

**UTICA HARBOR POINT DEVELOPMENT CORP.
(A Blended Component Unit of the City of Utica)**

**Financial Statements as of
March 31, 2020
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

UTICA HARBOR POINT DEVELOPMENT CORP.

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INDEPENDENT AUDITOR'S REPORT

August 18, 2020

To the Board of Directors of
Utica Harbor Point Development Corp.:

Report on the Financial Statements

We have audited the accompanying financial statements of Utica Harbor Point Development Corp (UHPDC), a blended component unit of the City of Utica as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise UHPDC'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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utica Harbor Point Development Corp., as of March 31, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2020 on our consideration of Utica Harbor Point Development Corp'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 the effectiveness of UHPDC's 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 Utica Harbor Point Development Corp.'s internal control over financial reporting and compliance.

UTICA HARBOR POINT DEVELOPMENT CORP

STATEMENT OF NET POSITION

MARCH 31, 2020

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,687
Due from other governments	<u>4,022,368</u>
Total current assets	<u>4,024,055</u>
Capital assets	8,869,194
Total assets	<u>12,893,249</u>

CURRENT LIABILITIES

Accounts payable	396,412
Lines of credit payable	<u>7,040,590</u>
Total current liabilities	<u>7,437,002</u>

NET POSITION

Net investment in capital assets	1,432,192
Unrestricted - designated for debt service	4,022,368
Unrestricted	<u>1,687</u>
Total net position	<u>\$ 5,456,247</u>

The accompanying notes are an integral part of these statements.

UTICA HARBOR POINT DEVELOPMENT CORP

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDING MARCH 31, 2020

OPERATING EXPENSES:	
Commitment and other fees	\$ 86,941
Miscellaneous	10,822
Insurance	7,666
Professional fees	6,750
Bank fees	95
Supplies	<u>91</u>
Total operating expenses	<u>112,365</u>
NET OPERATING LOSS	(112,365)
Interest expense	<u>201,444</u>
LOSS BEFORE CAPITAL CONTRIBUTION	(313,809)
CAPITAL CONTRIBUTION - New York State	<u>4,631,041</u>
CHANGE IN NET POSITION	4,317,232
NET POSITION - beginning of year	<u>1,139,015</u>
NET POSITION - end of year	<u>\$ 5,456,247</u>

The accompanying notes are an integral part of these statements.

UTICA HARBOR POINT DEVELOPMENT CORP

STATEMENT OF CASH FLOWS FOR THE YEAR ENDING MARCH 31, 2020

CASH FLOW FROM OPERATING ACTIVITIES	
Cash payments to suppliers for goods and services	\$ <u>(112,365)</u>
Net cash flow from operating activities	<u>(112,365)</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets	(7,053,309)
Capital related grants received	1,675,614
Borrowing on lines of credit	8,789,693
Paid on lines of credit	(3,101,887)
Interest expense	<u>(201,444)</u>
Net cash flow from capital and related financing activities	<u>108,667</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,698)
CASH AND CASH EQUIVALENTS - beginning of year	<u>5,385</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,687</u>
Reconciliation of operating income to net cash flow from operating activities:	
Net operating loss	\$ <u>(112,365)</u>
Net cash flow from operating activities	<u>\$ (112,365)</u>

The accompanying notes are an integral part of these statements.

UTICA HARBOR POINT DEVELOPMENT CORP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2020

1. REPORTING ENTITY

Utica Harbor Point Development Corp. (UHPDC or Corporation) is a local development corporation created in 2011 for the purpose of improving, promoting and rehabilitating the area known as Harbor Point in the City of Utica, New York. UHPDC is exempt from Federal, State, and local income taxes. The City of Utica, by and through its mayor is the sole member of the corporation, accordingly, UHPDC is a blended component unit of the City of Utica.

The Corporation was financially dormant until April 1, 2018 at which point it took over the City's development efforts related to the Harbor Point project. During UHPDC's dormant period, the City of Utica obtained certain grants and expended certain funds to further the project's goals. Upon the sale and disposition of UHPDC's assets, the net proceeds will revert to the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

UHPDC'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 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 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 invested in capital assets, net of related debt. 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 March 31, 2020, UHPDC does not have a restricted net position.
- Unrestricted – designated for debt service – This component of net position is designated to be used to repay outstanding lines of credit.
- Unrestricted net position - This component of net position consists of net position that doesn't meet the definition of net investment in capital assets, designated for debt service or restricted.

When both restricted and unrestricted resources are available for use, it is UHPDC's policy to use restricted resources first.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the report period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and equivalents includes demand deposits, money market funds, and certificates of deposit with original maturities of twelve months or less. UHPDC maintains its cash and cash equivalents in bank accounts. Interest and dividend income from cash and cash equivalents is reported in other income in the statements of revenues, expenses, and changes in net position.

Construction in Progress

UHPDC capitalizes all construction, engineering and other costs that are expected to have long term economic value to the City. No depreciation has been recorded as all projects are not yet complete.

Revenue Recognition/Due from Other Governments

UHPDC's primary source of revenue is grant revenue from New York State Urban Development Corp. d/b/a Empire State Development. Grant revenue is recognized when the terms of the grant have been met and request for payment has been made.

Contributed Facilities and Services

UHPDC, with the consent of the Common Council of the City of Utica, is authorized to use and has shared City employees, facilities, and equipment and may reimburse the City an agreed upon proportion of the compensation or costs of the services provided. For the year ended March 31, 2020, the City did not request any reimbursement and no such reimbursement was made.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Policies

UHPDC follows an investment and deposit policy, the overall objective of which is to adequately safeguard the funds of UHPDC and funds under the control of UHPDC; to provide sufficient liquidity of invested funds in order to meet obligations as they become due; and to earn the maximum yield possible given the objectives previously listed. Oversight of investment activity is the responsibility of the Executive Director. UHPDC's monies must be deposited in Federal Deposit Insurance Agency (FDIC) insured commercial banks or trust companies as designated by the Board of Directors. Permissible investments include: a) obligations of the United States or of federal agencies whose principal and interest payments are fully guaranteed by the federal or state government, b) obligations of New York State or in general obligations of the State's political subdivisions, c) certificates of deposits or deposits with banks with an investment grade rating by a Rating Agency, d) commercial paper rated Prime-1 and/or A-1, and e) money market funds with AAA ratings.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. UHPDC's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Credit Risk

UHPDC's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. Governmental Accounting Standards direct that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are not covered by collateralization. All deposits are covered by depository insurance.

4. RELATED PARTY

UHPDC's governing body is appointed by the Mayor of the City of Utica.

5. CONSTRUCTION IN PROGRESS

As of March 31, 2020, UHPDC has construction in progress as follows:

	Balance		Balance
	<u>April 1, 2019</u>	<u>Additions</u>	<u>March 31, 2020</u>
Professional services	\$ 398,711	\$ 353,694	\$ 752,405
Land	-	927,949	927,949
Site work	1,060,290	55,804	1,116,094
Bulkhead	<u>1,040,859</u>	<u>5,031,887</u>	<u>6,072,746</u>
	<u>\$ 2,499,860</u>	<u>\$ 6,369,334</u>	<u>\$ 8,869,194</u>

6. LINE OF CREDIT

UHPDC has two lines of credit with NBT Bank. Terms are as follows:

	<u>Line 1</u>	<u>Line 2</u>
Amount	\$ 2,250,000	\$ 5,400,000
Type	Revolving LOC	Revolving LOC
Current balance	\$ 1,640,590	\$ 5,400,000
Interest rate basis	WSJ U.S. Prime	WSJ U.S. Prime
Current interest rate	3.25%	3.25%
Payable	On demand	On demand

6. LINE OF CREDIT (Continued)

Activity during the year is as follows:

	<u>Line 1</u>	<u>Line 2</u>
Balance April 1, 2019	\$ 1,352,784.00	\$ -
Borrowing	3,389,693	5,400,000
Repayments	<u>3,101,887</u>	<u>-</u>
Balance March 31, 2020	<u>\$ 1,640,590</u>	<u>\$ 5,400,000</u>

7. COMMITMENTS AND CONTINGENCIES

UHPDC has signed contracts for professional services and construction. Approximately \$1,125,000 of work remains to be completed on these contracts. All work is expected to be completed by the end of the next fiscal year.

UHPDC is the beneficiary of two grants with NYS Empire State Development (ESD). Grant terms are as follows:

	<u>Grant Number</u>	
	<u>Z182</u>	<u>132084</u>
Purpose	Infrastructure	Infrastructure
Grant amount	\$ 5,000,000	\$ 6,000,000
Claimed to date	<u>2,490,779</u>	<u>4,022,368</u>
Remaining	<u>\$ 2,509,221</u>	<u>\$ 1,977,632</u>

8. COVID 19 PANDEMIC

As of the date of this report, the United States is in the midst of a national health emergency related to a virus, commonly known as novel coronavirus (COVID-19). The overall consequences of COVID – 19 on a national, regional and local level are unknown, but it has the potential to result in a significant economic impact. Businesses throughout NYS remain closed or are operating significantly below their capacity. This reduced economic activity is having an adverse effect on sales and income tax revenue collected by NYS. If NYS is unable to meet its budgeted revenue projections, it may need to reduce its expenditures accordingly, which could result in UHPDC receiving less NYS appropriations than expected.

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

August 18, 2020

To the Board of Directors of
Utica Harbor Point Development Corp.:

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 Utica Harbor Point Development Corp. (UHPDC) as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise UHPDC's basic financial statements and have issued our report thereon dated August 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UHPDC'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 UHPDC's internal control. Accordingly, we do not express an opinion on the effectiveness of UHPDC'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 that we consider to be material weaknesses.

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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 UHPDC'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*.

Utica Harbor Point Development Corp.'s Response to Findings

Utica Harbor Point Development Corp.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Utica Harbor Point Development Corp.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

**Utica Harbor Point Development Corp.
Schedule of Findings and Questioned Costs
For the year ended March 31, 2020**

Financial Statement Finding:

2019-001 Condition of Accounting Records

Condition: During our audit it was necessary to record 16 adjusting entries, the net effect of which increased net position by \$4.1 million. The number and dollar amount of journal entries are indicative of a material weakness in internal controls.

Criteria: The general ledger should be maintained to account for all transactions in accordance with generally accepted accounting principles and all material accounts should be reconciled to supporting documentation on a monthly basis.

Effect: Without audit adjustment, the financial statements would have been materially misstated.

Cause: Accounting was incomplete and certain accounts such as lines of credit were not reconciled.

Recommendation: Greater care should be given to the accuracy of transactions posted and all material accounts (cash, receivables, payables, debt, capital assets) should be reconciled on a monthly basis.

View of Responsible Officials: For future audits, the above recommendation will be implemented.