

**TOWN OF AMHERST
INDUSTRIAL DEVELOPMENT AGENCY**

**Financial Statements
as of December 31, 2013 and 2012
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITOR'S REPORT

March 31, 2014

To the Board of Directors of the
Town of Amherst Industrial Development Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Town of Amherst Industrial Development Agency (the Agency), 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 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.

100 Corporate Parkway
Suite 200
Amherst, New York 14226
p (716) 250-6600
f (716) 250-6605

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the 2013 financial statements referred to above present fairly, in all material respects, the respective 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.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6 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.

Prior Period Financial Statements

The financial statements of Town of Amherst Industrial Development Agency as of and for the year ended December 31, 2012, were audited by other auditors whose report dated March 26, 2013, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 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 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Amherst Industrial Development Agency's basic financial statements. Schedules 1-2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules are the responsibility of management and were derived from and relate 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 schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

The following Management's Discussion and Analysis (MD&A) of the Town of Amherst Industrial Development Agency's (the Agency) financial position provides an overview of Agency's financial activities for the years ended December 31, 2013 and 2012. The MD&A should be read in conjunction with Agency's financial statements and related notes, which follow the MD&A.

FINANCIAL HIGHLIGHTS

- The assets of the Agency exceeded its liabilities at December 31, 2013 and 2012 by \$2,233,381 and \$2,273,638, respectively.
- The Agency's net position decreased by \$40,257 in 2013 and increased by \$245,191 in 2012, respectively as a result of 2013 and 2012 operations.
- The Agency's total revenues (operating and non-operating) were \$717,905 and \$1,052,469 in 2013 and 2012, respectively.
- The Agency's total expenses were \$758,162 and \$807,278 in 2013 and 2012, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The statement of net position and the statement of revenue, expenses, and change in net position report information about the Agency as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue 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 them from one year to the next. The Agency's net position, the difference between assets and liabilities, is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position are one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other factors, such as changes in the Agency's fee income and the fluctuation of the Agency's expenses, to assess the overall health of the Agency.

NOTES TO FINANCIAL STATEMENTS

The financial statements also include notes that explain the information in the financial statements. They are essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

The analysis below summarizes the statements of net position (Table 1) and changes in net position (Table 2) of Agency as of and for the years ended December 31, 2013, 2012 and 2011.

Table 1 - Statements of Net Position (000s omitted)

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-----------------|-----------------|-----------------|
| Assets: | | | |
| Current assets | \$ 1,951 | \$ 1,936 | \$ 1,654 |
| Capital assets, net of accumulated depreciation | 684 | 708 | 732 |
| Restricted and other assets | <u>237</u> | <u>278</u> | <u>354</u> |
| Total assets | <u>2,872</u> | <u>2,922</u> | <u>2,740</u> |
| Liabilities: | | | |
| Current liabilities | 78 | 44 | 70 |
| Long-term liabilities | <u>561</u> | <u>604</u> | <u>641</u> |
| Total liabilities | <u>639</u> | <u>648</u> | <u>711</u> |
| Net position: | | | |
| Net investment in capital assets | 83 | 70 | 56 |
| Restricted | 187 | 228 | 304 |
| Unrestricted | <u>1,963</u> | <u>1,976</u> | <u>1,669</u> |
| Total net position | <u>\$ 2,233</u> | <u>\$ 2,274</u> | <u>\$ 2,029</u> |

A large portion of the Agency's net assets (87.9% in 2013, 86.9% in 2012 and 82.3% in 2011) is unrestricted and available to meet ongoing and future liabilities. The slight decline in overall net position is due to the return of CDBG funds to the Town of Amherst, which occurs on a semi-annual basis.

Long-term liabilities consist mainly of the Agency's mortgage on its office building and continue to decline as payments are made.

Overall, the Agency continues to report a positive net position.

FINANCIAL ANALYSIS (Continued)

Table 2 shows the changes in net position for the years ended December 31, 2013, 2012 and 2011.

Table 2 - Changes in Net Position (000s omitted)

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|----------------|---------------|---------------|
| Revenues: | | | |
| Administrative fees | \$ 657 | \$ 762 | \$ 699 |
| Lease termination fees | - | - | 413 |
| Application fees | 4 | 3 | 8 |
| Refund of expenditures | 22 | 30 | 30 |
| Transfer from Town of Amherst Development Corp | 28 | 253 | 41 |
| Other and interest income | <u>6</u> | <u>4</u> | <u>18</u> |
| Total revenues | <u>717</u> | <u>1,052</u> | <u>1,209</u> |
| Expenses: | | | |
| Salaries and benefits | 499 | 492 | 487 |
| Town of Amherst - CDBG Funds | 40 | 76 | 76 |
| Mortgage interest | 37 | 37 | 44 |
| Professional fees | 23 | 24 | 26 |
| BNE Participation | 20 | 35 | 75 |
| Depreciation | 26 | 32 | 32 |
| Other general and administrative | <u>112</u> | <u>111</u> | <u>108</u> |
| Total expenses | <u>757</u> | <u>807</u> | <u>848</u> |
| Change in net position | <u>\$ (40)</u> | <u>\$ 245</u> | <u>\$ 361</u> |

Agency revenues in 2013 declined from 2012 due to a reduced level of installment sales and refinancing transactions in 2013 when compared with 2012. Revenue also declined in 2013 from 2012 due to the lack of tax-exempt financings and Transfer of Development Corporation fees.

Refund of expenditures declined due to the likely ending of a shared services agreement with the ECIDA, which reimbursed the Agency for a portion of the AIDA's Deputy Director's salary for work on ECIDA projects. ECIDA hired a new CEO/Executive Director at the end of 2013 and the status of the agreement is unknown at this time.

Expenses declined in 2013 as BNE Participation totaled \$20,000 to reflect lower Agency revenues and less CDBG funds were transferred to the Town of Amherst at their request.

FUTURE FACTORS

New York State passed legislation in 2013 that significantly hampered redevelopment activities as it reintroduced retail restrictions that impacts an IDA's ability to assist adaptive reuse and tax enhancement projects. It is unclear if there is any new legislation, touted as reform, which will impact the AIDA's ability to promote economic development and assist private enterprise invest in the Town of Amherst and Village of Williamsville.

Tax-exempt financings tend to be somewhat cyclical and we anticipate a few more inducements in 2014.

Economic indicators at the National level indicate that the economy may slow down in 2014, which will impact new companies exploring Amherst for a location and existing companies contemplating expanding.

CONTACTING AGENCY'S ADMINISTRATION

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of Agency's finances and to show the accountability for the money received. If you have questions about this report or need additional financial information, contact the Town of Amherst Industrial Development Agency, 4287 Main Street, Amherst, NY 14226.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF NET POSITION DECEMBER 31, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 1,871,301 | \$ 1,722,335 |
| Accounts receivable | 69,696 | 174,912 |
| Grant receivable | - | 33,818 |
| Prepaid expenses | <u>10,526</u> | <u>4,951</u> |
| Total current assets | <u>1,951,523</u> | <u>1,936,016</u> |
| CAPITAL ASSETS, NET | <u>683,848</u> | <u>708,235</u> |
| NOTES RECEIVABLE, RELATED PARTY | <u>50,000</u> | <u>50,000</u> |
| RESTRICTED ASSETS: | | |
| Restricted for future industrial development loans | 122,357 | 162,408 |
| Cash restricted for mortgage escrow | <u>64,939</u> | <u>64,939</u> |
| Total restricted assets | <u>187,296</u> | <u>227,347</u> |
| Total assets | <u>\$ 2,872,667</u> | <u>\$ 2,921,598</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 38,836 | \$ 10,000 |
| Due to U.S. Treasury Department | 48 | 100 |
| Current portion of mortgage payable | <u>39,534</u> | <u>34,235</u> |
| Total current liabilities | 78,418 | 44,335 |
| MORTGAGE PAYABLE, less current portion | <u>560,868</u> | <u>603,625</u> |
| Total liabilities | <u>639,286</u> | <u>647,960</u> |
| NET POSITION | | |
| NET INVESTMENT IN CAPITAL ASSETS | 83,446 | 70,375 |
| RESTRICTED | 187,296 | 227,347 |
| UNRESTRICTED | <u>1,962,639</u> | <u>1,975,916</u> |
| Total net position | <u>\$ 2,233,381</u> | <u>\$ 2,273,638</u> |

The accompanying notes are an integral part of these statements.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| OPERATING REVENUE: | | |
| Administrative fees | \$ 657,482 | \$ 761,746 |
| Application fees | 4,000 | 2,500 |
| Refund of expenditures | 22,368 | 29,823 |
| Other revenue | 3,072 | 2,250 |
| Transfer from Town of Amherst Development Corporation | <u>28,190</u> | <u>253,325</u> |
| Total operating revenue | <u>715,112</u> | <u>1,049,644</u> |
| OPERATING EXPENSES: | | |
| Salaries and benefits, net | <u>499,144</u> | <u>491,777</u> |
| General and administrative - | | |
| Town of Amherst - CDBG Funds | 40,000 | 76,000 |
| Building mortgage interest | 37,235 | 36,584 |
| Professional fees | 23,371 | 25,347 |
| Buffalo Niagara Enterprise participation | 20,000 | 35,000 |
| Maintenance and landscaping | 18,552 | 15,986 |
| Insurance | 16,911 | 16,366 |
| Special events and projects | 13,128 | 18,045 |
| Office supplies and postage | 11,663 | 14,099 |
| Dues and subscriptions | 9,666 | 8,035 |
| Telephone | 8,525 | 9,382 |
| Real property taxes | 7,834 | 7,582 |
| Marketing | 7,505 | 1,000 |
| Utilities | 6,397 | 6,306 |
| Equipment rental and repair | 5,435 | 4,670 |
| Meetings and conferences | 4,984 | 5,322 |
| Education | 1,213 | 3,106 |
| Auto and travel | <u>580</u> | <u>1,009</u> |
| Total general and administrative | <u>232,999</u> | <u>283,839</u> |
| Depreciation | <u>26,019</u> | <u>31,662</u> |
| Total operating expenses | <u>758,162</u> | <u>807,278</u> |
| Operating income (loss) | (43,050) | 242,366 |
| NON-OPERATING ACTIVITIES - interest income | <u>2,793</u> | <u>2,825</u> |
| CHANGE IN NET POSITION | (40,257) | 245,191 |
| NET POSITION - beginning of year | <u>2,273,638</u> | <u>2,028,447</u> |
| NET POSITION - end of year | <u>\$ 2,233,381</u> | <u>\$ 2,273,638</u> |

The accompanying notes are an integral part of these statements.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Fees and other revenue received | \$ 803,588 | \$ 606,496 |
| Refund of expenditures | 22,368 | 22,367 |
| Transfers from Town of Amherst Development Corporation | 28,190 | 253,325 |
| Payments to employees and vendors | <u>(708,934)</u> | <u>(800,843)</u> |
| Net cash flow from operating activities | <u>145,212</u> | <u>81,345</u> |
| CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Additions to property and equipment | (1,632) | (7,660) |
| Principal payments of long-term debt | <u>(37,458)</u> | <u>(38,112)</u> |
| Net cash flow from capital and related financing activities | <u>(39,090)</u> | <u>(45,772)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Interest income | 2,793 | 2,825 |
| Withdrawals from restricted deposits | <u>40,051</u> | <u>76,266</u> |
| Net cash flow from investing activities | <u>42,844</u> | <u>79,091</u> |
| CHANGE IN CASH | 148,966 | 114,664 |
| CASH - beginning of year | <u>1,722,335</u> | <u>1,607,671</u> |
| CASH - end of year | <u>\$ 1,871,301</u> | <u>\$ 1,722,335</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ (43,050) | \$ 242,366 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 26,019 | 31,662 |
| Changes in: | | |
| Prepaid insurance | (5,575) | 37 |
| Receivables | 139,034 | (167,456) |
| Accounts payable | 28,836 | (25,000) |
| Due to U.S. Treasury | <u>(52)</u> | <u>(264)</u> |
| Net cash flow from operating activities | <u>\$ 145,212</u> | <u>\$ 81,345</u> |

The accompanying notes are an integral part of these statements.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

1. AGENCY

The Town of Amherst Industrial Development Agency (the Agency) is a public benefit corporation created in 1973 in accordance with Article 18-A of New York State (the State) General Municipal Law for the purpose of encouraging financially sound companies to locate and expand in the Town of Amherst, New York (the Town). The Agency is exempt from federal, State and local income taxes. The Agency is a separate entity and operates independently of the Town.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Basis of Presentation

GASB requires the classification of net position into three classifications defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if applicable. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted net position - This component of net position consists of amounts which have external constraints placed on their use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At December 31, 2013 and 2012, the Agency has no restricted net position.
- Unrestricted net position - This component of net position consists of net position that do not meet the definition of "net investment in capital assets", or "restricted".

When both restricted and unrestricted resources are available for use for the same purpose, the Agency uses restricted resources first and then unrestricted resources, as needed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Activities

- *Industrial Development Bonds*

Industrial development revenue bonds issued by the Agency are secured by the properties which are leased to companies and are retired by lease payments. The conduit debt arising from bonds and notes are not obligations of the Agency. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its financial statements since its primary function is to facilitate the financing between the borrowing companies and the bond holders. The Agency receives bond administrative fees from the borrowing companies for providing this service. Such fees are recognized immediately upon issuance of the funds. At December 31, 2012, there were 3 tax-exempt bonds outstanding with an aggregate amount payable of approximately \$26,000,000. This information for 2013 was unavailable at the time of issuance of these financial statements.

- *Lease, Second and Collateral Mortgage Agreements and Other Financing Programs*

Lease agreements are used for projects when no financing is needed. Typically the project is financed internally by the company or developer. Second and collateral mortgage agreements are a financing tool used only when there is a mortgage already on the property. There are typically two types of second mortgages available: (1) a fixed asset second mortgage which is used for tenant improvements and/or equipment when the builder/owner needs to borrow additional money; and (2) an equity asset mortgage which is used for permanent working capital when the borrower/owner borrows the appreciated value or equity in an existing building. There are a variety of other financing programs, such as equipment purchase mortgages, leasehold mortgages, installment sales, acquisitions and expansions that the Agency offers to participating companies.

The Agency does not record the assets or liabilities resulting from these activities in its financial statements since its primary function is to arrange the financing. Funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives administrative fees from the borrowing companies. Such fees are recognized when earned.

- *Payments in Lieu of Taxes*

The Agency has entered into contractual arrangements with each of the client companies that have outstanding industrial development revenue bonds, whereby the client companies make payments in lieu of taxes to the Agency. Upon receipt of such payments, the Agency remits them to various taxing jurisdictions (Town of Amherst, County of Erie and various school districts) within the Town. The Agency does not reflect transactions regarding payments in lieu of taxes in its financial statements since its function in this area is to collect and remit the payment. The Agency does not charge a fee for this service.

The Agency collected and remitted \$6,805,324 and \$6,770,959 of payments in lieu of taxes for the years ended December 31, 2013 and 2012, respectively.

Related Parties

The Agency is related to the Town of Amherst Development Corporation (the Corporation), a not-for-profit corporation, through common membership of its Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash includes cash on hand, demand deposits, money market funds, and savings accounts.

Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. Generally accepted accounting principles require the use of the allowance method for recording bad debts. However, the use of the direct write-off method is not materially different from the results that would be obtained under the allowance method. Amounts for which no payments have been received for several months are considered delinquent and when customary collection efforts are exhausted, the account is written-off.

Capital Assets

Assets purchased or acquired with a useful life exceeding one year are capitalized. Contributed fixed assets are recorded at fair value at the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. The Agency depreciates assets on the straight-line basis over the asset's estimated useful lives ranging from 3 to 10 years.

Revenue Recognition

Operating revenue consists of revenue from fees earned on new projects when bonds are issued, mortgages are issued or a refinancing occurs. The Agency charges an amount equal to 1% of the project amount. For second mortgages, the Agency charges an administrative fee of .50%. For lease assignments and assumptions, the Agency charges an administrative fee of 1%. For the tax exempt financing, the Agency charges an administrative fee of .50%. Fee income is recorded as revenue when the financing closes, regardless of when the related cash is received. For projects receiving a sales tax letter, 25% of the fee is recognized as revenue when the sales tax letter is issued. Fee income received prior to closing is recorded as deferred revenue. The Agency defines non-operating revenue as interest earnings.

Income Taxes

The Agency is a not-for-profit public benefit corporation and is exempt from income taxes under the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The Agency's investment policies are governed by State statutes. In addition, the Agency has its own written investment policy. Agency monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies located within the State and which have a branch office located within the Town. The Agency is authorized to use only demand accounts and certificates of deposit. Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Cash

At December 31, 2013 and 2012, the Agency's cash was covered by FDIC insurance, or by eligible securities held in the Agency's name by a third-party custodial bank or by the bank's trust department. The Agency's deposits consisted of the following at December 31:

| | <u>2013</u> | | <u>2012</u> | |
|----------------------|-------------------------|----------------------------|-------------------------|----------------------------|
| | <u>Bank Balance</u> | <u>Carrying Amount</u> | <u>Bank Balance</u> | <u>Carrying Amount</u> |
| Checking accounts | \$ 157,532 | \$ 143,496 | \$ 26,704 | \$ 29,103 |
| Money market account | <u>1,727,805</u> | <u>1,727,805</u> | <u>1,693,232</u> | <u>1,693,232</u> |
| | <u>\$ 1,885,337</u> | <u>\$ 1,871,301</u> | <u>\$ 1,719,936</u> | <u>\$ 1,722,335</u> |

These deposits were insured or collateralized as follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|---------------------|---------------------|
| FDIC insurance | \$ 407,532 | \$ 279,103 |
| Collateralized by third party | <u>1,507,361</u> | <u>1,480,691</u> |
| Total FDIC insurance and collateral | <u>\$ 1,914,893</u> | <u>\$ 1,759,794</u> |

Restricted cash and equivalents at December 31, 2013 and 2012 consist of the following:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Community Development Block Grant funds restricted for future industrial development loans - cash on deposit - demand accounts | \$ 122,357 | \$ 162,408 |
| Funds restricted for mortgage escrow - cash on deposit - escrow accounts | <u>64,939</u> | <u>64,939</u> |
| | <u>\$ 187,296</u> | <u>\$ 227,347</u> |

The Agency has also designated \$100,000 of unrestricted fund balance at December 31, 2013 and 2012 to be used for future investments.

4. CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|-------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 100,000 | \$ - | \$ - | \$ 100,000 |
| Capital assets being depreciated: | | | | |
| Leasehold improvements | 18,710 | - | - | 18,710 |
| Equipment | 152,036 | 1,632 | - | 153,668 |
| Building | 719,835 | - | - | 719,835 |
| Total capital assets being depreciated | <u>890,581</u> | <u>1,632</u> | <u>-</u> | <u>892,213</u> |
| Less: Accumulated depreciation: | | | | |
| Leasehold improvements | (8,363) | (2,000) | - | (10,363) |
| Fixed equipment | (135,871) | (5,857) | - | (141,728) |
| Buildings | (138,112) | (18,162) | - | (156,274) |
| Total accumulated depreciation | <u>(282,346)</u> | <u>(26,019)</u> | <u>-</u> | <u>(308,365)</u> |
| Total capital assets being depreciated, net | <u>608,235</u> | <u>(24,387)</u> | <u>-</u> | <u>583,848</u> |
| Capital assets, net | <u>\$ 708,235</u> | <u>\$ (24,387)</u> | <u>\$ -</u> | <u>\$ 683,848</u> |

Capital asset activity for the year ended December 31, 2012 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|-------------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 100,000 | \$ - | \$ - | \$ 100,000 |
| Capital assets being depreciated: | | | | |
| Leasehold improvements | 18,710 | - | - | 18,710 |
| Equipment | 144,376 | 7,660 | - | 152,036 |
| Building | 719,835 | - | - | 719,835 |
| Total capital assets being depreciated | <u>882,921</u> | <u>7,660</u> | <u>-</u> | <u>890,581</u> |
| Less: Accumulated depreciation: | | | | |
| Leasehold improvements | (6,363) | (2,000) | - | (8,363) |
| Fixed equipment | (124,371) | (11,500) | - | (135,871) |
| Buildings | (119,950) | (18,162) | - | (138,112) |
| Total accumulated depreciation | <u>(250,684)</u> | <u>(31,662)</u> | <u>-</u> | <u>(282,346)</u> |
| Total capital assets being depreciated, net | <u>632,237</u> | <u>(24,002)</u> | <u>-</u> | <u>608,235</u> |
| Capital assets, net | <u>\$ 732,237</u> | <u>\$ (24,002)</u> | <u>\$ -</u> | <u>\$ 708,235</u> |

5. RELATED PARTIES

As discussed further in Note 9, at December 31, 2013 and 2012, the Agency had a \$50,000 non-interest bearing note receivable from the Corporation.

The Agency provides office space and personnel at no cost to the Corporation. It is anticipated that the Agency will begin charging the Corporation for facilities and personnel if and when the amounts provided become financially material.

The Agency received a transfer from the Corporation of \$28,190 and \$253,325 for the year ended December 31, 2013 and 2012, respectively. The transfers were due to the Corporation receiving administrative and refinancing fees related to tax-exempt bond projects during the years ended December 31, 2013 and 2012.

6. PASS THROUGH GRANTS

The Agency was awarded funds from a Community Development Block Grant in 1985 in the amount of \$200,000 from the Town of Amherst Special Grant Fund. The grant proceeds, and all interest earned thereon, are restricted to use for future loans to be made by the Agency to promote industrial development. At December 31, 2013 and 2012, the Agency is accountable for the following:

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|-------------------|-------------------|
| Cash | \$ 122,357 | \$ 162,408 |
| Due to U.S. Treasury Department | <u>(48)</u> | <u>(100)</u> |
| | <u>\$ 122,309</u> | <u>\$ 162,308</u> |

7. MORTGAGE PAYABLE

The Agency's mortgage with First Niagara Bank amounted to \$600,402 and \$637,860 at December 31, 2013 and 2012, respectively. The mortgage bears interest at 6% per year and is payable in 60 monthly installments of \$6,225 comprising of principal and interest. At January 1, 2015, the interest rate will adjust daily to 2% above the Regular Fixed Advance Rate offered by the Federal Home Loan Bank of New York for instruments having a term of five years. However, in no event will the rate fall below 6%. Payments will be made in 60 monthly installments based on a 10-year amortization of the outstanding balance at January 1, 2015. A balloon payment for the remaining balance is due in January 2020. The terms of the mortgage require the Agency to maintain a restricted deposit with the bank which amounted to \$64,939 at December 31, 2013 and 2012.

The mortgage requires the Agency to maintain a minimum debt coverage ratio of 1.2 to 1. The Agency obtained a waiver related to the minimum debt coverage covenant as of December 31, 2013

7. MORTGAGE PAYABLE (Continued)

The aggregate maturity of the mortgage payable the years ending December 31 is as follows:

| | |
|------------|-------------------|
| 2014 | \$ 39,534 |
| 2015 | 41,972 |
| 2016 | 44,561 |
| 2017 | 47,309 |
| 2018 | 50,227 |
| Thereafter | <u>376,799</u> |
| | <u>\$ 600,402</u> |

Long-term debt relating to the Agency consisted of the following at December 31,

| | Beginning Balance <u>2013</u> | <u>Increases</u> | <u>Decreases</u> | Due Within <u>One Year</u> | Long-term Portion <u>2013</u> |
|-------------------------------|-------------------------------------|------------------|--------------------|----------------------------------|-------------------------------------|
| Mortgage – First Niagara Bank | \$ <u>637,860</u> | \$ <u>-</u> | \$ <u>(37,458)</u> | \$ <u>(39,534)</u> | \$ <u>560,868</u> |

| | Beginning Balance <u>2012</u> | <u>Increases</u> | <u>Decreases</u> | Due Within <u>One Year</u> | Long-term Portion <u>2012</u> |
|-------------------------------|-------------------------------------|------------------|--------------------|----------------------------------|-------------------------------------|
| Mortgage – First Niagara Bank | \$ <u>675,972</u> | \$ <u>-</u> | \$ <u>(38,112)</u> | \$ <u>(34,235)</u> | \$ <u>603,625</u> |

Cash paid for interest amounted to \$37,235 and \$36,584 for the years ended December 31, 2013 and 2012, respectively.

8. PENSION PLAN

The Agency sponsors a defined contribution pension plan covering all employees who are age 21 or older and have completed one year's service. Contributions to the plan are made by the Agency at the rate of 7.7% of the employee's compensation. Employees are required to contribute at least 3% but not over 10% of their compensation. The total amount of expense relating to the plan incurred by the Agency amounted to \$29,599 and \$29,026 during the years ended December 31, 2013 and 2012, respectively.

9. COMMITMENTS

The Agency has entered into an agreement with several other entities to stimulate economic development through debt or equity investment in technology start-ups in Western New York. This is being done through the Western New York Business Development Fund. Among other things the agreement calls for the Agency to make a maximum commitment to fund investments in the amount of \$150,000. At December 31, 2013 and 2012, the Agency has funded \$50,000. This has been accomplished by the Agency loaning the funds to the Corporation, which in turn made investments to local businesses.

9. COMMITMENTS (Continued)

The Agency leases certain equipment under a non-cancellable operating lease agreement through March 2015. Equipment rental and repair expense included equipment rental charges under this lease totaling \$3,347 and \$3,110 for the years ended December 31, 2013 and 2012, respectively. Future minimum lease payments under the operating lease amount to:

| | | |
|------|----|---------------------|
| 2014 | \$ | 3,348 |
| 2015 | | <u>837</u> |
| | \$ | <u><u>4,185</u></u> |

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

March 31, 2014

To the Board of Directors of
Town of Amherst Industrial Development Agency:

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 business-type activities of the Town of Amherst Industrial Development Agency (Agency) 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, and have issued our report thereon dated March 31, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

100 Corporate Parkway
Suite 200
Amherst, New York 14226
p (716) 250-6600
f (716) 250-6605

www.bonadio.com

(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 the Agency'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.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE 1

SCHEDULE OF FINANCING ACTIVITY
1979 - 2013

| | <u>Date Issued</u> | Basis for Computing Administrative <u>Fees</u> |
|--|--------------------|---|
| INDUSTRIAL DEVELOPMENT REVENUE BONDS | 1979 | \$ 2,090,000 |
| | 1980 | 10,599,000 |
| | 1981 | 4,030,000 |
| | 1982 | 5,375,000 |
| | 1983 | 4,305,000 |
| | 1984 | 24,809,665 |
| | 1985 | 28,593,000 |
| | 1986 | 20,565,250 |
| | 1987 | 26,520,200 |
| | 1988 | 50,173,000 |
| | 1989 | 31,270,000 |
| | 1990 | 17,217,000 |
| | 1991 | 28,473,300 |
| | 1992 | 13,541,452 |
| | 1993 | 20,697,393 |
| | 1994 | 19,381,125 |
| | 1995 | 16,700,291 |
| | 1996 | 45,622,164 |
| | 1997 | 67,256,562 |
| | 1998 | 34,667,822 |
| | 1999 | 58,229,176 |
| | 2000 | 81,840,506 |
| | 2001 | 31,662,263 |
| | 2002 | 20,975,000 |
| | 2003 | <u>7,985,516</u> |
| Total industrial development revenue bonds | | <u>672,579,685</u> |
| LEASE AGREEMENTS | 1988 | 15,200,000 |
| | 1989 | 9,150,421 |
| | 1990 | 7,001,692 |
| | 1991 | 15,935,832 |
| | 1993 | 1,306,428 |
| | 1994 | 25,928,673 |
| | 1995 | 750,000 |
| | 1997 | 500,000 |
| | 1999 | 1,503,455 |
| | 2000 | 19,660,620 |
| | 2001 | 2,577,833 |
| | 2002 | 41,792,658 |
| | 2003 | 6,503,499 |
| | 2004 | 32,290,592 |
| | 2005 | 52,124,726 |
| | 2006 | 41,785,178 |
| | 2007 | 35,484,598 |
| | 2008 | 32,236,000 |
| | 2010 | 14,960,000 |
| | 2011 | 28,990,300 |
| | 2012 | 43,605,993 |
| | 2013 | <u>48,461,796</u> |
| Total lease agreements | | <u>477,750,294</u> |

(Continued)

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE 1

SCHEDULE OF FINANCING ACTIVITY
1979 - 2013

| | <u>Date Issued</u> | Basis for Computing Administrative <u>Fees</u> |
|--|--------------------|---|
| SECOND MORTGAGE AGREEMENTS | 1988 | 1,110,000 |
| | 1989 | 250,000 |
| | 1990 | 1,585,000 |
| | 1992 | 125,000 |
| | 1995 | 95,000 |
| | 1996 | 1,985,000 |
| | 1997 | 1,000,000 |
| | 2001 | 287,000 |
| | 2002 | 800,000 |
| | 2003 | 4,655,957 |
| | 2004 | 2,600,000 |
| | 2005 | 235,000 |
| | 2006 | 874,000 |
| | 2007 | 2,662,798 |
| | 2008 | 3,625,984 |
| | 2010 | 1,150,000 |
| | 2011 | 2,872,551 |
| | 2012 | <u>124,309</u> |
| Total second mortgage agreements | | <u>26,037,599</u> |
| THIRD MORTGAGE AGREEMENTS | 2010 | 2,800,000 |
| | 2011 | <u>700,000</u> |
| Total third mortgage agreements | | <u>3,500,000</u> |
| MORTGAGE AND MODIFICATION TRANSACTIONS | 2009 | <u>250,000</u> |
| ASSIGNMENT OF LEASES | 2002 | 5,048,750 |
| | 2004 | 17,029,930 |
| | 2005 | 13,861,726 |
| | 2006 | 10,500,000 |
| | 2007 | 12,967,258 |
| | 2012 | 3,800,000 |
| | 2013 | <u>6,005,000</u> |
| Total assignment of leases | | <u>69,212,664</u> |
| COLLATERAL MORTGAGES | 1991 | 200,000 |
| | 1992 | 530,000 |
| | 1994 | 673,000 |
| | 1996 | 300,000 |
| | 2003 | <u>1,576,915</u> |
| Total collateral mortgages | | <u>3,279,915</u> |
| EQUIPMENT PURCHASE MORTGAGES | 1994 | 1,850,000 |
| | 1995 | <u>824,064</u> |
| Total equipment purchase mortgages | | <u>2,674,064</u> |
| LEASEHOLD IMPROVEMENTS | 1994 | <u>1,020,000</u> |

(Continued)

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE 1

SCHEDULE OF FINANCING ACTIVITY
1979 - 2013

| | <u>Date Issued</u> | Basis for Computing Administrative <u>Fees</u> |
|--|--------------------|---|
| INSTALLMENT SALES | 1991 | 466,494 |
| | 1993 | 312,000 |
| | 1994 | 303,113 |
| | 1996 | 3,854,000 |
| | 1997 | 918,631 |
| | 1998 | 2,361,315 |
| | 2000 | 61,069,108 |
| | 2001 | 2,338,546 |
| | 2003 | 1,757,976 |
| | 2004 | 12,763,495 |
| | 2005 | 8,474,818 |
| | 2006 | 9,830,000 |
| | 2007 | 32,085,780 |
| | 2008 | 18,870,000 |
| | 2009 | 15,443,508 |
| | 2010 | 6,580,000 |
| | 2011 | 28,500,000 |
| | 2012 | 25,197,500 |
| | 2013 | <u>8,500,000</u> |
| Total installment sales | | <u>239,626,284</u> |
| ACQUISITIONS | 1994 | <u>2,865,700</u> |
| EXPANSIONS | 1995 | <u>1,300,000</u> |
| REFINANCING TRANSACTIONS | 2001 | 8,600,000 |
| | 2002 | 960,000 |
| | 2003 | 559,750 |
| | 2004 | 5,491,750 |
| | 2005 | 26,384,367 |
| | 2006 | 20,327,894 |
| | 2007 | 24,808,265 |
| | 2008 | 34,860,000 |
| | 2009 | 5,380,779 |
| | 2012 | 7,380,737 |
| | 2013 | <u>1,495,802</u> |
| Total refinancing transactions | | <u>136,249,344</u> |
| TAX EXEMPT BONDS | 2007 | <u>14,860,000</u> |
| PROJECTS WITH PREDETERMINED FEES | 2001 | <u>46,121,000</u> |
| PROJECTS WITH PREDETERMINED FEES | 2007 | <u>866,686,576</u> |
| Total basis for computing administrative fee | | <u>\$ 2,564,013,125</u> |

The accompanying notes are an integral part of these statements.

TOWN OF AMHERST INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE 2

**SCHEDULE OF DETAILED FINANCING ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | <u>Date Issued</u> | Basis for Computing Administrative <u>Fees</u> |
|---------------------------------------|--------------------|---|
| LEASE AGREEMENTS: | | |
| Waldex Holdings | 5/13 | \$ 26,400,000 |
| Ivoclar Vivadent, LLC | 2/13 | 4,880,964 |
| 60 John Glenn, Inc. | 7/13 | 850,000 |
| 6325 Main Street, LLC | 8/13 | 2,643,832 |
| 1760 Wehrle Drive, LLC | 8/13 | <u>13,687,000</u> |
| | | <u>48,461,796</u> |
| INSTALLMENT SALES: | | |
| M&T Bank Data Center - Tech (3 of 10) | 7/11 | <u>8,500,000</u> |
| REFINANCING TRANSACTIONS: | | |
| 580 Cross Point | 12/13 | <u>1,495,802</u> |
| ASSIGNMENT OF LEASES: | | |
| 8600 Transit Road | 11/13 | 2,070,000 |
| Twin Lakes Prop., LLC | 5/13 | <u>3,935,000</u> |
| | | <u>6,005,000</u> |
| Total 2013 Projects | | <u><u>\$ 64,462,598</u></u> |

The accompanying notes are an integral part of these statements.