

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2012

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Chemung County Industrial Development Agency
Elmira, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Chemung County Industrial Development Agency, a component unit of the County of Chemung, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Chemung County Industrial Development Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 Chemung County Industrial Development Agency as of December 31, 2012, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Chemung County Industrial Development Agency has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

As discussed in Note 1 to the financial statements, in 2012 the Agency adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter. Our opinion is not modified with respect to these matter.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Chemung County Industrial Development Agency's basic financial statements. The supplementary schedule of Project Information on pages 14 to 15 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of Project Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 supplemental schedule of Project Information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, on our consideration of the Chemung 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 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* in considering Chemung County Industrial Development Agency's internal control over financial reporting and compliance.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
March 25, 2013

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

	<u>2012</u>	<u>Restated 2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,636,793	\$ 887,691
Accounts receivable	232,100	1,432,320
Prepaid expenses	26,901	9,162
Loans receivable - current portion	259,726	253,942
Grants receivable - current portion	<u>434,023</u>	<u>496,587</u>
Total current assets	<u>3,589,543</u>	<u>3,079,702</u>
Loans Receivable - Net of Current Portion	2,387,459	2,652,532
Grants Receivable - Net of Current Portion	4,416,496	4,842,037
Property and Equipment - Net	<u>33,102,252</u>	<u>26,131,932</u>
Total Assets	<u>\$ 43,495,750</u>	<u>\$ 36,706,203</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Loans payable - current portion	\$ 1,903,081	\$ 1,487,097
Bonds payable - current portion	480,535	542,985
Accounts payable	1,698,299	1,481,618
Contract advances - current portion	354,879	115,315
Accrued interest	<u>118,726</u>	<u>148,092</u>
Total current liabilities	<u>4,555,520</u>	<u>3,775,107</u>
Long-Term Debt		
Loans payable - net of current portion	23,187,916	19,906,951
Bonds payable - net of current portion	4,590,152	5,068,983
Contract advances - net of current portion	<u>311,250</u>	<u>-</u>
Total long-term debt	<u>28,089,318</u>	<u>24,975,934</u>
Total Liabilities	<u>32,644,838</u>	<u>28,751,041</u>
Net Position		
Net investment in capital assets	9,296,931	6,211,407
Unrestricted	<u>1,553,981</u>	<u>1,743,755</u>
Total net position	<u>10,850,912</u>	<u>7,955,162</u>
Total Liabilities and Net Position	<u>\$ 43,495,750</u>	<u>\$ 36,706,203</u>

The accompanying notes are an integral part of these financial statements.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Revenue, Expenses, and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>Restated 2011</u>
Revenue		
Rental income	\$ 2,264,311	\$ 1,442,423
Fee income	809,806	759,893
Interest income	108,509	213,815
State cost recovery assessment forgiveness	-	196,147
Gain on sale of assets	30,974	-
Other income	<u>82,357</u>	<u>55,797</u>
Total revenue	<u>3,295,957</u>	<u>2,668,075</u>
Expenses		
Development grants and project costs	812,002	654,864
Property and insurance expenses	91,606	31,944
Depreciation	738,262	566,442
Interest expense	1,236,108	828,949
Other expenses	<u>22,229</u>	<u>12,245</u>
Total expenses	<u>2,900,207</u>	<u>2,094,444</u>
Operating Income	<u>395,750</u>	<u>573,631</u>
Non-operating Revenue		
Contributions	<u>2,500,000</u>	<u>-</u>
Change in Net Position	2,895,750	573,631
Net Position - Beginning - As Restated (Note 14)	<u>7,955,162</u>	<u>7,381,531</u>
Net Position - Ending	<u>\$ 10,850,912</u>	<u>\$ 7,955,162</u>

The accompanying notes are an integral part of these financial statements.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>Restated 2011</u>
Cash Flows from Operating Activities		
Cash received from operating income	\$ 5,395,613	\$ 1,523,704
Cash paid for operating expenses	<u>(726,895)</u>	<u>370,665</u>
Net cash flows from operating activities	<u>4,668,718</u>	<u>1,894,369</u>
Cash Flows from Capital and Related Financing Activities		
Repayments of loans payable	(1,540,125)	(191,129)
Repayments of bonds payable	(541,280)	(1,071,520)
Interest costs from refunding of loans	-	52,784
Reimbursement for previous years project expenditures	19,465	107,950
Restricted cash	-	377,944
Interest paid	<u>(1,265,474)</u>	<u>(1,029,670)</u>
Net cash flows from capital and related financing activities	<u>(3,327,414)</u>	<u>(1,753,641)</u>
Cash Flows from Investing Activities		
Development loans repaid	259,289	282,276
Interest received	108,509	213,815
Cash paid for leasehold improvement	-	(34,355)
Proceeds from sale of land	<u>40,000</u>	<u>-</u>
Net cash flows from investing activities	<u>407,798</u>	<u>461,736</u>
Net Change in Cash and Cash Equivalents	1,749,102	602,464
Cash and Cash Equivalents - Beginning	<u>887,691</u>	<u>285,227</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,636,793</u>	<u>\$ 887,691</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating income	\$ 395,750	\$ 573,631
Adjustments		
Depreciation	738,262	566,442
Interest income	(108,509)	(213,815)
Gain on sale of assets	(30,974)	-
Interest expense	1,236,108	828,949
Changes in assets and liabilities		
Accounts receivable	1,200,220	(1,421,466)
Grants receivable	488,105	571,742
Prepaid expenses	(17,739)	2,704
Accounts payable	216,681	1,067,014
Contract advances	550,814	115,315
Accrued state cost recovery assessment	-	(196,147)
Net cash flow from operating activities	<u>\$ 4,668,718</u>	<u>\$ 1,894,369</u>

The accompanying notes are an integral part of these financial statements.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization and Purpose - The Chemung County Industrial Development Agency (the "Agency") is a public benefit corporation created in 1975 by an act of the New York State Legislature for the purpose of encouraging economic growth in the County of Chemung, New York. The Agency is exempt from federal, state, and local income taxes.

The Agency's primary purpose is to promote and assist private sector industrial development and advance the job opportunities, and economic welfare of the people of the County of Chemung, New York.

One of the Agency's most important functions is to provide certain real property, sales and mortgage recording tax benefits in lease financing or revenue bond transactions to qualifying industrial and commercial entities in order to encourage industrial development in the County of Chemung, New York.

In addition to industrial development bonds and sale/leaseback transactions, the Agency offers a real property tax abatement program, known as PILOT. Projects that create new employment and are sponsored by the Agency may qualify for abatements of real property taxes, such as county, town and school taxes, through the PILOT (payment-in-lieu-of-taxes) program.

The Agency is a component unit of the County of Chemung, New York.

Basis of Accounting - Beginning in 2012, the Agency adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement codifies all sources of accounting principles generally accepted in the United States of America into the GASB's authoritative literature.

The accounts of the Agency are maintained on the accrual basis of accounting. Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on the determination of operating income, financial position, changes in net position and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation.

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

Basis of Presentation - Beginning in 2012, the Agency adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements provide guidance on presenting deferred outflows, deferred inflows and net position. Net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources. GASB requires the classification of net position into three classifications defined as follows:

Net investment of capital assets - This component of net position consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increase by balances of deferred outflows of resources related to those assets.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

Restricted net position - This component of net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets. At December 31, 2012 and 2011, the Agency did not have a balance in restricted net position.

Unrestricted net position - This component of net position consists of all other net position that does not meet the definition of the above two components and is available for general use by the agency.

Cash and Cash Equivalents - For the purposes of the statements of net position and statements of cash flows, cash and cash equivalents include deposits with original maturities of three months or less. The Agency maintains cash and cash equivalents which periodically may exceed federally insured limits.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end would be immaterial and therefore an allowance has not been established.

Grants Receivable - Grants receivable are stated at the amount specified in the grant agreements obtained by the grant administrator.

Property and Equipment - Property and equipment acquired by the Agency are stated at cost (or estimated historical cost) including interest capitalized during construction where applicable. Contributed assets are recorded at fair market value at the date received. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets. Depreciation is computed over the following periods:

Land and land improvements	20 Years
Machinery and equipment	10 Years
Buildings	40 Years

Note 2. Deposits and Investments

The Agency's investment policies are governed by state law. Collateral is required for demand deposits, certificates of deposit, and repurchase agreements not covered by federal deposit insurance. Obligations which may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The Agency has a formal investment policy which is in compliance with the laws of the State of New York, Chapter 838, Title 7, Section 2925. The Agency is permitted to invest funds in the following types of investments: special time deposit accounts, certificates of deposit, obligations of the United States of America, obligations guaranteed by agencies of the United States of America where payment of principal and interest are guaranteed by the United States of America and obligations of the State of New York. All deposits of the Agency are public funds and shall have a pledge of collateral by the bank or trust company in which the funds are deposited. The Treasurer of the Agency will determine the amount and length of time all funds are to be invested. The Agency will maintain relationships with the banks or trust companies doing business with the Agency and secure the best possible return. The Agency will prepare any reports requested by the Board to aid in monitoring the Agency's investment policy and performance.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

The amounts on deposit in banking institutions and the related collateral as of December 31, 2012, are as follows:

	Carrying Amount	Bank Balance
Demand and savings deposits	\$ <u>2,636,793</u>	\$ <u>2,852,098</u>
Covered by FDIC insurance		\$ 2,161,019
Pledged collateral		<u>691,079</u>
Total deposits		\$ <u>2,852,098</u>

Note 3. Property and Equipment

Property and equipment consisted of the following at December 31:

	Beginning Balance	Increases	Decreases	Ending Balance
Land and land improvements	\$ 3,042,586	\$ -	\$ 9,027	\$ 3,033,559
Machinery and equipment	1,065,785	-	-	1,065,785
Buildings	15,894,213	17,511,529	-	33,405,742
Construction in progress	<u>9,793,920</u>	-	<u>9,793,920</u>	-
Sub-total	29,796,504	17,511,529	9,802,947	37,505,086
Less, accumulated depreciation	<u>(3,664,572)</u>	<u>(738,262)</u>	-	<u>(4,402,834)</u>
Property and equipment - net	<u>\$ 26,131,932</u>	<u>\$ 16,773,267</u>	<u>\$ 9,802,947</u>	<u>\$ 33,102,252</u>

Depreciation expense amounted to \$738,262 and \$566,442 for the years ended December 31, 2012 and 2011, respectively.

Included in property and equipment is a helicopter facility owned by the Agency and leased to Schweizer Aircraft Corporation (Schweizer). See Note 12.

Note 4. Loans Receivable

Loans receivable consisted of the following at December 31:

	2012	2011
Receivable from Southern Tier Commerce Center, LLC, monthly payments of \$4,944, including interest at 3.5%. Loan was established December 2006 and due December 2016.	\$ 221,383	\$ 275,699
Receivable from the County of Chemung, New York, quarterly payments of \$25,750, including interest at 5.25%. Loan was established January 2000 and due in October 2019.	582,204	651,657
Receivable from Riverside Realty, LLC, non-interest bearing, monthly payments of \$196. Loan established November 2007 and due October 2022.	23,076	25,423

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

Receivable from Riverside Realty, LLC, monthly payments of \$7,239, including interest at 2.0%. Payments commenced the month after receipt of the final loan draw in the month of February 2010. Final loan was established in February 2010 and due February 2025.

937,510 1,004,901

Receivable from 2000 Lake Road, LLC, non-interest bearing, monthly payments of \$1,667. Loan was established May 2008 and due May 2018.

106,667 126,667

Receivable from County of Chemung, New York, non-interest bearing, quarterly payments of \$25,000. Loan established in April 2010 and due April 2024. All amounts received from the County will be used to make required payments on the bond payable to Elmira Savings Bank. See Note 9.

	776,345	822,127
Total	2,647,185	2,906,474
Less, current portion	(259,726)	(253,942)
Long-term portion	\$ 2,387,459	\$ 2,652,532

Note 5. Restricted Asset - Revolving Loan Fund

The Agency received a fund, held by the County of Chemung, New York, to grant or loan to County businesses or to use in project development to encourage economic growth in the County.

During 2007, the Agency borrowed \$200,001 from the County of Chemung, New York to provide funding for project development. These funds will be reimbursed in future periods in association with future period excess cash flows, and remain outstanding at December 31, 2012 and 2011. See Note 7.

Note 6. State Cost Recovery Assessment

Public Authorities Law Section 2975 which passed in 2009 established a cost recovery of central government services provided to public authorities by New York State. The 2009-2010 administrative services assessment for the Agency was \$196,147, and was billed to the Agency by the New York State Department of Taxation in February of 2011 and was due March 31, 2011. The cost recovery assessment was accrued in the 2010 financial statements. The Agency was notified on April 12, 2011, that the Public Authorities Law Section 2975 had been repealed. A reimbursement was issued and received for funds paid by the Agency in pursuant to Section 2975. This amount was recognized in the statement of revenue, expense and change in net position as State cost recovery assessment forgiveness.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

Note 7. Loans Payable

Loans payable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Payable to Chemung Canal Trust Co. Quarterly payments of \$25,750, including interest at 5.25%, through the year 2019.	\$ 582,204	\$ 651,657
Payable to Chemung Canal Trust Co. Annual principal payments of \$60,000, plus interest at 6.25%, through the year 2018.	360,000	420,000
Payable to County of Chemung, New York. Funds will be reimbursed in future periods in association with excess cash flows and is non-interest bearing.	200,001	200,001
Payable to NYS Department of Transportation (NYSDOT), non-interest bearing. Repayment to be made annually based on the value determined by the NYSDOT of \$204,960 as follows: 10% in 2011, 20% for years 2012-2014 and final payment of 30% in 2015.	143,472	184,464
Payable to Five Star Bank. Monthly payments of \$35,073, including interest at 5.03%, amortized over twelve years and maturing January 2024. The loan is collateralized by the Schweizer facility and an assignment of the lease discussed in Note 12.	3,537,698	-
Payable to Five Star Bank. Monthly payments of \$199,124, including interest at 4.85%, amortized over twelve years and maturing in January 2024. The loan is collateralized by the Schweizer equipment and by the Schweizer facilities and assignment of the lease discussed in Note 12.	<u>20,267,622</u>	<u>19,937,926</u>
Total	25,090,997	21,394,048
Less, current portion	<u>(1,903,081)</u>	<u>(1,487,097)</u>
Long-term portion	<u>\$ 23,187,916</u>	<u>\$19,906,951</u>

The following is a schedule of future principal and interest loan payments:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,903,081	\$ 1,175,811	\$ 3,078,892
2014	1,926,699	1,087,654	3,014,353
2015	2,039,826	995,024	3,034,850
2016	2,073,033	900,328	2,973,361
2017	2,177,809	795,552	2,973,361
2018 - 2022	12,011,949	2,281,951	14,293,900
2023 - 2024	<u>2,958,600</u>	<u>85,827</u>	<u>3,044,427</u>
Total	<u>\$ 25,090,997</u>	<u>\$ 7,322,147</u>	<u>\$32,413,144</u>

Total accrued interest relating to these loans payable was \$40,626 and \$99,631 at December 31, 2012 and 2011, respectively.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

Note 8. Bonds Payable

Bonds payable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Series 2009E Bond - Payable to Elmira Savings Bank in annual installments with a maturity date of October 15, 2020. Interest is payable in annual installments at a rate of 5.75%. Repayment of principal for this bond was funded through a grant from the Economic Development Administration (EDA) for American Recovery and Reinvestment Act (ARRA) of \$1,454,080 to fund the portion of the project relating to the cost of enhancing the water and sewer system owned by the Agency as well as the cost of upgrading White Wagon Road owned by the County of Chemung, New York. The remaining portion of this bond will be paid back through PILOT revenue upon completion of the project.	\$ 4,257,369	\$ 4,753,955
Bond payable to Elmira Savings Bank in annual installments of \$100,000 with a maturity date of April 2024. Interest is payable in quarterly installments at a rate of 6.5%. Repayment of this bond will be made with proceeds from the loan receivable from Chemung County described in Note 4.	<u>813,318</u>	<u>858,013</u>
Total	5,070,687	5,611,968
Less, current portion	<u>(480,535)</u>	<u>(542,985)</u>
Long-term portion	<u>\$ 4,590,152</u>	<u>\$ 5,068,983</u>

The following is a schedule of future principal and interest bond payments:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 480,535	\$ 298,286	\$ 778,821
2014	508,557	270,264	778,821
2015	538,215	240,606	778,821
2016	569,487	209,334	778,821
2017	602,825	175,996	778,821
2018 - 2022	2,187,822	348,644	2,536,466
2023 - 2024	<u>183,246</u>	<u>18,145</u>	<u>201,391</u>
Total	<u>\$ 5,070,687</u>	<u>\$ 1,561,275</u>	<u>\$ 6,631,962</u>

The Agency has recorded the following grants receivable related to this project:

County of Chemung, New York - future PILOT agreement	<u>\$ 4,850,519</u>
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Total accrued interest relating to these bonds payable was \$78,100 and \$48,461 at December 31, 2012 and 2011, respectively.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

Note 9. Industrial Revenue Bond and Note Transactions

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

Note 10. Commitment

The Agency had a commitment to provide grant funding to a company in the amount of \$140,000 per year through 2012.

Note 11. Supplemental Cash Flow Information

	<u>2012</u>	<u>2011</u>
Cash paid during the year for:		
Interest	\$ <u>1,265,474</u>	\$ <u>1,029,670</u>
Non-cash operating activities		
Loan payable assumed for expensed project costs	\$ <u>5,237,073</u>	\$ <u>9,523,045</u>
Loan payable assumed for capitalized closing costs	\$ <u>-</u>	\$ <u>128,570</u>
Contribution of donated building	\$ <u>2,500,000</u>	\$ <u>-</u>

Note 12. Leasing Arrangements

The Agency is the lessor of three facilities, equipment and paid-up oil and gas leases on three parcels of land.

One lease is for an industrial building in the Town of Horseheads for the term of forty years beginning December 1982 with a \$48,000 annual payment.

The second is for the Schweizer facility discussed in Note 3, which required monthly payments of \$89,975. This lease was for fifteen years beginning September 2007. During years one through ten, base rent was determined on the amortized amount, as defined in the agreement, amortized over twenty years at an interest rate of 6.95%. During years eleven through fifteen, the base rental was to be adjusted from the 6.95% rate in years one through ten to the five year treasury rate on the first day of the eleventh year plus 225 basis points.

During 2012, the loan related to the above lease was restructured and the lease was amended, effective March 2012. The new lease called for two different payment structures. During the period of the loan closing until May 31, 2012, monthly payments of \$203,903 were required as well as an amount equal to 1.024 times the monthly interest-only payments of 5.03% on outstanding advances on the loan. For the period of June 2, 2012 through the expiration date, January 2024, monthly payments are \$239,818.

The third lease was for equipment used in the Schweizer facility and required monthly payments of \$10,550 for a period of 168 months. This lease ended with the restructuring of the above mentioned loan and second lease, however, the tenant had become delinquent on the payments for this lease and a rent receivable amount is recorded in relation to this. The balance of the receivable was \$232,100 and \$- at December 31, 2012 and 2011, respectively.

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements

In the terms of the fourth lease, the Agency is the lessor of land leased to Schweizer Aircraft Corporation. This lease began on October 1, 2009 and was for a term of five years, expiring September 30, 2014. The lease required monthly payments of \$5,674. During 2012, this lease ended with the restructuring of the above mentioned loan and second lease.

The Agency has a fifth lease with Schweizer Aircraft Corporation for land that is used for a compass rose and parking area. This lease continues through August of 2016 and requires monthly payments totaling \$761.

The Agency had a sixth lease with Schweizer Aircraft Corporation for land that was used to construct and install improvements in connection with helicopter tie-downs. This required monthly payments of \$8,354. The lease ended in November of 2012.

The Agency has a seventh agreement with Anschutz Exploration Corporation for lease payments to be made to the Agency at an annual rate per mineral acre through November 2012. Total rental income of this lease amounted to \$3,342 in 2012.

Total rental income for the years ended December 31, 2012 and 2011 was \$2,264,311 and \$1,442,423, respectively.

The following is a schedule of future minimum rentals to be received over the next five years, excluding the oil and gas right leases:

2013	\$ 3,061,542
2014	3,040,442
2015	2,934,942
2016	2,931,898
2017	<u>2,925,810</u>
Total	<u>\$ 14,894,634</u>

As of September 25, 2012, Schweizer is no longer conducting operations in the Chemung County facilities. This does not affect the leases described above and Schweizer will still honor all obligations to the Agency.

During the year ended December 31, 2012, the Agency received \$415,000 in contract advances from Schweizer to pay for environmental reviews to be completed over a four year period.

Note 13. Donation of Land

During the year ended December 31, 2012, Schweizer donated property that consisted of a 46.14 acre site bordering the Elmira-Corning Regional Airport and buildings with total square footage of 180,874 to the Agency. The estimated fair market value of this property was \$2,500,000. The Agency recorded this donation and related property acquired for the year ended December 31, 2012.

Note 14. Restatement

The implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* required the Agency to write off previously capitalized bond issuance costs. The effect of the restatement is to reduce beginning net position in the year ended December 31, 2011 by \$147,473 and to increase the change in net position by \$13,044.

Note 15. Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2012. These reclassifications are for comparative purposes only and have no effect on change in net position as originally reported.



**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**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Chemung County Industrial Development Agency
Elmira, New York

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 Chemung County Industrial Development Agency as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Chemung County Industrial Development Agency's basic financial statements, and have issued our report thereon dated March 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chemung County Industrial Development 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 Chemung County Industrial Development Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Chemung County Industrial Development Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chemung 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 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
March 25, 2013

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Summary Schedule of Findings
For the Year Ended December 31, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

CHEMUNG COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2012

FINDING 2011-1

Significant Deficiency - Auditor Adjustments of General Ledger: In connection with our audit, we were required to make significant adjustments to the general ledger in order to assist Chemung County Industrial Development Agency in preparing the financial statements and related footnotes. Although these adjustments were reviewed in detail with management, who takes responsibility for them, it is management's responsibility to maintain the necessary expertise and the proper system of controls to properly generate a general ledger that does not require extensive adjustment to produce reliable financial information.

Resolution: This issue has been resolved in the current year.