

CITY OF HORNELL
INDUSTRIAL DEVELOPMENT AGENCY
*Basic Financial Statements Required Supplementary
Information and Supplemental Information for the
Years Ended March 31, 2013 and 2012
and Independent Auditors' Reports*

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
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Years Ended March 31, 2013 and 2012

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of City of Hornell
Industrial Development Agency:

Report on the Financial Statements

We have audited the accompanying statements of net position of the City of Hornell Industrial Development Agency (the "Agency") as of March 31, 2013 and 2012 and the related statements of activities and cash flows for the years then ended, and the 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of March 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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 opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Schedule of Agency Investments and Real Property Listing as required under New York State Public Authority Law are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Agency Investments and Real Property Listing 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 Agency Investments and Real Property Listing are fairly stated, in all material respects, in relation to the basic 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 June 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.



June 26, 2013

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
For the Years Ended March 31, 2013 and 2012

As management of the City of Hornell Industrial Development Agency (the "Agency") we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the years ended March 31, 2013 and 2012. This narrative should be read in conjunction with the Agency's financial statements which follow this section. Certain data from the prior year has been reclassified to conform with the current year presentation.

Financial Highlights:

- ◆ The assets of the Agency exceed its liabilities (*net position*) at March 31, 2013 and 2012 by \$5,822,984 and \$5,842,890. Of these amounts, \$1,357,721 and \$1,233,085 were *unrestricted net assets*, meaning that these amounts are available for use in furthering the Agency's mission.
- ◆ The Agency's total net position decreased by \$19,906 and increased by \$360,248 for the fiscal years ended March 31, 2013 and 2012, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. This report includes the independent auditors' report, management's discussion and analysis, financial statements, notes to financial statements, and other supplemental information.

Required Financial Statements—The financial statements are prepared using the accrual basis of accounting. The financial statements include:

- ◆ *Statements of Net Position*—Presents all assets, liabilities and net position of the Agency at March 31, 2013 and 2012.
- ◆ *Statements of Activities*—Presents the financial activity for the years ended March 31, 2013 and 2012 and displays how this financial activity changed the Agency's net position.
- ◆ *Statements of Cash Flows*—Presents the cash provided and used during the 2013 and 2012 fiscal years and how it affects the cash balances at March 31, 2013 and 2012.
- ◆ *Notes to the Financial Statements*—Provide information regarding the Agency and explain in more detail information included in the financial statements.

Financial Analysis

The Agency provides administrative assistance and has limited operations. The Agency's net position may serve over time as a useful indicator of financial position. In the case of the Agency, assets exceeded liabilities by \$5,822,984 and \$5,842,890 at March 31, 2013 and 2012, respectively.

By far the Agency's largest types of assets are its capital assets, which are composed primarily of rental facilities and land being held for development purposes.

A condensed version of the Agency's statement of net position follows:

	March 31,		
	2013	2012	2011
Assets:			
Current assets	\$ 1,360,111	\$ 1,340,298	\$ 1,454,205
Capital assets, net	5,329,047	5,565,750	5,305,482
Other noncurrent assets	55,000	16,789	65,500
Total assets	<u>6,744,158</u>	<u>6,922,837</u>	<u>6,825,187</u>
Liabilities:			
Current liabilities	121,104	156,872	221,958
Noncurrent liabilities	745,070	868,075	1,120,587
Total liabilities	<u>866,174</u>	<u>1,024,947</u>	<u>1,342,545</u>
Deferred Inflows of Resources:			
Loan Repayment	55,000	55,000	-
Total deferred inflows of resources	<u>55,000</u>	<u>55,000</u>	<u>-</u>
Net Position:			
Net investment in capital assets	4,465,263	4,609,805	4,158,058
Unrestricted	1,357,721	1,233,085	1,324,584
Total net position	<u>\$ 5,822,984</u>	<u>\$ 5,842,890</u>	<u>\$ 5,482,642</u>

A useful indicator of the financial status and ability to meet the Agency's current obligation is the current ratio, which is computed as follows:

	March 31,		
	2013	2012	2011
Current assets	\$ 1,360,111	\$ 1,340,298	\$ 1,454,205
Current liabilities	121,104	211,872	221,958
Ratio of current assets to current liabilities	11.2	6.3	6.6

The Agency had current ratios of 11.2 and 6.3 at March 31, 2013 and 2012, respectively. Such ratios imply that the Agency has sufficient assets on hand to cover its liabilities that will come due in the coming year.

The Agency's revenue and expense activity produced the decrease and increase in net position of \$19,906 and \$360,248 for the fiscal years ended March 31, 2013 and 2012, respectively. A condensed statement of revenues, expenses and changes in net position follows:

	Year Ended March 31,		
	2013	2012	2011
Operating revenues	\$ 872,821	\$ 951,192	\$ 908,673
Operating expenses	826,118	672,022	762,640
Net operating income	46,703	279,170	146,033
Nonoperating revenue (expenses)	(66,609)	81,078	(18,850)
Change in net position	\$ (19,906)	\$ 360,248	\$ 127,183

Significant changes in revenues and expenses from 2012 to 2013 include:

- ◆ Operating revenues decreased by approximately \$78,371 in total, largely due to the decrease in rental income of \$63,371, from decreased rental activity.
- ◆ Operating expenses increased by approximately \$154,096 in total, with the largest increase noted in forgiveness of debt expense. This decrease was caused by the write-off of liabilities associated with PILOT money due, as well as, an uncollectible mortgage receivable.
- ◆ Nonoperating revenues decreased \$126,837 due to a significant decrease in miscellaneous income from the recording of a land donation in 2012.

Another important factor in the consideration of the fiscal condition is the Agency's cash position and annual cash flows. A condensed version of the Agency's statement of cash flows follows:

	Year Ended March 31,		
	2013	2012	2011
Cash flows from:			
Operating activities	\$ 397,998	\$ 601,697	\$ 387,801
Capital and related financing activities	(236,992)	(683,603)	(387,419)
Investing activities	2,384	10,021	5,476
Net change in cash and cash equivalents	\$ 163,390	\$ (71,885)	\$ 5,858

Capital Assets and Debt Administration

Capital Assets—The Agency's net investment in capital assets as of March 31, 2013 and 2012, amounted to \$5,329,047 and \$5,565,750, respectively. This investment in capital assets includes land, buildings and improvements, and machinery and equipment.

A summary of the Agency's capital assets net of accumulated depreciation is presented below:

	March 31,		
	2013	2012	2011
Land	\$ 676,910	\$ 676,910	\$ 557,710
Construction in progress	-	138,186	-
Buildings and improvements	4,438,239	4,713,611	4,697,844
Machinery and equipment	213,898	37,043	49,928
Total	<u>\$ 5,329,047</u>	<u>\$ 5,565,750</u>	<u>\$ 5,305,482</u>

Debt—At March 31, 2013, the Agency had total debt outstanding of \$863,784 as compared to \$955,945 at March 31, 2012. There was no new debt issued during the years ended March 31, 2013 and March 31, 2012. All scheduled payments were made during each fiscal year. The debt is not secured by the general assets of the Agency; rather, it is secured by the specific property for which such borrowing occurred.

Additional information on the Agency's debt can be found in the notes to the financial statements.

Economic Factors

The Agency's basic purpose is to assist business growth and expansion in the City of Hornell. The Agency does not rely on any form of taxpayer or other public support. The business and economic climate in the City have been relatively steady over the past two years.

Contacting the Agency

This financial report is designed to provide a general overview of the Agency's finances for interested individuals. Questions regarding this report or requests for additional information should be directed to the City of Hornell Industrial Development Agency, 40 Main Street, Hornell, New York 14843

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CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Statements of Net Position
March 31, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,359,549	\$ 1,196,159
Accounts receivable	562	89,139
Notes receivable	-	55,000
Total current assets	<u>1,360,111</u>	<u>1,340,298</u>
Noncurrent assets:		
Notes receivable	55,000	16,789
Capital assets:		
Land	676,910	676,910
Construction in progress	-	138,186
Buildings and improvements	9,417,532	9,400,401
Machinery and equipment	672,693	475,800
Less accumulated depreciation	<u>(5,438,088)</u>	<u>(5,125,547)</u>
Total capital assets, net of depreciation	<u>5,329,047</u>	<u>5,565,750</u>
Total noncurrent assets	<u>5,384,047</u>	<u>5,582,539</u>
Total assets	<u>6,744,158</u>	<u>6,922,837</u>
LIABILITIES		
Current liabilities:		
Accounts payable—trade	2,390	68,018
Accrued liabilities	-	984
Notes payable	<u>118,714</u>	<u>87,870</u>
Total current liabilities	<u>121,104</u>	<u>156,872</u>
Noncurrent liabilities:		
Notes payable	<u>745,070</u>	<u>868,075</u>
Total noncurrent liabilities	<u>745,070</u>	<u>868,075</u>
Total liabilities	<u>866,174</u>	<u>1,024,947</u>
DEFERRED INFLOWS OF RESOURCES		
Loan repayment	<u>55,000</u>	<u>55,000</u>
Total deferred inflows of resources	<u>55,000</u>	<u>55,000</u>
NET POSITION		
Net investment in capital assets	4,465,263	4,609,805
Unrestricted	<u>1,357,721</u>	<u>1,233,085</u>
Total net position	<u>\$ 5,822,984</u>	<u>\$ 5,842,890</u>

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

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Statements of Activities
Years Ended March 31, 2013 and 2012

	2013	2012
Operating revenues:		
Rental income	\$ 872,821	\$ 936,192
Miscellaneous	-	15,000
Total operating revenues	<u>872,821</u>	<u>951,192</u>
Operating expenses:		
Salaries and benefits	51,645	46,965
Repairs and maintenance	8,079	11,050
Airport tax expense	30,000	30,000
Auto expenses	7,800	7,800
Insurance—general and medical	81,430	55,477
Consulting fee	66,000	66,000
Legal and accounting	25,950	21,205
Dues and subscriptions	4,793	2,863
Equipment rental	-	1,930
Rent	8,400	8,400
Utilities	-	1,470
Telephone	7,725	7,554
Airplane expense	5,726	5,484
Depreciation	312,541	302,913
Office supplies	7,055	12,041
Postage	4,352	4,326
Outside services	4,850	6,500
Travel and entertainment	84,802	73,216
Empire Zone expense	-	6,828
Miscellaneous	6	-
Forgiveness of debt expense	114,964	-
Total operating expenses	<u>826,118</u>	<u>672,022</u>
Operating gain	<u>46,703</u>	<u>279,170</u>
Nonoperating revenues (expenses):		
Interest income	2,384	10,021
Miscellaneous income	-	119,200
Interest on debt	(68,993)	(48,143)
Total nonoperating (expenses) revenues	<u>(66,609)</u>	<u>81,078</u>
Change in net position	(19,906)	360,248
Total net position—beginning	<u>5,842,890</u>	<u>5,482,642</u>
Total net position—ending	<u>\$ 5,822,984</u>	<u>\$ 5,842,890</u>

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

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows
Years Ended March 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from providing services	\$ 978,187	\$ 879,169
Payments for contractuals expenses	(527,560)	(229,713)
Payments for personal services and benefits	(52,629)	(47,759)
Net cash provided by operating activities	397,998	601,697
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(75,838)	(443,981)
Principal paid on debt	(92,161)	(191,479)
Interest paid on debt	(68,993)	(48,143)
Net cash used in capital and related financing activities	(236,992)	(683,603)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,384	10,021
 Net increase (decrease) in cash and cash equivalents	163,390	(71,885)
 Cash and cash equivalents—beginning	1,196,159	1,268,044
Cash and cash equivalents—ending	\$ 1,359,549	\$ 1,196,159
 Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 46,703	\$ 279,170
Adjustments for items not affecting cash flows:		
Depreciation	312,541	302,913
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	88,577	(72,023)
Decrease in notes receivable	16,789	-
(Decrease) increase in accounts payable	(65,628)	92,431
(Decrease) in accrued liabilities	(984)	(794)
Total adjustments	351,295	322,527
Net cash provided by operating activities	\$ 397,998	\$ 601,697

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

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements
Years Ended March 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The City of Hornell Industrial Development Agency (the “Agency”) is a public benefit corporation created in 1974 under Title I Article 18-A of New York State General Municipal Law for the purpose of encouraging financially sound companies to locate and expand in the City of Hornell, New York (the “City”). The Agency is exempt from Federal income taxes and New York State franchise taxes.

B. Measurement focus and basis of accounting

The accounts of the Agency are maintained on the accrual basis of accounting. The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are:

Industrial Development Revenue Bond and Note Transactions—Industrial development revenue bonds and notes issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. The bonds and notes are not obligations of the Agency, the City or the State. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders. The funds arising there from are controlled by trustees or banks acting as fiscal agents. The Agency receives bond administrative fees from the borrowing companies for providing the service. Such administrative fee income is recognized immediately upon issuance of the bonds and notes.

IDB TYPE Lease Transactions—The Agency has established a lease program to provide state and local tax benefits to companies developing industrial properties. Under this program, the Agency receives title to properties under development and leases the property to the previous titleholder (lessee). Title to those properties is transferred to the lessee at the end of the maximum tax benefit period or at any time during the lease period at the option of the lessee. The Agency does not record assets acquired under the lease program since the Agency’s primary function is to provide state and local benefits to the lessee. The Agency receives lease administrative fees from the lessee for providing this service. Such administrative fee income is recognized at lease inception or ratably over the term of the lease depending on the agreement terms between the lessee and the Agency.

C. Assets, liabilities, deferred outflows/inflows of resources, and net position

Cash and cash equivalents—Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity date within three months or less from the date of acquisition.

Investments—The Agency’s investment policies are governed by State statutes. In addition, the Agency has its own written investment policy. The Agency reports no investments at March 31, 2013 and 2012; however, it is the Agency’s policy to state investments at fair value, when applicable.

Capital Assets—Rental property: The Agency has developed various properties which it leases under operating leases to companies establishing or expanding new business activities

in the Hornell area. The property is recorded at cost, which includes all costs incurred during the development stage, net of accumulated depreciation

Depreciation is computed on the straight-line method over the estimated lives of the assets. The Agency acquired a Piper Navajo airplane in 1987 for use by the Hornell business community. The plane is owned by the Agency and leased to and operated by Jet Smart Aviation. The Agency receives monthly rental income based upon number of hours flown.

Property and Equipment: Property and equipment are stated at cost or estimated fair market value less accumulated depreciation. Depreciation is computed on the straight-line method over the following estimated useful lives of the assets:

Assets	Years
Buildings and improvements	30
Machinery and equipment	5 - 7

Deferred Inflows of Resources—In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a futures period and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption—Sometimes the Agency will fund outlays for a particular purpose from both restricted (e.g., restricted loan or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

D. Other

Statements of Cash Flows—For purposes of the statements of cash flows, the Agency considers cash and cash equivalents to be all cash accounts and short-term investments purchased with a maturity of three months or less.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reclassification—With the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Agency has made all necessary reclassifications which resulted in no change in the Agency’s net position.

Adoption of New Accounting Pronouncements—During the year ended March 31, 2013, the Agency adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement

Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Agency also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources, certain items that were previously reported as assets and liabilities. GASB No. 63 and No. 65 did not have a material impact on the Agency’s financial position or results from operations.

Additionally, during the year ended March 31, 2013, the Agency completed the process of evaluating the impact that will result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions— an amendment of GASB Statement No. 53*. The adoption of Statements No. 57, 60, 62, and No. 64 did not have a material impact on the Agency’s financial position or results of operations.

Future Impacts of Accounting Pronouncements—The Agency has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34;*; No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62;* No. 67, *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25;* and No. 69, *Government Combinations and Disposals of Government Operations;* effective March 31, 2014. Also, evaluation of the impact that will result from adopting GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27* and No. 70, *Accounting and Financial Reporting for Nonexchange Guarantees* effective March 31, 2015 has not been completed. The Agency is therefore unable to disclose the impact that adopting GASB Statements No. 61, 66, 67, 68, 69, and 70 will have on its financial position and results of operations when such statements are adopted.

2. CASH AND CASH EQUIVALENTS

Collateral is required for demand deposits and certificates of deposits for all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The Agency's cash and cash equivalents at March 31, 2013 and 2012 are carried at fair value as follows:

	March 31, 2013		March 31, 2012	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 1,000,000	\$ 1,000,000	\$ 778,238	\$ 778,238
Uninsured:				
Collateral held pledging bank's agent in the Agency's name	370,682	359,549	425,022	417,921
Total deposits	\$ 1,370,682	\$ 1,359,549	\$ 1,203,260	\$ 1,196,159

Custodial credit risk—Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At March 31, 2013 and 2012, the Agency's deposits were FDIC insured or collateralized.

3. RECEIVABLES

A. Accounts receivable—Accounts receivable at March 31, 2013 and 2012 is as follows:

	2013	2012
Accounts receivable	\$ 562	\$ 89,139

B. Notes receivable—Represents special project grants and mortgages and is comprised of the following at March 31, 2013 and 2012:

	2013	2012
Mortgage receivable in the amount of \$24,500 at 6.0% to be paid over nine years. The Agency does not anticipate collecting the loan. The debtor has entered into bankruptcy and the Agency believes the loan to be uncollectible. Therefore the remaining balance of \$16,789 has been deemed uncollectible.	\$ -	\$ 16,789
Note receivable due from the Hornell Chamber of Commerce. Funds were provided for repair and updating of building. The note is payable upon the Chamber's sale of the building.	55,000	55,000
Total notes receivable	55,000	71,789
Less current portion	-	(55,000)
Non-current portion	\$ 55,000	\$ 16,789

4. PROPERTY AND EQUIPMENT—NET

Property and equipment consisted of the following at March 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 676,910	\$ 676,910
Construction in progress	-	138,186
Buildings and improvements	9,417,532	9,400,401
Machinery and equipment	<u>672,693</u>	<u>475,800</u>
Total	10,767,135	10,691,297
Less accumulated depreciation	<u>(5,438,088)</u>	<u>(5,125,547)</u>
Property and equipment—net	<u>\$ 5,329,047</u>	<u>\$ 5,565,750</u>

Depreciation expense recorded for the fiscal years ended March 31, 2013 and 2012 was \$312,541 and \$302,931, respectively.

5. LONG-TERM DEBT

Long-term debt at March 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Steuben Trust Company loan payable in monthly installments including interest at 5.24%, due February 2021.		
Collateralized by rental property.	<u>\$ 863,784</u>	<u>\$ 955,945</u>
Total long-term debt	863,784	955,945
Less current portion	<u>(118,714)</u>	<u>(87,870)</u>
Non-current portion	<u>\$ 745,070</u>	<u>\$ 1,065,587</u>

Remaining planned principal and interest payments are as follows at March 31, 2013:

<u>Fiscal Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 118,714	\$ 42,438
2015	103,182	36,304
2016	86,235	31,583
2017	90,864	26,955
2018	95,742	22,077
Thereafter	<u>369,047</u>	<u>34,019</u>
Total	<u>\$ 863,784</u>	<u>\$ 193,376</u>

6. LEASES

The Agency has entered into lease agreements as lessee office space from the City of Hornell Chamber of Commerce on a year-to-year operating lease. Rent expense was \$8,400 for both of the years ended March 31, 2013 and 2012.

7. COMMITMENTS AND CONTINGENCIES

Grants received by the Agency require the fulfillment of certain conditions as set forth in the various grant agreements. Failure to fulfill them could result in the forfeiture of the grants. Although the possibility exists of this occurring, management deems this likelihood to be remote.

8. RENTAL REVENUE

The Agency leases certain of its real property and improvements thereon to various companies under non-cancelable operating leases through 2022. Future annual lease amounts to be received, which include amounts to be paid to certain taxing entities under payment-in-lieu-of tax agreements, under these leases over the next five years are as follows:

<u>Fiscal Year Ending March 31,</u>	
2014	\$ 889,072
2015	930,334
2016	958,242
2017	986,996
2018	<u>1,016,602</u>
Total	<u>\$ 4,781,246</u>

9. FORGIVENESS OF DEBT EXPENSE

Forgiveness of debt expense at March 31, 2013 was composed of the following:

Mortgage Receivable	\$ 16,786
Finance Charges	24,600
PILOT	<u>73,574</u>
Total	<u>\$ 114,960</u>

10. RELATED ENTITY

The Hornell Area Industrial Development Corporation (the "HAIDC") is a nonprofit corporation created to assist companies to establish themselves and prosper in the Hornell area. The HAIDC is considered a related entity since its members are also members of the Agency. HAIDC members have complete independent responsibility and accountability for their fiscal matters, therefore, the HAIDC functions and activities are not included in the Agency's financial statements. During the year ended March 31, 2013 and 2012 there were no transactions between the Agency and the HAIDC, and there are no amounts due from or due to the HAIDC at March 31, 2013 and 2012.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 26, 2013, which is the date the financial statements are available for issuance, and has determined there are no subsequent events that require disclosure under generally accepted accounting procedures.

* * * * *

SUPPLEMENTAL INFORMATION

Presented as supplemental information is certain information as required to be reported under New York State Public Authority Law.

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Schedule of Agency Investments
Year Ended March 31, 2013

Annual Investment Report - §2925(6) of Public Authorities Law of the State of New York requires that each public authority must annually prepare an investment report which shall include (a) investment guidelines, (b) amendments to such guidelines since the last investment report, (c) an explanation of the investment guidelines and amendments, (d) results of the annual independent audit, (e) the investment income record of the Agency, and (f) a list of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Agency since the last investment report.

- a. Investment guidelines—The Agency’s investment policies are governed by State statutes. In addition, the Agency has its own written investment policy which was adopted by the Board of Directors.
- b. Amendments to guidelines—None.
- c. Explanation of guidelines and investments—These guidelines restrict investment of Agency funds to money market accounts and certificates of deposit. The Agency has not made any amendments to its investment policy.
- d. Results of the annual independent audit—The independent auditors have issued an unqualified opinion on the Agency’s financial statements for the year ended March 31, 2013.
- e. Investment income record—Investment income for the year ended March 31, 2013 consisted of:

	Interest Earned
Interest earned on cash and cash equivalents	\$ 2,384
	\$ 2,384

- f. List of the total fees, commissions or other charges paid to each investment banker, broker, dealer and adviser rendering investment associated services to the Agency since the last investment report—No such fees or commissions were paid during the year ended March 31, 2013.

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Real Property Listing
March 31, 2013

1. Real property list—§2896(3) of Public Authorities Law of the State of New York requires that each public authority must publish, at least annually, a report listing all real property of the authority. At March 31, 2013, the Agency owned the following real property:

Section/Block/Lot Identification #	Municipality	Property Location and Description	Recorded Value
136.03-01-001.001	City of Hornell, NY	State Route 36 – Walmart Plaza vacant land	\$ -
136.03-01-001.002	City of Hornell, NY	State Route 36 – Walmart Plaza vacant land	-
136.03-01-001.004	City of Hornell, NY	State Route 36 – Walmart Plaza	-
136.03-01-001.005	City of Hornell, NY	State Route 36 – Walmart Plaza vacant land	-
136.03-01-001.006	City of Hornell, NY	State Route 36 – Walmart Plaza	-
136.17-01-001.200	City of Hornell, NY	Shawmut Drive – vacant land	16,000
151.05-02-001.300	City of Hornell, NY	Shawmut Drive – vacant land	-
151.05-02-002.100	City of Hornell, NY	Shawmut Drive – vacant land	-
151.05-02-002.200	City of Hornell, NY	Shawmut Drive – Trikeenan	-
151.05-02-007.000	City of Hornell, NY	Shawmut Drive – Alstom	-
151.05-02-009.000	City of Hornell, NY	Shawmut Drive – Alstom	-
151.10-01-001.200	City of Hornell, NY	Shawmut Drive – Alstom	-
151.10-01-044.000	City of Hornell, NY	195-203 Seneca St. – Alstom	-
151.10-01-048.000	City of Hornell, NY	185 Seneca St. – Alstom	-
151.10-01-067.000	City of Hornell, NY	Fulton Street – vacant land	-
151.15-01-001.000	City of Hornell, NY	Fulton Street – vacant land	4,500
151.15-01-093.000	City of Hornell, NY	Washington St. – vacant land	-
151.71-03-036.000	City of Hornell, NY	103-113 Main St – Erieline Antiques	-
166.06-07-045.001	City of Hornell, NY	111 Loder St. – Alstom	-
166.06-07-046.103	City of Hornell, NY	12 Park Drive - vacant land	119,200
166.06-07-044-111	City of Hornell, NY	Transit Drive –Rechichi parking lot	-
166.11-01-015.000	City of Hornell, NY	Transit Drive – Alstom	-
166.33-01-012.100	City of Hornell, NY	Transit Drive – Alstom	-
166.33-01-012.200	City of Hornell, NY	Transit Drive – Alstom	-
166.00-03-09.000	City of Hornell, NY	South Yards – Ice House Rd.	360,874
122.00-01-024.100	Town of Hornellsville, NY	Generalli Property	15,174
122.00-01-024.200	Town of Hornellsville, NY	Generalli Property	6,504
107.14-01- 016.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-072.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-005.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-007.000	Town of Hornellsville, NY	Hurlbut St. – Crowley Foods	-
107.19-01-70.000	Town of Hornellsville, NY	Shawmut Drive – vacant land	-
121.00-01-025.000	Town of Hornellsville, NY	Old railroad bed – Crowley Foods	-
121.00-01-046.200	Town of Hornellsville, NY	Pump station – Crowley Foods	-
122.00-01-27-111	Town of Hornellsville, NY	Ellis Farm – 51.4 acres of vacant land	49,056
136.00-01-64.000	Town of Hornellsville, NY	CR66 railroad bed – Crowley Foods	-
151.05-01-63.000	Town of Hornellsville, NY	Shawmut Drive – vacant land	1,000
151.05-01-64.400	Town of Hornellsville, NY	Shawmut Drive – vacant land	2,500
151.05-01-64.500	Town of Hornellsville, NY	Shawmut Drive – vacant land	-
150.00-01-62.000	City of Hornell, NY	Bocobo, Wood St. Ext - .16 Acres	102,102
150.00-01-64.000	City of Hornell, NY	Bocobo, Wood St. Ext - 1.27 Acres	-
151.17-01-64.000	City of Hornell, NY	Bocobo, West St. - 1.02 Acres	-
166.05-01-02.000	City of Hornell, NY	Bocobo, Fairlawn Ave. - 17.82 Acres	-
166.05-01-04.100	City of Hornell, NY	Bocobo, Ellsworth Place. - 49.5x159 feet	-
166.05-01-06.000	City of Hornell, NY	Bocobo, 87 Hartshorn - 3.30 Acres	-
Total recorded value			<u>\$ 676,910</u>

2. **Real property acquisitions**—There were no real property acquisitions during the year ended March 31, 2013.
3. **Real property dispositions**—There were no real property dispositions during the year ended March 31, 2013.

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Certified Public Accountants

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

To the Members of City of Hornell
Industrial Development Agency:

We have audited, 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 statement of net position of City of Hornell Industrial Development Agency ("Agency") as of and for the year ended March 31, 2013, and the related statements of activities, statements of cash flows and notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 26, 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 from 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.

A handwritten signature in black ink that reads "Duesched & Malecki LLP". The signature is written in a cursive, flowing style.

June 26, 2013