

CITY OF HORNELL
INDUSTRIAL DEVELOPMENT AGENCY
*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Other Information
for the Nine Month Period Ended December 31, 2014 and
Independent Auditors' Reports*

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
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Nine Month Period Ended December 31, 2014

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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 financial statements of the City of Hornell Industrial Development Agency (the "Agency") as of and for the nine month period ended December 31, 2014 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

The Agency's 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of December 31, 2014, and the changes in its financial position and its cash flows for the nine month period then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2014 the Agency has elected to change its fiscal year end from March 31 to December 31. As a result, the current financial statements are for the nine months from April 1, 2014 to December 31, 2014. Consequently, comparative financial statements for the year ended March 31, 2014 are not included as they are not comparable. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, 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 audits 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 Agency Investments and the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Agency Investments is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Real Property Listing has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2015 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.

Drescher & Malecki LLP

March 12, 2015

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
For the Nine Month Period Ended December 31, 2014

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 nine month period ended December 31, 2014 and the year ended March 31, 2014. It should be noted the financial activity for the year ended March 31, 2014 is not comparable to the financial activity for the current nine month period ended December 31, 2014. This narrative should be read in conjunction with the Agency's financial statements which follow this narrative.

Financial Highlights:

- The assets of the Agency exceed its liabilities (net position) at December 31, 2014 and March 31, 2014 by \$6,012,626 and \$5,796,756, respectively. Of these amounts, \$1,706,973 and \$1,619,095 represent unrestricted net position, meaning that these amounts are available for use in furthering the Agency's mission.
- The Agency's total net position increased by \$215,870 for the nine month period ended December 31, 2014 and decreased by \$26,228 for the year ended March 31, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise of two components: the Agency's financial statements and notes to those financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the Agency's assets, liabilities, and deferred outflows/inflows of resources, with the differences 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 is improving or deteriorating.

The *statement of activities* present information showing how the Agency's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *statement of cash flows* present the cash provided and used during the nine month period ended December 31, 2014 and how it affects the cash balances at December 31, 2014.

Notes to the Financial Statements—The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The Agency provides administrative assistance to companies within the City of Hornell and has limited operations. The Agency's largest type of assets is its capital assets, which are composed primarily of rental facilities and land being held for developmental purposes. The Agency also carries long-term debt which is generally debt acquired and held by the Agency on behalf of companies within the City of Hornell for the purpose of stimulating economic development in the City. The *statement of net position* and the *statement of activities* can assist in determining whether the Agency's financial position has improved or deteriorated from the prior year. The *statement of cash flows* provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing and capital financing activities of the Agency during the year. This statement helps users assess the Agency's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing. Condensed financial highlights of these statements are presented below.

Table 1—Condensed Statements of Net Position

	December 31, 2014	March 31, 2014
Assets:		
Current assets	\$ 1,497,460	\$ 1,466,966
Capital assets, net	5,222,484	5,172,499
Other noncurrent assets	<u>302,009</u>	<u>225,686</u>
Total assets	<u>7,021,953</u>	<u>6,865,151</u>
Liabilities:		
Current liabilities	134,257	137,219
Noncurrent liabilities	<u>820,070</u>	<u>876,176</u>
Total liabilities	<u>954,327</u>	<u>1,013,395</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	4,302,653	4,177,661
Restricted	3,000	1,500
Unrestricted	<u>1,706,973</u>	<u>1,617,595</u>
Total net position	<u>\$ 6,012,626</u>	<u>\$ 5,796,756</u>

The Agency's current assets are comprised primarily of cash and cash equivalents. These assets increased in both the nine month period ended December 31, 2014 and the year ended March 31, 2014 as a result of operating activities. During the nine month period ended December 31, 2014, the Agency acquired land and properties and improvements through purchase and donation. The value of capital assets, net of accumulated depreciation increased approximately \$50,000 during the nine month period ended December 31, 2014.

During the nine month period ended December 31, 2014, the Agency entered into a direct financing lease with a new business. The terms of the lease are such that business will take ownership of the property at December 31, 2024. A lease receivable of \$110,000 is reported at December 31, 2014, of which \$20,000 is considered to be current.

The largest portion of the Agency's net position at December 31, 2014 (71.6%) reflects its investment in capital assets (e.g. land, buildings, improvements, machinery and equipment), less any related outstanding debt used to acquire those assets. Although the Agency's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net position of \$1,706,973 at December 31, 2014 represents resources that may be used to meet the Agency's ongoing operations.

Table 2, as presented below, shows the changes in net position for the nine month period ended December 31, 2014 and year ended March 31, 2014.

Table 2—Condensed Statements of Changes in Net Position

	Nine Month Period Ended December 31, 2014	Year Ended March 31, 2014
Operating revenues	\$ 635,550	\$ 823,081
Operating expenses	<u>494,097</u>	<u>784,024</u>
Net operating income	141,453	39,057
Nonoperating revenue (expenses)	<u>74,417</u>	<u>(65,285)</u>
Change in net position	215,870	(26,228)
Net position—beginning	<u>5,796,756</u>	<u>5,822,984</u>
Net position—ending	<u>\$ 6,012,626</u>	<u>\$ 5,796,756</u>

The major sources and uses in revenues and expenses for the nine month period ended December 31, 2014 include:

- The most significant source of operating revenues included rental income of \$635,550.
- The most significant source of operating expenses included depreciation expense of \$229,982.
- Nonoperating revenue (expenses) included donations of \$100,000.

The major sources and uses in revenues and expenses for the year ended March 31, 2014 include:

- The most significant source of operating revenues included rental income of \$822,331.
- The most significant source of operating expenses included depreciation expense of \$308,633.
- Nonoperating revenue (expenses) included interest on debt of \$(42,207).

Another important factor in the consideration of the fiscal condition is the Agency's cash position and annual cash flows. Agency cash and cash equivalents decreased by \$98,730 in the nine month period ended December 31, 2014. Agency cash and cash equivalents increased by \$55,407 for the year ended December 31, 2014. A condensed version of the Agency's statement of cash flows is presented below:

Table 3—Condensed Statements of Cash flows

	Nine Month Period Ended December 31, 2014	Year Ended March 31, 2014
Cash flows from:		
Operating activities	\$ 286,672	\$ 141,723
Capital and related financing activities	(391,271)	(92,337)
Investing activities	<u>5,869</u>	<u>6,021</u>
Net change in cash and cash equivalents	<u>\$ (98,730)</u>	<u>\$ 55,407</u>

Capital Assets and Debt Administration

Capital Assets—The Agency's investment in capital assets, net of accumulated depreciation, as of December 31, 2014 and March 31, 2014, amounted to \$5,222,484 and \$5,172,499, respectively. This investment in capital assets includes land, buildings and improvements, and machinery and equipment. The Agency's land increased as a result of the acquisition of property during the nine month period ended December 31, 2014. A summary of the Agency's capital assets net of accumulated depreciation is presented below:

	December 31, 2014	March 31, 2014
Land	\$ 806,399	\$ 679,750
Buildings and improvements	4,414,786	4,490,156
Machinery and equipment	<u>1,299</u>	<u>2,593</u>
Total	<u>\$ 5,222,484</u>	<u>\$ 5,172,499</u>

Debt—At December 31, 2014 and March 31, 2014, the Agency had total debt outstanding of \$919,831 and \$994,838, respectively. During the nine month period ended December 31, 2014, the Agency acquired no new debt. All scheduled debt payments were made during the period and each fiscal year. Additional information on the Agency's debt can be found in the notes to the financial statements.

Economic Factors

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

Requests for Information

Questions concerning any information in this report or requests for additional information should be directed to the City of Hornell Industrial Development Agency, 40 Main Street, Hornell, New York 14843.

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Statement of Net Position
December 31, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,316,226
Restricted cash held in escrow	3,000
Accounts receivable	119,111
Current portion of notes receivable	18,168
Lease receivable	20,000
Prepaid items	<u>20,955</u>
Total current assets	<u>1,497,460</u>

Noncurrent assets:

Notes receivable	212,009
Lease receivable	90,000
Capital assets not being depreciated	806,399
Capital assets, net of accumulated depreciation	<u>4,416,085</u>
Total capital assets, net of depreciation	<u>5,222,484</u>
Total noncurrent assets	<u>5,524,493</u>
Total assets	<u>7,021,953</u>

LIABILITIES

Current liabilities:

Accounts payable—trade	204
Accrued liabilities	1,137
Other liabilities	8,155
Accrued revenue sharing	25,000
Notes payable	<u>99,761</u>
Total current liabilities	<u>134,257</u>

Noncurrent liabilities:

Notes payable	<u>820,070</u>
Total noncurrent liabilities	<u>820,070</u>
Total liabilities	<u>954,327</u>

DEFERRED INFLOWS OF RESOURCES

Loan repayment	<u>55,000</u>
Total deferred inflows of resources	<u>55,000</u>

NET POSITION

Net investment in capital assets	4,302,653
Restricted for PILOT payments	3,000
Unrestricted	<u>1,706,973</u>
Total net position	<u>\$ 6,012,626</u>

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

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Statement of Activities
Nine Month Period Ended December 31, 2014

Operating revenues:	
Rental income	\$ 635,550
Total operating revenues	<u>635,550</u>
Operating expenses:	
Salaries and benefits	43,866
Repairs and maintenance	19,500
Auto expenses	5,850
Insurance—general and medical	30,603
Consulting fee	49,500
Legal and accounting	29,731
Dues and subscriptions	3,095
Rent	6,300
Utilities	154
Telephone	5,609
Depreciation	229,982
Office supplies	5,668
Postage	3,022
Outside services	7,650
Travel and entertainment	41,355
Empire Zone expense	10,000
Miscellaneous	237
Property Taxes	<u>1,975</u>
Total operating expenses	<u>494,097</u>
Operating income	<u>141,453</u>
Nonoperating revenues (expenses):	
Donations	100,000
Interest income	5,869
Interest on debt	<u>(31,452)</u>
Total nonoperating (expenses) revenues	<u>74,417</u>
Change in net position	215,870
Total net position—beginning	<u>5,796,756</u>
Total net position—ending	<u>\$ 6,012,626</u>

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

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Statement of Cash Flows
Nine Month Period Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from providing services	\$ 562,458
Payments for contractual expenses	(231,882)
Payments for personal services and benefits	(43,904)
Net cash provided by operating activities	286,672

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(289,812)
Payment on direct financing lease	5,000
Principal paid on debt	(75,007)
Interest paid on debt	(31,452)
Net cash used for capital and related financing activities	(391,271)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	5,869
Net (decrease) increase in cash and cash equivalents	(98,730)

Cash and cash equivalents—beginning	1,414,956
Cash and cash equivalents—ending	\$ 1,316,226

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 141,453
Adjustments for items not affecting cash flows:	
Depreciation	229,982
Changes in operating assets and liabilities:	
Increase in accounts receivable	(86,365)
Decrease in notes receivable	13,273
Increase in prepaid items	(20,955)
Decrease in accounts payable	(678)
Decrease in accrued liabilities	(38)
Increase in accrued revenue sharing	10,000
Total adjustments	145,219
Net cash provided by operating activities	\$ 286,672

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

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CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements
Nine Month Period Ended December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting entity

The Agency is not considered a component unit of the City. The Agency is a separate entity and operates independently of the City. The City has no authority to approve the Agency’s budget nor does it have any responsibility for the debt, financing deficits or fiscal management of the Agency.

Basis of Presentation

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 listed below.

Basis of Accounting

The accounts of the Agency are maintained on the accrual basis of accounting.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash and Cash Equivalents and Investments—Cash and cash equivalents and investments are considered to be cash on hand, demand deposits, time deposits and short-term, highly liquid investments which are readily convertible to cash and have a maturity date within 90 days or less from the date of acquisition. The Agency had no investments at December 31, 2014; however, when the Agency does have investments they are recorded at fair value based on quoted market value.

Capital Assets—Rental property—The Agency has developed various properties which it leases under operating leases and direct financing leases to companies establishing or expanding new business activities in the Hornell area. Those properties that are leased under an operating lease are recorded at cost, which includes all costs incurred during the development stage, net of accumulated depreciation.

Property and equipment are stated at cost, or if donated, at 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

The carrying value of the property leased under a direct financing lease has been removed from the Agency's capital assets and a lease receivable has been recorded. The difference between the total lease receivable and the carrying value of the leased property represents interest income to be earned over the life of the lease.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. At December 31, 2014, the Agency does not have any items that qualify for reporting in this category.

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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At December 31, 2014, the Agency held a note receivable from the Chamber of Commerce in Hornell; the Agency will not receive payment on the note until the building is sold. At this time the Agency cannot reasonably estimate when the building will sell or when they will receive payment for the building, thereby causing a deferred inflow of resources.

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.

Revenues and Expenses

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.

Tax Status—The Agency is exempt from Federal income taxes and New York State franchise taxes.

Other

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.

Adoption of New Accounting Pronouncements—During the nine month period ended December 31, 2014, the Agency implemented GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces GASB Statement No. 25 and Statement No. 50. The objective of GASB Statement No. 69 is to standardize accounting and financial reporting related to government combinations and disposals of government operations. The objective of GASB Statement No. 70 is to improve financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statement Nos. 67, 69, and 70 did not have a material impact on the Agency's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The Agency has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68*, effective for the year ending December 31, 2015; and No. 72, *Fair Value Measurement and Application*, effective for the year ending December 31, 2016. The Agency is, therefore, unable to disclose the impact that adopting GASB Statement Nos. 68, 71 and 72 will have on its financial position and results of operations.

2. CHANGE IN FISCAL YEAR END

On October 24, 2014, the Members of the Agency approved a change in the Agency's fiscal year end from March 31 to December 31 of each year. As a result, the current financial statements are prepared for the nine months from April 1, 2014 to December 31, 2014. Consequently, comparative financial statements for the year ended March 31, 2014 are not included as they are not comparable.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Agency's investment policies are governed by New York State statutes. There were no investments at December 31, 2014. All deposits are carried at fair value. Collateral is required for demand deposits and certificates of 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.

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at December 31, 2014 as presented below:

	December 31, 2014	
	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 844,035	\$ 844,035
Uninsured:		
Uncollateralized	100,001	100,001
Collateralized	375,000	375,190
Total Deposits	<u>\$ 1,319,036</u>	<u>\$ 1,319,226</u>

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Agency’s deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At December 31, 2014, with the exception of \$100,001, the Agency’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the Agency’s name.

4. RECEIVABLES

A. Accounts receivable—Accounts receivable representing lease payments due to the Agency at December 31, 2014 is as follows:

	December 31, 2014
Accounts receivable	<u>\$ 119,111</u>

B. Notes receivable—Represents special project grants and mortgages and is comprised of the following at December 31, 2014:

	December 31, 2014
Note receivable from JetSmart for \$200,000 at 3% interest to be paid over 10 years. The note resulted from the sale of an airplane to JetSmart. The note matures July 1, 2023.	\$ 175,177
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.	<u>55,000</u>
Total notes receivable	230,177
Less current portion	<u>(18,168)</u>
Non-current portion	<u>\$ 212,009</u>

C. Lease receivable—The Agency leases a property under a direct financing lease. This lease expires December 31, 2024, at which time the property will be acquired by the lessee for \$1. The lease receivable as of December 31, 2014 is \$110,000, with the Agency’s net investment in the lease equal to \$104,845.

At December 31, 2014, minimum lease payments for each of the five succeeding years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 20,000
2016	10,000
2017	10,000
2018	10,000
2019	10,000
Beyond	<u>50,000</u>
	<u>\$ 110,000</u>

5. CAPITAL ASSETS

Property and equipment consisted of the following at December 31, 2014:

	<u>December 31, 2014</u>
Land	\$ 806,399
Buildings and improvements	9,919,161
Machinery and equipment	<u>74,699</u>
Total	10,800,259
Less accumulated depreciation	<u>(5,577,775)</u>
Property and equipment—net	<u>\$ 5,222,484</u>

Depreciation expense recorded for the nine month period ended December 31, 2014 was \$229,982. During the nine month period ended December 31, 2014, the Agency purchased and improved property for \$102,076 and \$24,573, respectively, and received donated property estimated at a value of \$109,845, which includes ancillary costs.

6. LONG-TERM DEBT

Long-term debt at December 31, 2014 is as follows:

	<u>December 31,</u> <u>2014</u>
STREDC Mortgage on the Iron Horse Depot Building in monthly installments including 1.00% interest collateralized by the property.	\$ 238,429
Steuben Trust Company loan payable in monthly installments including interest at 5.24%, due February 2021, collateralized by rental property.	<u>681,402</u>
Total long-term debt	919,831
Less current portion	<u>(99,761)</u>
Non-current portion	<u>\$ 820,070</u>

The remaining planned principal and interest payments at December 31, 2014 are presented below:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 99,761	\$ 36,017
2016	104,433	31,345
2017	109,349	26,429
2018	114,522	21,256
2019	119,966	15,812
Thereafter	<u>371,800</u>	<u>16,946</u>
Total	<u>\$ 919,831</u>	<u>\$ 147,805</u>

7. OPERATING LEASE

The Agency has entered into lease agreements as lessee, renting office space from the City of Hornell Chamber of Commerce on a year-to-year operating lease. Rent expense was \$6,300 for the nine month period ended December 31, 2014.

8. COMMITMENTS AND CONTINGENCIES

Grants received by the Agency require the fulfillment of certain conditions as set forth in the various grant agreements. Failure to fulfill them could result in the forfeiture of the grants. Although the possibility exists of this occurring, management deems this likelihood to be remote. The Agency has committed to provide support to the City of Hornell and the Hornell City School District for various properties on which the Agency collects rent, and to assist the City in maintaining the airport.

9. RENTAL REVENUE

The Agency leases certain of its real property and improvements thereon to various companies under non-cancelable operating leases through 2033. The Agency's operating lease agreements are as presented on the following page.

Alstom Transportation Inc.—The Agency entered into an agreement to lease several properties to Alstom Transportation, LLC. The lease began on May 14, 1997 and will end on July 1, 2015. The lease has been amended several times; the most recent was an amendment on July 1, 2012, which reduced monthly lease payments to the agency for three years. The payments for the remainder of the lease are outlined below.

Iron Horse Depot, LLC—The Agency entered into an agreement to lease the Depot Building to Iron Horse, LLC beginning on April 1, 2013 and ending on April 30, 2033. The lease payments are outlined below.

Gray Manufacturing Industries, LLC—The Agency entered into an agreement to lease 6258 Ice House Road on May 1, 2007 to Gray Manufacturing Industries, LLC. The lease will expire on March 31, 2017. The remaining annual lease payments are outlined below.

Lin Industries, Inc.—The Agency entered into an agreement to lease 6314 Ice House Road to Lin Industries, Inc. beginning on November 14, 2009 to and ending on May 15, 2016. The remaining annual lease payments are outlined below.

Erie Line Antique Center—The Agency entered into an agreement to lease 103-113 Main Street to Erie Line Antique Center beginning on September 1, 2005 and ending on June 30, 2019. The lease payments are outlined below.

Electrical Power Worx Corporation—The Agency entered into an agreement to lease 18 North Main St. to Electrical Power Worx Corporation beginning on November 1, 2011 and ending on November 30, 2016. The payments for the remainder of the lease are outlined below.

Future annual lease amounts to be received:

Year Ending, December 31,	Alstom	Iron Horse Depot	Gray Mfg.	Lin Ind.	Erie Line Antique Center	Electrical Power Worx	Total
2015	\$ 803,561	\$ 92,955	\$ 43,320	\$ 24,000	\$ 8,700	\$ 30,000	\$ 1,002,536
2016	979,772	92,955	43,320	10,000	8,700	27,500	1,162,247
2017	1,009,165	92,955	10,830	-	8,700	-	1,121,650
2018	1,039,228	92,955	-	-	8,700	-	1,140,883
2019	1,070,625	92,955	-	-	4,350	-	1,167,930
2020-2024	451,575	464,775	-	-	-	-	916,350
2025-2029	-	433,354	-	-	-	-	433,354
Thereafter	-	243,750	-	-	-	-	243,750
Total	<u>\$ 5,353,926</u>	<u>\$ 1,606,654</u>	<u>\$ 97,470</u>	<u>\$ 34,000</u>	<u>\$ 39,150</u>	<u>\$ 57,500</u>	<u>\$ 7,188,700</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 nine months ended December 31, 2014 there were no transactions between the Agency and the HAIDC, and there are no amounts due from or due to the HAIDC at December 31, 2014.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 12, 2015, 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.

* * * * *

SUPPLEMENTARY INFORMATION

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Schedule of Agency Investments
Nine Month Period Ended December 31, 2014

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 unmodified opinion on the Agency’s financial statements for the nine month period ended December 31, 2014.
- e. Investment income record—Investment income for the nine month period ended December 31, 2014 consisted of:

	Interest Earned
Interest earned on cash and cash equivalents	\$ 1,762
Interest earned on notes receivable	4,107
	\$ 5,869

- 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 nine month period ended December 31, 2014.

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OTHER INFORMATION

CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY
Real Property Listing
December 31, 2014

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 December 31, 2014, 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	-
166.00-03-009.100	City of Hornell, NY	South Yard	185,447
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	-
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	-
121.00-01-056.00	Town of Hornellsville, NY	State Rte 36 - Generali	2,840
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	-
181.00-01-048.00	Town of Hornellsville, NY	Ice House Road, East Ave. Exit	200,000
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	-
151.19-01-037.000	City of Hornell, NY	27 Bank Street	-
151.63-02-035.000	City of Hornell, NY	32-34 Main Street	102,076
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>\$ 806,399</u>

2. **Real property acquisitions**—The Agency purchased property located at 32-34 Main Street, lot #151.63-02-035.000 for \$102,076 and improved property at South Yard, lot #166.00-03-009.100 by \$24,573 for the nine month period ended December 31, 2014.
3. **Real property dispositions**—There were no real property dispositions during the year ended December 31, 2014.

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 financial statements of City of Hornell Industrial Development Agency ("Agency") as of and for the nine month period ended December 31, 2014, 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 12, 2015, which reports includes an emphasis of matter paragraph relating to the Agency's change to its fiscal year end.

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 over financial reporting 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.

Drescher & Malecki LLP

March 12, 2015