

**CITY OF HORNELL**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
*Basic Financial Statements Required Supplementary  
Information and Supplemental Information for the  
Years Ended March 31, 2007 and 2006  
and Independent Auditors' Reports*

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
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**Years Ended March 31, 2007 and 2006**

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*Certified Public Accountants*

## **INDEPENDENT AUDITORS' REPORT**

To the Members of City of Hornell  
Industrial Development Agency:

We have audited the accompanying statement of net assets of City of Hornell Industrial Development Agency (the "Agency") as of March 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 audits provide 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 Agency as of March 31, 2007 and 2006, and the changes in financial position operations and 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 June 21, 2007, 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 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 should be considered in assessing the results of our audits.

The Management's Discussion and Analysis listed in the foregoing Table of Contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Drescher & Malecki LLP*

June 21, 2007

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**  
**For the Years Ended March 31, 2007 and 2006**

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As management of the City of Hornell Industrial Development Agency (the "Agency") we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the years ended March 31, 2007 and 2006. This narrative should be read in conjunction with the Agency's financial statements which follow this section.

**Financial Highlights:**

- ◆ The assets of the Agency exceed its liabilities (*net assets*) at March 31, 2007 and 2006 by \$5,012,832 and \$3,917,625, respectively. Of these amounts, \$917,517 and \$964,462 were *unrestricted net assets*, meaning that these amounts are available for use in furthering the Agency's mission.
- ◆ The Agency's total net assets increased by \$1,095,207 for the fiscal year ended March 31, 2007, as compared to a total net asset decrease of \$118,578 for the fiscal year ended March 31, 2006. The increase in 2007 is attributable to a contribution of capital assets from another entity.

**Overview of the Financial Statements**

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

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

- ◆ *Statements of Net Assets*—Presents all assets, liabilities and net assets of the Agency at March 31, 2007 and 2006.
- ◆ *Statements of Activities*—Presents the financial activity for the years ended March 31, 2007 and 2006 and displays how this financial activity changed the Agency's net assets.
- ◆ *Statements of Cash Flows*—Presents the cash provided and used during the 2007 and 2006 fiscal years and how it affects the cash balances at March 31, 2007 and 2006.
- ◆ *Notes to the Financial Statements*—Provide information regarding the Agency and explain in more detail information included in the financial statements.

**Financial Analysis**

The Agency provides administrative assistance and has limited operations. The Agency's net assets may serve over time as a useful indicator of financial position. In the case of the Agency, assets exceeded liabilities by \$5,012,832 and \$3,917,625 at March 31, 2007 and 2006, respectively.

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

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

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Assets:</b>			
Current assets	\$ 896,299	\$ 848,538	\$ 837,252
Capital assets	6,145,262	5,232,285	4,501,473
Other noncurrent assets	210,644	180,361	165,379
Total assets	<u>7,252,205</u>	<u>6,261,184</u>	<u>5,504,104</u>
<b>Liabilities:</b>			
Current liabilities	457,621	322,671	229,703
Noncurrent liabilities	1,781,752	2,020,888	1,238,198
Total liabilities	<u>2,239,373</u>	<u>2,343,559</u>	<u>1,467,901</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	4,095,315	2,953,163	3,064,293
Unrestricted	917,517	964,462	971,910
Total net assets	<u>\$ 5,012,832</u>	<u>\$ 3,917,625</u>	<u>\$ 4,036,203</u>

Significant changes in the statement of net assets from 2006 to 2007 include:

- ◆ Capital assets increased primarily due to the addition of the South Yards building, and associated land, which were contributions from the Hornell Area Industrial Development Corporation (the "HAIDC"). The increase was slightly offset by the disposal of two properties.
- ◆ Other noncurrent assets increased as a result of a new mortgage receivable established during the year.
- ◆ Noncurrent liabilities decreased as a result of principal payments made on outstanding notes payable.

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

	<b>March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Current assets	\$ 896,299	\$ 848,538	\$ 837,252
Current liabilities	457,621	322,671	229,703
Ratio of current assets to current liabilities	1.96	2.63	3.64

The Agency had current ratios of 1.96 and 2.63 at March 31, 2007 and 2006, respectively. Such ratios imply that the Agency has sufficient assets on hand to cover its liabilities that will come due in the coming year.

The Agency's revenue and expense activity produced the change in net assets of \$1,095,207 and \$(118,578) for the fiscal years ended March 31, 2007 and 2006, respectively.

A condensed statement of revenues, expense and changes in net assets follows:

	<b>Year Ended March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Operating revenues	\$ 990,670	\$ 863,495	\$ 786,026
Operating expenses	<u>1,034,226</u>	<u>904,780</u>	<u>946,873</u>
Net operating loss	(43,556)	(41,285)	(160,847)
Nonoperating revenues (expenses)	<u>1,138,763</u>	<u>(77,293)</u>	<u>243,275</u>
Change in net assets	<u>\$ 1,095,207</u>	<u>\$ (118,578)</u>	<u>\$ 82,428</u>

Significant changes in revenues and expenses from 2006 to 2007 include:

- ◆ Operating revenues in total increased by approximately \$127,200 as a result of increases in rental income and airplane rental income of approximately \$136,500 and \$9,600, respectively. These increases were offset by a decrease in Empire Zone income of approximately \$23,900.
- ◆ Operating expenses increased by approximately \$129,400 in total, with the largest increases noted in airplane and depreciation expenses. The Agency's contribution to the HAIDC also increased by approximately \$74,000 when compared to the prior year.
- ◆ Nonoperating activities resulted in net revenues of \$1,138,763 for the 2007 fiscal year as compared to net expense of \$77,293 for the 2006 fiscal year. The primary factor contributing to this was a contribution of capital assets from the HAIDC.

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

	<b>Year Ended March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Cash flows from:			
Operating activities	\$ 207,374	\$ 264,857	\$ 136,029
Noncapital financing activities	104,517	(244,351)	29,532
Capital and related financing activities	(325,311)	(219,233)	2,823
Investing activities	<u>22,442</u>	<u>12,761</u>	<u>5,316</u>
Net change in cash and cash equivalents	<u>\$ 9,022</u>	<u>\$ (185,966)</u>	<u>\$ 173,700</u>

## Capital Assets and Debt Administration

**Capital Assets**—The Agency’s investment in capital (net of accumulated depreciation) as of March 31, 2007 and 2006, amounted to \$6,145,262 and \$5,232,285, respectively. This investment in capital assets includes land, buildings and improvements, and machinery and equipment.

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

	<u>March 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 433,930	\$ 448,056	\$ 704,556
Buildings and improvements	5,689,423	4,748,557	4,091,699
Machinery and equipment	<u>21,909</u>	<u>35,672</u>	<u>49,694</u>
Total	<u>\$ 6,145,262</u>	<u>\$ 5,232,285</u>	<u>\$ 4,845,949</u>

Significant capital asset events during the year ended March 31, 2007 include:

- ◆ The Agency received the completed assets of the HAIDC’s South Yards Project which included a building and land. This transfer of assets was recognized as a contribution from the HAIDC in the amount of \$1,302,312.
- ◆ The All Systems building was converted into a parking lot and subsequently leased to Alstom.
- ◆ The building at 18 North Main Street was leased to Xylon, L.L.C. which resulted in the removal of the building and roof improvements from the Agency’s records.

**Debt**—At March 31, 2007, the Agency had total debt outstanding of \$2,049,947 as compared to \$2,279,122 at March 31, 2006. There was no new debt issued during the year ended March 31, 2007, while during the year ended March 31, 2006, the Agency entered into two new loans amounting to \$1,041,000. All scheduled payments were made during 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.

## Contacting the Agency

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Net Assets**  
**March 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 550,964	\$ 541,942
Accounts receivable	101,075	3,893
Due from HAIDC	175,834	244,351
Notes receivable		
Special project grants and loans	47,251	47,251
Mortgages receivable	21,175	11,101
Total current assets	896,299	848,538
Noncurrent assets:		
Special project grants and loans	70,877	118,128
Mortgages receivable	139,767	62,233
Capital assets:		
Land	433,930	448,056
Buildings and improvements	8,999,675	7,817,953
Machinery and equipment	369,756	369,756
Less accumulated depreciation	(3,658,099)	(3,403,480)
Total capital assets, net of depreciation	6,145,262	5,232,285
Total noncurrent assets	6,355,906	5,412,646
Total assets	7,252,205	6,261,184
<b>LIABILITIES</b>		
Current liabilities:		
Notes payable	268,195	258,234
Accounts payable—trade	43,289	25,041
Accounts payable—PILOTs	92,820	39,396
Accrued liabilities	53,317	-
Total current liabilities	457,621	322,671
Noncurrent liabilities:		
Notes payable	1,781,752	2,020,888
Total liabilities	2,239,373	2,343,559
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	4,095,315	2,953,163
Unrestricted	917,517	964,462
Total net assets	\$ 5,012,832	\$ 3,917,625

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

## CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY

### Statements of Activities Years Ended March 31, 2007 and 2006

	2007	2006
Operating revenues:		
Rental income	\$ 846,065	\$ 709,560
Airplane rental income	54,500	44,920
Empire Zone income	45,105	69,015
Administrative income	40,000	40,000
Miscellaneous	5,000	-
Total operating revenues	990,670	863,495
Operating expenses:		
Salaries and benefits	130,152	140,417
Repairs and maintenance	19,090	25,404
Auto expenses	8,074	7,353
Insurance—general and medical	64,694	61,617
Executive Director's life insurance	56,815	55,160
Legal and accounting	23,528	15,949
Dues and subscriptions	6,003	4,175
Equipment rental	3,884	7,839
Rent	8,400	8,400
Utilities	11,367	13,890
Telephone	7,451	8,637
Airplane expense	100,438	62,753
Depreciation	263,480	240,309
Office supplies	7,445	5,216
Postage	4,746	5,032
Outside services	284	67
Travel and entertainment	11,031	9,850
Empire Zone expense	90,503	76,388
Miscellaneous	13,628	7,991
REDEC grant	-	20,000
Bad debt expense	3,468	3,333
Contribution to HAIDC	199,745	125,000
Total operating expenses	1,034,226	904,780
Operating loss	(43,556)	(41,285)
Nonoperating revenues (expenses):		
Contributions from HAIDC	1,338,312	-
Interest income	22,442	12,761
Net (loss) gain on disposal of property and equipment	(90,285)	5,033
Interest on debt	(131,706)	(95,087)
Total nonoperating revenues (expenses)	1,138,763	(77,293)
Change in net assets	1,095,207	(118,578)
Total net assets—beginning	3,917,625	4,036,203
Total net assets—ending	\$ 5,012,832	\$ 3,917,625

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

**CITY OF HORNELL INDUSTRIAL DEVELOPMENT AGENCY**  
**Statements of Cash Flows**  
**Years Ended March 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from providing services	\$ 848,131	\$ 808,884
Receipts from other operating activities	5,000	86,728
Payments for contractuals expenses	(462,107)	(435,178)
Payments for personal services and benefits	(183,650)	(195,577)
Net cash provided by operating activities	207,374	264,857
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Loan repayments from (loan to) HAIDC	104,517	(244,351)
Net cash provided by (used in) noncapital financing activities	104,517	(244,351)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	-	(1,159,774)
Proceeds from the sale of capital assets	35,570	193,686
Proceeds from the issuance of debt	-	1,041,000
Principal paid on debt	(229,175)	(199,058)
Interest paid on debt	(131,706)	(95,087)
Net cash (used in) capital and related financing activities	(325,311)	(219,233)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	22,442	12,761
Net increase (decrease) in cash and cash equivalents	9,022	(185,966)
Cash and cash equivalents—beginning	541,942	727,908
Cash and cash equivalents—ending	\$ 550,964	\$ 541,942
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating loss	\$ (43,556)	\$ (41,285)
Adjustments for items not affecting cash flows:		
Depreciation	263,480	240,309
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(97,182)	44,963
(Increase) in notes receivable	(40,357)	(12,846)
Increase in accounts payable	71,672	33,716
Increase in accrued liabilities	53,317	-
Total adjustments	250,930	306,142
Net cash provided by operating activities	\$ 207,374	\$ 264,857

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