

**Sherburne Area Local
Development Corporation**
(A New York Public Authority)

Financial Report

December 31, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Sherburne Area Local Development Corporation
Sherburne, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Sherburne Area Local Development Corporation (Corporation), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, changes in 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 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 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 Corporation'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 Corporation'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sherburne Area Local Development Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

SaxBST LLP

Albany, New York
February 26, 2016

Sherburne Area Local Development Corporation

Statements of Net Position

		December 31,	
		2015	2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 53,293	\$ 57,733
NONCURRENT ASSETS			
Capital assets			
Non-depreciable		748,314	748,314
Depreciable, net		1,487,649	1,529,799
Total capital assets		2,235,963	2,278,113
		\$ 2,289,256	\$ 2,335,846
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accrued interest		\$ 36,603	\$ 31,954
NONCURRENT LIABILITIES			
Unearned rental income		489,894	546,561
Mortgage payable		190,531	190,531
Bonds payable		943,500	1,094,800
		1,623,925	1,831,892
NET POSITION			
Net investment in capital assets		1,101,932	992,782
Unrestricted		(473,204)	(520,782)
		628,728	472,000
		\$ 2,289,256	\$ 2,335,846

See accompanying Notes to Financial Statements.

Sherburne Area Local Development Corporation

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2015	2014
OPERATING REVENUES		
Rental income	\$ 254,910	\$ 261,429
OPERATING EXPENSES		
Professional services	4,550	4,750
Depreciation	42,150	42,150
	46,700	46,900
Operating income	208,210	214,529
NONOPERATING INCOME (EXPENSE)		
Interest income	110	930
Interest expense	(51,592)	(58,255)
	(51,482)	(57,325)
CHANGE IN NET POSITION	156,728	157,204
NET POSITION, <i>beginning of year</i>	472,000	314,796
NET POSITION, <i>end of year</i>	\$ 628,728	\$ 472,000

See accompanying Notes to Financial Statements.

Sherburne Area Local Development Corporation

Statements of Cash Flows

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from rents	\$ 198,243	\$ 204,906
Cash paid to vendors	(4,550)	(4,750)
	193,693	200,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on bonds payable	(46,943)	(53,606)
Principal paid on bonds payable	(151,300)	(151,300)
	(198,243)	(204,906)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	110	930
	(4,440)	(3,820)
Net decrease in cash and cash equivalents		
	(4,440)	(3,820)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	57,733	61,553
CASH AND CASH EQUIVALENTS, <i>end of year</i>	\$ 53,293	\$ 57,733
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 208,210	\$ 214,529
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	42,150	42,150
Decrease in unearned rental income	(56,667)	(56,523)
	\$ 193,693	\$ 200,156

See accompanying Notes to Financial Statements.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies

a. Organization and Purpose

The Sherburne Area Local Development Corporation (Corporation) was created in February 2008, under the provisions of Section 1411 of the Not-For-Profit Law of the State of New York, for the purpose of relieving and reducing unemployment by promoting and providing job opportunities in the Village of Sherburne, New York (Village) and surrounding communities. This is accomplished by making revolving loans to local businesses to enhance redevelopment, as well as further development of the central business district of the Village, including real estate and infrastructure development and management, real estate and infrastructure project finance, and other community-based economic development.

The Corporation is governed by a voting Board of Directors (Board) consisting of no less than three and no more than seven with the exact number established by resolution. The Mayor of the Village serves as an ex officio member of the Corporation's Board. At the Corporation's annual meeting, the Board appoints directors for positions where directorship is created, or the term of a director has expired.

b. Basis of Accounting and Financial Statement Presentation

The Corporation's financial statements are prepared using the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Corporation is determined by its measurement focus. The transactions of the Corporation are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statements of net position. Net position is presented in the following categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation less the outstanding indebtedness used to finance those capital assets.
- *Unrestricted* consists of assets and liabilities that do not meet the definition of "restricted net assets" or "net investment in capital assets."

Revenues are recognized when earned, and expenses are recognized when incurred. The Corporation distinguishes operating revenues and expenses from nonoperating items. Operating revenues are determined based on the services provided by the Corporation. Operating expenses include the costs associated with providing those services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

d. Capital Assets

Capital assets are reported at cost. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repairs costs, if any, are expensed as incurred. When, and if, capital assets are retired or disposed of, the appropriate accounts are relieved of costs and accumulated depreciation, and any resultant gain or loss is credited to operations. The Corporation incurred start-up costs in regard to its creation and organization. These costs include legal and other professional fees and are recorded as other capital assets.

Depreciation for the Corporation's building is recorded under the straight-line method using an estimated useful life of forty years. Other capital assets are being depreciated under the straight-line method using an estimated useful life of twenty years.

The Corporation evaluated prominent events or changes in circumstances affecting capital assets to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2015 or 2014.

e. Tax Status

The Corporation is exempt from income taxes as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and comparable New York State law. Accordingly, no provisions have been made for income taxes in these financial statements.

f. Subsequent Events

The Corporation has evaluated subsequent events for potential recognition or disclosure through February 26, 2016, the date the financial statements were available to be issued.

Note 2 - Cash and Cash Equivalents

The Corporation's investment policies are governed by New York State statutes. In addition, the Corporation has its own written investment policy. Corporation monies must be deposited in Federal Deposit Insurance Corporation insured commercial banks or trust companies located within the State. The Corporation is authorized to use demand accounts, money market accounts, and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and agencies of the United States of America and obligations of New York State.

Collateral is required for demand deposits and certificates of deposit. The Corporation considers all investments purchased with a maturity of three months or less to be cash equivalents. Obligations that may be pledged as collateral are obligations of the United States and its agencies, New York State, irrevocable letters of credit issued by a qualified bank, or a surety bond.

Cash balances at December 31, 2015, were fully collateralized.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2015 and 2014

Note 3 - Capital Assets

Capital assets are comprised of land, a building, and building related costs. Costs to acquire and develop the land and building are capitalized as incurred. No depreciation expense is recorded on the land and land improvements..

A summary of the Corporation's capital assets is as follows:

	December 31, 2015		
	Balance at Beginning of Year	Additions	Balance at End of Year
<u>Depreciable</u>			
Building	\$ 1,644,358	\$ -	\$ 1,644,358
Other assets	20,824	-	20,824
Less accumulated depreciation	(135,383)	(42,150)	(177,533)
Total depreciable capital assets	1,529,799	(42,150)	1,487,649
 <u>Non-depreciable</u>			
Land and land improvements	748,314	-	748,314
 Total capital assets, net	 \$ 2,278,113	 \$ (42,150)	 \$ 2,235,963
	December 31, 2014		
	Balance at Beginning of Year	Additions	Balance at End of Year
<u>Depreciable</u>			
Building	\$ 1,644,358	\$ -	\$ 1,644,358
Other assets	20,824	-	20,824
Less accumulated depreciation	(93,233)	(42,150)	(135,383)
Total depreciable capital assets	1,571,949	(42,150)	1,529,799
 <u>Non-depreciable</u>			
Land and land improvements	748,314	-	748,314
 Total capital assets, net	 \$ 2,320,263	 \$ (42,150)	 \$ 2,278,113

Land and related acquisition and development costs at December 31, 2015 and 2014, represent a 30.919 acre parcel of land located adjacent to Classic Street within the Village. The land was purchased and is being developed for the purpose of undertaking the development of a multi-tenant industrial park to be known as "Sherburne Electric Business Park."

Sherburne Area Local Development Corporation

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Capital Assets - Continued

A summary of land and land improvement costs as of December 31, 2015 and 2014, is as follows:

Acquisition of land	\$ 197,356
Other acquisition and development costs	
Survey	2,063
Engineering	105,076
Legal	11,349
Development	408,405
Design	17,000
Other	7,065
	<hr/>
	\$ 748,314
	<hr/> <hr/>

Note 4 - Mortgage Payable

During 2008 and 2009, the Village loaned the Corporation \$295,000 to finance the acquisition of a certain parcel of land and related costs (Note 3) and to provide funding for certain organizational costs of the Corporation. During 2012, the Corporation made a \$100,000 payment to the Village to begin its pay down of principal on this mortgage. The balance of the mortgage at December 31, 2015 and 2014, was \$190,531.

Terms of the mortgage include monthly payments of interest at 2.44%, with a balloon payment of \$190,531 in April 2019, the due date of the mortgage. The loan is secured by the property financed and all fixtures and personal property which now is or which later may be attached to the property.

The Corporation is currently in arrears with its scheduled payments of interest. Unpaid scheduled interest totaled \$36,603 and \$31,954 at December 31, 2015 and 2014, respectively.

Interest expense incurred on this indebtedness for both the years ended December 31, 2015 and 2014, totaled \$4,649.

Note 5 - Bonds Payable

On June 1, 2011, the Corporation issued two tax-exempt Revenue Bonds, Series 2011, for the (1) acquisition of certain lands located within the Sherburne Electric Business Park; (2) planning, design, and construction of a 15,000 square foot facility for lease to the Village and use by the Village's Electric Department and Department of Public Works; (3) acquisition of certain equipment, machinery, and other tangible personal property, and (4) paying of certain costs and expenses incidental to the issuance of the bonds.

Beginning January 1, 2012, the Corporation is obligated to make annual payments of principal and interest at 4.25% through January 2021. The terms of one of the bonds also includes a balloon payment on January 1, 2021. Interest expense incurred and paid on these bonds was \$46,943 and \$53,606 for the years ended December 31, 2015 and 2014, respectively. The Corporation paid the annual installment of principal and interest, due January 1, 2016 and 2015, during December 2015 and 2014, respectively.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2015 and 2014

Note 5 - Bonds Payable - Continued

The bonds are secured by a mortgage and Security Agreement, dated June 1, 2011, and are collateralized by the land, building, and equipment described above. In addition, the bonds are secured by an assignment of certain leases and rents (Note 6).

A summary of bonds payable is as follows:

	December 31,	
	2015	2014
Revenue Bond, Series 2011, payable in annual installments of principal of \$18,700 plus interest at 4.25%, maturing January 1, 2021, with a balloon payment of \$205,700	\$ 280,500	\$ 299,200
Revenue Bond, Series 2011, payable in annual installments of principal of \$132,600 plus interest at 4.25%, maturing January 1, 2021.	<u>663,000</u>	<u>795,600</u>
	<u><u>\$ 943,500</u></u>	<u><u>\$ 1,094,800</u></u>

The following is a summary of annual principal and interest payments for the bonds:

	Principal	Interest	Total
For the year ending December 31,			
2016	\$ -	\$ -	\$ -
2017	151,300	40,767	192,067
2018	151,300	34,136	185,436
2019	151,300	27,617	178,917
2020	151,300	21,097	172,397
2021	<u>338,300</u>	<u>14,617</u>	<u>352,917</u>
	<u><u>\$ 943,500</u></u>	<u><u>\$ 138,234</u></u>	<u><u>\$ 1,081,734</u></u>

Note 6 - Rental Agreement

On June 1, 2011, the Corporation entered into a lease agreement with the Village for the rental of a building owned by the Corporation (Note 3).

Base rents under the agreement are in an amount sufficient to pay the interest and principal due and payable on the bonds on each bond payment date. The lease terminates on December 1, 2021. Rental income related to this agreement for the years ended December 31, 2015 and 2014, totaled \$204,906 and \$211,425, respectively. The Village paid the January 2016 and 2015 rent payments of \$198,243 and \$204,906, respectively, during December 2015 and 2014, respectively. These amounts have been reported as deferred rental income at December 31, 2015 and 2014.

The Village is responsible for most building related expenses, including water, gas, oil, electricity, heat, telephone, sewage, trash removal, janitorial service, insurance, and snow removal.

Sherburne Area Local Development Corporation

Notes to Financial Statements
December 31, 2015 and 2014

Note 6 - Rental Agreement - Continued

A schedule of future minimum rental receipts is as follows:

For the year ending December 31,

2016	\$	-
2017		192,067
2018		185,436
2019		178,917
2020		172,397
2021		<u>352,917</u>
	\$	<u>1,081,734</u>

In addition to the lease agreement described above, during October 2009, the Corporation entered into an agreement with the Village which required the Village to place a \$500,000 deposit with the Corporation, to be utilized by the Corporation in furtherance of the land development and construction of the building. This deposit is considered additional rent under the lease agreement and will be amortized into rental income on a straight-line basis, over a ten-year period beginning November 1, 2011, and expiring October 31, 2021. Rental income recognized from this deposit totaled \$50,004 for both the years ended December 31, 2015 and 2014.

Amortization of this deferred rental income is as follows:

For the year ending December 31,

2016	\$	50,004
2017		50,004
2018		50,004
2019		50,004
2020		50,004
2021		<u>41,631</u>
	\$	<u>291,651</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***

Board of Directors
Sherburne Area Local Development Corporation
Sherburne, New York

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 Sherburne Area Local Development Corporation (Corporation) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Corporation's basic financial statements, and have issued our report thereon dated February 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation'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 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 Corporation'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.

SaxBST LLP

Albany, New York
February 26, 2016

