COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

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INDUSTRIAL DEVELOPMENT AGENCY
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DECEMBER 31, 2013 and 2012

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Cooper Arias, LLP
Accounting & Accountability

INDEPENDENT AUDITORS' REPORT

To The Members of the County
Of Sullivan Industrial Development Agency
Monticello, NY 12701

We have audited the accompanying statement of net position of the County of Sullivan Industrial Development Agency, a component unit of the County of Sullivan, New York, as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of Sullivan Industrial Development Agency as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Sullivan Industrial Development Agency's financial statements as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014, on our consideration of the County of Sullivan Industrial Development Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Sullivan Industrial Development Agency's internal control over financial reporting and compliance.

Cooper Arias LLP

Mongaup Valley, New York
March 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending December 31, 2013

This section of the County of Sullivan Industrial Development Agency's annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended on December 31, 2013. Please read it in conjunction with the Agency's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- Total net position increased $287,447 (13%)
  - The increase in net position was mainly due to the capitalization of expenses related to the new Red Meat facility. The costs will be depreciated over the useful life of the facility while the grant revenues received to fund the project are recognized immediately.
- Cash decreased $420,905 (13%)
  - The decrease in cash was mainly due to the disbursement of a 2014 PILOT payment to the respective jurisdictions prior to December 31, 2013. In the previous year, the PILOT of over $500,000 was disbursed after the year end.
- Liabilities decreased $288,416 (15%)
  - The decrease in liabilities was mainly due to the early disbursement of the PILOT as described in the preceding section and a decrease of $175,000 in deferred grant revenue due to the Red Meat project expenditures, offset by an increase in accounts payable and retainage payable of approximately $360,000, related to the construction of the Red Meat facility.
- Operating revenues decreased $87,406 (19%)
  - The decrease in revenues was caused by a one-time project termination fee of $156,000 in the prior year, offset partially by current year increases in annual agency fees and reimbursed professional fees related to ongoing projects.
- Operating expenses increased $7,103 (2%)
- Operating income decreased $94,509 from the prior year.
- Total net income increased $229,226 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Agency's statements follow the accrual basis of accounting and are presented in a manner similar to a private business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending December 31, 2013

FINANCIAL ANALYSIS OF THE AGENCY

The following table summarizes the changes in net position between December 31, 2013 and 2012.

	2013	2012
Current Assets	$ 2,165,960	$ 2,566,328
Capital Assets	630,645	265,382
Restricted Assets	1,255,057	1,220,921
Total Assets	4,051,662	4,052,631
Total Liabilities	1,577,226	1,865,642
Net Investment In Capital Assets	630,645	265,382
Restricted	537,899	506,116
Unrestricted	1,305,892	1,415,491
Total Net Position	$ 2,474,436	$ 2,186,989

The balance of restricted net assets consists of the cash balances in the various escrow accounts and revolving loan accounts, plus the revolving loans outstanding, less any liabilities being held in the restricted accounts:

	2013	2012
Escrow Accounts - Cash	$ 340,922	$ 337,718
Revolving Loan Accounts – Cash	545,681	385,358
Revolving Loans Outstanding	368,454	497,845
Less: Liabilities Held In Restricted Accounts	(717,158)	(714,805)
Restricted Net Position	$ 537,899	$ 506,116

Operating Income. The following table summarizes the changes in Operating Income between fiscal years 2013 and 2012.

	2013	2012
Rental Income	$ 38,848	$ 38,000
Administrative Fees	301,378	400,211
Interest on Notes Receivable	16,699	8,819
Reimbursed Expenses	21,216	14,861
Grant Income	1,500	6,194
Other Revenues	1,038	-
Total Operating Revenues	380,679	468,085
Legal and Professional Fees	85,496	80,911
Salaries and Benefits	152,750	153,456
Consulting Fees	38,994	39,554
Business Promotion	75,000	75,000
Other Expenses	55,825	52,041
Total Operating Expenses	408,065	400,962
Operating Income (Loss)	$ (27,386)	$ 67,123

OPERATIONS AND ACCOMPLISHMENTS

In the spring of 2013, the IDA collected Payment in Lieu of Tax (PILOT) payments from its projects and dispersed them back out 100% to the local taxing jurisdictions. Over the last ten years the IDA has increased its PILOT disbursements from $875,961 in 2003 to $4,103,454 in 2013.

The IDA continued its funding in 2013 for the Partnership for Economic Development in the amount of $75,000, and it helped fund the regional economic development advocacy group Hudson Valley Pattern for Progress in the amount of $5,000.

OPERATIONS AND ACCOMPLISHMENTS (Continued)

In 2013, the IDA worked on new initiatives to improve the economic climate in Sullivan County. These initiatives included:

1) The IDA continued its work to develop a red meat processing facility within the County. Five grants have been approved for the financing of the proposed facility, these funds coming from the US Department of Agriculture, the New York State Empire State Development Corporation, and the US Department of Commerce through the Economic Development Assistance Program. Site plan approval for the project was received from the Village of Liberty Planning Board and excavating work started on the facility site in 2013.
2) The IDA started an initiative to fund a Food Hub within the County. This project will improve the efficiency of the regional food distribution network and increase the value of local food transactions by taking advantage of opportunities to sell locally grown food to downstate customers. Funds from the USDA Rural Business Enterprise Grant program and Rural Business Opportunity Grant program, and the Consolidated Funding program were obtained in 2013.

Additionally, in 2013, the Agency was involved in the following projects:

- The administration of 7 loans through the Agency's new Rural Micro-entrepreneur Assistance Program (USDA), all of which were approved in 2012.
- The administration of 6 loans to small local businesses through the Agency's Revolving Loan Program, one of which was approved in 2012.
- The administration of 1 lease agreement through the Agency's Agri-Business Loan Fund.
- The administration of 2 outstanding Industrial Development Bonds, both of which were related to not-for profit agencies.
- The administration of 55 projects with IDA agreements, including 50 projects with property tax exemption agreements and 11 projects with valid sales tax exemption letters.

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
DECEMBER 31,

	2013	2012
ASSETS		
Current Assets		
Cash	$ 1,960,578	$ 2,545,010
Accounts Receivable	6,608	4,083
Due From State And Federal	185,441	-
Prepaid Expenses	13,333	17,235
Total Current Assets	2,165,960	2,566,328
Non-Current Assets		
Restricted Cash	886,603	723,076
Notes Receivable - Restricted	368,454	497,845
Restricted Assets	1,255,057	1,220,921
Property, Plant and Equipment		
Construction In Progress	380,905	-
Equipment – Distillery	295,000	295,000
Equipment	4,865	4,865
Less: Accumulated Depreciation	(50,125)	(34,483)
Net Property, Plant and Equipment	630,645	265,382
Total Non-Current Assets	1,885,702	1,486,303
TOTAL ASSETS	4,051,662	4,052,631

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
DECEMBER 31,

	2013	2012
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 356,625	$ 15,794
Accrued Liabilities	30,756	29,809
Retainage Payable	18,544	-
Due To Other Governments	639,825	1,147,167
Deferred Revenues	147,468	300,054
Escrow Balances	1,617	818
Note Payable – Due Within One Year	9,787	-
Total Current Liabilities	1,204,622	1,493,642
Long-Term Liabilities		
Note Payable – Due Beyond One Year	372,604	372,000
Total Long-Term Liabilities	372,604	372,000
TOTAL LIABILITIES	1,577,226	1,865,642
NET POSITION		
Net Investment In Capital Assets	630,645	265,382
Restricted	537,899	506,116
Unrestricted	1,305,892	1,415,491
TOTAL NET POSITION	$ 2,474,436	$ 2,186,989

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31,

	2013	2012
OPERATING REVENUES		
Rental Income	$ 38,848	$ 38,000
Interest on Notes Receivable	16,699	8,819
Administrative Fees	301,378	400,211
Reimbursed Expenses	21,216	14,861
Grant Income	1,500	6,194
Miscellaneous Income	1,038	-
TOTAL OPERATING REVENUES	380,679	468,085
OPERATING EXPENSES		
Salaries and Benefits	152,750	153,456
Legal and Professional Fees	85,496	80,911
Accounting Fees	9,400	7,500
Consulting Fees	38,994	39,554
Dues, Publications and Subscriptions	6,313	6,369
Office Expense	8,734	6,538
Business Promotion	75,000	75,000
Rent Expense	15,708	15,626
Telephone	1,905	2,387
Insurance	8,711	8,194
Repairs and Maintenance	259	249
Miscellaneous	1,789	2,636
Travel	1,506	1,042
Technical Assistance Grant	1,500	1,500
TOTAL OPERATING EXPENSES	408,065	400,962
NET OPERATING INCOME (LOSS)	(27,386)	67,123
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	5,425	6,821
Interest Expense	(10,391)	-
Depreciation	(15,642)	(15,723)
Capital Grant Income	335,441	-
NET INCOME (LOSS)	287,447	58,221
NET POSITION - Beginning of Year	2,186,989	2,128,768
NET POSITION – End of Year	$ 2,474,436	$ 2,186,989

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from providing services	$ 505,758	$ 272,906
Cash payments for contractual expenses	(267,207)	(243,386)
Cash payments for personal services and benefits	(151,803)	(151,108)
Cash payments to Sullivan County Funding Corp.	-	(125,107)
Net Proceeds (Payments) of PILOT Payments	(507,342)	396,448
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(420,594)	149,753
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	5,425	6,821
Purchase of Capital Assets	(5,736)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(311)	6,821
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of Notes Payable	-	372,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	372,000
NET INCREASE (DECREASE) IN CASH	(420,905)	528,574
CASH- BEGINNING OF YEAR	3,268,086	2,739,512
CASH- END OF YEAR	$ 2,847,181	$ 3,268,086
Reconciliation of operating revenue (loss) to net cash provided (used) by operating activities:		
Operating Income (Loss)	$ (27,386)	$ 67,123
Transfer to Sullivan County Funding Corp.	-	(125,107)
Increase (Decrease) in PILOT Payable	(507,342)	396,448
Decrease (Increase) in Operating Assets:		
Accounts Receivable	(2,525)	4,117
Due From Other Governments	-	5,438
Pre-Paid Expenses	3,902	(9,249)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(15,794)	13,369
Accrued Liabilities	947	2,348
Deferred Revenues	(2,586)	76,178
Escrow Balances	799	598
Revolving Loans Repaid	140,979	53,902
Revolving Loans Issued	(11,588)	(335,412)
Net Cash Provided (Used) by Operating Activities	$ (420,594)	$ 149,753

SEE ACCOMPANYING NOTES AND AUDITORS' OPINION

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the County of Sullivan Industrial Development Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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.

The County of Sullivan Industrial Development Agency follows the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred. Fixed assets and long-term liabilities related to these activities are recorded within the financial statements.

Financial Reporting Entity

The County of Sullivan Industrial Development Agency (the "Agency") was created in 1970 as public benefit corporation through state legislation to promote the economic welfare, recreation opportunities, and prosperity of the County's inhabitants. The Agency is exempt from federal, state, and local income taxes. The County's governing body appoints members of the Agency, and the County exercises some oversight responsibility for management of the Agency. Although the management is not accountable directly to the County for fiscal matters, a budget is submitted to the County, and the County assumes a financial burden from the Agency by assuming certain expenses incurred by the Agency through its bonding transactions. Accordingly, the Agency is considered a component unit of the County of Sullivan, and reports as such.

Administrative Fee Income

Administrative fees for Agency costs relating to the project are recognized as income upon consummation of the related transactions. The fees charged by the Agency are based on a percentage of the financing, individual negotiations, the size of the project, and/or on an "as incurred" basis.

Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would be immaterial. Accounts receivable at December 31, 2013 and 2012 amounted to $6,608 and $4,083, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

The Agency records equipment at historical cost and depreciates the assets on a straight-line basis over periods of 5 and 20 years.

Expenses

Certain payroll and payroll related expenses for one of the employees of the Agency are paid and recorded by the County of Sullivan, the primary government, and the Agency reimburses the County for these expenses. All reporting and filing requirements for payroll taxes and benefits related to this employee are the responsibility of the County.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents

For the statement of cash flows, the Agency considers all highly liquid investments as cash equivalents.

Operating Revenues and Expenses

In the statement of revenues, expenses and changes in net position, operating revenues and expenses include all activity that is part of the Agency's normal operating activities. Interest earned on cash balances, depreciation and unusual or infrequent items are included as non-operating activities.

New Accounting Standards

The Agency has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At December 31, 2013 the Agency implemented the following new standards:

GASB 61 - *Financial Reporting Entity*

GASB 65 – *Items Previously Reported as Assets and Liabilities*

GASB 66 – *Technical Corrections*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Classifications

In the financial statements there are three classes of net position:

Net investment in capital assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets.

Restricted – reports net position when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – reports all other net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the Agency.

Deferred Outflows/Inflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), defined and classified deferred outflows of resources and deferred inflows of resources. A deferred outflow of resources is a consumption of net assets that applies to future periods, and as such, will not be recognized as an outflow of resources (expense/expenditure) until that time. A deferred inflow of resources is an acquisition of net assets that applies to future periods, and as such, will not be recognized as an inflow of resources (revenue) until that time. Based on these criteria, the Agency had no deferred inflows of resources or deferred outflows of resources as of December 31, 2013.

Reclassifications

Certain items at December 31, 2012 have been reclassified to conform to the presentation at December 31, 2013. The reclassifications have no effect on the change in net position for the year ended December 31, 2012.

NOTE 2 – CASH AND INVESTMENTS

The state statutes govern the Agency's investment policies. In addition, the Agency has its own written investment policy. Agency monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Chief Executive Officer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State and its localities. Collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The written investment policy requires repurchase agreements to 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 105 percent of the cost of the repurchase agreement. The Agency's aggregate bank balances included balances not covered by depository insurance at year end, collateralized as follows:

Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Agency's name.	$ 2,131,274

NOTE 3 – NOTES RECEIVABLE

Notes receivable consist of amounts due from various business entities within Sullivan County. The purpose of these notes is to help local businesses expand and develop. A schedule of notes receivable at December 31, 2013 and 2012 is as follows:

Borrower	Original Loan	Maturity Date	Interest Rate	BALANCE 2013	BALANCE 2012
The Bake House	$ 20,000	2016	4.00%	$ 14,653	$ 16,462
Carmine's Meat Market	30,000	2016	3.00%	19,750	23,877
Davidson Sullivan Realty	50,000	2016	3.00%	29,323	38,994
Country House Realty	75,000	2022	3.00%	-	73,386
Sara's Gourmet	40,000	2014	2.438%	4,892	13,849
David Appel	75,000	2018	4.00%	68,379	63,412
IDA Revolving Loans				136,997	229,980

NOTE 3 – NOTES RECEIVABLE (Continued)

Borrower	Original Loan	Maturity Date	Interest Rate	BALANCE 2013	BALANCE 2012
Kranky Pants	40,000	2020	4.00%	35,492	40,000
Malek Furniture	50,000	2017	4.00%	36,952	46,204
Samba	30,000	2017	4.00%	28,259	30,000
Prohibition Distillery	50,000	2017	4.00%	41,701	50,000
ND Pro Media	25,000	2017	4.00%	20,860	25,000
Callicoon Health Food	37,000	2018	4.00%	32,960	36,661
The Shoe Box	40,000	2018	4.00%	35,233	40,000
RMAP Revolving Loans				231,457	267,865
Total Notes Receivable				$ 368,454	$ 497,845

NOTE 4 – REVENUE BONDS

Industrial Revenue Bonds

Certain industrial revenue bonds and notes issued by the Agency are not obligations of the Agency. The Agency does not record the assets or liabilities resulting from the completed bond and note issues since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies, which are negotiated on a project by project basis. Industrial revenue bond activity for the year ended December 31, 2013 is as follows:

PROJECT NAME	JANUARY 1, 2013	ISSUED	REDEEMED	DECEMBER 31, 2013
Crystal Run Village	$ 915,000	$ -	$ 180,000	$ 735,000
Hebrew Academy For Special Children	4,159,384	-	4,159,384	-
Total	$ 5,074,384	$ -	$ 4,339,384	$ 735,000

NOTE 5 – DEFERRED REVENUE

The Agency had $147,468 and $300,054 in deferred revenue at December 31, 2013 and 2012, respectively. The balance in this account is made up of the following items:

	2013	2012
Sullivan County Grant	$ -	$ 150,000
Administrative Fees	45,080	43,247
Reimbursed Legal Expenses	98,338	101,257
RMAP Technical Assistance Grant	4,050	5,550
	$ 147,468	$ 300,054

NOTE 6 – EVENTS OCCURRING AFTER REPORTING DATE

The Agency has evaluated events and transactions that occurred between December 31, 2013 and March 27, 2014, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE 7 – EQUIPMENT LEASE

The Agency has entered into a lease agreement with Catskill Distilling Company, LTD (Lessee), in which the Agency purchased equipment to be used by the lessee. The lessee will pay monthly payments of $1,500 to the Agency, beginning on January 1, 2011 and continuing for 114 months until the end of the lease term on June 30, 2020. Upon expiration of the lease term, the lessee has the option to purchase the equipment for $146,000.

The equipment being leased is carried on the Agency's books as follows:

Still	$ 236,545
Tanks	55,906
Pump	2,549
	295,000
Accumulated Depreciation	(45,480)
Net Book Value	$ 249,520

NOTE 8 – CAPITAL ASSETS

The Agency's capital assets for the year ended December 31, 2013 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Construction In Progress	$ -	$ 380,905	$ -	$ 380,905
Non-Depreciable Historical Cost	-	380,905	-	380,905
Equipment - Distillery	295,000	-	-	295,000
Equipment	4,865	-	-	4,865
Depreciable Historical Cost	299,865	-	-	299,865
Accumulated Depreciation:				
Equipment-Distillery	30,731	14,749	-	45,480
Equipment	3,752	893	-	4,645
Total Accumulated Depreciation	34,483	15,642	-	50,125
Net Cost	$ 265,382	$ 365,263	$ -	$ 630,645

Depreciation expense for the years ended December 31, 2013 and 2012 was $15,642 and $15,723, respectively.

NOTE 9 – RELATED PARTIES

The County of Sullivan, New York formed the Sullivan County Funding Corporation on November 24, 2010 under Section 1411 of the Not For Profit Corporation Law, which covers local development corporations. The purpose of the Sullivan County Funding Corporation is to foster the creation, retention and expansion of jobs and economic opportunities within Sullivan County. Similar to the County of Sullivan Industrial Development Agency, the Sullivan County Funding Corporation is a component unit of the County of Sullivan.

During the year ended December 31, 2011, the Board of the County of Sullivan Industrial Development Agency authorized the Sullivan County Funding Corporation to take over certain functions that were previously carried out by the Agency. Beginning in 2012, the Sullivan County Funding Corporation took over the receipt and administration of the annual $108,000 payments related to the Millenium Pipeline agreement for the remaining seven years of the agreement. In addition, the Sullivan County Funding Corporation reimburses the County of Sullivan Industrial Development Agency on a monthly basis for bookkeeping and related administrative costs.

NOTE 9 – RELATED PARTIES (Continued)

The Agency received $40,000 and $40,000 from the Sullivan County Funding Corporation for administrative costs for the years ended December 31, 2013 and 2012, respectively.

During the year ended December 31, 2013, the Sullivan County Funding Corporation transferred $70,121 to the Agency, which represents the outstanding balance on a revolving loan previously administered by the Agency but transferred, per Board Resolution, to the Sullivan County Funding Corporation.

NOTE 10 – LONG TERM DEBT

The Agency has entered into an agreement with the United States Department of Agriculture (USDA) to create a Rural Microloan Revolving Fund (RMRF), which will provide loans to local eligible businesses. The funds drawn down from the USDA, which must be used to capitalize a Rural Microentrepreneur Assistance Program (RMAP), are in the form of a loan that must be re-paid to the USDA. The outstanding amount will accrue interest at 2% per annum throughout the term of the loan but will be deferred for the first 24 months. Once the deferral period is over, the Agency must repay the loan in equally amortized monthly payments of principal and interest over a period not to exceed 20 years. The first payment, consisting of principal and interest, is due on May 10, 2014.

The Agency has drawn down a total of $372,000 of the $440,000 loan funds available, and has accrued $10,391 in deferred interest charges, for a note payable balance of $382,391 as of December 31, 2013.

The changes in the Agency's long term debt during the year ended December 31, 2013 are summarized as follows:

	BALANCE 01/01/13	ADDITIONS	DELETIONS	BALANCE 12/31/13	AMOUNTS DUE WITHIN ONE YEAR
RMAP Note Payable	$ 372,000	$ 10,391	$ -	$ 382,391	$ 9,787

NOTE 10 – LONG TERM DEBT (Continued)

The following is a summary of the Agency's future debt service requirements:

YEAR	PRINCIPAL	INTEREST
2014	$ 9,787	$ 7,183
2015	18,169	7,286
2016	18,536	6,919
2017	18,910	6,545
2018	19,291	6,164
2019-2023	102,458	24,817
2024-2028	113,225	14,050
2029-2032	82,015	2,835
TOTAL	$ 382,391	$ 75,799

COUNTY OF SULLIVAN
INDUSTRIAL DEVELOPMENT AGENCY
INDUSTIAL REVENUE BONDS
DECEMBER 31, 2013

PROJECT NAME	TAX STATUS	ISSUE DATE	INTEREST RATE	ISSUE AMOUNT	TAX EXEMPTIONS COUNTY	LOCAL	SCHOOL
Hebrew Academy For Special Children, Inc. Brooklyn, NY 11219	Not-For-Profit	6/02	7.50%	$ 4,750,000	$ -	$ -	$ -
Crystal Run Village Middletown, NY 10941	Not-For-Profit	6/06	4.15%	1,980,000	-	-	-

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 Auditor's Report

To The Members of the County
Of Sullivan Industrial Development Agency
Monticello, New York 12701

We have audited, 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, the financial statements of the County of Sullivan Industrial Development Agency, a component unit of the County of Sullivan, New York, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the County of Sullivan Industrial Development Agency's financial statements and have issued our report thereon dated March 27, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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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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 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, as defined above. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency. We consider the deficiency described below to be a significant deficiency in internal control:

> Management does not possess the necessary training required to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.
>
> Management Response: The Agency's accounting office has the knowledge and ability to post the ongoing day to day activity in accordance with the accrual basis of accounting. However, management feels that it would not be cost effective to take the necessary educational courses to be able to prepare the complete financial statements, including all required notes, in accordance with generally accepted accounting principles.

Compliance and Other Matters

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

Response to Findings

The County of Sullivan Industrial Development Agency's response to the finding identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Cooper Arias LLP

Mongaup Valley, New York
March 27, 2014