

Putnam County Industrial Development Agency

Financial Statements and Supplementary Information

Years Ended December 31, 2018 and 2017

Putnam County Industrial Development Agency

Table of Contents

Page No.

Independent Auditors' Report

1

Comparative Statement of Net Position

Comparative Statement of Activities

Comparative Statement of Cash Flows

Notes to Financial Statements

Supplementary Information

Schedule of Straight Lease Transactions in Effect 2018

Schedule of Payments in Lieu of Taxes

Schedule of Indebtedness – Industrial Revenue Bonds and
Notes Issued, Outstanding or Retired

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

The Board of Directors of the Putnam County Industrial Development Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Putnam County Industrial Development Agency ("Agency") as of and for the years ended December 31, 2018 and 2017 and the related notes to the financial statements which collectively comprise the Agency's 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2018 and 2017 and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, that accounting principles generally accepted in the United States of America requires to be presented to supplement the financial statements. Such missing information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019 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 effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Harrison, New York

March 7, 2019

Putnam County Industrial Development Agency

Comparative Statement of Net Position
December 31,

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|------------------|------------------|
| ASSETS | | |
| Cash and equivalents | \$ 116,126 | \$ 74,377 |
| Accounts receivable | - | 2,500 |
| Prepaid expenses | <u>654</u> | <u>654</u> |
| Total Assets | <u>116,780</u> | <u>77,531</u> |
| LIABILITIES | | |
| Accrued expenses | 12,350 | 12,000 |
| Deposits payable | <u>20,000</u> | <u>-</u> |
| Total Liabilities | <u>32,350</u> | <u>12,000</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>25,801</u> | <u>30,162</u> |
| NET POSITION | | |
| Unrestricted | <u>\$ 58,629</u> | <u>\$ 35,369</u> |

See notes to financial statements

Putnam County Industrial Development Agency

Comparative Statement of Activities

December 31,

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| OPERATING REVENUES | | |
| Straight-lease transaction rental income | \$ 25,108 | \$ 2,877 |
| Lease modification fee | - | 500 |
| Lease application fee | 250 | 350 |
| Total Operating Revenues | <u>25,358</u> | <u>3,727</u> |
| OPERATING EXPENSES | | |
| Professional fees - accounting and auditing | 19,598 | 31,988 |
| Insurance | 2,714 | 2,144 |
| Website | 188 | 64 |
| Outside labor | 4,509 | 4,720 |
| Agency administration | 3,501 | 3,324 |
| Rent | 1,500 | - |
| Travel | 170 | - |
| Bad debt | - | 7,500 |
| Total Operating Expenses | <u>32,180</u> | <u>49,740</u> |
| Loss from Operations | <u>(6,822)</u> | <u>(46,013)</u> |
| NON-OPERATING REVENUES | | |
| Interest income | 82 | 41 |
| Contribution from County | 30,000 | 65,600 |
| Total Non-Operating Revenues | <u>30,082</u> | <u>65,641</u> |
| Change in Net Position | 23,260 | 19,628 |
| NET POSITION | | |
| Beginning of year | <u>35,369</u> | <u>15,741</u> |
| End of year | <u>\$ 58,629</u> | <u>\$ 35,369</u> |

See notes to financial statements

Putnam County Industrial Development Agency

Comparative Statement of Cash Flows
December 31,

| | 2018 | 2017 |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from straight-lease rentals | \$ 27,608 | \$ 2,877 |
| Lease modification fee | - | 500 |
| Lease/bond application fee | 250 | 350 |
| Cash paid for contracted services | (36,191) | (26,578) |
| Cash received from deposits | 20,000 | - |
| Cash received from contribution from County | 30,000 | 65,600 |
| | <u>41,667</u> | <u>42,749</u> |
| Net Cash from Operating Activities | <u>41,667</u> | <u>42,749</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Interest income | 82 | 41 |
| | <u>41,749</u> | <u>42,749</u> |
| Net Change in Cash and Cash Equivalents | 41,749 | 42,749 |
| CASH AND EQUIVALENTS | | |
| Beginning of year | 74,377 | 31,587 |
| End of year | <u>\$ 116,126</u> | <u>\$ 74,336</u> |
| RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES | | |
| Loss from operations | \$ (6,822) | \$ (46,013) |
| Adjustments to reconcile loss from operations to net cash from operating activities | | |
| Bad debt expense | - | 7,500 |
| Contribution from County | 30,000 | 65,600 |
| Changes in operating assets, liabilities and deferred inflows of resources | | |
| Accounts receivable | 2,500 | (2,500) |
| Deposits payable | 20,000 | - |
| Accrued expenses | 350 | (12,000) |
| Deferred inflows of resources | (4,361) | 30,162 |
| | <u>(4,361)</u> | <u>30,162</u> |
| Net Cash from Operating Activities | <u>\$ 41,667</u> | <u>\$ 42,749</u> |

See notes to financial statements

Putnam County Industrial Development Agency

Notes to Financial Statements
December 31, 2018 and 2017

Note 1 - Organization

The Putnam County Industrial Development Agency ("Agency") was created August 31, 1995, by the Putnam County Legislature under the authority of the General Municipal Law, Section 856.1A of the State of New York. The Agency is a public benefit corporation of the State of New York and was established to attract new businesses and encourage them to relocate to Putnam County. Additionally, as stated by the Agency, its purpose is to promote the economic welfare, recreational opportunities and prosperity of its inhabitants; and to promote, attract, encourage and develop recreation and economically sound commerce and industry through governmental action for the purpose of preventing unemployment and economic deterioration.

Note 2 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Agency has been identified as an organization related to the County. In accordance with the criteria enumerated in Governmental Accounting Standards Board ("GASB") Statement No. 61, the Agency is not considered a component unit of the County.

Basis of Accounting

The accounting policies of the Agency conform to generally accepted accounting principles as applicable to governmental units. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Agency reports its operations on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Equivalents, Investments and Risk Disclosure

Cash and Equivalents - consist of funds deposited in time deposit accounts, demand deposit accounts and short-term investments with original maturities of less than three months from the date of acquisition.

The Agency's deposit and investment policies are governed by State statutes. The Agency has adopted its own written investment policy which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The Agency is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit.

Collateral is required for these deposits at 100% of all deposits not covered by Federal deposit insurance. The Agency has entered into a custodial agreement with its depository which holds its deposits. This agreement authorizes the obligations that may be pledged as collateral. Such obligations include among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Investments - Permissible investment include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements and obligations of New York State or its political subdivisions.

The Agency follows the provisions of GASB Statement No. 72, "*Fair Value Measurements and Application*", which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and

Putnam County Industrial Development Agency

Notes to Financial Statements (Continued)
December 31, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Risk Disclosure

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Agency does not invest in any long-term investment obligations.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Agency's name. The Agency's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2018.

Credit Risk - Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Agency does not have a formal credit risk policy other than restrictions to obligations allowable under General Municipal Law of the State of New York.

Concentration of Credit Risk - Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Agency's investment policy limits the amount on deposit at each of its banking institutions.

Allowance for Uncollectible Receivables

Management provides for an allowance for uncollectible receivables based on a combination of write-off history, aging analysis and any specific known amounts.

Deposits Payable

During 2018, the agency received a deposit of \$20,000 for the agency's Gleneida Distillery Project. These funds are segregated and will be used for expenses associated to this project.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Putnam County Industrial Development Agency

Notes to Financial Statements (Continued)
December 31, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Agency has reported deferred inflows of resources of \$25,801 for straight lease payments made in advance. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Revenue Recognition

The Agency charges an application fee based on the amount of financing for each project at a predetermined rate. Such application fees are collected and recognized as revenue at closing.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use. Net position on the statement of net position is classified as unrestricted.

Use of Estimates

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 7, 2019.

Note 3 - Straight Lease Transactions

In addition to the issuance of bonds and notes, the Agency has the authority to provide straight lease financing for a project. This authority is granted under Article 18-A and Section 927-F of the General Municipal Law, Chapter 24 of the Consolidated Laws of New York. This type of financing provides financial assistance primarily in the form of exemption of sales and use taxes, mortgage recording taxes, abatements of certain real property tax payments in lieu of taxes (PILOT), and utility discounts. The company developing the project enters into a lease with the Industrial Development Agency (termed the Agency Lease) and also enters into a sublease with the "Agency" with respect to the premises, all as part of the straight-lease transaction. The term of the Agency lease expires on the earlier of the termination of the Project Agreement or termination of the sublease. In essence, there is a lease entered into between the Agency and company developing a project whereby leasehold title is transferred to the Agency by the company. A sublease is then entered into whereby the Agency subleases its interest back to the company. An annual base lease payment is made to the Agency that is the greater of \$2,500 or 10% of the benefits received by the company during the year.

Putnam County Industrial Development Agency

Notes to Financial Statements (Concluded)
December 31, 2018 and 2017

Note 4 - Payment in Lieu of Taxes (PILOT)

The Agency enters into and administers PILOT agreements for various unrelated business entities located in Putnam County. Under the terms of the PILOT agreements, title to property owned by the unrelated business entity is transferred to the Agency for a certain period of time. During the period in which the Agency holds title, the business entity pays a PILOT to the Agency based on a calculation defined by the specific agreement. The PILOTs allow the companies to make payments that are less than the property taxes that would be paid on the related property's assessed value. Once the PILOT is received, the Agency remits the PILOT to the respective taxing authorities. Certain requirements, as defined by each agreement, are to be met by the company to be able to maintain its PILOT. These requirements, as stated in the PILOT agreement, can be comprised of reaching and maintaining certain employment goals and paying its PILOT in a timely fashion. At the completion of the PILOT, title to the property is transferred back to the third-party business owner, and the property goes back on the tax rolls.

As part of the PILOT program, the Agency generates fees for administering the PILOT agreement. These fees are reported as "charges for services" in these financial statements. The Agency also administers bonds for several projects and receives an administrative fee upon issuance of the bond.

PILOT receipts and PILOT payments are accounted for as pass-through transactions and are not included in the revenues or expenses of the Agency. The Agency is not responsible for collecting and remitting the funds, and ultimately the taxing municipality bears the risk of loss if PILOT payments are not paid by the respective companies.

Note 5 - Industrial Revenue Bonds and Notes

Certain industrial revenue bonds and notes issued by the Agency are secured by property which is leased to companies and are retired by lease payments. The bonds and notes are not obligations of the Agency, the County or the State of New York. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts, since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and fund arising therefrom are controlled by trustees or banks acting as fiscal agents. Trustees maintain the information for these bonds and notes and no default notices have been generated in the current year. For providing this service, the Agency receives bond administration fees from the borrowing companies.

Note 6 - Litigation

The Agency is involved in litigation arising in the normal course of business. Management estimates that the matters will be resolved without material adverse effects on the Agency's future financial position or results from operations.

Note 7 - Risk Management

The Agency purchases conventional insurance coverage for directors and officers liability. The current policy reflects a limit of \$2 million per occurrence or \$2 million for the period of the policy. The Agency also purchased general liability insurance coverage with policy limits of \$2 million per occurrence or \$2 million in the aggregate.

Putnam County Industrial Development Agency

Supplementary Information

December 31, 2018

Putnam County Industrial Development Agency

Supplementary Information
 Schedule of Straight-Lease Transactions In Effect 2018
 December 31, 2018

| Client | Lease Inception Date | Expiration Date | Annual Lease Payments | | 10% of Benefit Received | |
|-----------------------|----------------------|-------------------|-----------------------|-----------------|-------------------------|-------------|
| | | | 2018 | 2017 | 2018 | 2017 |
| Materion | * July 16, 1999 | July 1, 2009 | \$ - | \$ - | \$ - | \$ - |
| Seven Sutton PI | * April 28, 2009 | April 28, 2018 | - | - | - | - |
| Highland Group, LLC | * December 23, 2010 | December 22, 2020 | - | - | - | - |
| Butterfield | September 18, 2015 | June 1, 2020 | 12,237 | 2,500 | - | - |
| Sincerity + LLC | October 27, 2017 | December 1, 2024 | 4,361 | 727 | - | - |
| Ahana Hospitality LLC | October 31, 2018 | July, 2030 | 8,510 | - | - | - |
| Totals | | | <u>\$ 25,108</u> | <u>\$ 3,227</u> | <u>\$ -</u> | <u>\$ -</u> |

*Presented for historical purposes only.

See Independent Auditors' Report.

Putnam County Industrial Development Agency

Supplementary Information
Schedule of Payments in Lieu of Taxes
December 31, 2018

| Project | Project Address | Pilot Payments | | | Total |
|------------------------|---|------------------|-------------------|------------------|-------------------|
| | | Local | School | County | |
| Highland Group LLC | 60 Jon Barrett Road Patterson, NY 12563 | \$ 13,231 | \$ 75,977 | \$ 7,639 | \$ 96,847 |
| Sincerity & LLC | 80 International Boulevard Brewster, NY 10509 | - | 194,782 | - | 194,782 |
| Seven Sutton Place LLC | Brewster Business Park 1944 Route 22 Brewster, NY 10509 | 11,234 | 73,231 | 11,087 | 95,552 |
| Totals | | <u>\$ 24,465</u> | <u>\$ 343,990</u> | <u>\$ 18,726</u> | <u>\$ 387,181</u> |

See Independent Auditors' Report.

Putnam County Industrial Development Agency

Supplementary Information

Schedule of Indebtedness - Industrial Revenue Bonds and Notes Issued, Outstanding or Retired

December 31, 2018

| <u>Project</u> | <u>Date of Issue</u> | <u>Original Issue Value</u> | <u>Outstanding Balance at January 1, 2018</u> | <u>Redemptions</u> | <u>Payments</u> | <u>Outstanding Balance at December 31, 2018</u> |
|-----------------------|----------------------|-----------------------------|---|---------------------|---------------------|---|
| Broad Reach LLC | December 2006 | \$ 6,685,000 | \$ 4,310,000 | \$ - | \$ 275,000 | \$ 4,035,000 |
| Sincerity + LLC | December 2013 | 8,130,000 | 5,770,000 | - | 685,000 | 5,085,000 |
| Ahana Hospitality LLC | October 2018 | 4,320,000 | - | 4,320,000 | 1,925,000 | 2,395,000 |
| Total Indebtedness | | <u>\$ 19,135,000</u> | <u>\$ 10,080,000</u> | <u>\$ 4,320,000</u> | <u>\$ 2,885,000</u> | <u>\$ 11,515,000</u> |

See Independent Auditors' Report.

**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

**The Board of Directors of the
Putnam County Industrial Development Agency**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Putnam County Industrial Development Agency ("Agency") as of and for the year ended December 31, 2018, and the related notes to the financial statements and have issued our report thereon dated March 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Harrison, New York

March 7, 2019