

**MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT AGENCY**

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Chairperson and Board of the
Montgomery County Industrial Development Agency
Fonda, New York

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Montgomery County Industrial Development Agency, a public benefit corporation, a component unit of the County of Montgomery, New York, as of and for the year ended December 31, 2012, 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 an opinion on these basic 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 basic 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 Agency'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montgomery County Industrial Development Agency as of December 31, 2012, and the respective changes in financial position and, where applicable, 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 the management's discussion and analysis on pages 3 through 10 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County Industrial Development Agency's basic financial statements. The supplemental information on pages 22 through 25 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information on pages 22 through 25 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the Montgomery County 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 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 Montgomery County Industrial Development Agency's internal control over financial reporting and compliance.

WEST & COMPANY CPAs PC

Gloversville, New York
February 28, 2013

MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

The following is a narrative overview and analysis of the financial activities of Montgomery County Industrial Development Agency (IDA or Agency) for the fiscal year ended December 31, 2012. This discussion is intended to serve as an introduction to the Agency's basic financial statements, which immediately follow this section. The basic financial statements have the following components: (1) management's discussion and analysis (MD&A), (2) Agency-wide financial statements, (3) notes to the financial statements and (4) supplemental schedules.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements and required supplementary information. The basic financial statements include two statements that are Agency-wide financial statements that provide both short-term and long-term information about the Agency's overall financial status.

Agency-Wide Statements

The Agency-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Agency-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – is one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, you need to consider additional nonfictional factors such as changes in the New York State government, labor forces and land availability.

I. BACKGROUND

A. General

The Montgomery County Industrial Development Agency (IDA or Agency) was created in 1970 by an act of the New York State Legislature. The IDA is a corporate governmental agency constituting a public benefit corporation. The law that authorized the creation of Industrial Development Agencies in New York State states that the purpose of an Industrial Development Agency (IDA) shall be:

“to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing industrial, manufacturing, warehousing, commercial and research facilities and thereby advance the job opportunities, general prosperity and economic welfare of the people of the State of New York and to improve their standard of living.”

To accomplish this purpose, the New York State Legislature authorized IDAs to offer incentives in the form of tax exemptions to stimulate certain private sector investment.

B. Tax Exemptions

IDAs are authorized by the New York State Legislature to provide three forms of tax exemptions affecting personal and real property:

1. Property Tax

New York State Law designates IDAs as tax-exempt entities. When an IDA holds title to the real property of a project, New York State Law says all improvements on the property are exempt from all general real property taxes. However, the land that the improvements are located on remains taxable. These exemptions apply as long as the IDA holds title to the property.

The Montgomery County IDA, however, requires companies to make Payments In Lieu Of Taxes (PILOT). A PILOT is a written Agreement between the IDA and a company. The Agreement states that even though the project is tax exempt due to IDA ownership, the IDA wants the company to make certain payments to local taxing jurisdictions. PILOTs consist of an agreed upon percentage of the property tax that would otherwise be due on the property if the project had been completed without IDA involvement. PILOTs are developed in accordance with the Montgomery County IDA's Uniform Tax Exemption Policy. Once a PILOT is executed, the company makes the required annual payments to the IDA in accordance with the PILOT.

2. Sales Tax

IDAs can offer exemptions from sales taxes but only on eligible materials purchased during construction and for eligible equipment for the project.

3. Mortgage Recording Tax

If a project involves a mortgage, companies that receive IDA assistance are exempt from New York State's mortgage recording tax. In Montgomery County, this tax equals 0.75 percent of the total mortgage.

C. Industrial Revenue Bonds

IDAs can also provide important financing for a project through the issuance of Industrial Revenue Bonds (IRBs). IRBs are used to finance new or expansion projects. Financial institutions, such as banks, insurance companies or private individuals, purchase these bonds as an investment similar to an individual purchasing a U.S. Government Savings Bond. By purchasing a bond, a private investor lends their funds to a business. The business commits to repay the principal and interest to the lender. The IDA acts as an intermediary for this private transaction. There are no IDA or public funds involved in an IDA bond transaction.

The business and the financial institution themselves negotiate the terms and conditions of the transaction (its length, the interest rate), independent of the IDA.

The Montgomery County IDA, Montgomery County Government or local taxpayers do not lend any public money nor do they assume any responsibility for repaying bonds if the business defaults on any payment. There is also no financial liability on New York State, the County of Montgomery or any political subdivision. IRB payments are solely the responsibility of the company borrowing the money.

D. NYS Public Authorities Accountability Act of 2005 (the Act)

In 2005, the NYS Legislature adopted and Governor Pataki signed in early 2006 the NYS Public Authorities Accountability Act of 2005. This key piece of legislation imposed fundamental changes to the way Industrial Development Agencies in New York State are to be administered and managed. The Act obligated IDAs to take certain affirmative actions to comply with this new law, including:

1. Prepare and file annual reports, budget reports and property reports in accordance with the requirements of the Act.
2. Prepare and adopt property and investment guidelines, personnel and compensation policies, defense and indemnification policies and a Code of Ethics.
3. Create and appoint Audit and Governance Committees.
4. Comply with numerous new operational requirements dealing with matters such as:
 - a. Preparing and filing independent financial audits.
 - b. Obtaining training for Board members.
 - c. Ensuring the separation of oversight and operational duties and responsibilities of the Agency.
 - d. Ensuring that Board members are independent.
 - e. Providing for financial disclosure of Board members.
 - f. Sale of real property.

II. SUMMARY OF 2012 ACTIVITIES

The Montgomery County Industrial Development Agency is comprised of a seven member Board of Directors. The Board of Supervisors appoints all members to the IDA and said members serve at the pleasure of the Supervisors.

The IDA met a total of ten times in 2012. The following is a summary of the primary activities the IDA was involved with in 2012:

A. EXPANSIONS AND NEW PROJECTS

1. Footehills Farm

In January, 2012, a \$57,500 loan was issued to Footehills Farm through the USDA loan fund. The loan proceeds were utilized to assist the startup of a high quality cheese making facility and to purchase machinery and equipment. This project will result in the creation of three new positions over the next three years.

2. M.H. Stallman Company

Throughout 2012, the Agency has been working with M.H. Stallman Company, a plastic manufacture and foam fabrication facility, which expanded their operations to the former Hill and Markes Distribution Center in the Town of Amsterdam. To help facilitate this project, the Agency will provide direct technical assistance in grant writing for programs that are available to them through State, federal and local agencies. In addition, the Company is looking for the Agency to issue an Industrial Revenue bond. This project lead to the retention of 11 employees and will lead to the creation of 40 more positions over the next four years.

3. Cushing Stone

In June of 2012, the Agency applied to National Grid for a National Grid Emergency Main Street Revitalization Grant and was awarded \$25,000, on behalf of Cushing Stone to aid the Company in funding repairs caused by Hurricane Irene and Tropical Storm Lee.

4. Public Benefit

In 2012, the Agency worked with three Companies that received direct project funding through New York State's Regional Economic Development councils for new projects in the County.

- a. **Helmont Mills/Gehring Tricot** of St. Johnsville and Dolgeville, received money for an expansion and rehabilitation project at both sites. At the St. Johnsville site, this means the creation of an additional 20 jobs.
- b. **St. Mary's Healthcare** received funds to build a new 34,000 sq. ft. Outpatient Pavilion at its Memorial Campus which will result in the creation of eight new positions.
- c. **TecMar LLC** also received funding to construct an aquaculture facility in the Glen Canal View Business Park that will result in the creation of 175 jobs.

5. Regional Business Plan for Fulton and Montgomery Counties

The Agency continues to work with Fulton County Economic Development officials, educational and political leaders and area Business Leaders in implementing the Fulton and Montgomery Counties Regional Business Plan. As part of this plan, the Agency collaborated on developing the City Revitalization Symposium that was held at HFM BOCES. This symposium featured the Mayor from the City of Auburn as well as a developer panel and a panel of state representatives discussing various funding opportunities.

6. Park Development

In 2012, the Agency sold a 6.83 acre parcel of land in the Glen Canal View Business Park to L & S Veener, a logging company which began operations immediately.