

**Suffolk County
Judicial Facilities Agency**
ANNUAL FINANCIAL REPORT

December 31, 2013

MANAGEMENT'S DISCUSSION
AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Suffolk County Judicial Facilities Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended December 31, 2013. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- At December 31, 2013, the total assets of the Agency were \$69,282,781, the total liabilities were \$70,388,502 and the Agency's net position was \$(1,105,721).
- The Agency's total assets increased by \$69,238,419 in 2013. The increase in total assets is primarily due to the Agency's purchase of the H. Lee Dennison Building. The Agency's total liabilities increased by \$70,388,502, principally due to the bonds issued to fund the acquisition of the building.
- The Agency's net position decreased by \$1,150,083, primarily due to interest expense, bond issuance costs and depreciation of the building.

Basic Financial Statements:

- The financial statements presented herein include all of the activities of the Agency.
- The financial statements present the financial picture of the Agency, which is an enterprise type fund and, accordingly, reflects business-type activities. These statements include all assets and liabilities of the Agency.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the financial statements.
- The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the Agency as a whole and about its activities. These statements include all assets, deferred outflows, liabilities and deferred inflows of the Agency using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net position and changes in net position. Net position represents the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, which is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating.

Condensed Comparative Financial Statements:

Condensed Statements of Net Position at December 31,

	<u>2013</u>	<u>2012</u>
Current assets	\$ 15,005	\$44,362
Non-current assets, other	931,321	-
Capital assets, net	<u>68,336,455</u>	<u>-</u>
Total assets	<u>\$69,282,781</u>	<u>\$44,362</u>
Current liabilities	\$ 2,564,080	-
Non-current liabilities	<u>67,824,422</u>	<u>-</u>
Total liabilities	<u>\$70,388,502</u>	<u>\$ -</u>
Net position:		
Invested in capital assets, net of related debt	\$(1,653,773)	-
Restricted	931,321	-
Unrestricted	<u>(383,269)</u>	<u>44,362</u>
Total net position	<u>\$(1,105,721)</u>	<u>\$44,362</u>

**Condensed Statements of Revenues, Expenses and
Changes in Net Position for the Year Ended December 31,**

	<u>2013</u>	<u>2012</u>
Total operating revenue	\$ -	\$ -
Total operating expenses	<u>(307,744)</u>	<u>(20,983)</u>
Operating income (loss)	(307,744)	(20,983)
Non-operating revenues (expenses)	<u>(842,339)</u>	<u>152</u>
Change in net position	<u>\$(1,150,083)</u>	<u>\$ (20,831)</u>

Analysis of Financial Position and Results of Operations:

The Agency's 2013 net position decreased by \$1,150,083 as compared to the 2012 net position. This decrease is primarily due to interest expense, bond issuance costs and depreciation of the building.

Analysis of Balances and Transactions:

As mentioned on page i, the Agency's assets and liabilities increased significantly in 2013. Key components of these changes are as follows:

- In November 2013, the Agency purchased the H. Lee Dennison Building from Suffolk County for a total cost of \$68,614,850.
- The Agency funded the purchase of the building by issuing lease revenue bonds at a par amount of \$69,080,000. The bond sale provided a premium of \$916,126.
- Concurrent with the purchase of the building, the Agency entered into a lease agreement with Suffolk County whereby the County would lease back the building at a base rent sufficient to cover the debt service costs payable by the Agency. The first rent payment is due in 2014.

Budgetary Analysis:

The Agency is required to adopt a budget in accordance with the Public Authorities Accountability Act.

Capital Asset and Long-Term Debt Activity:

Capital Assets

In November 2013 the Agency made an investment in capital assets of \$68,614,850. Depreciation charged to expense in 2013 totaled \$278,395.

Long-Term Debt

In November 2013 the Agency issued lease revenue bonds at a par amount of \$69,080,000.

**Suffolk County
Judicial Facilities Agency**

**FINANCIAL STATEMENTS
AND AUDITORS' REPORT**

December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Suffolk County Judicial Facilities Agency

Report on the Financial Statements

We have audited the accompanying financial statements of Suffolk County Judicial Facilities Agency (the Agency), a New York State Public Benefit Corporation, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Suffolk County Judicial Facilities Agency

Opinions

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, 2013 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison information on pages i through iii and Page 19 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2014, 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 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.


Brightwaters, New York
March 4, 2014

Suffolk County Judicial Facilities Agency

STATEMENT OF NET POSITION

December 31, 2013

ASSETS

Current assets:

Cash and cash equivalents \$ 15,005

Total current assets 15,005

Non-current assets:

Restricted assets:

Cash and cash equivalents 931,321

Capital assets:

Land 1,800,000

Building, net of accumulated depreciation 66,536,455

Total capital assets, net 68,336,455

Total non-current assets 69,267,776

Total assets \$ 69,282,781

LIABILITIES

Current liabilities:

Accrued interest on bonds \$ 398,274

Bonds payable - due within one year 2,165,806

Total current liabilities 2,564,080

Non-current liabilities:

Bonds payable - due in more than one year 67,824,422

Total non-current liabilities 67,824,422

Total liabilities \$ 70,388,502

NET POSITION

Invested in capital assets, net of related debt \$ (1,653,773)

Restricted 931,321

Unrestricted (383,269)

Total net position \$ (1,105,721)

See notes to financial statements

Suffolk County Judicial Facilities Agency

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2013

Operating revenue	\$ <u>-</u>
Operating expenses:	
Insurance	12,963
Legal fees	5,000
Audit fees	5,000
Meetings	486
Administration fees	5,500
Bank service charges	194
Miscellaneous	206
Depreciation	<u>278,395</u>
Total operating expenses	<u>307,744</u>
Operating income (loss)	<u>(307,744)</u>
Non-operating revenues (expenses):	
Interest income	84
Dividend income	17
Interest expense	(392,376)
Bond issuance costs	<u>(450,064)</u>
Total non-operating revenues (expenses), net	<u>(842,339)</u>
Change in net position	(1,150,083)
Total net position, January 1	<u>44,362</u>
Total net position, December 31	<u><u>\$ (1,105,721)</u></u>

See notes to financial statements

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Suffolk County Judicial Facilities Agency

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

Cash flows from (used in) operating activities:

Paid to suppliers for goods and services \$ (29,349)

Net cash flows from (used in) operating activities (29,349)

Cash flows from capital and related financing activities:

Proceeds from issuance of bonds 69,080,000

Proceeds from issuance of bonds - original issue premium 916,126

Acquisition of capital assets (68,614,850)

Debt issuance costs (450,064)

Net cash flows from capital and related financing activities 931,212

Cash flows from investing activities:

Interest received 84

Dividends received 17

Net cash flows from investing activities 101

Net change in cash and cash equivalents 901,964

Cash and cash equivalents, January 1 44,362

Cash and cash equivalents, December 31 \$ 946,326

See notes to financial statements

Suffolk County Judicial Facilities Agency

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ (307,744)
Adjustments to reconcile operating income (loss) to net cash flows from (used in) operating activities:	
Non-cash items included in operating income:	
Depreciation expense	<u>278,395</u>
Net cash flows from (used in) operating activities	<u>\$ (29,349)</u>
Reconciliation of cash and cash equivalents to statement of net assets	
Cash and cash equivalents - unrestricted	\$ 15,005
Cash and cash equivalents - restricted	<u>931,321</u>
Cash and cash equivalents	<u>\$ 946,326</u>

See notes to financial statements

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

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

Financial reporting entity:

The Agency was originally created by Chapter 200 of the Laws of New York, 1999, as a corporate governmental agency and public benefit corporation of the State of New York, authorized to acquire, erect, build, alter, improve, extend, renovate, rehabilitate or relocate the John P. Cohalan Court Complex or any part thereof for among other uses, lease to the County for use by the County and the State for judicial purposes. The laws of New York, 2013, Chapter 351, an act to amend the public authorities' law, extended the Agency's authority to acquire the H. Lee Dennison Building from Suffolk County and enter into a lease agreement with Suffolk County.

The Agency raises funds to accomplish its purposes by issuing its special obligation bonds. The Agency is perpetual in duration and its corporate existence shall continue until terminated by law, provided that so long as bonds of the Agency are outstanding, provision must be made for their payment.

The Agency is governed by a six member Board of Directors whose members are appointed by the Suffolk County Legislature and the Suffolk County Executive and is considered a separate entity from Suffolk County.

All governmental activities and functions performed for the Agency are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity includes functions and activities over which appointed Agency directors exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designations of management and ability to significantly influence operations and accountability for fiscal matters.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued):

Basis of accounting:

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises and revenues are recorded when earned and expenses are recorded when incurred.

The Agency's financial statements are presented in accordance with GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Uses of estimates:

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

Cash and cash equivalents:

For purposes of the Statement of Cash Flows, investments with maturities of three months or less when purchased are considered cash equivalents.

Capital assets:

Capital assets are stated at cost. The Agency's policy is to capitalize assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided using the straight-line method over the useful lives of the assets. Management has estimated the useful life of the building to be forty years.

Restricted assets:

Certain proceeds of the lease revenue bonds, as well as certain resources set aside for their repayment, and other funds provided for Agency operations and contingencies, are classified as restricted in the Statement of Net Position, because their use is limited for the purposes and under the terms and conditions set forth in the Lease Revenue Bond Resolution adopted September 10, 2013.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued):

Advertising costs:

Advertising costs are charged to operations when incurred.

Long-term debt:

The Agency has issued lease revenue bonds to pay for the cost of acquiring the H. Lee Dennison Building from Suffolk County, to fund certain reserves and to pay costs related to the issuance of the Series 2013 bonds. The bonds are secured by a Mortgage, Assignment of Rents and Security Agreement. The acquired building has been leased back to Suffolk County under a lease agreement, which provides for a base rent equal to the annual debt service on the bonds. The Agency is fully obligated to repay the bonds. Accordingly, the bonds are reported as a liability in the accompanying financial statements.

Bond premium:

The original issue premium on bonds is being amortized using the straight-line method over the life of the bonds.

Budget policies:

An annual budget is prepared and adopted by the Agency's Board of Directors.

2. Cash and cash equivalents:

The Agency's investment policies are governed by its enabling statute and the Lease Revenue Bond Resolution adopted September 10, 2013. The Agency's moneys held in accounts under the provisions of the Lease Revenue Bond Resolution are to be invested in government obligations or non-AMT, tax-exempt obligations; provided, however, that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Agency reasonably believes such moneys will be required for its various purposes.

All cash held in accounts under the provisions of the Lease Revenue Bond Resolution shall be continuously and fully secured, for the benefit of the Agency and the holders of the bonds, by U.S. government obligations having a market value equal at all times to the amount of the deposits held in such accounts.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

2. Cash and cash equivalents (continued):

GASB Statement 40 requires that deposits and investment securities be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- Uncollateralized,
- Collateralized with securities held by the pledging financial institution in the Agency's name, or
- Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Agency's name.

The Agency's cash accounts at December 31, 2013 were entirely covered by the Federal Deposit Insurance Corporation (FDIC). The Agency's cash equivalents were not secured by collateral.

The following are the components of the Agency's cash and cash equivalents at December 31, 2013:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash	\$15,005	\$ -	\$ 15,005
Cash equivalents	<u>-</u>	<u>931,321</u>	<u>931,321</u>
Total	<u>\$15,005</u>	<u>\$931,321</u>	<u>\$946,326</u>

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

3. Capital assets:

Capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 1,800,000	-	\$ 1,800,000
Total capital assets not being depreciated	<u>-</u>	<u>1,800,000</u>	<u>-</u>	<u>1,800,000</u>
Capital assets being depreciated:				
Building	-	66,814,850	-	66,814,850
Total capital assets being depreciated	<u>-</u>	<u>66,814,850</u>	<u>-</u>	<u>66,814,850</u>
Less accumulated depreciation for:				
Building	-	278,395	-	278,395
Total accumulated depreciation	<u>-</u>	<u>278,395</u>	<u>-</u>	<u>278,395</u>
Net capital assets being depreciated	<u>-</u>	<u>66,536,455</u>	<u>-</u>	<u>66,536,455</u>
Total net capital assets	<u>\$ -</u>	<u>\$68,336,455</u>	<u>\$ -</u>	<u>\$68,336,455</u>

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt:

Long-term debt at December 31, 2013 consists of the following:

Lease Revenue Serial Bonds, Series 2013. Bond principal is payable annually on November 1. Interest is payable semi-annually on May 1 and November 1 of each year. The amounts of principal payments and interest rates vary by year. \$41,635,000

Lease Revenue Term Bonds, Series 2013. Bond principal is payable annually on November 1. Interest is payable semi-annually on May 1 and November 1 of each year. The amounts of principal payments and interest rates vary by year. 27,445,000

Outstanding principal	69,080,000
Add unamortized bond premium	<u>910,228</u>
Sub-total	69,990,228
Less amount due within one year	<u>2,165,806</u>

Long-term debt	<u>\$67,824,422</u>
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Pledge of net revenues:

The proceeds from the sale of the bonds, the net revenues (defined as revenues other than the Administrative Rent and Supplemental Rent paid by Suffolk County pursuant to Section 3.3 of the lease agreement with Suffolk County) and, except as otherwise provided in Section 5.02 of the Lease Revenue Bond Agreement, all funds and accounts established, other than the Operating Fund, the Contingency Fund and the Arbitrage Rebate Fund, are pledged to the Trustee (the bank or trust company appointed as trustee for the bonds) as security for the payment of the principal and redemption price of and interest on the bonds and as security for the performance of any other obligation of the Agency in accordance with the provisions of the Lease Revenue Bond Agreement.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt (continued):

Long-term debt activity for the year ended December 31, 2013 is as follows:

	<u>Balance January 1, 2013</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance December 31, 2013</u>	<u>Due Within One Year</u>
Lease revenue bonds	\$ -	\$69,080,000	\$ -	\$69,080,000	\$2,120,000
Unamortized bond premium	-	<u>916,126</u>	<u>5,898</u>	<u>910,228</u>	<u>45,806</u>
Total long-term debt	<u>\$ -</u>	<u>\$69,996,126</u>	<u>\$5,898</u>	<u>\$69,990,228</u>	<u>\$2,165,806</u>

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt (continued):

A summary of the Agency's debt service requirements for bonds payable at December 31, 2013 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 2,120,000	4.000%	\$ 3,092,976	\$ 5,212,976
2015	2,285,000	5.000%	3,124,044	5,409,044
2016	2,395,000	5.000%	3,009,793	5,404,793
2017	2,515,000	5.000%	2,890,044	5,405,044
2018	2,640,000	5.000%	2,764,294	5,404,294
2019-2023	15,185,000	3.375 to 5.000%	11,852,069	27,037,069
2024-2028	18,530,000	4.000 to 5.000%	8,498,812	27,028,812
2029-2033	<u>23,410,000</u>	5.000%	<u>3,625,750</u>	<u>27,035,750</u>
	<u>\$69,080,000</u>		<u>\$38,857,782</u>	<u>\$107,937,782</u>

The Series 2013 bonds maturing prior to November 1, 2024 are not subject to redemption prior to maturity. The Series 2013 bonds maturing on or after November 1, 2024 are subject to redemption prior to maturity on or after November 1, 2023, in any order at the option of the Agency, as a whole or in part at any time, at the redemption price equal to 100% of the principal amount of Series 2013 bonds to be redeemed, plus accrued interest, if any, to the redemption date.

The Series 2013 Bonds maturing on November 1, 2033 are subject to mandatory redemption prior to maturity, in part, on each November 1 of the years and in the respective principal amounts set forth below, at the redemption price equal to 100% of the principal amount thereof being redeemed plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on November 1 of each year the principal amount of such Series 2013 bonds for each of the years shown below:

<u>Year</u>	<u>Amount</u>
2028	\$4,035,000
2029	4,235,000
2030	4,450,000
2031	4,670,000
2032	4,905,000
2033	5,150,000

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

5. Mortgage:

The Agency has entered into two mortgage agreements. One mortgage secures up to \$24,000,000 of the principal amount of the lease revenue bonds, which will be covered by title insurance. The other mortgage secures up to \$45,080,000 of the principal amount of the lease revenue bonds, which will not be covered by title insurance.

6. Economic dependency:

The Agency receives a majority of its revenue from Suffolk County in the form of rent income. A significant reduction in the level of this support, if it were to occur, may have an effect on the Agency's purpose. During the year ended December 31, 2013, the Agency did not receive any rent income as the lease commenced November 14, 2013 with the first rent payments due in 2014.

7. Lease:

The Agency, under a long-term lease agreement dated November 14, 2013, leases the H. Lee Dennison Building to Suffolk County for use by the County. The lease will terminate on the earlier to occur of (a) December 31, 2033 or (b) the discharge or defeasance of all of the Lease Revenue Bonds, Series 2013 and the discharge of all of the Agency's obligations under the bond resolution, unless terminated earlier in accordance with the terms of the lease.

Under the terms of the lease agreement, there are three elements to the rent: Basic Rent, Administrative Rent and Supplemental Rent. Basic Rent is a fixed amount payable on March 2 and September 2 of each year of the lease agreement in accordance with the Basic Rent Schedule.

In addition to Basic Rent, the County covenants to pay as Administrative Rent on or before January 1 of each year, an amount equal to the "Operating Cap" (Operating Cap means \$85,000, inflated in each subsequent calendar year after 2014 by the greater of 3% or the CPI Increase, which inflated amount shall be included in the Administrative Rent payable during each calendar year that commences after December 31, 2014).

In the event that, in any Bond Year (a period of twelve (12) consecutive months beginning November 2 in any calendar year and ending on the succeeding November 1), the Agency shall incur operating expenses in amounts that would cause the amount in the Contingency Fund to be less than the Contingency Fund Requirement then, within thirty (30) days after notice thereof, the County covenants to pay to the Agency as

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

7. Lease (continued):

Supplemental rent an amount sufficient to (i) cover the difference between the amount of such operating expenses and the amounts then available under the Lease Revenue Bond Resolution for payment thereof and (ii) cause the amount in the Contingency Fund under the Resolution, after payment of such operating expenses, to equal the Contingency Fund Requirement.

The future minimum Basic Rent revenues under the lease agreement are as follows:

<u>Year</u>	<u>Basic Rent</u>	<u>Administrative Rent*</u>
2014	\$5,212,976	\$ 85,000
2015	5,409,044	87,550
2016	5,404,793	90,177
2017	5,405,044	92,882
2018	5,404,294	95,668
2019	5,407,294	98,538
2020	5,408,544	101,494
2021	5,407,794	104,539
2022	5,404,518	107,675
2023	5,408,919	110,906
2024	5,406,106	114,233
2025	5,405,306	117,660
2026	5,403,806	121,190
2027	5,406,344	124,825
2028	5,407,250	128,570
2029	5,405,500	132,427
2030	5,408,750	136,400
2031	5,406,250	140,492
2032	5,407,750	144,707
2033	5,407,500	149,048

* Administrative Rent represents the \$85,000 annual operating cap increased by 3% each year.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

8. Net position:

The Agency's net position has three components, 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

Net position classified as invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through State statute.

The Agency's restricted net position represents certain proceeds of the lease revenue bonds, as well as certain resources set aside for their repayment and other funds provided for Agency operations and contingencies by Suffolk County, which are limited for the purposes and under the terms and conditions set forth in the Lease Revenue Bond Resolution, adopted September 10, 2013.

Unrestricted net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt".

9. Effect of new accounting standard on current-period financial statements:

In March 2012, GASB issued GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, which was implemented by the Agency during the year ended December 31, 2013. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

10. Related party transactions:

All six members of the Agency's Board of Directors were appointed by the Suffolk County Legislature. On November 14, 2013 the Agency purchased the H. Lee Dennison Building from Suffolk County for \$68,528,875. On November 14, 2013, the Agency entered into a lease agreement with Suffolk County whereby Suffolk County leased back the H. Lee Dennison Building for a twenty-year term with rent payable in accordance with the schedule presented in Note 7. As the first rent payment is not due until 2014, no rental income has been recognized in 2013.

11. Deficit net position:

The Agency ended 2013 with a deficit net position of \$(1,105,721). The negative net position is primarily due to several significant events occurring in November 2013, including the issuance of bonds and the purchase-leaseback of a building. Several significant expenses were recorded, including bond issuance costs, accrued interest expense and depreciation. Under the terms of the building lease, no rent is due until 2014.

Suffolk County Judicial Facilities Agency

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2013

	<u>Budgetary Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operating revenues	\$ 14,800	\$ 14,800	\$ -	\$ (14,800)
	<u>14,800</u>	<u>14,800</u>	<u>-</u>	<u>(14,800)</u>
Operating expenses:				
Insurance	10,500	10,500	12,963	(2,463)
Legal fees	7,500	7,500	5,000	2,500
Audit fees	4,000	4,000	5,000	(1,000)
Meetings	300	300	486	(186)
Administration fees	3,300	3,300	5,500	(2,200)
Bank service charges	1,000	1,000	194	806
Miscellaneous	1,000	1,000	206	794
Depreciation	-	-	278,395	(278,395)
Total operating expenses	<u>27,600</u>	<u>27,600</u>	<u>307,744</u>	<u>(280,144)</u>
Non-operating revenue (expenses):				
Interest income	-	-	84	84
Dividend income	-	-	17	17
Interest expense	-	-	(392,376)	(392,376)
Bond issuance costs	-	-	(450,064)	(450,064)
Total non-operating revenue (expenses)	<u>-</u>	<u>-</u>	<u>(842,339)</u>	<u>(842,339)</u>
Excess (deficiency) of revenue over (under) expenses	<u>\$ (12,800)</u>	<u>\$ (12,800)</u>	(1,150,083)	<u>\$ (1,137,283)</u>
Net position, beginning of year			<u>44,362</u>	
Net position, end of year			<u>\$ (1,105,721)</u>	