

**ALLEGANY COUNTY
INDUSTRIAL DEVELOPMENT AGENCY**

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the ***Allegany County Industrial Development Agency***, a component unit of Allegany County, as of and for the year ended December 31, 2008, which collectively comprise the Agency's basic financial statements. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's December 31, 2007 financial statements and, in our report dated September 22, 2008, we expressed an unqualified opinion on the respective financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Allegany County Industrial Development Agency*** as of December 31, 2008 and the results of its operations and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2009, on our consideration of ***Allegany County Industrial Development Agency's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements of ***Allegany County Industrial Development Agency***. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of ***Allegany County Industrial Development Agency***. Such information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

Olean, New York
April 23, 2009

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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I. Discussion and Analysis

The following is a discussion and analysis of the *Allegany County Industrial Development Agency* financial performance for the year ended December 31, 2008. This section is a summary of the Agency's financial activities based on currently known facts, decisions, or conditions. It is based on the financial statements. The results of the current year in comparison with the prior year are discussed in the following paragraphs. This section is only an introduction and should be read in conjunction with the Agency's financial statements, which follow this section.

II. Financial Highlights

The following items are the financial highlights experienced by the *Allegany County Industrial Development Agency* during the year ended December 31, 2008:

- Overall fund equity of the Agency's increased approximately \$172,000 and decreased approximately \$78,000 during the years ended December 31, 2008 and 2007, respectively.
- The Agency's total revenue and other sources were approximately \$358,000 during 2008 as compared with approximately \$91,000 during 2007. This was primarily the result of increased tenant rents at the IDA owned Crossroads Commerce Center, revenue created from the forgiveness of the rent payable previously due to the Houghton Foundation and the receipt of a NYS member item.
- The Agency's total expenses and other uses were approximately \$186,000 during 2008 as compared to approximately \$168,000 during 2007. This increase was primarily the result of an increase in professional fees and depreciation expenses, which was partially offset by a decrease in occupancy expenses incurred in the current year as a result of the Agency purchasing the Crossroads Center, which it previously leased.
- The Agency had capital purchases during the current year in the amount of \$413,000, which was primarily related to the purchase of the Crossroads Center.

III. Overview of the Financial Statements

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

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

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

1. Statement of Net Assets

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

2. Statement of Activities

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

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

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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IV. Financial Analysis of the Agency as a Whole

Fund Equity

The Agency's total net assets was a deficit of approximately \$17,000 as of December 31, 2008.

Revenue

The Agency's total revenue and other sources were approximately \$358,000 during the year ended December 31, 2008. The Agency also received approximately \$416,000 of pass-through revenue during the year ended December 31, 2008. The Agency acts as an intermediary for these funds, and appropriately recognizes each pass-through amount as an expenditure upon distribution.

Figure A-4 presents the major sources of revenue of the Agency. The most significant sources of governmental revenue in the Agency are more thoroughly discussed as follows:

- Rental revenue which represents approximately 25% of the Agency's total revenue increased approximately \$43,000 or 96% during the year ended December 31, 2008. This increase primarily resulted from additional rent received from Allegany County when their rent was adjusted from \$500 per month to \$4,833 per month during the 2008 year.
- Revenue from application fees is related to pending projects and revenue in the current year was consistent with the prior year.
- During the current year, the Agency had in-kind donations of \$40,000 which related to estimated time spent for the Agency by employees of Allegany County.
- During the current year, the Agency purchased the facility it previously leased at which time the seller forgave the outstanding rent payable. As a result, the Agency recorded income related to the forgiveness of rent payable.
- Finally, the Agency submitted for payment their report of expenditures related to the \$25,000 member item awarded by NYS State Senator Catherine Young.

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

Expenses

The total cost of all programs and services of the Agency was approximately \$186,000. The Agency's expenses consist primarily of occupancy expenses, in-kind expenditures, depreciation, interest expense, professional fees and general and administrative expenses.

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

- The Agency's total costs were approximately \$186,000 during the year ended December 31, 2008 as compared with \$168,000 during the year ended December 31, 2007. This increase was the result of a higher professional fees and depreciation expenses which were both related to the building purchase. These increases were partially offset by a decrease in occupancy expense.
- The Agency's occupancy costs were approximately \$76,000 during the year ended December 31, 2008 as compared with \$103,000 during the year ended December 31, 2007. This decrease in costs was primarily related to a decrease in rent expense which ceased when the Agency purchased the Crossroads Center.
- The Agency's salaries and benefits were all donated by employees of Allegany County and totaled approximately \$40,000 and \$38,000 for the years ended December 31, 2008 and 2007, respectively. This was related to increases in staffing costs provided in-kind by the County.
- All other costs of the Agency increased to \$70,000 in 2008 as compared with \$27,000 in 2007. This increase is primarily the result of an increase in depreciation and in professional fees.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Figure A-1 – Statement of Net Assets

Allegany County Industrial Development Agency Statement of Net Assets			
	Total Government-wide		
	2008	2007	% Change
Assets			
Current and other assets	\$ 47,196	\$ 106,314	-56%
Notes receivable	-	154,826	-100%
Capital assets, net	462,735	68,157	579%
Total assets	\$ 509,931	\$ 329,297	55%
Liabilities			
Current liabilities	\$ 74,805	\$ 399,230	-81%
Long-term liabilities	452,238	119,369	279%
Total liabilities	527,043	518,599	2%
Net assets			
Unrestricted accumulated deficit	(17,112)	(189,302)	-91%
Total liabilities and net assets	\$ 509,931	\$ 329,297	55%

Figure A-3 Sources of Revenue

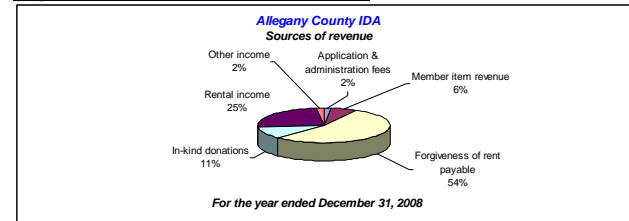


Figure A-4 - Expenses

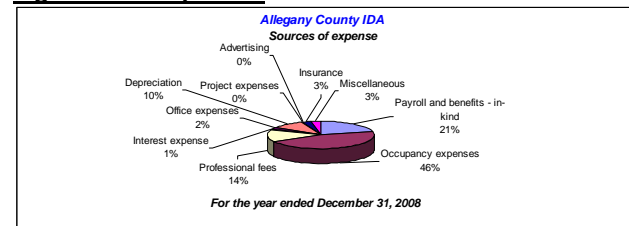


Figure A-2 Statement of Activities

Allegany County Industrial Development Agency Statement of Activities (in thousands of Dollars)			
	Total Government-wide		
	2008	2007	% Change
Revenue			
Application & administration fees	\$ 5,675	\$ 5,750	-1%
State sources - member item	23,100	--	100%
Forgiveness of rent payable	193,981	--	100%
In-kind donations	40,010	38,390	4%
Rental income	88,425	45,225	96%
Other income	7,108	1,408	405%
Total revenue	358,299	90,773	295%
Expenses			
Payroll and benefits - in-kind	40,010	38,390	4%
Occupancy expenses	75,666	103,229	-27%
Professional fees	25,901	6,999	270%
Interest expense	10,803	2,200	391%
Office expenses	4,253	2,441	74%
Depreciation	18,805	7,035	167%
Project expenses	195	1,645	-88%
Advertising	145	773	-81%
Insurance	4,885	1,857	163%
Miscellaneous	5,446	3,798	43%
	186,109	168,367	11%
Change in net assets	172,190	(77,594)	
Pass-through transactions			
Revenue	416,268	400,258	4%
Expenditures	(416,268)	(400,258)	4%
Net pass-through transactions	--	--	
Change in net assets	\$ 172,190	\$ (77,594)	

VI. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-7, as of December 31, 2008, the Agency had invested approximately \$463,000 in a broad range of capital assets, including improvements, vehicles and furniture and equipment. Capital additions during the year ended December 31, 2008, totaled approximately \$413,000 and consisted primarily of the purchase of and renovations to the Crossroads Center.

Long-term Debt

As depicted in Figure A-8, as of December 31, 2008, the Agency had approximately \$470,000 in notes payable, an increase of approximately 153% as compared with the previous year. This increase was primarily the result of the Agency entering into a mortgage in the amount of \$450,000 for the purchase of the Crossroads Center. This increase was partially offset by the payment of one of the Agency's long-term notes payable as a result of the sale of the building associated with the note.

Figure A-5 – Capital Assets

<i>Allegany County Industrial Development Agency</i>			
<i>Capital Assets</i>			
	2008	2007	Change
Building	\$ 400,000	\$ --	100%
Improvements	77,418	66,262	17%
Equipment	14,108	11,881	19%
Vehicle	7,045	7,045	n/a
Accumulated depreciation	(35,836)	(17,031)	110%
Capital Assets - net	\$ 462,735	\$ 68,157	579%

VI. Capital Asset and Debt Administration (Continued)

Figure A-6 – Long-term Debt

<i>County of Allegany Industrial Development Agency</i>			
<i>Long-term debt</i>			
	2008	2007	Change
Notes payable - long-term	\$ 22,441	\$ 157,822	-86%
Notes payable - short-term	--	24,091	-100%
Notes payable - vehicle	1,075	3,524	-69%
Mortgage payable - building	446,223	--	100%
Long-term debt	\$ 469,739	\$ 185,437	153%

VII. Factors Bearing on the Agency's Future

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

- Development of Exit 30 on Interstate 86 at New York State Route 19. A 500 acre project for warehouse/distribution and hospitality/lodging that is projected to have \$50 million in investment and create several hundred new jobs which could generate substantial revenue streams.
- A \$225 million windmill project in the northeast corner of the County could provide the Agency with fees of approximately \$2.25 million.
- The expansion and County financial support for the Crossroads Conference Center.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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VIII. Contacting the Agency's Financial Management

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

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

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS

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<i>As of December 31,</i>	2008	2007
Assets		
Current		
Cash	\$ 5,172	\$ 106,092
Accounts receivable	900	--
Total current assets	<u>6,072</u>	<u>106,092</u>
Property and equipment, net	<u>462,735</u>	<u>68,157</u>
Other assets		
Restricted cash - building reserve	40,902	--
Notes receivable	--	154,826
Security deposits	222	222
Total other assets	<u>41,124</u>	<u>155,048</u>
Total assets	<u><u>\$ 509,931</u></u>	<u><u>\$ 329,297</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 26,704	\$ 29,810
Rent payable	--	159,409
Line of credit	30,000	--
Deferred revenue/advances	600	1,800
Due to Allegany County - PILOT reimbursement	--	62,040
Due to other governments - PILOT reimbursement	--	78,050
Accrued interest expense	--	2,053
Short-term notes payable	--	24,091
Mortgage payable - current portion	12,174	--
Notes payable - current portion	5,327	41,977
Total current liabilities	<u>74,805</u>	<u>399,230</u>
Long-term liabilities		
Mortgage payable - long-term portion	434,049	--
Notes payable - long-term portion	18,189	119,369
Total long-term liabilities	<u>452,238</u>	<u>119,369</u>
Total liabilities	<u>527,043</u>	<u>518,599</u>
Net assets		
Accumulated deficit	(17,112)	(189,302)
Total net assets (accumulated deficit)	<u>(17,112)</u>	<u>(189,302)</u>
Total liabilities and net assets	<u><u>\$ 509,931</u></u>	<u><u>\$ 329,297</u></u>

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

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
STATEMENTS OF ACTIVITIES

<i>For the years ended December 31,</i>	2008	2007
Support and revenue		
Fees	\$ 5,675	\$ 5,750
State sources - member item	23,100	--
Rental income	88,425	45,225
Forgiveness of rent payable	193,981	--
In-kind donations	40,010	38,390
Other income	7,108	1,408
	<hr/>	<hr/>
Total support and revenue	358,299	90,773
Expenses		
Payroll and benefits - in-kind	40,010	38,390
Occupancy expenses	75,666	103,229
Legal and professional	25,901	6,999
Interest expense	10,803	2,200
Office expenses	4,253	2,441
Depreciation	18,805	7,035
Project expenses	195	1,645
Advertising	145	773
Insurance	4,885	1,857
Miscellaneous	5,446	3,798
	<hr/>	<hr/>
Total expenses	186,109	168,367
<i>Increase (decrease) in unrestricted net assets before pass-through transactions</i>	172,190	(77,594)
Pass-through transactions		
Revenue	416,268	400,258
Expenditures	(416,268)	(400,258)
	<hr/>	<hr/>
Net pass-through transactions	--	--
<i>Increase (decrease) in unrestricted net assets</i>	172,190	(77,594)
Net assets (deficit), beginning of year	(189,302)	(111,708)
	<hr/>	<hr/>
Net assets (deficit), end of year	\$ (17,112)	\$ (189,302)
	<hr/> <hr/>	<hr/> <hr/>

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS

<i>For the years ended December 31,</i>	2008	2007
Net Cash from operating activities		
Reconciliation of increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:		
Increase (decrease) in unrestricted net assets	\$ 172,190	\$ (77,594)
Adjustments for items not affecting cash flows:		
Depreciation	18,805	7,035
Change in assets and liabilities		
Accounts receivable	(900)	500
Accounts payable	(3,106)	3,020
Deferred revenue/advances	(1,200)	1,800
Rent payable	(159,409)	63,372
Due to Allegany County (PILOT Reimbursements)	(62,040)	2,387
Due to other governments (PILOT Reimbursements)	(78,050)	78,050
Accrued interest	(2,053)	1,294
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(115,763)	79,864
Net cash from investing activities		
Collections on notes receivable	154,826	--
Decrease in restricted cash	(40,902)	--
Property and equipment purchases	(413,383)	(4,755)
	<hr/>	<hr/>
Net cash used in investing activities	(299,459)	(4,755)
Net cash from financing activities		
Repayment of short-term debt	(24,091)	(909)
Proceeds from short-term debt	30,000	--
Proceeds from long-term debt	450,000	--
Repayment of long-term debt	(141,607)	(2,293)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	314,302	(3,202)
Change in cash	(100,920)	71,907
Cash, beginning balance	<hr/>	<hr/>
	106,092	34,185
Cash, ending balance	<hr/> \$ 5,172 <hr/>	<hr/> \$ 106,092 <hr/>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 10,803	\$ 2,200
	<hr/>	<hr/>

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Accounting

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

Donated Services

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

Use of Estimates

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

Cash and Cash Equivalents

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

Property and Equipment

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Lease Program

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

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

The Agency's PILOT program generated \$416,268 and \$400,258 for the years ended December 31, 2008 and 2007, respectively for local municipalities.

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Industrial Development Revenue Bonds and Civic Facility Bonds

Industrial development revenue bonds issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. Civic facility bonds issued by the Agency include facilities owned or operated by New York State Not-for-Profit Corporations. The industrial development revenue and civic facility bonds are not obligations of the Agency, County, or State. The Agency does not record the assets or liabilities resulting from bond issuance in its financial statements since its primary function is to arrange the financing between the borrowing companies and the bondholders and funds arising from the issuance are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administrative fees from the borrowing companies. Such administrative fee income is recognized immediately upon receipt after issuance of the bonds. There were no industrial development revenue and civic facility bonds issued by the Agency during 2008.

NOTE 2 – RESTRICTED CASH/RESERVES

As mentioned in Note 6 below, when the Agency executed its mortgage agreement, \$50,000 was received to be utilized towards building improvements. As of December 31, 2008, \$40,902 was held in escrow as funds remaining for future improvements.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Building	\$ 400,000	\$ -
Improvements	77,418	66,262
Furniture and equipment	14,108	11,881
Vehicle	7,045	7,045
	<u>498,571</u>	<u>85,188</u>
Less: accumulated depreciation	<u>35,836</u>	<u>17,031</u>
	<u>\$ 462,735</u>	<u>\$ 68,157</u>

Depreciation expense for the years December 31, 2008 and 2007 totaled \$18,805 and \$7,035, respectively.

NOTE 4 – LINE OF CREDIT

During 2008, the Agency enter into a line of credit arrangement with Community Bank, N.A. which authorizes maximum borrowing up to \$50,000. The Agency had outstanding advances on the line as of December 31, 2008 in the amount of \$30,000. The line is secured by all business assets of the Agency. Interest on outstanding advances is charged at prime rate plus 1.00% with a floor of 4.50%. During the year ended December 31, 2008 interest was charged at prime rate plus 1%. Interest expense during the year ended December 31, 2008 totaled \$9,121. The line is scheduled to expire March 31, 2009, at which time the Agency expects to renew the line of credit.

NOTE 5 - LONG-TERM NOTE PAYABLES

The Agency was indebted on a short-term note payable with a bank during 2007. The balance outstanding on the note as of December 31, 2007 totaled \$24,091. The note carried an interest rate of 7.50%. On August 1, 2008, the note was rewritten to become a five year term loan carrying a 7.25% interest rate. Interest expense during the year ended December 31, 2008 totaled \$1,487.

During the year ended December 31, 2006, the Agency obtained a loan from First Citizens National Bank in the amount of \$7,005 related to the purchase of a vehicle. The loan calls for thirty-six monthly payments in the amount of \$220 including interest at 7.75% with final payment due on May 10, 2009. The outstanding balance on the loan as of December 31, 2008 and 2007 was \$1,075 and \$3,524, respectively. Interest expense paid during the years ended December 31, 2008 and 2007 was \$195 and \$355, respectively.

Current maturities of long-term debt existing at December 31, 2008 are as follows:

<u>First Citizens Loan</u>	<u>Principal</u>	<u>Interest</u>
2009	4,252	1,492
2010	4,575	1,169
2011	4,918	826
2012	5,287	457
2013	<u>3,409</u>	<u>86</u>
Total	<u>\$ 22,441</u>	<u>\$ 4,030</u>

<u>First Citizens Loan (Car)</u>	<u>Principal</u>	<u>Interest</u>
2009	1,075	21
Total	<u>\$ 1,075</u>	<u>\$ 21</u>

ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 6 – MORTGAGE PAYABLE

In August, 2008, the Agency entered into a Mortgage with Community Bank, NA. The mortgage provided proceeds totaling \$450,000 for the purchase (\$400,000) of the Crossroads Commerce Center located at 6087 State Route 19 N, Belmont, New York from Willard J. Houghton Foundation and future improvements (\$50,000). The borrowings will be repaid over a term of twenty years with monthly payments of \$3,224, including interest, at a fixed interest rate of 6.00%. The interest rate will be reviewed every five years.

The Agency previously leased space in the Center and at the time of the mortgage payable had an outstanding rent payable due to the Foundation in the amount of \$194,000. At the time of purchase, because the Agency made improvements to the building while leasing, the outstanding rent payable was forgiven.

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

	Principal		Interest
2009	\$ 12,174	\$	26,518
2010	13,003		25,689
2011	13,805		24,887
2012	14,656		24,036
2013	15,560		23,132
2014-2018	93,437		100,023
2019-2023	126,033		67,428
2024-2028	157,555		23,547
Total	<u>\$ 446,223</u>	<u>\$</u>	<u>315,260</u>

NOTE 7 - NOTES RECEIVABLE/PAYABLE

During the year ended December 31, 1996, the Agency received a loan from the New York State Urban Development Corporation in the amount of \$300,000. In turn, the Agency loaned the entire \$300,000 to Tracewell Electronics (formerly Acme Electric Corporation). Tracewell Electronics agreement called for the Agency to make \$1,380 monthly payments including interest at 1%. When payments were received, the Agency then paid the New York State Urban Development Corporation under the same terms. The outstanding balance on the note receivable as of December 31, 2007 was \$154,826. Tracewell Electronics closed its operations in Allegany County during 2006 while maintaining operations in Columbus, Ohio. The outstanding balance on the note payable as of December 31, 2007 was \$157,822. There were no payments made during 2008 and 2007. During 2008, Tracewell Electronics sold its Allegany County manufacturing facility at which time the balance on the notes receivable and notes payable were satisfied.

NOTE 8 - OPERATING LEASES

When the Agency purchased the office complex during 2008, outstanding rental payments in the amount of approximately \$194,000 from the previous lease with Willard J. Houghton Foundation were forgiven. The Agency now owns the office complex, the Crossroads Center, and leases the office space to various tenants.

The Agency leases office space under various operating leases expiring in 2008 through 2013. The leases are cancelable with a stipulation that the tenant provides sixty days notice. The Allegany County lease is effective through 2013.

NOTE 9 - PASS-THROUGH TRANSACTIONS

The Agency's responsibility regarding these transactions is to pass-through funds received to the primary recipients. Pass-through transactions are recorded as income or liabilities when received and expenses and reduction of liabilities when paid. The Agency has received and disbursed the following funds resulting from this pass-through activity during the years ended December 31, 2008 and 2007.

Pass-through transactions	Receipts	Disbursements
<u>December 31, 2008</u>		
PILOT payments collected from businesses and remitted to local governments.	\$ 416,268	\$ 416,269
<u>December 31, 2007</u>		
PILOT payments collected from businesses and remitted to local governments.	\$ 400,258	\$ 400,258

NOTE 10 - DONATED SERVICES

The employees of the Allegany County provide administrative, accounting and other support services for the Agency. The value of donated services included in these financial statements as revenue and corresponding expenses for the years ended December 31, 2008 and 2007 totaled approximately \$40,010 and \$38,390, respectively.

NOTE 11 – MEMBER ITEMS

The Agency has received notice that it had been awarded New York State Senate member item awards in the amounts of \$50,000 and \$25,000 for certain construction projects and economic development initiatives. As of the date of this audit, the \$25,000 item was submitted and received. The Agency only submitted for \$23,100 because they did not have enough expenses to cover the whole amount. The entire \$23,100 was received. The \$50,000 item was not submitted and was revoked by the State.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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**NOTE 12 – ACCUMULATED DEFICIT AND
MANAGEMENT’S PLANS**

As indicated in past audits from 2001 until the present, it has been noted that the Agency has had very modest revenues while aggressively undertaking various programs to focus the County of Allegany in a positive direction for corporate growth and quality of life.

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

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

1. Crossroads Commerce Center – As described in Note 6, commercial bank financing was arranged and an office complex was purchased during 2008. The Agency plans an expansion of this Facility to include other necessary offices that need to be centrally located for the population of the County. Allegany County will provide the IDA with the necessary annual capital to finance and maintain this expanded facility. The 12,500-foot facility is currently almost fully occupied providing a positive cash flow from tenants and meetings.
2. Windmill Project – A 65 wind tower project in the Towns of Centerville and Rushford is projected at \$225 million which will have full IDA participation. This will yield \$2.25 million in Agency fees over the next few years. This income will ultimately eliminate the Agency’s deficit and provide momentum into the future. Currently this project is on hold, but the current developer is looking to sell the project to another company.

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

SUPPLEMENTAL INFORMATION

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

As of December 31, 2008

	Employees	Original Amount	Outstanding Principal	Date of Issuance	Date of Maturity	Interest Rate
Tax-exempt bonds						
Houghton College	300	\$ 14,685,000	12,730,000	1998	2024	4.5% - 5.25%
Houghton College	300	9,995,000	8,735,000	2004	2029	Variable
Alfred University	538	23,035,000	13,910,000	1998	2028	4.25% - 5.25%
Cuba Memorial Hospital	183	3,000,000	2,710,000	2004	2014	8.00%; 7.25% after 11/1/2009
Atlantic Richfield	--	7,000,000	7,000,000	2003	2037	Variable
Sale-lease back transactions						
R, G & E	n/a	n/a	15,000,000	1993	2018	n/a



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

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

We have audited the financial statements of *Allegany County Industrial Development Agency* as of and for the year ended December 31, 2008, which collectively comprise *Allegany County Industrial Development Agency's* basic financial statements and have issued our report thereon dated April 23, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Allegany County Industrial Development Agency's* internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified four deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as described as items II.A.2008-1, II.A.2008-2, II.A.2008-3 and II.A.2008-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Allegany County Industrial Development Agency's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items II.B.2008-5 and II.B.2008-6.

We noted certain matters that we have reported to management of *Allegany County Industrial Development Agency* in a separate letter dated April 23, 2009.

Allegany County Industrial Development Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *Allegany County Industrial Development Agency's* responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
April 23, 2009**

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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I. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of *Allegany County Industrial Development Agency*.
2. Four significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Governmental Auditing Standards". These conditions are reported as material weaknesses.
3. There were two instances of noncompliance material to the financial statements of *Allegany County Industrial Development Agency* reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards".

II. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended December 31, 2008

2008-1 Adjusting Journal Entries and Required Disclosures to the Financial Statements

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

Effect: In May 2006, the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards Number 112, entitled Communicating Internal Control Related Matters in an Audit. This new standard considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency.

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

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

Year ended December 31, 2007

A similar finding was reported in the prior year as finding 2007-1.

2008-2 Segregation of Duties

Conditions and Criteria: We noted that one individual is primarily responsible for opening the mail (cash receipts), maintaining the general ledger (including recording cash receipts and cash disbursements), depositing cash and reconciling cash. We also noted that formal bank reconciliations are not being prepared on a monthly basis. Lastly, it is our understanding that the personnel of the Agency are not currently bonded.

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

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

Year ended December 31, 2008 (continued)

2008-2 Segregation of Duties (continued)

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

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

Year ended December 31, 2007

A similar finding was reported in the prior year as finding 2007-2.

2008-3 Purchasing

Condition and criteria: During the audit, we noticed that the Agency currently is lacking controls over approval of purchases of goods and services. In addition, because the Agency did not prepare an operating budget for the fiscal year ended December 31, 2008, there were no guidelines or stipulations on expenditure levels as authorized by the Board of Directors.

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

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

Agency's Response: The Agency is in the process of adopting a budget for the year ended December 31, 2009, which will be posted on the New York State site. Almost all our current expenses are monthly utilities. All expenses are authorized by the Board at the Agency's monthly meetings.

Year ended December 31, 2007

A similar finding was reported in the prior year as finding 2007-3.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

Year ended December 31, 2008 (continued)

2008-4 Financial Reporting

Conditions and Criteria: During the year, the Agency did not maintain a detailed general ledger or trial balance. Rather, monthly receipts and disbursements are maintained by the Agency in a checkbook and inserted manually into a monthly treasurer's report. We should mention, however, that a trial balance and general ledger were prepared by the Agency for the year ended December 31, 2008 and 2007 in preparation for the audit. Lastly, we noted that the Agency does not currently prepare an operating budget prior the commencement of the fiscal year.

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

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

Agency's Response: The Agency has purchased the appropriate software program and intends to implement in the future.

Year ended December 31, 2007

A similar finding was reported in the prior year as finding 2007-4.

B. COMPLIANCE

Year ended December 31, 2008

2008-5 Reimbursement of Payment-In-Lieu Of Taxes (PILOT) Payments

Conditions and criteria: The Agency acts as a pass-through intermediary for a Payment in Lieu of Taxes (PILOT) arrangement established with a Corporation who holds real property located within Allegany County. Though the payouts were more timely in the current year in comparison with prior years, during the year, the Agency received biannual payments during January and June 2008 of approximately \$215,000 from the Corporation but failed to pass through these amounts to the participating municipalities in a timely manner. Approximately 144 days lapsed from the date of one receipt until payment to two municipalities, and approximately 190 days lapsed for the second payment to two municipalities. One municipality received their payments on time for both payments. All payments for 2008 were made before December 31, 2008 and there was no balance outstanding at the end of the year.

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

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

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

Year ended December 31, 2007

A similar finding was reported in the prior year as finding 2007-6.

**ALLEGANY COUNTY INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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II. FINANCIAL STATEMENTS AUDIT – FINDINGS (CONTINUED)

B. COMPLIANCE (CONTINUED)

Year ended December 31, 2008

2008-6 Public Authority Accountability Act

Conditions and criteria: On June 24, 2005, the New York Senate and New York State Assembly passed the Public Authorities Accountability Act of 2005 with the purpose of, among other things, improving efficiency, openness and accountability of the state's public authorities, including industrial development agencies. The initiatives of the Act were required to be implemented during the year ended December 31, 2006. During the current year, the Agency implemented many of the initiatives under the Act including Board of Director training and the establishment of various policies, however, certain requirements continue to be worked on such as the preparation of the budget and reporting financial information on the Agency's website.

Effect: The Agency did not fully comply with the Public Authority Accountability Act of 2005.

Auditors' Recommendation: The Agency should thoroughly review the requirements under the Act and determine those initiatives that are not currently in place. A timeline should be developed by the Agency which outlines the anticipated dates of implementation.

Agency's Response: The Agency has received Public Authorities Accountability Training with George W. Cregg, Jr. of Hodgson Russ, LLP. In addition, the Agency adopted all necessary policies as determined by Hodgson Russ, LLP. The Agency will review the remaining initiatives under the Act.

Year ended December 31, 2007

A similar finding was reported in the prior year as finding 2007-7.

2007-5 Filing of Annual Financial Report

Year ended December 31, 2008

This finding is not being reported upon in the current year as the Agency submitted its financial report in a timely manner.

Year ended December 31, 2007

Conditions and criteria: The Agency failed to file its annual financial report within the time period mandated by The State Comptroller's Office for the years ended December 31, 2008 and 2007.

Effect: The Agency violated New York State Municipal Law, which requires the annual financial report to be submitted to the State within ninety days subsequent to the close of the government's fiscal year -end.

Auditors' Recommendation: The Agency should take the appropriate measures to ensure that internal records are closed within a timely period subsequent to the end of the fiscal year, which will give the Agency appropriate time to properly complete the New York State Annual Financial Report. Furthermore, as part of this process, we recommend that the Agency prepare its annual financial statements to allow for the timely completion of its external audit to be concluded in a timely fashion.

Agency's Response: The Agency apologizes for the delay and will engage our auditors for the year ended December 31, 2008 in a timely manner so that reports can be completed within the guidelines established by New York State.