectively, on this line of credit.

(6) Pension

The Agency is a member of the New York State and Local Employees' Retirement System (the System). The System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) governs obligations of employers and employees to contribute and provides benefits to employees. The System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12236. The Agency is required to contribute at an actuarially determined rate.

The Agency contributions made to the System were equal to 100 percent of the contributions required for the years ended December 31, 2012 and 2011. Total contributions for the years ended December 31, 2012 and 2011 were \$23,274 and \$22,671, respectively.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(7) Leases

In September 2006, the Agency and the Orleans Land Restoration Corporation (the Organizations) entered in to a lease agreement with Western New York Energy, LLC (WNY Energy) to receive rent for the Rail Spur Facility (the Facility). In 2007, the Organizations began receiving \$10,000 annually which will continue through August 1, 2015. The lease is cancelable by WNY Energy between 45 and 90 days upon giving notice of its intent. Upon expiration or termination of the lease, WNY Energy must purchase the facility for \$1 plus all remaining rental payments. WNY Energy has the option to extend the lease for an additional 99 years with rental payments equaling \$1 per year.

The following is a schedule of minimum future rentals receivable under the lease.

2013	\$ 10,000
2014	10,000
2015	<u>10,000</u>
	<u>\$ 30,000</u>

(8) Related Party Transactions

The Agency has a related party relationship with Orleans County Land Restoration Corporation (OLRC) and the Orleans County Local Development Corporation (OCLDC). All three entities are managed by the same personnel.

The Agency allocates a portion of its personnel costs to OLRC. These costs amounted to \$12,036 and \$12,950 for the years ended December 31, 2012 and 2011, respectively.

On January 11, 2012, the Agency and OLRC entered a property ownership agreement with both entities having a 50% interest in properties previously owned by COIDA. As part of the agreement, the Agency and OLRC also entered into a loan transaction used by the Agency to refinance existing mortgages on a portion of the properties and pay off the Agency line of credit. This loan amounted to \$500,000 (note 4). The Agency will provide staffing to monitor and manage the properties and shall provide in-kind services. OLRC will be responsible for routine and recurring costs associated with ownership of the properties and will pay debt service with respect to financing on the properties. The net assets transferred from the Agency to OLRC with respect to his agreement were as follows:

Land and site improvements	\$ (521,370)
Property held for sale, net	(205,026)
Cash	<u>500,000</u>
Transfers, net	<u>\$ (226,396)</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(9) Loss on Impairment

Accounting Standards Codification (ACS) No. 360 - "Accounting for the Impairment or Disposal of Long-Lived Assets" requires that impaired assets be recorded at the lower of carrying value or fair value, less costs to sell. In accordance with this statement, certain long-lived assets of the Agency, which consist primarily of a warehouse building and land, have been recorded at fair value which is the lower of carrying value or fair value, less costs to sell. The fair value for the property was determined at the amount of a counter offer made to a prospective buyer by OLRC in negotiations for the sale of the property in November 2012. In connection with this valuation, a loss on impairment has been recognized amounting to \$117,525 for the year ended December 31, 2012.

(10) Commitments

The Agency entered into a rental lease agreement with the Village of Albion during March 2010. The lease term is for two years with an option to renew for one year with a 10% increase. The Agency is currently paying \$1,600 per month.

(11) Contingencies

Contingencies at December 31, 2012 are as follows:

(a) Risk-Financing and Related Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees, errors and omissions, natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

(b) Judgments

There are several lawsuits in which the Agency has been named as defendant due to a property's title being in the name of the Agency. Management does not expect the Agency to suffer any material liability by reason of such actions, nor does it expect that such actions will have a material effect on the Agency's liquidity or operating results, other than those items accrued.

(c) Other Items

The Agency has received grants that are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, management believes disallowances, if any, will be immaterial.

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Combining Statement of Net Position by Fund
December 31, 2012

<u>Assets</u>	<u>Operating</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Current assets:			
Cash and equivalents:			
Operating	\$ 359	-	359
Restricted	<u>1,230,662</u>	<u>620,472</u>	<u>1,851,134</u>
Total cash and equivalents	<u>1,231,021</u>	<u>620,472</u>	<u>1,851,493</u>
Receivables:			
Accounts	29,087	4,070	33,157
Loans, current	<u>-</u>	<u>163,103</u>	<u>163,103</u>
Total receivables	<u>29,087</u>	<u>167,173</u>	<u>196,260</u>
Prepaid expenses	<u>136</u>	<u>-</u>	<u>136</u>
Total current assets	<u>1,260,244</u>	<u>787,645</u>	<u>2,047,889</u>
Loans receivable, less current installments	-	394,327	394,327
Capital assets:			
Land and site improvements	521,370	-	521,370
Property held for sale	87,500	-	87,500
Furniture and equipment	<u>22,331</u>	<u>-</u>	<u>22,331</u>
Total capital assets	631,201	-	631,201
Less accumulated depreciation	<u>(21,763)</u>	<u>-</u>	<u>(21,763)</u>
Net capital assets	<u>609,438</u>	<u>-</u>	<u>609,438</u>
Total assets	<u>1,869,682</u>	<u>1,181,972</u>	<u>3,051,654</u>

(Continued)

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Combining Statement of Net Position by Fund, Continued

<u>Liabilities</u>	<u>Operating</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Current liabilities:			
Accrued expenses	\$ 30,639	-	30,639
Accrued PILOT payable	1,284,853	-	1,284,853
Note payable to bank	<u>3,655</u>	<u>-</u>	<u>3,655</u>
Total current liabilities	<u>1,319,147</u>	<u>-</u>	<u>1,319,147</u>
Contingencies	<u> </u>	<u> </u>	<u> </u>
 <u>Net Position</u> 			
Net position:			
Invested in capital assets, net of related debt	609,438	-	609,438
Restricted	-	1,181,972	1,181,972
Unrestricted	<u>(58,903)</u>	<u>-</u>	<u>(58,903)</u>
Total net position	<u>\$ 550,535</u>	<u>1,181,972</u>	<u>1,732,507</u>

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY
Combining Statement of Revenue, Expenses and Changes in Net Position by Fund
Year ended December 31, 2012

	<u>Operating</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Operating revenue:			
Administrative fees	\$ 92,514	-	92,514
State and local aid	173,144	-	173,144
Federal aid	3,124	-	3,124
Interest income from loans receivable	-	20,645	20,645
Bad debt recovery	-	7,500	7,500
Rental income	10,000	-	10,000
Other income	34,976	-	34,976
	<u>313,758</u>	<u>28,145</u>	<u>341,903</u>
Total operating revenue			
Operating expenses:			
Personnel services	168,609	-	168,609
Employee benefits	68,657	-	68,657
Professional fees	24,921	31,227	56,148
Occupancy	24,593	-	24,593
Auto and travel	9,933	-	9,933
Telephone	6,957	-	6,957
Office supplies and expenses	3,514	-	3,514
Repairs and maintenance	3,462	-	3,462
Dues and subscriptions	1,326	-	1,326
Advertising	545	-	545
Miscellaneous	437	-	437
Depreciation	382	-	382
	<u>313,336</u>	<u>31,227</u>	<u>344,563</u>
Total operating expenses			
Operating income (loss)	<u>422</u>	<u>(3,082)</u>	<u>(2,660)</u>
Non-operating expenses:			
Interest expense	(9,222)	-	(9,222)
Loss on impairment	(117,525)	-	(117,525)
	<u>(126,747)</u>	<u>-</u>	<u>(126,747)</u>
Total non-operating expenses			
Changes in net position	(126,325)	(3,082)	(129,407)
Net position at beginning of year	903,256	1,185,054	2,088,310
Transfers, net	(226,396)	-	(226,396)
Net position at end of year	<u>\$ 550,535</u>	<u>1,181,972</u>	<u>1,732,507</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
County of Orleans Industrial Development Agency:

We have audited 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, the financial statements of County of Orleans Industrial Development Agency (the Agency) 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 March 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, 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.

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 weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings as 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Investment Guidelines for Public Authorities and the Agency's investment policy, 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings as item 2012-1.

The Agency's Response to Findings

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Agency internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 26, 2013

COUNTY OF ORLEANS INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Findings

Year ended December 31, 2012

Finding 2012-1

Accounting Controls

The Agency is without a financial accountant that can accurately initiate, authorize or review accounting transactions in the financial records or adequately prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. Audit adjustments, approved by management, were required to correct the accounting records of the Agency for the financial statements to be prepared in accordance with accounting principles generally accepted in the United States of America. Significant adjustments were required to properly reflect liabilities at December 31, 2012.

The Agency has substantial balances in the Payments In Lieu Of Taxes (PILOT) cash and payable accounts at December 31, 2012. In addition, PILOT payables (\$1,284,853) exceed the PILOT cash balance (\$1,230,661) by \$54,192. As PILOT receipts from businesses are to be passed through the Agency and remitted to the taxing jurisdiction, the Agency's PILOT cash balance should always equal the net PILOT payable.

Recommendations

We recommend that the Agency continue to review and improve its accounting records with the assistance of a consultant with adequate accounting experience and knowledge to periodically assist the Chief Financial Officer in reviewing financial transactions and financial statements.

The Agency should reconcile the PILOT transactions and adjust its accounting records accordingly. This process should be done routinely to ensure that any discrepancies are resolved timely.

Management's Corrective Action

Management plans to review in detail the deficiencies in the balance sheet accounts with the Agency's consultant. After the review, management will request a plan that will eliminate any deficiencies from recurring in 2013.