

Troy Local Development Corporation

**Financial Statements as of
December 31, 2016
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

April 6, 2017

To the Board of Directors
Troy Local Development Corporation
Troy, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Troy Local Development Corporation (TLDC), as of and for the year ended December 31, 2016, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TLDC as of December 31, 2016, and the changes in financial position, and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Report on Required Supplementary 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 part of the basic financial statements, is required by 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 April 6, 2017 on our consideration of TLDC'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 TLDC's internal control over financial reporting and compliance.

TROY LOCAL DEVELOPMENT CORPORATION

STATEMENT OF NET POSITION

DECEMBER 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	306,529
Accounts receivable, net		6,795
Loans receivable, current installments, net		589,272
Prepaid expenses		18,357
Other current assets		7,988
Total current assets		<u>928,941</u>

LONG-TERM ASSETS

Property held for development and resale, net		2,886,330
Loans receivable, less current installments, net		167,983
Prepaid interest		60,271
Security deposits		614
Total long-term assets		<u>3,115,198</u>
		<u>4,044,139</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	9,426
Accrued interest		23,231
Grants payable		126,904
Loan payable, current		139,167
Total current liabilities		<u>298,728</u>

LOAN PAYABLE, long term 1,247,499

TOTAL LIABILITIES 1,546,227

NET POSITION

Unrestricted		<u>2,497,912</u>
	\$	<u>2,497,912</u>

The accompanying notes are an integral part of these statements.

TROY LOCAL DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION DECEMBER 31, 2016

OPERATING REVENUES	
Rental income	\$ 69,672
Interest income	47,689
Settlement	30,257
Administrative fees	<u>2,000</u>
	<u>149,618</u>
OPERATING EXPENSES	
Economic development grants	125,188
Professional fees, other	113,805
Professional fees, engineering	25,466
Professional fees, accounting	24,520
Insurance	14,754
Depreciation	8,928
Other	5,630
Utilities	4,274
Property taxes	2,555
Repairs and maintenance	680
Provision for bad debts (net of recoveries)	<u>(37,831)</u>
	<u>287,969</u>
Operating loss	<u>(138,351)</u>
NONOPERATING REVENUE (EXPENSE)	
Interest expense	<u>(82,678)</u>
CHANGE IN NET POSITION	(221,029)
NET POSITION, <i>beginning of year</i>	<u>2,718,941</u>
NET POSITION, <i>end of year</i>	<u>\$ 2,497,912</u>

The accompanying notes are an integral part of these statements.

TROY LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

DECEMBER 31, 2016

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES

Receipts from customers	\$ 317,355
Payments to vendors	(412,489)
Loan advances	(339,500)
Loan repayments	332,951
	<u>(101,683)</u>

CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES

Payment on loan payable	(139,167)
Interest paid	(91,013)
	<u>(230,180)</u>

Net decrease in cash and cash equivalents (331,863)

CASH AND CASH EQUIVALENTS, *beginning of year* 638,392

CASH AND CASH EQUIVALENTS, *end of year* \$ 306,529

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating loss	\$ (138,351)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities	
Depreciation	8,927
Bad debts (recoveries)	(37,831)
Changes in operating assets and liabilities	
Accounts receivable	123,086
Loans receivable	(6,549)
Prepaid expenses	16,100
Other current assets	(7,988)
Security deposits	1,036
Accounts payable and accrued expenses	5,717
Grants payable	(65,830)
	<u>\$ (101,683)</u>

The accompanying notes are an integral part of these statements.

TROY LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Purpose

The Troy Local Development Corporation (TLDC), a private not-for-profit corporation, was established in 1987 for the purposes of constructing, acquiring, rehabilitating, and improving buildings or sites in the City of Troy, New York (City), or to assist financially in the construction, acquisition, rehabilitation, and improvement of buildings or sites within the City, and to foster employment opportunities for City residents, including business retention and attraction, and job creation and retention.

TLDC is a public instrumentality of and supporting organization for, but is separate and apart from, the City.

b. Basis of Accounting and Financial Statement Presentation

TLDC'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). 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 TLDC is determined by its measurement focus. The transactions of TLDC 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 segregated into restricted and unrestricted components, as follows; if applicable:

- *Restricted net position* consists of net position that are restricted by the Board for specific purposes, and
- *Unrestricted net position* consists of net position and liabilities that do not meet the definition of restricted net position.

c. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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.

d. Receivables

Accounts receivable consist of amounts due from lessees based on rental agreements, interest from loans, late charges on loans, and receivables related to Payment in Lieu of Tax (PILOT) agreements and amount to \$6,795 at December 31, 2016.

Loans receivable are carried at the original loan amount less payments of principal received.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

TLDC determines its allowance for doubtful accounts by regularly evaluating individual receivables and considering collateral value, financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts was \$65,000 at December 31, 2016.

e. Property Held for Development and Resale

Property held for development and resale is recorded at cost and is carried at the lower of depreciated cost or fair value less costs to sell. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas remediation, maintenance, and repair costs are expensed as incurred. When property held for development or resale is sold or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation, and any resultant gain or loss is credited or charged to the change in net position.

Depreciation is provided for in amounts to relate the cost of depreciable assets to operations over their estimated useful lives on a straight-line basis using an estimated life of forty years.

Recognition of impairment of property held for development and resale is required when events and circumstances indicate that an entity will not be able to recover the carrying amount of these assets. TLDC recognizes an impairment loss, equal to the amount by which the carrying amount of an asset exceeds its fair value, if the carrying amount of the asset is not recoverable, and the carrying amount of the asset exceeds its fair value. During the year ended December 31, 2016, no impairment loss is recognized.

f. Revenue and Expense Recognition

Rental income is recognized on the straight-line basis over the lease term. Grant income is recognized as costs are incurred. Expenses are recognized when incurred. TLDC distinguishes operating revenues and expenses from non-operating items. Operating revenues are determined based on the services provided by TLDC. 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.

g. Tax Status

TLDC 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.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Collateral is required for demand deposits and certificates of deposit. Certificates of deposit purchased with an original maturity of three months or less are considered cash equivalents. Obligations that may be pledged as collateral are those of the United States and its agencies or New York State and its municipalities and school districts.

Cash equivalents at December 31, 2016 consisted of municipal money market accounts which were fully collateralized.

NOTE 3 - LOANS RECEIVABLE

TLDC administers an economic development loan program with the primary objective of stimulating the City's economic base in order to create new job opportunities. Loans are made to eligible borrowers meeting targeted economic criteria at market interest rates.

Loans made under the program are generally collateralized by machinery, equipment, or real property of the borrower. Certain loans require fixed monthly payments while others are due in one lump sum payment.

A summary of loans receivable is as follows:

Loan receivable	\$	822,255
Allowance for doubtful accounts		<u>(65,000)</u>
	\$	<u>757,255</u>

Loans receivable, <i>beginning of year</i>	\$	815,706
Loans advanced		339,500
Repayments		<u>(332,951)</u>
Loans receivable, <i>end of year</i>	\$	<u>822,255</u>

NOTE 4 - PROPERTY HELD FOR DEVELOPMENT AND RESALE

TLDC has acquired various parcels in the City to promote future economic growth and assist in revitalization of the City.

NOTE 4 - PROPERTY HELD FOR DEVELOPMENT AND RESALE - Continued

A summary property held for development and resale is as follows:

	January 1, 2016			December 31, 2016
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Land	\$ 2,726,212	\$ -	\$ -	\$ 2,726,212
Buildings and other improvements	184,256	-	-	184,256
Equipment	<u>20,495</u>	<u>-</u>	<u>-</u>	<u>20,495</u>
Total	<u>2,930,963</u>	<u>-</u>	<u>-</u>	<u>2,930,963</u>
Less accumulated depreciation:				
Buildings and other improvements	35,706	4,828	-	40,534
Equipment	<u>-</u>	<u>4,099</u>	<u>-</u>	<u>4,099</u>
Total accumulated depreciation	<u>35,706</u>	<u>8,927</u>	<u>-</u>	<u>44,633</u>
Total, net	<u>\$ 2,895,257</u>	<u>\$ (8,927)</u>	<u>\$ -</u>	<u>\$ 2,886,330</u>

NOTE 5 - LOAN PAYABLE

During 2008, TLDC entered into a loan agreement with the City for \$3,000,000 to be used for property acquisition and economic development. The agreement requires semi-annual interest payments at 5% and annual principal payments to the City as billed by the United States Department of Housing and Urban Development (HUD) Section 108 loan authorization pursuant to the BEDI. During 2015, TLDC made a \$400,354 payment to the City – \$305,167 was applied to loan principle and \$95,187 was prepaid interest. The prepaid interest is being amortized over the remaining term of the loan. The loan matures in August 2026 and is secured by a mortgage on real property.

Activity in loans payable was as follows:

Loan payable, beginning of year	\$ 1,525,833
Additions	-
Redemptions	<u>(139,167)</u>
Loan payable, end of year	<u>\$ 1,386,666</u>

NOTE 5 - LOAN PAYABLE (Continued)

A summary of future principal payments and estimated interest payments is as follows:

	<u>Principal</u>	<u>Interest</u>
For the year ending December 31,		
2017	139,167	69,692
2018	139,167	63,346
2019	139,167	56,917
2020	139,167	50,139
2021 through 2025	695,835	144,901
2026	<u>134,163</u>	<u>7,165</u>
	<u>\$ 1,386,666</u>	<u>\$ 392,160</u>

Interest expense for the year ended December 31, 2016 was \$82,678, and cash paid for interest was \$91,013.

NOTE 6 - RENTAL INCOME

TLDC has two active lease agreements arising from the leasing of property owned by TLDC. Aggregate monthly lease payments approximate \$5,800 and expire between December 2019 and December 2023, with renewal options.

A summary of future minimum rental payments due to TLDC under operating lease agreements is as follows:

For the year ending December 31,	
2017	\$ 69,672
2018	69,672
2019	69,672
2020	69,672
2021	66,672
Thereafter	<u>130,344</u>
	<u>\$ 475,704</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

a. Environmental Risks

TLDC is developing and implementing a plan for pollution remediation and site development on the King Fuel properties with assistance from the New York State Department of Environmental Conservation and National Grid. Preliminary testing and clean-up efforts began in late 2007 and are expected to continue for several years. The TLDC funding assistance has been provided through the BEDI grant and loan funds.

b. Program Grant and Loan Commitments

During 2016, TLDC approved various applications for funding under its loan and grant programs. Funding of the approved amounts is dependent upon the applicant meeting various documentation requirements.

c. Loss Contingencies

TLDC has been served a pre-arbitration demand letter seeking \$49,000 in relation to a dispute with a contractor who performed demolition work. TLDC contends that it did not breach the contract and that no damages are due.

TLDC has obtained a settlement agreement and confession of judgement for \$33,000 related to the default of one of its loans receivable. The borrower has not made the required payments under the settlement agreement. TLDC believes that its allowance of \$65,000 against loan receivables is adequate to cover any potential loss.

NOTE 8 – RELATED PARTY TRANSACTIONS

City of Troy

During 2016, TLDC paid a third party vendor a \$97,000 consulting fee related to the City of Troy's comprehensive plan.

The city of Troy provides staff support and office space to TLDC without compensation.

INDEPENDENT AUDITOR'S 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

April 6, 2017

To the Board of Directors
Troy Local Development Corporation
Troy, 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 Troy Local Development Corporation (TLDC) as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise TLDC's basic financial statements and have issued our report thereon dated April 6, 2017.

Internal Control over Financial Reporting

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

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

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

(Continued)

INDEPENDENT AUDITOR'S 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 (Continued)

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.