

**Putnam County Industrial Development Agency**

Financial Statements and Supplementary Information

Year Ended December 31, 2015



# Putnam County Industrial Development Agency

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## Independent Auditors' Report

The Board of Directors of the  
Putnam County Industrial Development

### 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 year ended December 31, 2015 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2015, and the changes in net position and cash flows for the year 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 audit was 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 June 21, 2017 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* 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  
June 21, 2017

**Putnam County Industrial Development Agency**

Statement of Net Position

December 31, 2015

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**ASSETS**

Cash and equivalents	\$	6,067
Accounts receivable		7,500
Prepaid expenses		<u>654</u>

Total Assets 14,221

**LIABILITIES**

Accounts payable		1,477
Accrued expenses		<u>12,000</u>

Total Liabilities 13,477

**NET POSITION**

Unrestricted		<u>744</u>
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Total Net Position \$ 744

## Putnam County Industrial Development Agency

Statement of Activities  
December 31, 2015

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### OPERATING REVENUES

Straight-lease transaction rental income	\$	10,000
Straight-lease transaction tax savings income		7,225
Lease application fees		<u>2,500</u>
Total Operating Revenues		<u>19,725</u>

### OPERATING EXPENSES

Professional fees - accounting and auditing		17,500
Insurance		4,753
Website		1,215
Outside labor		7,360
Agency administration		<u>773</u>
Total Operating Expenses		<u>31,601</u>
Loss from Operations		<u>(11,876)</u>

### NON-OPERATING REVENUES

Interest income		<u>8</u>
Change in Net Position		(11,868)

### NET POSITION

Beginning of year		<u>12,612</u>
End of year	\$	<u><u>744</u></u>

## Putnam County Industrial Development Agency

Statement of Cash Flows  
December 31, 2015

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### CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from straight-lease transaction rental income	\$	10,000
Cash received from straight-lease transaction tax savings income		7,225
Cash received for lease application fees		2,500
Cash payments for goods and services		<u>(28,694)</u>
Net Cash from Operating Activities		<u>(8,969)</u>

### CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Interest income		<u>8</u>
Net Change in Cash and Equivalents		(8,969)

### CASH AND EQUIVALENTS

Beginning of year		<u>15,036</u>
End of year	\$	<u><u>6,067</u></u>

### RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES

Loss from operations	\$	(11,876)
Adjustments to reconcile loss from operations to net cash from operating activities		
Interest income		8
Changes in operating assets and liabilities		
Accounts receivable		(5,000)
Accounts payable		399
Accrued expenses		<u>7,500</u>
Net Cash from Operating Activities	\$	<u><u>(8,969)</u></u>

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## **Putnam County Industrial Development Agency**

Notes to Financial Statements  
December 31, 2015

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### **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, New York ("County"). Additionally, the Agency's 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.

#### **Use of Estimates**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Deposits and Risk Disclosure**

Cash and cash equivalents consist of funds deposited in time deposit accounts, demand deposit accounts and certificates of deposit with original maturities of less than three months.

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

## Putnam County Industrial Development Agency

Notes to Financial Statements (Continued)  
December 31, 2015

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### **Note 2 - Summary of Significant Accounting Policies (Continued)**

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.

#### **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, 2015.

**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.

#### **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.

## Putnam County Industrial Development Agency

Notes to Financial Statements (Continued)  
December 31, 2015

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net Investment in Capital Assets represents the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use. Net position on the Statement of Net Position is classified as unrestricted.

#### 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 June 21, 2017.

### Note 3 - Straight Lease Transaction

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.

The following straight-lease transactions are in effect for the year ended December 31, 2015:

Client	Lease Inception Date		Max Aggregate Straight-lease Financing	Expiration Date	Annual Lease Payments	10% of Benefit Received
Materion	* July 16, 1999	(b)	\$ 6,000,000	July 1, 2009	\$ -	\$ -
Columbia PHC	June 30, 2000	(a)	16,200,000	June 30, 2040	-	-
Fryer Realty, LLC	August 1, 2004	(c)	4,600,000	July 1, 2016	2,500	-
Materion	December 29, 2006	(b)	5,500,000	April 15, 2022	2,500	-
Jaral Putnam LLC	March 26, 2009	(d)	-	March 26, 2019	2,500	-
Fox Ridge Hotel	March 1, 2009		3,850,000	March 1, 2019	-	-
Seven Sutton PI	April 28, 2009		5,120,000	April 28, 2018	-	3,442
Highland Group, LLC	December 23, 2010		4,700,000	December 22, 2020	-	3,783
Butterfield	September 18, 2015		5,500,000	June 1, 2020	2,500	-
Totals			<u>\$ 51,470,000</u>		<u>\$ 10,000</u>	<u>\$ 7,225</u>

## Putnam County Industrial Development Agency

Notes to Financial Statements (Continued)  
December 31, 2015

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### **Note 3 - Straight Lease Transaction (Continued)**

- (a) Effective December 6, 2001, there was an addition of \$1,500,000 to the existing straight lease transaction, increasing the total amount financed from \$14,700,000 to \$16,200,000. Officially the annual payment of \$2,500 due to the Agency over the remaining 30-year term was satisfied with a "one-time" straight lease payment of \$50,000. However, the Agency has a continuing legal obligation under the terms of the straight lease agreement until the earlier of the termination of the Project Agreement or termination of the sublease.
- (b) Effective December 29, 2006, there was an addition of \$5,500,000 to the existing straight lease transaction, increasing the amount financed from \$6,000,000 to \$11,500,000. Effective December 29, 2006, there was an addition of \$5,500,000 to the existing straight lease transaction, increasing the amount financed from \$6,000,000 to \$11,500,000.
- (c) Effective June 19, 2006, there was an addition of \$600,000 to the existing straight lease transaction, increasing the total amount financed from \$4,000,000 to \$4,600,000.
- (d) The proposed Jaral Putnam, LLC project has been postponed due to poor economic and difficult financing conditions. The total project is expected to cost approximately \$24,000,000.

\*Presented for historical purposes only.

### **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.

**Putnam County Industrial Development Agency**

Notes to Financial Statements (Concluded)  
December 31, 2015

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**Note 6 - Current Liabilities**

Current liabilities are comprised of the following items for year ended December 31, 2015:

Accounts payable	\$ 1,477
Accrued expenses	<u>12,000</u>
Total	<u>\$ 13,477</u>

**Note 7 - 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 8 - 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.

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# **Putnam County Industrial Development Agency**

Supplementary Information

December 31, 2015

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**County of Putnam Industrial Development Agency**

Supplementary Information  
Schedule of Payments in Lieu of Taxes  
December 31, 2015

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Project	Project Address	Pilot Payments		
		Local	School	County
Highland Group LLC	60 Jon Barrett Road Patterson, NY 12563	\$ 10,255	\$ 61,148	\$ 6,229
Sincerity LLC	80 International Boulevard Brewster, NY 10509	28,881	279,754	29,918
Broad Reach LLC	322 Clocktower Commons Brewster, NY 10509	22,013	215,673	22,041
Seven Sutton Place LLC	Brewster Business Park 1944 Route 22 Brewster, NY 10509	9,375	56,567	9,387
Fryer Reality Inc.	C/O Freyer Machines Systems Inc. 70 Jon Barrett Road Patterson, NY 12563	15,240	43,362	9,257
Totals		<u>\$ 85,764</u>	<u>\$ 656,504</u>	<u>\$ 76,832</u>

Putnam County Industrial Development Agency

Supplementary Information

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

December 31, 2015

Project	Date of Issue	Original Issue Value	Outstanding Balance at January 1, 2015	New Issues	Payments	Outstanding Balance at December 31, 2015
Broad Reach LLC	December 2006	\$ 6,685,000	\$ 4,955,000	\$ -	\$ 170,000	\$ 4,785,000
United Cerebral Palsy of Putnam and Southern Dutchess, Inc.	December 2005	12,565,000	10,025,000	-	335,000	9,690,000
Sincerity LLC	December 2013	<u>8,130,000</u>	<u>7,590,000</u>	<u>-</u>	<u>570,000</u>	<u>7,020,000</u>
Total Indebtedness		<u>\$ 27,380,000</u>	<u>\$ 22,570,000</u>	<u>\$ -</u>	<u>\$ 1,075,000</u>	<u>\$ 21,495,000</u>

**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, 2015, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated June 21, 2017.

**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  
June 21, 2017