

Mount Vernon Industrial Development Agency
(A Component Unit of the City of Mount Vernon, New York)

Financial Statements and Supplementary Information

December 31, 2017

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

December 31, 2017

TABLE OF CONTENTS	Page
FINANCIAL SECTION	
Independent Auditors' Report	1-3
Management Discussion and Analysis (Unaudited)	4-6
Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	10-22
Other Supplemental Information:	
Schedule of Indebtedness	23
Schedule of Supplemental Information	24-25
Other Reporting Required by Government Auditing Standards	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Schedule of Findings and Responses	28-31
Schedule of Prior Year Audit Findings	32



Independent Auditors' Report

**Board of Directors
Mount Vernon Industrial Development Agency
Mount Vernon, New York**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Mount Vernon Industrial Development Agency (the Agency), a component unit of the City of Mount Vernon, New York, as of and for the year ended December 31, 2017, 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.

Auditors' 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 respective financial position of the business-type activities of the Mount Vernon Industrial Development Agency, a component unit of the City of Mount Vernon, New York, as of December 31, 2017, 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.

Emphasis of a Matter

We draw attention to Note 1 in the notes to financial statements which describes that these financial statements present only the Agency and do not purport to, and do not, present fairly the financial position of the City of Mount Vernon, New York as of December 31, 2017 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 4 to 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Mount Vernon Industrial Development Agency, a component unit of the City of Mount Vernon, New York's basic financial statements. The Schedule of Indebtedness and Schedule of Supplemental Information on pages 23 to 25 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Indebtedness and Schedule of Supplemental Information 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, except for the number of current full time employees, information upon which we express no opinion, 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

information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018, on our consideration of the Mount Vernon Industrial Development Agency, a component unit of the City of Mount Vernon, New York'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 Mount Vernon Industrial Development Agency's internal control over financial reporting and compliance.

Galleros Koh LLP

Cream Ridge, New Jersey
September 21, 2018

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
For the year ended December 31, 2017

The following "Management's Discussion and Analysis" report ("MD&A") provides the reader with an introduction to and overview of the financial activities and performance of the Mount Vernon Industrial Development Agency (the Agency) for the years ended December 31, 2017 and 2016, as mandated by GASB No. 34. This information should be reviewed in conjunction with the Agency's audited financial statements.

	<u>2017</u>	<u>2016</u> As restated	<u>Change</u>
ASSETS			
Current Assets	\$ 3,766,529	\$ 5,427,468	\$ (1,660,939)
Capital Assets	1,644,995	1,691,123	(46,128)
Total Assets	<u>5,411,524</u>	<u>7,118,591</u>	<u>(1,707,067)</u>
LIABILITIES			
Current Liabilities	<u>1,368,448</u>	<u>1,632,717</u>	<u>(264,269)</u>
NET POSITION			
Net Investment in Capital Assets	1,644,995	1,691,123	(46,128)
Unrestricted	<u>2,398,081</u>	<u>3,794,751</u>	<u>(1,396,670)</u>
Total Net Position	<u>\$ 4,043,076</u>	<u>\$ 5,485,874</u>	<u>\$ (1,442,798)</u>
REVENUES			
Administrative fees and others	\$ 535,074	\$ 90,088	\$ 444,986
Rental Income	102,051	102,049	2
Payment in Lieu of Taxes	1,102,492	1,064,516	37,976
Late fees	<u>8,810</u>	<u>1,427</u>	<u>7,383</u>
Total Revenues	1,748,427	1,258,080	490,347
EXPENSES			
Professional Service Contracts	313,626	157,326	156,300
Administrative Expenses	1,710,385	124,822	1,585,563
PILOT Obligation to Other Jurisdic	1,111,303	1,065,943	45,360
Depreciation Expense	<u>55,911</u>	<u>55,125</u>	<u>786</u>
Total Expense	<u>3,191,225</u>	<u>1,403,216</u>	<u>1,788,009</u>
Changes in Net Position	<u>\$ (1,442,798)</u>	<u>\$ (145,136)</u>	<u>\$ (1,297,662)</u>

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

(A Component Unit of the City of Mount Vernon, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

For the year ended December 31, 2017

For details of the Agency's finances, see the accompanying financial Statements and notes thereof.

FINANCIAL POSITION SUMMARY

Net position serves as an indicator of the Agency's financial position. The Agency's net position was \$4,043,076 and \$5,485,874 (as restated) at December 31, 2017 and 2016, respectively

FINANCIAL STATEMENTS

The Agency's financial statements are prepared in accordance with generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB). The Agency is structured as a proprietary fund. It is a component unit of the City of Mount Vernon, New York.

NOTES TO FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS

In 2017, the Mount Vernon Industrial Development Agency (MVIDA) played a critical role in the financial prosperity and health of the city. In a year when the city's budget was starved by political infighting, the Agency provided a harbor for economic stability and growth.

Things got so bad that the Mayor had to go to court, and in June of 2017 he obtained an injunction ordering the City Council and Comptroller from "disrupting, obstructing or interfering" with salaries and the provision of municipal services. During the legal wrangling, some departments did not have enough money to operate.

In the case of the Buildings Department, the Agency was able to lend assistance. In its role of promoting and safeguarding the economic wellbeing of Mount Vernon, MVIDA consultants teamed up with the Buildings Department to perform inspections and issue permits. As result of the partnership, Building Department revenues bounced back from \$800,000 in 2016 to \$1.1 million in 2017. Even more important, clearing the backlog in plan reviews and inspections allowed more than \$380 million in capital investment to go forward - \$292.7 million in projects approved by the MVIDA and \$90 million for 42 Broad Street, a non-MVIDA luxury rental development.

The four new projects incented by the IDA were:

- The Pointe development - \$138 million,
- The 22 South West development - \$95 million,
- The Enclave @ Fleetwood development - \$47.9 million, and
- The MK Illumination building purchase - \$11.8 million

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

(A Component Unit of the City of Mount Vernon, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

For the year ended December 31, 2017

CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS (CONTINUED)

The MVIDA also worked diligently to revamp the Agency from a governance, policy, and operational perspective. Accomplishments included:

- Passage (3/31/2017) of a more rigorous and in-depth project application review process;
- Roll out (1Q2017) of a comprehensive Project Update & Verification survey, enabling the Agency to more accurately assess and report on, each project's compliance status, while pinpointing those specifically at risk of incurring sales tax claw back provisions;
- Implementation of an independent, cost-benefit analysis process for all prospective projects, leveraging the expertise of a seasoned New York City-based economic development specialist and finance professor;
- Continued pursuit of a more diversified portfolio, striking a balance between commercial/industrial and residential development-oriented projects;
- Negotiating an agreement with the New York Power Authority to facilitate citywide LED installations, which will achieve more than \$600,000 in savings and mitigate crime going forward; and
- Supporting a wide variety of business seminars, beautification campaigns, and recreational/cultural events that encouraged and spurred local spending.

These highlights reflect the ongoing efforts of MVIDA Board Chairman Thomas, Board Members, and staff to execute the Agency's mission of attracting, creating, and supporting economic development in the City of Mount Vernon.

Inaccurate record keeping on the part of the previous administration also posed a challenge. Even with the devotion of extensive time and energy, the 2016 Annual Audit was not completed and adopted until October 19, 2017. This delay had a knock-on effect of complicating and delaying the 2017 Annual Audit. The installation of new and better software, accompanied by more skilled accounting and bookkeeping professionals, has greatly improved the Agency's situation for 2018.

MIVDA has addressed the weaknesses cited in the Audit as opportunities for continuous improvement, and we are pleased the Auditors found "that the results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards." Through it all, the Agency and its leadership have been able to work through all the challenges and issues and deliver on the goals of MVIDA.

FINANCIAL STATEMENTS

**MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MOUNT VERNON, NEW YORK)**

STATEMENT OF NET POSITION

DECEMBER 31, 2017

ASSETS

Current Assets:

Cash and cash equivalents	\$ 2,393,236
Cash - restricted	896,691
Cash held in escrow	163,983
Payment-in-lieu of taxes receivables	53,269
Rent receivables	224,213
Other receivables	27,111
Prepaid expenses	<u>8,026</u>
Total Current Assets	<u>3,766,529</u>

Noncurrent Assets:

Land	245,000
Buildings and equipment, net of accumulated depreciation of \$818,268	<u>1,399,995</u>
Total Noncurrent Assets	<u>1,644,995</u>

Total Assets 5,411,524

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	247,216
Unearned revenue	104,152
Due to other governments	120,389
Security deposits	<u>896,691</u>

Total Current Liabilities 1,368,448

NET POSITION

Net investment in capital assets	1,644,995
Unrestricted	<u>2,398,081</u>
Total Net Position	<u>\$ 4,043,076</u>

See accompanying notes to financial statements.

**MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MOUNT VERNON, NEW YORK)**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUE

Administrative fees and others	\$ 535,074
Rent income	102,051
Total Operating and Administrative Revenues	<u>637,125</u>

OPERATING EXPENSES

Salaries and wages	331,019
Payroll taxes	19,470
Pension	3,383
Insurance	3,566
Consultants	1,076,904
Travel and meeting	183,125
Legal fees	281,360
Audit fee	32,266
Office expenses	77,980
Advertising	4,480
Miscellaneous	10,459
Depreciation	55,911
Total Operating Expense	<u>2,079,923</u>

OPERATING LOSS (1,442,798)

NON-OPERATING REVENUE

Payment-in-lieu of taxes (PILOT)	1,102,492
Late fees	8,811
Total Non-Operating Revenues	1,111,303

NON-OPERATING EXPENSE

PILOT Obligation to Other Tax Jurisdictions	<u>1,111,303</u>
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NON-OPERATING LOSS

CHANGE IN NET POSITION (1,442,798)

NET POSITION AT BEGINNING OF YEAR, AS REPORTED 5,389,484

PRIOR PERIOD ADJUSTMENTS 96,390

NET POSITION AT BEGINNING OF YEAR, AS RESTATED 5,485,874

NET POSITION AT END OF YEAR \$ 4,043,076

See accompanying notes to
financial statements.

**MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MOUNT VERNON, NEW YORK)**

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from providing services	\$ 568,091
Payments to vendors	<u>(1,854,738)</u>
Net cash provided by operating activities	(1,286,647)

CASH FLOWS FROM NON-OPERATING ACTIVITIES

Cash collected in-lieu of taxes	1,076,540
Cash transferred to other jurisdictions	<u>(1,545,368)</u>
Net cash provided by nonoperating activities	(468,828)

CASH FLOWS FROM INVESTING ACTIVITIES

Late fees and interest income	8,811
Purchase of capital assets	<u>(9,783)</u>
Net cash provided by investing activities	(972)

NET DECREASE IN CASH AND CASH EQUIVALENTS (1,756,447)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 4,149,683

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,393,236

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating loss	\$ (1,442,798)
Adjustment to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	55,911
Changes in Assets and Liabilities:	
Increase in cash held in escrow	(163,983)
Increase in rent receivables	106,935
Decrease in other receivables	(11,986)
Increase in prepaid expenses	(8,026)
Increase in accounts payable and accrued expenses	<u>177,300</u>
Net cash provided by operating activities	<u><u>\$ (1,286,647)</u></u>

See accompanying notes to financial statements.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. Organization and Purpose

The Mount Vernon Industrial Development Agency in Mount Vernon, New York ("Agency") is a public benefit corporation established June 28, 1977, under the terms of Article 18-A, "New York State Industrial Development Agency Act" of New York State general municipal law.

The New York State Industrial Development Agency Act allows for an IDA board composition of five to upwards of nine members. The Agency Board, in particular, continues to be comprised of five (5) members, including the statutory member and chairperson, the Mayor of the City of Mount Vernon. Per Section 2 of the Agency Bylaws, the remaining Agency board members are not appointed by the legislature of the City of Mount Vernon but rather by the Mayor in his capacity as the Agency Board Chair. At present, the Agency Board of Directors is chaired by Mayor Richard Thomas, its statutory Board Member, and comprised of four (4) non-statutory Board members who are appointed by, and serve at the pleasure of, the Board Chairman. Accordingly, the Agency is considered a component unit of the City of Mount Vernon, New York.

The Agency was established to promote and assist in acquiring or constructing various business and recreational facilities and, in the process, advance job opportunities, health, general prosperity and economic welfare of the people of the City of Mount Vernon.

The Agency's function is to authorize the issuance of industrial revenue bonds and to provide property, mortgage, and sales tax exemptions in order to promote economic development. The Agency reviews and determines whether to recommend approval of those applicants wishing to obtain financing. The Agency receives application fees from applicants and closing fees from those accepted for industrial revenue financing, such fees are recorded when earned.

Agency administrative fees are recognized upon transfer of property during the accrual period. Closing fees on transfer agreements are recognized when earned. Expenses are recognized when incurred.

2. Summary of Significant Accounting Policies

a. Basis of Presentation

The Agency is considered a component unit of the financial reporting entity known as the City of Mount Vernon, New York. Inclusion in the financial reporting entity, City of Mount Vernon, New York (the "City"), is determined based on financial accountability as defined by GASB Statement No. 14, as amended, "The Financial Reporting Entity". Component units are legally separate entities for which the City of Mount Vernon, New York, is financially accountable. The Agency is considered a proprietary fund.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

a. Basis of Presentation (continued)

The accompanying financial statements present only the activities of the Agency and do not purport to, and do not, present fairly the financial position of the City as of December 31, 2017 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

b. Government-wide Financial Statements

The Statement of Net Position presents the financial position of the Agency at the end of its fiscal year. The Statement of Activities demonstrates the degree to which direct expenses of the Agency's functions are offset by operating revenues. Direct expenses are those that are clearly identifiable with the Agency's functions. Operating revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods or services or privileges provided by the Agency and (2) grants and contributions that are restricted to meeting the operational or capital requirements of the Agency. Other items not identified as operating revenues are reported as nonoperating revenues.

c. Fund Financial Statements

The accounts of the Agency are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The Agency maintains the minimum number of funds consistent with legal and managerial requirements. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the statements or the page following, which briefly explains the adjustments necessary to transform the fund based financial statements into the government-wide financial statements presentation. The Agency's resources are reflected in the financial statements in an enterprise fund, in accordance with generally accepted accounting principles.

The Enterprise Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the Agency is that the cost (i.e. expenses including depreciation and indirect costs) of providing services on a continuing basis be financed or recovered primarily through user charges; or where the Agency has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

Enterprise Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

c. Fund Financial Statements (continued)

unreserved retained earnings, if applicable. Proprietary fund type operating statements present increases (revenue) and decreases (expenses) in net total assets.

d. Measurement Focus and Basis of Accounting

Measurement Focus - Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The Statement of Net Position is presented using the economic resources measurement focus. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Proprietary funds are accounted for on a flow economic resources measurement focus. With this measurement focus, the accounting adjectives are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. All assets and all liabilities, whether current or noncurrent, associated with their activities are included on the statement of financial position. Fund equity (i.e., net total assets) is classified as net position.

Basis of Accounting - The financial statements of the Agency have been prepared in conformity with generally accepted Accounting principles (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under standards set by GASB, the Agency is considered a proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects of transactions and other events when these transactions and events occur. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The measurement focus is the flow of economic resources.

e. Cash and Equivalents, Investment and Risk Disclosure

Cash and Equivalents - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of less than three months. The Agency's deposits and investment policies are governed by New York State statutes.

Agency monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The Agency is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

e. Cash and Equivalents, Investment and Risk Disclosure (continued)

Cash and Equivalents (continued) - Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits 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 New York State and its municipal and school district subdivisions.

Investments - Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements and obligations of New York State or its political subdivisions.

The Agency follows the provisions of GASB Statement No. 72, "Fair Value Measurements and Application", which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Risk Disclosure

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Agency does not invest in any long-term investment obligations.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Agency's name. The Agency's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2017.

Credit Risk - Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity's complete failure. The Agency does not have a formal credit risk policy other than restrictions to obligations allowable under General Municipal Law of the State of New York.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. Summary of Significant Accounting Policies (Continued)

e. Cash and Equivalents, Investment and Risk Disclosure (continued)

Concentration of Credit Risk - Concentration of credit risk is the risk attributed to the magnitude of a government's investments in a single issuer. The Agency's investment policy limits the amount on deposit at each of its banking institutions.

f. Restricted Cash

Certain assets were classified as restricted because their use was limited. Restricted cash served as collateral to fund any shortfalls in Payment-in-lieu of taxes (PILOT) payments.

g. Cash Held in Escrow

Cash held in escrow represents collection of lease payments in arrears that were received by the Agency's counsel on behalf of the Agency.

h. PILOT Receivables

PILOT receivables include amount due from payment-in-lieu of taxes recipients as of the fiscal year end.

i. Other Receivables

Other receivables include amounts due from clients for lease, transaction fees, agency fees and administrative fees provided by the Agency. Receivables are recorded and revenues recognized as earned. Allowances are recorded when appropriate.

j. Capital Assets

Capital assets, which are comprised of land and other non-depreciable property, are reported in the Statement of Net Position. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

k. Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the government-wide financial statements, unearned revenues consist of revenues received in advance and/or grants received before the eligibility requirements have been met.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

k. Unearned Revenues (continued)

Unearned revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The Agency had reported unearned revenues of \$84,152 at December 31, 2017 for an advance for payment-in-lieu of taxes. Such amounts were deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

l. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. As of December 31, 2017, no amounts were required to be reported as deferred outflows/inflows of resources.

m. Revenue Recognition

Operating revenues consists of fee income from application fees from applicants, annual agency fee and one-time transaction fees for approved PILOT agreements. These fees are recognized when earned.

Rental income under operating leases are charged to the income statement whereby any contractual rent increases over the term of a lease are recognized in income evenly over the term of the lease. The difference between the amount recorded as revenue under the straight-line method and cash rents received is included in receivables. Contractual penalty/interest on delinquent rental are also recognized as they become due.

Payment in-lieu of taxes (PILOT) revenue pertain to contracted annual payments to the agency upon removal of the property from the tax roll. Payments collected by the Agency are then distributed to the tax jurisdictions based on a pre-determined allocation issued by the State of New York.

n. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use. Net position on the Statement of Net Position includes net investment in capital assets. The balance is classified as unrestricted.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2017

2. Summary of Significant Accounting Policies (Continued)

o. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements.

Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

p. Subsequent Events

The Agency evaluated subsequent events for disclosure and/or recognition in the financial statements from December 31, 2017, and through September 21, 2018, the date on which the financial statements were approved for issuance.

3. New Government Accounting Standards Board (GASB) Statements

GASB Statements Issued and Adopted During the Year Ended December 31, 2017

GASB 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged. This standard is not applicable to the Agency and therefore, adoption did not have an effect on the Agency's financial statements.

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3. New Government Accounting Standards Board (GASB) Statements (Continued)

***GASB Statements Issued and Adopted During the Year Ended December 31, 2017
(continued)***

The requirements of this Statement were effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged. The adoption of this standard did not have an effect on the Agency's financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. The Agency is not a party to a split-interest agreement and therefore, the adoption of the standard did not have an effect on the Agency's financial statements.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The adoption of this standard did not have an effect on the Agency's financial statements.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3. New Government Accounting Standards Board (GASB) Statements (Continued)

GASB Statements Issued but Not Yet Adopted for The Year Ended December 31, 2017

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The Agency does not have post-employment benefit. Therefore, the adoption of the Statement will not have an effect on its financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Agency is currently evaluating the impact of adopting the Statement.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The Agency is currently evaluating the impact of adopting the Statement.

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is currently evaluating the impact of adopting the Statement.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3. New Government Accounting Standards Board (GASB) Statements (Continued)

***GASB Statements Issued but Not Yet Adopted for The Year Ended December 31, 2017
(continued)***

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is currently evaluating the impact of adopting the Statement.

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Agency is currently evaluating the impact of adopting the Statement.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Agency is currently evaluating the impact of adopting the Statement.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency is currently evaluating the impact of adopting the Statement.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Mount Vernon, New York)

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

3. Receivables

Receivables at December 31, 2017 are composed of the following:

PILOT Receivables	\$ 53,269
Rent receivables	224,213
Other agency receivables	<u>27,111</u>
	<u>\$ 304,593</u>

4. Capital Assets

Buildings and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets which range from 3-40 years.

Capital assets consisted of the following at December 31:

Land	\$ 245,000
Buildings and Equipment	<u>2,215,079</u>
Total Cost	2,460,079
Less: Accumulated Depreciation	<u>815,084</u>
Net Capital Assets	<u>\$ 1,644,995</u>

Depreciation expense amounted to \$57,952 for the year ended December 31, 2017.

5. Accounts Payable and Accrued Liabilities

At December 31, 2017, accounts payable and accrued liabilities consisted primarily of professional services amounted to \$247,216.

6. Prior Period Adjustments

Net position at January 1, 2017 was increased by \$96,390 to reflect the following:

Increase unearned revenue	\$ (9,475)
Increase in receivables	147,912
Increase in security deposits payable	(1,994)
Increase in accrued expenses	(30,000)
Decrease in due to other jurisdictions	<u>(10,053)</u>
Totals	<u>\$ 96,390</u>

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2017

7. Industrial Development Revenue Bonds Transactions

Industrial development revenue bonds that can be issued by the Agency are secured by property which is leased to companies and is retired by lease payments. The bonds are not obligations of the Agency. The Agency does not record assets or liability resulting from completed bond issues in its accounts since its primary function is to arrange financing between the borrowing companies and the bond holders, and fund arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds. There were no industrial development revenue bonds issued by the Agency nor industrial development revenue bonds outstanding as of and for the year ended December 31, 2017.

8. Industrial Development Revenue Bonds Transactions

Industrial development revenue bonds that can be issued by the Agency are secured by property which is leased to companies and is retired by lease payments. The bonds are not obligations of the Agency. The Agency does not record assets or liability resulting from completed bond issues in its accounts since its primary function is to arrange financing between the borrowing companies and the bond holders, and fund arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds. There were no industrial development revenue bonds issued by the Agency nor industrial development revenue bonds outstanding as of and for the year ended December 31, 2017.

9. Leases Commitments

The Agency has three long-term noncancelable operating leases with two entities. Rent income related to the leases including penalties for the year ended December 31, 2017 amounted to \$102,051.

Minimum future lease collections of the lease for the next five years and thereafter are as follows:

2018	\$	38,377
2019		39,336
2020		40,320
2021		41,328
2022		42,361
Thereafter		796,395

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Notes to the Financial Statements

December 31, 2017

10. Litigation

In the normal course of business, there are a number of actions against the Agency that involve personal injury and/or contractual disputes between the plaintiffs and the project beneficiary. In such case, the Agency has been indemnified by the project beneficiary, and in the opinion of the Agency's management, the project beneficiary has insurance in place to mitigate any losses that may ultimately result from the resolution of such litigation. While Agency has been named in these actions, the opinion of Management based upon consultation with legal counsel, the ultimate resolution of such litigation matters should not result in any liability to the Agency.

OTHER SUPPLEMENTAL INFORMATION

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Indebtedness

For the Year Ended December 31, 2017

Project Name	Original Issue Amount	Original Issue Date	Interest rate	Outstanding Balance at 1/1/2017	New Issuance in 2017	Principal Payments in 2017	Outstanding Balance at 12/31/2017	Final Maturity Date
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No indebtedness to report

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Supplemental Information (Unaudited)

For the Year Ended December 31, 2017

	American Christmas	Blue Rio/203 Gramatan	Domican Magic	Enclave on 5th	Grace Plaza	Grace Terrace
Real Property Tax Exemptions*:						
		Sales Tax				
Real Property Tax	\$ 4,757,088	\$ 318,504	\$ 52,583	\$ 58,896	\$ 48,324	\$ 66,697
TOTALS	\$ 4,757,088	\$ 318,504	\$ 52,583	\$ 58,896	\$ 48,324	\$ 66,697
Payments-in-Lieu of Taxes (PILOTS) Remittances						
County	\$ 10,810	\$ 12,454	\$ -	\$ 2,641	\$ 3,605	\$ 4,380
Local	41,445	47,748	-	10,126	13,821	16,790
School	92,657	106,747	-	22,637	30,898	37,537
	\$ 144,912	\$ 166,949	\$ -	\$ 35,404	\$ 48,324	\$ 58,707
Full-time Equivalent Jobs Created & Retained**						
# FTEs before IDA status	-	-	15	-	-	-
Original Estimate of Jobs to be Created	20	305	42	-	-	30
Original Estimate of Jobs to be Retained	-	-	15	-	-	-
Current # of FTEs	69	3	16	-	1	1
# of FTE Jobs Created During Fiscal Year	-	-	-	-	-	-
#of FTE Construction Jobs During Fiscal Year	-	56	-	-	-	-
Net Employment Change (ie, from project inception)	69	3	-	-	1	1

* Real Property Tax Exemptions indicate the total amount for which a project would have been liable if the project occurred but the IDA was not involved.

** PARIS amounts may differ due to software constraints.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Supplemental Information (Unaudited)

For the Year Ended December 31, 2017

	Grace Towers Housing II	Heritage North/ Mount Vernon North	Heritage South /Mount Vernon South	MacQuesten /130 Modern	Target	Zion Court
Real Property Tax Exemptions*:						
Sales Tax						
Real Property Tax	\$ 76,273	\$ 250,000	\$ 862,954	\$ 135,510	\$ 235,865	\$ 65,840
TOTALS	\$ 76,273	\$ 250,000	\$ 862,954	\$ 135,510	\$ 235,865	\$ 65,840
Payments-in-Lieu of Taxes (PILOTS) Remittances						
County	\$ 9,088	\$ 6,433	\$ 10,224	\$ 7,795	\$ 19,705	\$ 2,250
Local	34,843	24,661	39,195	29,884	75,543	8,626
School	77,896	55,134	87,628	66,811	168,888	19,285
	\$ 121,827	\$ 86,227	\$ 137,046	\$ 104,490	\$ 264,135	\$ 30,160
Full-time Equivalent Jobs Created & Retained**						
# FTEs before IDA status	-	-	-	5	-	-
Original Estimate of Jobs to be Created	10	50	400	100	-	-
Original Estimate of Jobs to be Retained	-	-	-	5	-	-
Current # of FTEs	2	75	100	2	236	1
# of FTE Jobs Created During Fiscal Year	-	-	-	-	-	-
#of FTE Construction Jobs During Fiscal Year	-	-	-	-	-	-
Net Employment Change (ie, from project inception)	2	75	100	(3)	236	1

* Real Property Tax Exemptions indicate the total amount for which a project would have been liable if the project occurred but the IDA was not involved.

** PARIS amounts may differ due to software constraints.



INDEPENDENT AUDITORS' 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

**To the Board of Directors
Mount Vernon Industrial Development Agency
Mount Vernon, 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 business-type activities of the Mount Vernon Industrial Development Agency ("Agency"), a component unit of the City of Mount Vernon, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 as material weaknesses.

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.

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*.

However, we noted certain matters that we have reported to the Board of Directors of the Mount Vernon Industrial Development Agency in a separate Independent Auditors' Communication of Internal Control Matters Identified in the Audit, dated September 21, 2018.

Mount Vernon Industrial Development Agency's Response to Findings

The Mount Vernon Industrial Development Agency's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Galleros Koh LLP

Cream Ridge, New Jersey
September 21, 2018

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

FINANCIAL STATEMENT FINDINGS

Finding 2017-001 – Report Reviews and Account Analyses

Criteria

Internal controls over financial reporting are designed to: a) deter and detect errors, fraud and theft; and b) produce reliable and complete financial information in a timely manner. Fiscal policies and procedures should include reviews of monthly and annual reports, monthly bank reconciliations, periodic analysis of significant accounts, and reconciliation of general and subsidiary ledger amounts.

Condition and Context

For the audit, the Agency provided financial reports generated from its general ledger system, Sage Accounting System. Upon examination of the amounts in the reports, we noted certain inaccuracies which are indications that there was lack of reconciliation procedures, and review of transactions recorded into and reports generated from the system. Inaccuracies noted include:

- a. Beginning balances of certain accounts did not agree to amounts in the 2016 audited financial statements.
- b. Several duplicate and misclassified entries were noted related to revenues, deferred revenues and receivables
- c. Some current year revenue transactions, based on contracts and lease agreements in place, were not recorded.
- d. Security deposits not reconciled with agreements.
- e. There was a difference between receivable amounts in the general and subsidiary ledgers.

In addition, the bank reconciliation statements of the Agency's accounts were only for the month of December 2017. Upon examination of the reconciliation and bank statements provided, we noted reconciling items and two transfer errors that should have been resolved sooner had the bank reconciliation statements been prepared and reviewed monthly.

Cause

Effective policies and procedures are not in place to ensure the accuracy and completeness of transactions posted in the general ledger. Further, there was no permanent bookkeeper who is knowledgeable about the accounting software and the Agency's industry and transactions.

Effect

Interim financial statements were inaccurate and several journal entries were proposed and recorded during the audit to correct year-end account balances.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2017-001 – Report Reviews and Account Analyses (continued)

Recommendation

We recommend that the Agency put in place policies and procedures to ensure completeness and accuracy of recorded transactions and reported amounts of the Agency. Procedures to be considered should include:

- a. Documented procedures to initiate, authorize, record, and process journal entries in the general ledger.
- b. Documented procedures to record recurring and nonrecurring adjustments to the annual and quarterly financial statements;
- c. Monthly bank reconciliation be prepared regularly and reviewed and sign off by the Agency's Executive Director or Treasurer. Reconciling items should be reviewed as to accuracy and immediate disposition.
- d. Periodic review and analysis of account balances to verify accuracy and reasonableness of recorded amounts.
- e. The nature and extent of the oversight of the financial reporting process by management, the board of directors, and the audit committee.

We also recommend that the Agency hires a Bookkeeper with adequate skills and understanding of the Agency's accounting system, industry, operations and nature of transactions.

Views of Responsible Officials

In January of 2018, a new executive director of the Mount Vernon Industrial Development Agency was hired, and her immediate analysis picked up on weaknesses mentioned in the audit. Since then, she has been working with staff and outside professionals to improve controls.

With the support of the Chairman and the Board, the following actions, which are aligned to all the Audit's recommendations, have been undertaken.

- An outside CPA, who has experience working with municipal clients, has been hired and is implementing the Audit's recommendations for:
 - a. documenting processes for journal entries in the general ledger;
 - b. recording adjustments in the quarterly reports and monthly bank reconciliations, which will be reviewed by a third party;
 - c. reviewing account balances and journal entries; and,
 - d. providing financial reporting to the board of directors.
- Additionally, the Agency has installed new software to replace the antiquated system used in 2017 and prior years. By moving to QuickBooks from SAGE, financial tracking is now more robust and less prone to human error with improved internal controls and reporting the result. For example, the SAGE system did not allow journal entries and reporting until audits from prior years were completed.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2017-001 – Report Reviews and Account Analyses (continued)

Views of Responsible Officials (continued)

QuickBooks eliminates this bottleneck allowing much more timely compilation of data. The CPA has also created a new chart of accounts, which when combined with the new software reduces human errors, improves controls and further enhances reliability.

Finding 2017-002 – Segregation of Duties and Approval of Disbursements

Criteria

Segregation of Duties is a basic building block of sustainable risk management and internal controls for a business. The principle of segregation is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Generally, the primary incompatible duties that need to be segregated are:

- Authorization or approval
- Custody of assets
- Recording transactions
- Reconciliation/Control Activity

When duties cannot be sufficiently segregated due to the small size of a unit, it is important that mitigating controls, such as a detailed supervisory review of the activities, be put in place to reduce risks misstatements due to errors or fraud.

Condition and Context

In our review of the cash disbursements process and testing of transactions, we noted the following instances where incompatible duties were not segregated and detailed supervisory review and approval were not in place. From our discussion with management, it was indicated that there were staffing gaps in 2017, which led rise to the following:

- a. The check writing (handwritten checks) was conducted at the Board Chair's Office. The Board Chair was one of the three authorized check signors but the only signing officer for all of 2017 Agency's check payments. The payment preparation and check writing are part of the day to day function of management and not of governance.
- b. We noted ten check payments for expense reimbursements to the Board Chair, which were approved and signed by the Board Chair. From the supporting documents provided, there were no countersigns by someone other than the check signor. From a follow-up discussion with management, it was indicated that prior to these payments the Board Chair had consulted with legal counsel on the reimbursements since there was no other signing officer. It was noted that the other authorized signor was on a medical leave.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2017-002 – Segregation of Duties and Disbursements (continued)

Condition and Context (continued)

- c. Review and approval prior to purchase to determine available funding and or review prior to payment was not evident for the following transactions:
- Credit card charges and check payments initiated from the Board Chair's Office
 - Invoices supporting all cash disbursements selected for testing had no evidence of review or approval prior to payment.
 - A consultant engaged and paid had no written agreement on file.
- ci. Upon review of the Agency's minutes of meetings, we noted also that the Board approved two contracts for professional services without maximum amounts set on the contract, and had no bidding documentation, which may not conform with the procurement policies of the Agency.

Cause

Effective policies and procedures are not in place for an adequate division of responsibilities among those who perform accounting procedures or control activities and those who handle assets. Also, the Agency does not have a fiscal manual to clarify roles and processes related to purchases and cash disbursements. Further, there was a staffing gap, which caused difficulty in segregating duties.

Effect

Segregation of duties was not in place, and approval of transactions not consistently documented.

Recommendations

We recommend that the Agency establish written fiscal policies and procedures on purchasing and cash disbursements which consider: a) segregation of duties, b) centralized purchasing process to ensure adequate level of review and approval of all purchases, c) use of credit cards, d) adopting forms for requisitions and check payments to document the review and approval process, and e) review of signors and threshold amounts for requiring more than signor on check and ACH payments.

In addition, we recommend that the check writing process be moved to the Agency's office and incorporated into the Accounting System.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY

SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED

Finding 2017-002 – Segregation of Duties and Disbursements (continued)

Views of Responsible Officials

Focus in 2018 has been on building a foundation of competence and stability. The hiring of the CPA has markedly improved the “staffing gap” issue raised in the Audit. Working closely with the recently hired CPA, the Agency’s management is creating written procedures for the segregation of duties and disbursements, as well as for centralizing purchasing, using credit cards, adopting requisition of payment forms and requiring multiple signatories.

The segregation and signatory issues, which came into play when the Agency was without a treasurer and executive director for a period in 2017, have been addressed as follows.

Under the new procedures, invoices and checks, which need the Chairman’s signature, are no longer prepared by the Chairman’s office, but separately by the Agency’s management, which is also responsible for sending out signed checks. Transactions are then entered into the system by the CPA. This increased supervisory review and segregation of powers enhances the Agency’s ability to reduce risks of misstatements due to error or fraud.

The Agency is working with Chase Bank to add another signatory to the account and will implement a co-signor policy when that individual is designated. In addition, Agency management now requires invoices to be submitted before any check is made to vendors.

In accordance with the Agency’s Procurement Policy, professional services are not subject to competitive bidding. However, the Agency now includes the maximum amount to be paid to a consultant in its board resolutions when feasible.

MOUNT VERNON INDUSTRIAL DEVELOPMENT AGENCY
Schedule of Prior Year Findings
For the year ended December 31, 2017

Finding 2016-01 Accounting Records

Condition

The accounting books and records were not updated for the current year under audit until after December 31, 2016.

Status

This condition still exists. Refer to Finding 2017-001.