

ELMIRA URBAN RENEWAL AGENCY

Elmira, New York

FINANCIAL REPORT

December 31, 2010

ELMIRA URBAN RENEWAL AGENCY
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INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the City Council
City of Elmira
Elmira, New York

We have audited the accompanying financial statements of the governmental activities and fund information of the Elmira Urban Renewal Agency (the Agency) as of and for the year ended December 31, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and fund information of the Agency, as of December 31, 2010 and the respective changes in financial position thereof 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 May 10, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

- 1 -

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 2e be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Linchi, Dietershagen, Little, Minkler & Company CP

May 10, 2011
Ithaca, New York

ELMIRA URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

Our discussion and analysis of the Elmira Urban Renewal Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the Agency's financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The fund recorded an increase in unreserved, undesignated fund balance of \$349,502 in 2010 and had a total fund balance at the end of the year of \$244,925.
- The Agency's indebtedness decreased by \$400,000 during the current fiscal year.
- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$244,925 (net assets). The principal cause was decrease in short-term debt.
- During the year, the Agency had expenses that were \$349,502 less than the \$452,827 generated in other revenues for governmental programs primarily due to the sale of the Hudson Street site in 2010.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 3 and 4) provide information about the Agency as a whole and present a longer-term view of the Agency's finances. Governmental Fund financial statements start on page 5. For Governmental Activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. Governmental Fund financial statements also report the Agency's operations in greater detail than the government-wide financial statements by providing information about the Agency's fund. Following these statements are notes that provide additional information that is essential to a full understanding of the data provided in the financial statements.

Reporting the Agency as a Whole

Our analysis of the Agency as a whole begins on page 3, with the government-wide financial statements. The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities in a way that helps answer the question of whether the Agency, as a whole, is better off or worse off as a result of the year's activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Agency's net assets and changes in them. One can think of the Agency's net assets, the difference between assets and liabilities, as one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, all of the Agency's activities, which are governmental in nature, are reported in one column, including home and community services and interest on debt. State and federal grants finance most of these activities. The Agency is a component unit of the City of Elmira and is included as a discretely presented component unit in the City's financial statements.

ELMIRA URBAN RENEWAL AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

Reporting the Agency's Fund

Governmental Fund Financial Statements

Analysis of the Agency's Major Fund begins on page 5. The Governmental Fund financial statements provide detailed information about the most significant funds - not the Agency as a whole.

Governmental Funds: The Agency's services are reported as Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund financial statements provide a detailed short-term view of the Agency's general governmental operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. In this reporting period, the relationship (or differences) between Governmental *Activities* (reported in the government-wide financial statements) and Governmental *Funds* requires no reconciliation as there are no material differences between the two.

THE AGENCY AS A WHOLE

The Agency's net assets for fiscal year ended December 31, 2010 increased from a deficit of \$(104,577) to net assets of \$244,925. This increase is primarily due to the sale of the Hudson Street site and decrease in short-term debt.

Our analysis below focuses on the net assets (Figure 1).

Figure 1
Net Assets

| | Governmental Activities | | 2010 Increase (Decrease) over 2009 |
|---|--------------------------------|-------------------|---|
| | 2009 | 2010 | |
| <i>Current assets</i> | \$ 820,278 | \$ 785,524 | \$ (34,754) |
| <i>Noncurrent assets</i> | 755,230 | 711,094 | (44,136) |
| Total assets | 1,575,508 | 1,496,618 | (78,890) |
| <i>Current liabilities</i> | 1,680,085 | 1,251,693 | (428,392) |
| Total liabilities | 1,680,085 | 1,251,693 | (428,392) |
| <i>Unrestricted net (deficit)/asset</i> | (104,577) | 244,925 | 349,502 |
| Total net assets | \$ (104,577) | \$ 244,925 | \$ 349,502 |

The total net assets of the Agency's Governmental Activities increased by 334% percent or \$349,502, primarily due to the sale of the Hudson Street site. Current assets decreased \$34,754 or 4%. The primary reasons for the decrease in current assets are decreases in unrestricted cash and loans receivable, offset by an increase in the amounts due from other governments. The decrease in non-current assets is the result of a decrease in restricted cash. Current liabilities decreased by \$428,392 or 25% primarily due to pay down of short-term debt.

ELMIRA URBAN RENEWAL AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

The Agency's total revenues increased by \$30,350, or 7%. Our analysis in Figure 2 separately considers the operations of Governmental Activities.

Figure 2
Changes in Net Assets

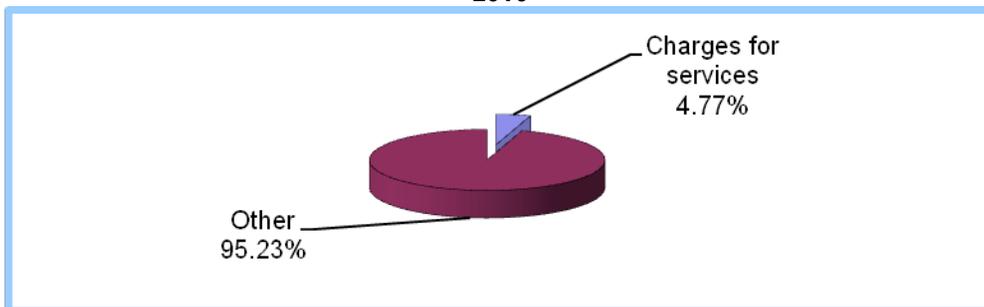
| | Governmental Activities | | 2010 Increase (Decrease) over 2009 |
|-------------------------------|--------------------------------|-------------------|---|
| | 2009 | 2010 | |
| REVENUES | | | |
| <i>Program revenues:</i> | | | |
| Charges for services | \$ 12,392 | \$ 21,602 | \$ 9,210 |
| Operating grants | 403,413 | -0- | (403,413) |
| <i>General revenues:</i> | | | |
| Other | 6,672 | 431,225 | 424,553 |
| Total revenues | \$ 422,477 | \$ 452,827 | \$ 30,350 |
| PROGRAM EXPENSES | | | |
| Home and community services | 176,551 | 85,755 | (90,796) |
| Interest on short-term debt | 26,713 | 17,570 | (9,143) |
| Total expenses | \$ 203,264 | 103,325 | (99,939) |
| INCREASE IN NET ASSETS | \$ 219,213 | 349,502 | 130,289 |

Revenues from charges for services increased compared to 2009. Because the Restore NY grant was received in 2009, by comparison, state sources decreased by \$403,413 in 2010. Other revenues increased by \$424,553 in 2010 compared to 2009 primarily due to the sale of the Hudson Street site.

Overall, program expenses were \$99,939 less in 2010 than in 2009. The decrease in expenses is primarily due to completion of a project in 2009. Compared to 2009, interest on short-term debt decreased because the amount of outstanding BANs, as well as their interest rates, decreased.

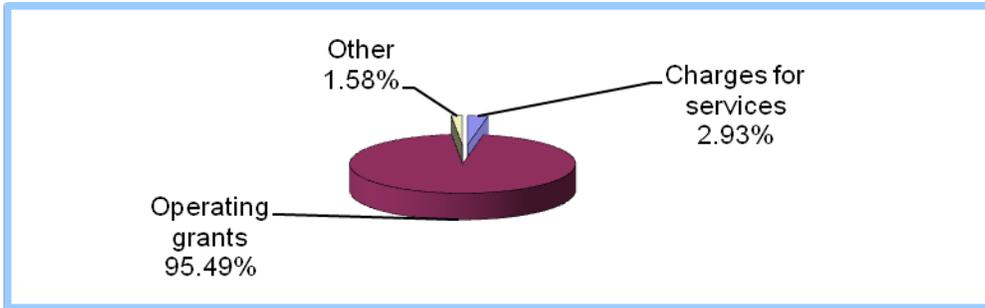
Figures 3 and 4 show revenue by source for 2010 and 2009.

Figure 3
Revenue by Source
2010



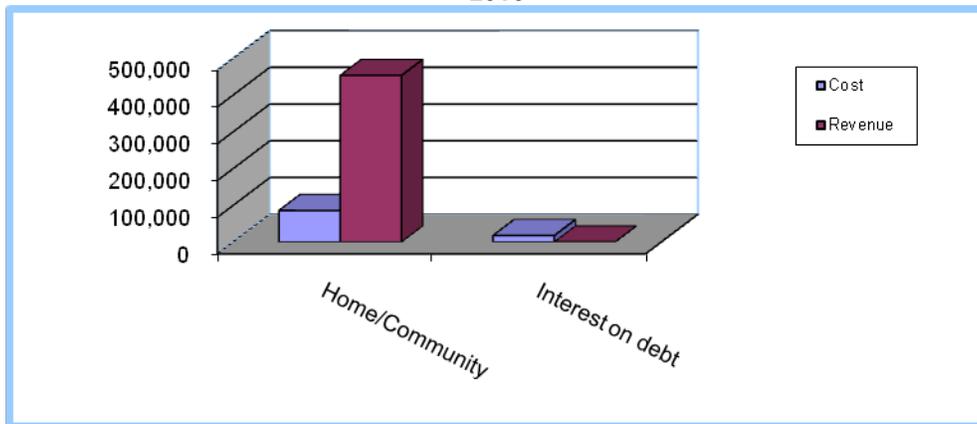
ELMIRA URBAN RENEWAL AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

Figure 4
Revenue by Source
2009



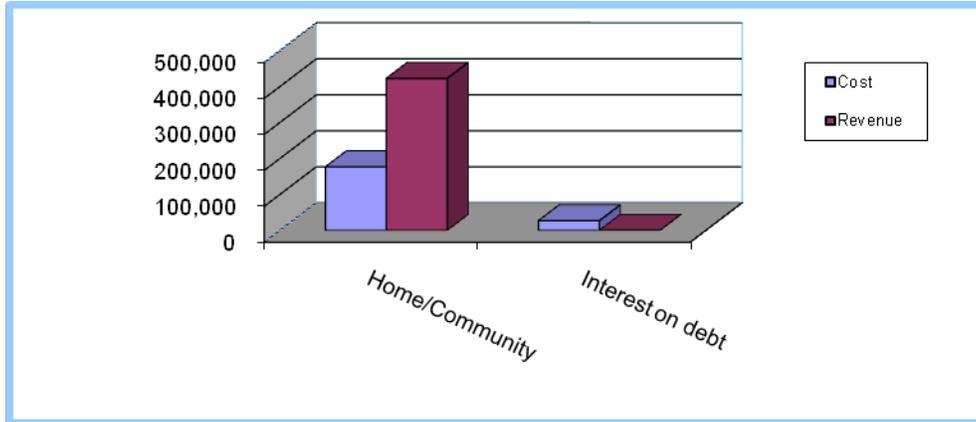
The cost of all Governmental Activities this year was \$103,325. The Agency's governmental program revenues included fees for services of \$21,602. The Agency paid for the remaining portion of Governmental Activities with other revenues of \$431,225, such as interest and sale of property. The total cost less revenues generated by activities, or the net cost, for each of the Agency's programs is presented below. The net cost shows the financial burden for these home and community services.

Figure 5
Net Program Cost
Governmental Activities
2010



ELMIRA URBAN RENEWAL AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

Figure 6
Net Program Cost
Governmental Activities
2009



THE AGENCY'S FUNDS

As the Agency completed the year, its Governmental Fund, as presented in the balance sheet on page 4, reported a fund balance of \$224,925, which is above last year's fund balance deficit of \$(104,577).

The increase in the fund balance is primarily the result of the sale of the Hudson Street site.

Figure 7 shows the changes in fund balance for the year for the Agency's Governmental Fund.

Figure 7
Governmental Funds
Fund Balances at Year Ending

| | | | 2010 Increase over 2009 |
|-----------------------------|---------------------|-------------------|--|
| | 2009 | 2010 | |
| <i>Special Revenue Fund</i> | \$ (104,577) | \$ 244,925 | \$ 349,502 |
| Totals | \$ (104,577) | \$ 244,925 | \$ 349,502 |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency has no material capital assets.

ELMIRA URBAN RENEWAL AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

Debt Administration

The Agency's short-term debt decreased by \$400,000 and brought the total debt to \$700,000 as of December 31, 2010, as shown in Figure 9. The Agency decreased the amount of BANs in anticipation of bonding for future projects.

Figure 9
Major Outstanding Debt at Year Ending

| | Governmental Activities | | 2010 Increase (Decrease) over 2009 |
|-------------------------|--------------------------------|-------------------|---|
| | 2009 | 2010 | |
| Bond Anticipation Notes | \$ 1,100,000 | \$ 700,000 | \$ (400,000) |
| Totals | \$ 1,100,000 | \$ 700,000 | \$ (400,000) |

FUTURE FACTORS

Hudson Street Redevelopment

The Hudson Street site has been successfully marketed for development. In February 2010, Aldi's purchased 2.007 acres to build an approximately 15,000 square foot retail store on the site which opened in June 2010. The Elmira Urban Renewal Agency received \$377,000 from the sale of the site. The Elmira Urban Renewal Agency signed a Development and Option Agreement with Franklin Land Associates in March 2011 for \$175,000 for the remaining 1.298 acres to construct a Dollar General. These funds were used to reduce the \$1,100,000 Elmira Urban Renewal Agency Bond Anticipation Note.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Elmira Urban Renewal Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the City of Elmira Chamberlain's office, at 317 East Church Street, Elmira, NY 14901.

ELMIRA URBAN RENEWAL AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

ASSETS

| | |
|---|------------------|
| Current Assets: | |
| Cash and cash equivalents, unrestricted | \$ 4,918 |
| Due from other governments | <u>234,443</u> |
| Other receivables, net | <u>491,162</u> |
| Loans receivable, current portion | <u>55,001</u> |
| Total Current Assets | <u>785,524</u> |
| | |
| Noncurrent Assets: | |
| Restricted cash and cash equivalents | <u>711,094</u> |
| Total Noncurrent Assets | <u>711,094</u> |
| | |
| Total Assets | <u>1,496,618</u> |

LIABILITIES

| | |
|--|------------------|
| Current Liabilities: | |
| Deferred revenue | <u>546,163</u> |
| Bond Anticipation Notes payable | <u>700,000</u> |
| Interest payable | <u>5,530</u> |
| Total Current Liabilities | <u>1,251,693</u> |
| | |
| Noncurrent Portion of Long-term Liabilities: | |
| Total Noncurrent Liabilities | <u>-0-</u> |
| | |
| Total Liabilities | <u>1,251,693</u> |

NET ASSETS

| | |
|------------------|-------------------|
| Unrestricted | <u>244,925</u> |
| Total Net Assets | <u>\$ 244,925</u> |

See Independent Auditor's Report and Notes to Financial Statements

ELMIRA URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

| <u>FUNCTIONS/PROGRAMS</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|----------------------------------|-------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Governmental Activities: | | | | |
| Home and community services | \$ 85,755 | \$ 21,602 | \$ _____ | \$ (64,153) |
| Interest on debt | <u>17,570</u> | <u>_____</u> | <u>_____</u> | <u>(17,570)</u> |
| Total Governmental Activities | <u>\$ 103,325</u> | <u>\$ 21,602</u> | <u>\$ -0-</u> | <u>\$ (81,723)</u> |

GENERAL REVENUES

| | |
|--|-------------------|
| Use of money and property | <u>11,448</u> |
| Sale of property and compensation for loss | <u>419,777</u> |
| Total General Revenues | <u>431,225</u> |
| Change in Net Assets | <u>349,502</u> |
| Net (Deficit) - Beginning of Year | <u>(104,577)</u> |
| Net Assets - Ending of Year | <u>\$ 244,925</u> |

See Independent Auditor's Report and Notes to Financial Statements

ELMIRA URBAN RENEWAL AGENCY
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2010

ASSETS

Assets:

| | |
|--|-------------------------|
| Cash and cash equivalents - Unrestricted | \$ 4,918 |
| - Restricted | <u>711,094</u> |
| Due from other governments | <u>234,443</u> |
| Other receivables, net | <u>491,162</u> |
| Loans receivable, net | <u>55,001</u> |
| Total Assets | <u>\$ 1,496,618</u> |

LIABILITIES AND FUND BALANCES

Liabilities:

| | |
|---------------------------------|------------------|
| Accrued interest payable | \$ 5,530 |
| Bond Anticipation Notes payable | <u>700,000</u> |
| Deferred revenue | <u>546,163</u> |
| Total Liabilities | <u>1,251,693</u> |

Fund Balances:

| | |
|---------------------------|------------|
| Fund Balances - Reserved: | |
| Total Reserved | <u>-0-</u> |

Fund Balances - Unreserved, Reported in:

| | |
|-----------------------|----------------|
| Special Revenue Fund: | |
| Undesignated | <u>244,925</u> |
| Total Fund Balances | <u>244,925</u> |

| | |
|-------------------------------------|---------------------|
| Total Liabilities and Fund Balances | <u>\$ 1,496,618</u> |
|-------------------------------------|---------------------|

See Independent Auditor's Report and Notes to Financial Statements

ELMIRA URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

REVENUES

| | |
|--|-----------------------|
| Departmental income | \$ 21,602 |
| Use of money and property | <u>11,448</u> |
| Sale of property and compensation for loss | <u>419,777</u> |
| Total Revenues | <u><u>452,827</u></u> |

EXPENDITURES

| | |
|-----------------------------|-----------------------|
| Current: | |
| Home and community services | <u>85,755</u> |
| Debt service: | |
| Interest | <u>17,570</u> |
| Total Expenditures | <u><u>103,325</u></u> |

| | |
|--------------------|----------------|
| Excess of Revenues | <u>349,502</u> |
|--------------------|----------------|

OTHER FINANCING SOURCES (USES)

| | |
|--------------------------------------|------------|
| Total Other Financing (Uses) Sources | <u>-0-</u> |
|--------------------------------------|------------|

| | |
|------------------------------|----------------|
| Net Changes in Fund Balances | <u>349,502</u> |
|------------------------------|----------------|

| | |
|--------------------------|------------------|
| Fund Balances, Beginning | <u>(104,577)</u> |
|--------------------------|------------------|

| | |
|-----------------------|--------------------------|
| Fund Balances, Ending | <u><u>\$ 244,925</u></u> |
|-----------------------|--------------------------|

See Independent Auditor's Report and Notes to Financial Statements

ELMIRA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Elmira Urban Renewal Agency (the Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Elmira Urban Renewal Agency is a public benefit corporation established in 1966 by special act of the State Legislature to carry out municipal urban renewal programs generally funded by federal grants. In 1974, this agency was also designated as the Community Development Agency responsible for administering federal community development block grants on behalf of the City of Elmira. The Agency is governed by a Board of Commissioners comprised of the Mayor and City Council members. The City Manger services in an ex-officio capacity and the Community Development Director serves as the Secretary. The City is ultimately responsible for the proper disposition of grant funds and any debt incurred by the agency. Because of the close governing, administrative, and financial relationship with the City, the Agency is considered to be a component unit of the City of Elmira for financial reporting purposes, and the Agency's financial information presented here is to be presented within the City's financial statements as of December 31, 2010 and for the year then ended.

B. Basic Financial Statements

The Agency's basic financial statements include both Government-wide (reporting the Agency as a whole) and Governmental Fund financial statements (reporting the Agency's Major Funds.) Both the Government-wide and Governmental Fund financial statements categorize primary activities as either Governmental or Business-type. The Agency's home and community services are classified as Governmental Activities. The Agency has no Business-type Activities.

Government-wide Financial Statements

The Government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of activities for the Agency. This Government-wide focus is more on the sustainability of the Agency as an entity and the change in the Agency's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the Governmental Activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Agency first utilizes restricted resources to finance qualifying activities.

ELMIRA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

The Statement of Activities reports both the gross and net cost for each of the Agency's functions or programs. Gross expenses are direct expenses, including depreciation, specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. These expenses are offset by program revenues - charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the program or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Agency, with certain limited exceptions. The net cost represents the extent to which each function or program is self-financing or draws from the general revenues of the City.

The financial transactions of the Agency are reported in an individual fund in the Governmental Fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The Agency records its transactions in the funds described below:

Governmental Funds:

Governmental Funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position. The following is the Agency's Governmental Fund:

Special Revenue Fund:

Accounts for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes. The following Special Revenue Fund is reported as a Major Fund:

Urban Renewal Fund - Used to account for monies distributed by the federal government and expended pursuant to rules and regulations as set forth by the Department of Housing and Urban Development and other federal agencies.

The Government-wide financial statements do not materially differ from the Governmental Fund financial statements, for the year ending December 31, 2010. There are no material reconciling items.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

ELMIRA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Accrual Basis

The Government-wide financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly all of the Agency’s assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual Basis

Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include state and federal aid and certain user charges. All other revenues deemed collectible within one year after year end are recognized as revenues in the current year.

If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made. Expenditures are recorded when incurred. The cost of capital assets is recognized as an expenditure when received.

D. Deferred Revenues

The Agency reports deferred revenues on its Statement of Net Assets and its Balance Sheet. On the Statement of Net Assets, deferred revenue arises when resources are received by the Agency before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the Agency has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized. On the Balance Sheet, deferred revenue arises when potential revenue does not also meet the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the liability for deferred revenue is removed and revenue is recognized in the fund financial statements.

E. Cash and Cash Equivalents

For financial statement purposes, cash on hand, demand deposits, and all highly liquid investments of three months or less are considered as cash equivalents. Agency monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies that are designated as official depositories of the City. The Agency is authorized to use demand accounts and certificates of deposit.

F. 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 estimates.

ELMIRA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

G. Equity Classifications

1. Government-wide Financial Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - Consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. Governmental Fund Financial Statements

Governmental Fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

H. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the Agency's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

Certain assets are classified on the balance sheet as restricted because their use is limited. The proceeds of bond and note sales can only be used for the stated purpose of the borrowing. Community Development Block Grant Funds must be used only for approved programs.

Note 2 - Detail Notes

A. Cash and Cash Equivalents

The Agency's investment policies are governed by State statutes. In addition, the Agency follows the City's own written investment policy. Agency monies must be deposited in FDIC insured commercial banks or trust companies located within the State that are designated as official depositories of the City. The Agency is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury, United States Agencies where payment of principal and interest are guaranteed by the United States, repurchase agreements, and obligations of New York State or its localities.

ELMIRA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

Collateral is required for demand deposits and certificates of deposit. Deposits must be fully secured by insurance of the FDIC or by obligations pledged as collateral which must be obligations of the United States and its agencies, or obligations of the State or its municipalities. Collateral must be delivered to the Agency or a custodial bank with which the Agency has entered into a written custodial agreement. The agreement outlines the basic responsibilities of the bank for securities pledged to secure time deposits. The custodial agreement provides collateral securities are held separate from the assets of the custodial bank; the custodian takes possession of the securities exclusively for the Agency; the securities are free of any claims against the trading bank; and any claims of the custodian are subordinate to the claims of the local government.

The written investment policy requires that repurchase agreements be purchased from banks located within the State and that underlying securities must be obligations of the Federal government. Underlying securities must have a market value of at least 100 percent of the cost of the repurchase agreement.

Deposits and investments are valued at cost plus accrued interest.

The Agency's total financial institution (bank) balances at December 31, 2010, were \$716,012, with a carrying value of \$716,012. Deposits at year end were entirely covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name.

B. Receivables

The amount due from other governments, \$234,443, represents the amount due to the Agency from the City.

Other receivables at December 31, 2010 are as follows:

| | |
|---|-------------------|
| West Water Street Redevelopment Project | 200,000 |
| Riverside Suites Project | 290,162 |
| Other accounts receivable | <u>1,000</u> |
| Total Other Receivables | <u>\$ 491,162</u> |

Loans receivable of \$55,001 consists of a program loan which includes principal and accrued interest receivable. No allowance is recorded as management believes the loan to be fully collectible.

C. Liabilities

Short-term Debt

Liabilities for Bond Anticipation Notes (BANs) are generally issued to fund capital improvements. Principal payments on BANs must be made annually.

The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter. State law requires BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided the stipulated annual reductions of principal are made.

ELMIRA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

In July 2010, the Urban Renewal Agency renewed \$700,000 of BANs at an interest rate of 1.58% and maturity date of July 1, 2011.

| | Payable at 01/01/10 | Additions | Deletions | Payable at 12/31/10 |
|-------------------------|------------------------|------------|--------------|------------------------|
| Bond Anticipation Notes | \$ 1,100,000 | \$ 700,000 | \$ 1,100,000 | \$ 700,000 |

Interest expense on short-term debt is calculated as follows:

| | |
|--|---------------|
| Interest paid | \$ 12,040 |
| Less interest accrued at December 31, 2009 | (-0-) |
| Add interest accrued at December 31, 2010 | 5,530 |
| Interest Expense | \$ 17,570 |

Note 3 - Summary of Significant Commitments and Contingencies

State and Federally Assisted Programs

The Agency receives many different state and federal grants to be used for specific purposes. These grants are generally conditioned on compliance with certain statutory, regulatory, and/or contractual requirements. The Agency makes every effort to comply with all applicable requirements. However, because these grants are audited from time to time, it is possible the Agency will be required, upon audit, to repay portions of the grant monies received and recorded as revenue in a prior year. Agency officials do not anticipate material grant-in-aid disallowances, and no provision, therefore, is reflected in the basic financial statements.

Note 4 - Subsequent Events

Subsequent to year end, the Agency issued a statutory installment bond dated May 5, 2011 in the amount of \$500,000, with an interest rate of 3.25%.

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

Mayor and Members of the City Council
City of Elmira
Elmira, New York

We have audited the basic financial statements of the of the governmental activities and fund information of the Elmira Urban Renewal Agency (the Agency) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 10, 2011. 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 the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

This report is intended solely for the information and use of the Elmira Urban Renewal Agency's management, City Council, others within the entity, 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.

Lincoln, Dietershagen, Little, Nielsen & Company LLP

May 10, 2011
Ithaca, New York