

TOWN OF BABYLON L.D. CORPORATION II
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
(WITH INDEPENDENT AUDITORS' REPORT)

Years Ended December 31, 2020 and 2019

TOWN OF BABYLON L.D. CORPORATION II

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INDEPENDENT AUDITORS' REPORT

Honorable Board of Directors
Town of Babylon L.D. Corporation II
North Babylon, New York

Report on Financial Statements

We have audited the accompanying financial statements of the Town of Babylon L.D. Corporation II (the "Corporation"), a component unit of the Town of Babylon, New York, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Corporation'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 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 of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020 and 2019, and the changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2021, on our consideration of the Corporation'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 solely 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 the Corporation'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 the Corporation's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Hauppauge, New York
May 19, 2021

REQUIRED SUPPLEMENTARY INFORMATION
Management's Discussion and Analysis

TOWN OF BABYLON L.D. CORPORATION II MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Town of Babylon L.D. Corporation II (the "Corporation"), a component unit of the Town of Babylon, New York (the "Town") financial condition and activity for the years ended December 31, 2020 and 2019. Please read this information in conjunction with the financial statements. Management's Discussion and Analysis is Required Supplementary Information specified in the Government Accounting Standard Board Statement No. 34.

FINANCIAL HIGHLIGHTS

- The assets of the Corporation exceeded its liabilities at the close of 2020 by \$2,107,193 (net position). The Corporation's total net position decreased by \$178,566 in 2020, due to expenditures exceeding revenues, primarily due to funds received for charges for services, funds received as a result sales of lease right, economic development funds received from the Town of Babylon Industrial Development Agency, Wyandanch economic development funds received and rental income for a sub-lease agreement offset by transferred of lease rights, Copiague facade renovation funds disbursed including program fees, new economic development funds disbursed, professional fees including special programs, and beautification sponsorship expense incurred in current year.
- The assets of the Corporation exceeded its liabilities at the close of 2019 by \$2,285,759 (net position). The Corporation's total net position decreased by \$46,762 in 2019, primarily as result of professional fees including office expenses incurred and no funds received for charges for services during the year 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Corporation's financial condition and performance. Summary financial statements data, key financial and operational indicators used in the Corporation's strategic plan, operating plan, bond covenants and other management tools were used for this analysis.

The financial statements report information about the Corporation, which follows enterprise-type fund reporting. The Corporation applies full accrual accounting methods as used by similar business activities in the private sector. The statements offer short and long-term financial information.

The financial statements include the statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows and notes to the financial statements. The statement of net position include all of the Corporation's assets and liabilities.

The statement of revenues, expenses, and changes in net position presents the results of the Corporation's activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. These statements also provide information about whether the Corporation has successfully recovered its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows present changes in cash resulting from operating, non-operating activities and other activities.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. The notes present information about the Corporation's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CORPORATION

One of the most important objectives of the financial analysis is to determine if the Corporation, as a whole, is better or worse off as a result of the year's activities. The statements of net position and the statements of revenues, expenses, and changes in net position provide useful information in this regard. The statements report the net position of the Corporation and changes in these net positions. The amount of net position, the difference between total assets and liabilities, is a significant measure of the financial health or financial position of the Corporation.

Over time, increases or decreases in the Corporation's net position can be an indicator of whether its financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth, zoning, and new government legislation or changes to existing government legislation should also be considered in evaluating the financial condition of the Corporation.

The following comparative condensed financial statements and other selected information serve as the financial data and indicators for management's monitoring and planning.

Net Position

A summary of the Corporation's condensed statements of net position at December 31st is presented as follows:

	2020	2019	2018
Assets			
Current assets	\$ 2,128,415	\$ 2,012,059	\$ 2,058,821
Security deposits	3,700	-0-	-0-
Capital assets	219,458	273,700	273,700
Total Assets	<u>2,351,573</u>	<u>2,285,759</u>	<u>2,332,521</u>
Liabilities			
Current liabilities	244,380	-0-	-0-
Total Liabilities	<u>244,380</u>	<u>-0-</u>	<u>-0-</u>
Net Position			
Investment in capital assets	219,458	273,700	273,700
Restricted	1,818,369	1,949,813	2,050,742
Unrestricted	69,366	62,246	8,079
Total Net Position	<u>\$ 2,107,193</u>	<u>\$ 2,285,759</u>	<u>\$ 2,332,521</u>

Total assets at December 31, 2020 were \$2,351,573, which exceeded total liabilities in the amount of \$244,380 by \$2,107,193 (net position). Of the Corporation net position, \$219,458 relates to the investment in capital assets, restricted cash of \$1,818,369 and the remaining \$69,366 was unrestricted, which is available to support operations.

Total assets increased by \$65,814 at December 31, 2020 compared to December 31, 2019, primarily due to the increase in cash of \$114,350 due to community benefit, economic development and community development funds received during the year 2020 as well as an increase in prepaid expenses of \$2,006 for rental insurance, an increase in security deposits of \$3,700 for two leases the Corporation entered into during the year and an increase in capital assets (land parcels) in the amount of \$219,458 due to sale of lease right.

TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE CORPORATION (continued)

This increase was offset by a decrease in capital assets of \$54,242 due to a transfer of a lease right to the developer totaled \$273,700 for the completion of the building. Total liabilities increased by \$244,380 primarily attributable to increases in due to other governments of \$219,458 for a transferred title of certain parcels of land to the Corporation (sale of lease right) which a third-party developer paid the Corporation instead of paying directly to the Town of Babylon on behalf of the Corporation as stated in the agreement and \$24,922 of expenses paid by the Town of Babylon Industrial Development Agency on behalf of the Corporation related to special projects to assist businesses in the Babylon area to reopen after the COVID-19 shutdown. The Corporation's net position decreased by \$178,566 in the current year.

Total assets at December 31, 2019 were \$2,285,759, which exceeded total liabilities in the amount of \$2,285,759 (net position). Of the Corporation net position, \$273,700 relates to the investment in capital assets, restricted cash of \$1,949,813 and the remaining \$62,246 was unrestricted, which is available to support operations. Total assets decreased by \$46,762 at December 31, 2019 compared to December 31, 2018, attributable to the Corporation had no charges for services during the year ended December 31, 2019 and \$30,000 in 2018. Total were no liabilities as of December 31, 2019 and 2018. The Corporation's net position decreased by \$46,762 in the current year.

Operating Results

The Corporation's condensed statements of revenues, expenses and changes in net position for the years ending December 31st, are presented as follows:

	2020	2019	2018
Operating Revenues			
Charges for services	\$ 40,000	\$ -0-	\$ 30,000
Total Operating Revenues	40,000	-0-	30,000
Operating Expenses			
Contractual goods and services	163,735	63,610	41,543
Total Operating Expenses	163,735	63,610	41,543
Loss from Operations	(123,735)	(63,610)	(11,543)
Non-Operating Revenues (Expenses)	(54,831)	16,848	2,324,704
Change in Net Position	(178,566)	(46,762)	2,313,161
Net Position at Beginning of Year	2,285,759	2,332,521	19,360
Net Position at End of Year	\$ 2,107,193	\$ 2,285,759	\$ 2,332,521

The Corporation charges for services revenue during the year ended December 31, 2020 increased by \$40,000 from the prior year due to a closing during the year 2020. The Corporation did not have any operating revenue during the year ended December 31, 2019. The Corporation's operating expenses for the year ended December 31, 2020 was \$163,735, an increase of \$100,125 from the prior year.

**TOWN OF BABYLON L.D. CORPORATION II
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE CORPORATION (continued)

This increase was primarily related to costs associated with professional fees, special programs, beautification sponsorship and office expenses in the current year when compared to the prior year. The decrease in non-operating revenues and expenses primarily relates to non-operating revenues received in 2020 from a third-party based on a Wyandanch Economic Development Agreement entered into in current year in the amount of \$350,000, \$219,458 payment made by a third-party developer to the Corporation for certain parcels of land, \$125,000 of Inter-agency funds received from the Town of Babylon Industrial Development Agency (the "Agency") and \$2,000 of rental income. There were non-operating revenues received in 2019. These revenues increases were offset by an increase in non-operating expenses during the year 2020 due to a transfer of a lease right to the developer of \$273,700 for the completion of the building and \$431,443 funds distributed related to the economic development programs to assist businesses in the Town of Babylon to reopen after government shutdown due to COVID-19 pandemic. There were no such non-operating expenses incurred in 2019. In addition, the Corporation disbursed \$54,000 including \$1,375 in fees from the Copiague facade renovation grant program during the year 2020. The Corporation disbursed \$2,001 of related fees in 2019. There were no Copiague facade renovation grant program funds received during the years ended December 31, 2020 and 2019, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN

The Corporation was formed to relieve and reduce unemployment, to maintain job opportunities and to create better paid job opportunities, to instruct or train individuals to improve or to develop their capabilities for jobs; to carry on scientific research for the purpose of aiding the community or geographical area by attracting industry to the community, or by encouraging the development of or retention of an industry in the community; to lessen the burden of government; and to act in the public interest.

The public objective of each and every of the purposes enumerated above is to promote the general and public welfare of the Town's people. The Corporation plans to continue and expand its assistance to businesses, not-for-profits, and affordable housing developers in the Town of Babylon by providing federally tax-exempt and taxable revenue bonds.

However, on January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken globally and especially in New York State to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Corporation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Corporation, the Corporation is expecting this matter to negatively impact its future revenues.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our readers with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town of Babylon L.D. Corporation II at 816 Deer Park Avenue, North Babylon, New York 11703, ldc@townofbabylon.com or call (631) 442-2900.

FINANCIAL STATEMENTS

TOWN OF BABYLON L.D. CORPORATION II
STATEMENT OF NET POSITION
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash	\$ 2,126,409	\$ 2,012,059
Prepaid expenses	<u>2,006</u>	<u>-0-</u>
Total Current Assets	2,128,415	2,012,059
Non-Current Assets:		
Capital assets	219,458	273,700
Security deposits	<u>3,700</u>	<u>-0-</u>
Total Assets	<u>2,351,573</u>	<u>2,285,759</u>
LIABILITIES		
Current Liabilities:		
Due to other governments	<u>244,380</u>	<u>-0-</u>
Total Liabilities	<u>244,380</u>	<u>-0-</u>
NET POSITION		
Investment in capital assets	219,458	273,700
Restricted - Copiague facade renovation grant program	66,614	121,989
Restricted - Affordable housing	918,422	913,912
Restricted - Economic development	483,333	913,912
Restricted - Wyandanch economic development fund	350,000	-0-
Unrestricted	<u>69,366</u>	<u>62,246</u>
Total Net Position	<u>\$ 2,107,193</u>	<u>\$ 2,285,759</u>

See notes to the financial statements.

TOWN OF BABYLON L.D. CORPORATION II
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Charges for services	\$ 40,000	\$ -0-
Total Operating Revenues	40,000	-0-
OPERATING EXPENSES		
Professional fees	107,700	62,550
Special programs	24,922	-0-
Beautification sponsorship	29,978	-0-
Office expense	135	60
Rent	1,000	1,000
Total Operating Expenses	163,735	63,610
Loss from Operations	(123,735)	(63,610)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	9,229	18,849
Sale of lease right	219,458	-0-
Transfer of lease right	(273,700)	-0-
Inter-agency funds	125,000	-0-
Wyandanch economic development fund	350,000	-0-
Rental income	2,000	-0-
Economic development expenses	(431,443)	-0-
Copiague facade renovation grant program	(54,000)	-0-
Copiague facade renovation grant program fees	(1,375)	(2,001)
Total Non-Operating Revenues (Expenses)	(54,831)	16,848
Change in Net Position	(178,566)	(46,762)
Net Position at Beginning of Year	2,285,759	2,332,521
Net Position at End of Year	\$ 2,107,193	\$ 2,285,759

See notes to the financial statements.

TOWN OF BABYLON L.D. CORPORATION II
STATEMENT OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and clients	\$ 40,000	\$ -0-
Cash payments for contractual expenses	(144,519)	(63,610)
Net Cash Used by Operating Activities	(104,519)	(63,610)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from inter-agency funds	125,000	-0-
Cash received from Wyandanch economic development fund	350,000	-0-
Cash received from sale of lease right	219,458	-0-
Cash received from rental income	2,000	-0-
Payments of economic development	(431,443)	-0-
Payments of copiasgue facade renovation program	(55,375)	(2,001)
Net Cash Provided (Used) by Noncapital Financing Activities	209,640	(2,001)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	9,229	18,849
Net Cash Provided by Investing Activities	9,229	18,849
Net Increase (Decrease) in Cash	114,350	(46,762)
Cash at Beginning of Year	2,012,059	2,058,821
Cash at End of Year	\$ 2,126,409	\$ 2,012,059
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Loss from operations	\$ (123,735)	\$ (63,610)
Decrease (increase) in assets:		
Prepaid expenses	(2,006)	-0-
Security deposits	(3,700)	-0-
Increase (decrease) in liabilities:		
Due to other governments	24,922	-0-
Net Cash Used by Operating Activities	\$ (104,519)	\$ (63,610)
NONCASH INVESTING ACTIVITIES		
Transferred of lease right	\$ 273,700	\$ -0-
Less: payment made on behalf of Town of Babylon L.D., Corporation II - sale of lease right	(273,700)	-0-
Net Cash Paid for Acquisition of Land	\$ -0-	\$ -0-

See notes to the financial statements.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies

Organization

The Town of Babylon L.D. Corporation II (the "Corporation") was created as a New York State not-for-profit public benefit corporation. The Corporation was established on August 18, 1988 pursuant to Section 1411 of the not-for-profit corporation law as defined in section 102(a)(5). The Board of Directors have complete responsibility for approval and adoption of policies of the Corporation and accountability for fiscal matters. The Board of Directors appoints the Executive Director of the Corporation who is the Chief Executive Officer. The Corporation is a government instrumental tax-exempt corporation that was created to promote the economic welfare, recreation opportunities and prosperity of the inhabitants of the Town of Babylon. The Corporation provides companies with federally tax-exempt and taxable revenue bonds as incentives.

Reporting Entity

The financial reporting entity includes all functions and activities over which the appointed officials exercise responsibility. No other governmental organization has been included or excluded from the reporting entity. The governing body of the Town of Babylon appoints the Corporation's Board of Directors which results in interdependency with the Town of Babylon. Accordingly, the Corporation has been determined to be a discretely presented component unit of the Town of Babylon.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Corporation uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, liabilities, and resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The financial statements include statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to financial statements.

Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Corporation considers all highly liquid investments with a maturity when purchased of three months or less to be cash equivalents. As of December 31, 2020 and 2019, the Corporation did not have any cash equivalents. The statements of cash flows is presented using the direct method.

Prepaid Expenses

Prepaid expenses represent Corporation insurance expenses paid in advance. The cost of prepaid items is recorded as expense when consumed rather than when purchased.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on depreciable assets is recorded on the straight-line basis over the estimated useful lives.

Due to Other Governments

Due to other governments represent expenses incurred by the Town of Babylon Industrial Development Agency (the "Agency") during 2020 related to special programs to assist businesses in the Town of Babylon to reopen after the government shutdown due to the COVID-19 pandemic. The cost of these special programs is shared with the Agency which the Corporation agreed to reimburse the Agency 50% of total costs incurred or approximately \$25,000 at December 31, 2020.

During 2020, the Town of Babylon transferred title of certain parcels of land to the Corporation. A third-party developer paid the Corporation for the land instead of paying the Town of Babylon on behalf of the Corporation as stated in the agreement. In March 2021, the Corporation paid the Town of Babylon for the land. Due to the Town of Babylon totaled approximately \$219,000 at December 31, 2020 (see Note 5).

Net Position Classification

In the financial statements, equity is classified as net position, and can be displayed in three components:

- Net investment in capital assets - Consists of capital assets including, restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - is the remaining net position that does not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as needed. As of December 31, 2020 and 2019, the Corporation has restricted and unrestricted net position.

Revenue Recognition

The Corporation's primary source of operating revenue is from bond issuance fees, which are computed according to the Corporation's administrative fee schedule for bonds (tax-exempt and taxable). Fees are recorded as income, when earned, at the time of closing, unless otherwise specified. For the year ended December 31, 2020, the Corporation received revenues from the Agency and third-parties to be used for specific purposes as compared to prior year when the Corporation did not received revenues from the Agency and third-parties.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

These revenues are recognized when earned, based on when funds have been allocated by the Town for the program or as designated in the third-party agreement (see Notes 4, 5, 8 and 9).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual result could differ from those estimates, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 ("Coronavirus") pandemic and the mitigation responses, and such differences may be material.

Recent Accounting Pronouncements

The Corporation has adopted the following Statement of Governmental Accounting Standards Board ("GASB") during the year ended December 31, 2020 as follows:

- Statement No. 83, "*Certain Asset Retirement Obligations*"
- Statement No. 84, "*Fiduciary Activities*"
- Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*"
- Statement No. 90, "*Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61*"

The implementation of the aforementioned Statements had no impact on the Corporation's financial statements.

Subsequent Events

Subsequent events have been evaluated through May 19, 2021, which is the date the financial statements were available to be issued. Management as determined that there were no events that occurred that require additional disclosure.

2. Cash

As of December 31, 2020 and 2019, cash consists of funds deposited in an interest bearing account.

The Corporation's investments are governed by a formal investment policy. The Corporation's monies must be deposited in Federal Depository Insurance Corporation (the "FDIC") insured commercial banks or trust companies located within New York State. The Corporation is authorized to use certificates of deposit, and money market deposit accounts. Permissible investments include certificates of deposits, obligations of the United States, obligations of the State of New York, repurchase agreements, and obligations of agencies of the federal government where principal and interest are guaranteed by the United States.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

2. Cash (continued)

Collateral is required for demand deposits and time deposits accounts at certain percentage of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. The Corporation's collateral agreements are based on the Corporation's available cash balance.

Custodial Credit Risk - Deposits/Investments - Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, the Corporation may be unable to recover deposits, or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Deposits are required to be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

- Uncollateralized,
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Corporation's name.

At December 31, 2020 and 2019, the Corporation's cash was insured by the FDIC or collateralized by securities held in the pledging bank's trust department in the Corporation's name.

3. Capital Assets

A summary of changes of capital assets for the years ended December 31, 2020 and 2019 is as follows:

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/20</u>
Capital assets not being depreciated:				
Land	\$ 273,700	\$ 219,458	\$ 273,700	\$ 219,458
Total Capital Assets	<u>\$ 273,700</u>	<u>\$ 219,458</u>	<u>\$ 273,700</u>	<u>\$ 219,458</u>

The Corporation evaluates capital assets for prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. The Corporation's policy is to record an impairment loss in the period when the Corporation determines that the carrying amount of the asset will not be recoverable. At December 31, 2020 and 2019, the Corporation has not recorded any such impairment losses. There were no depreciable assets acquired during 2020 and 2019, therefore, there was no depreciation expense for the years ended December 31, 2020 and 2019, respectively.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

4. Revenues

During the years ended December 31, 2020 and 2019, the Corporation adopted fee guidelines were as follows:

- a) A one-time non-refundable fee of \$1,500 for all bond issues per application.
- b) Public hearing notice fee related to newspaper publications.
- c) Administrative fees are charged by the Corporation at closing as follows:
 - $\frac{3}{4}$ of 1% of the bond project amount on the first \$15 million
 - $\frac{1}{2}$ of 1% of the bond project amount between \$15 - \$25 million
 - $\frac{1}{4}$ of 1% of the bond project amount between \$25 - \$35 million
 - $\frac{1}{10}$ of the 1% of the bond project amount over \$35 million

Applicants pay the Corporation's bond counsel fees at closing to handle the bond transaction. The Corporation had fee service income during the years ended December 31, 2020 and 2019 in the amounts of \$40,000 and \$-0-, respectively.

5. Sale/Transfer of Lease Right

During 2020, the Town of Babylon transferred title of certain parcels of land to the Corporation. A third-party developer paid the Corporation \$219,458 for the land instead of paying directly to the Town of Babylon on behalf of the Corporation as stated in the agreement. In March 2021, the Corporation paid the Town of Babylon for the land. This is classified as a sale of lease right on the Corporation's statement of revenues, expenses, and changes in net position for the year ended December 31, 2020. At the time of the title transfer of land, the Corporation entered into a Development Lease Agreement ("Lease Agreement") with the third-party developer in which the third-party acting as the lessee subleased the land to the Agency, who in turn subleased the property back to the third-party developer for \$1 per annum. The purpose of the lease leaseback transaction is to provide future financial benefits to the third-party developer such as certain sales tax and mortgage recording tax exemptions and real estate tax abatements.

During the year ended December 31, 2020, the Corporation transferred title to the entity that had the development lease agreement, WR Communities E, LLC for \$273,700. The transfer was made in accordance with the development lease which provided for the conversion of the leasehold to fee title any time after substantial completion of the building, which was completed in 2020. The transfer was completed in October 2020. This is classified as a transfer of lease right on the Corporation's statement of revenues, expenses and changes in net position at December 31, 2020.

6. Copiague Facade Renovation Grant Program

The Town of Babylon established the downtown Copiague facade renovation grant program to revitalize the downtown area of Copiague, New York. In 2018, the Town board appointed and authorized the Corporation to administer the downtown Copiague program for which the purpose is to improve downtown structures in need of facade and/or sign renovations. In 2018, the Town transferred \$209,250 of the funds associated with the downtown Copiague facade improvement program to the Corporation. Funds are to be distributed to various companies that have applied and awarded grant assistance in the renovation of their building's facade. As of December 31, 2020, the Corporation has disbursed \$129,000 of the funding including related fees of \$13,636 and the remaining funds will be disbursed in 2021. The revenues and expenses related to the Copiague Facade Downtown grant program are reported as non-operating revenues and expenses.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

7. Community Benefit Agreement

In 2018, the Corporation entered into a Community Benefit Agreement (the "Agreement") with a third-party, who is working on a development project involving the acquisition and construction of a multi-phased, multi-family, residential units located in Amityville, New York. As a condition of receiving financial assistance for the project through the Town of Babylon Industrial Development Agency, the third-party, will deposit certain funds based on the completion the phases of the project, as defined in the Agreement. These funds are designated to be used for an Economic Development fund and an Affordable Housing Fund, of which the specific activities as defined in the Agreement. The Corporation administers the funds as prescribed in the Agreement. During the years ended December 31, 2020 and 2019, the Corporation did not receive affordable housing funds and economic development funds respectively, and disbursed affordable housing funds of \$-0- and \$58,692, respectively, and economic development funds of \$431,443 and \$58,692, respectively. 2019 disbursed funds related to operating expenses for professional fees to administer the funds.

In 2020, the Corporation launched the Babylon Is Back programs consisting of the Emergency Assistance Program and Fraternal & Civic Assistance Program. These programs, approved by New York State, provide temporary authority to the Corporation to issue grants and loans to businesses and small not-for-profit corporations negatively impacted by COVID-19 Pandemic. The Corporation also launched Babylon Citizens Council on the Arts/Babylon Together Program (BACCA), New York Forward Loan Program and Economic Inclusion Program. These programs are aimed to assist small businesses including landlords, revitalization activity and minority disadvantaged communities in the Town of Babylon to reopen after the government shutdowns due to COVID-19 pandemic. The Corporation's Board authorized the allocation of the economic development funds to be used for these new programs as follows, \$375,000 to the emergency assistance program of which \$82,652 were disbursed in 2020, \$155,000 of which \$152,950 were disbursed in 2020, \$100,000 to BACCA program of which \$23,115 were disbursed in 2020, \$125,000 to the New York Forward Program which all was disbursed in 2020 and \$53,372 to the Economic Inclusion Program of which \$38,165 related to professional fees distribution and \$15,207 allocated to pay rent for two leases the Corporation entered into on behalf of minority businesses in the Town of Babylon impacted by COVID-19 (see Note 11). Amounts received in 2020 are reported as non-operating revenue. These funds plus interest earned less any related costs, have been reported as restricted in the Statement of Net Position.

8. Wyandanch Economic Development Fund

In 2020, the Corporation entered into a Community Benefit Agreement (the "Agreement") with a third-party, who is working on a development project involving the acquisition and construction of an affordable senior residential housing facility located in Wyandanch, New York. As a condition of receiving financial assistance for the project through the Town of Babylon Industrial Development Agency, the third-party deposited certain funds based on the date of project closing, as defined in the Agreement. These funds are designated to be used for the "Wyandanch Economic Development Fund", of which the specific activities as defined in the Agreement. The Corporation administers the funds as prescribed in the Agreement. During the years ended December 31, 2020 and 2019, the Corporation received \$350,000 and \$-0-, respectively. These funds have been reported as restricted in the Statements of Net Position.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

9. Inter-Agency Funds

In January 2020, the Corporation entered into an agreement with the Town of Babylon Industrial Development Agency (the "Agency") in which the Corporation received \$125,000 as payment for services rendered which include but are not limited to, community development and the improvement of quality of life within the Town of Babylon.

10. Conduit Debt Obligations, Industrial Revenue Bonds and Note Transactions

The Corporation has, at times, issued Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of facilities and affordable housing deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Corporation, the Town, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2020 and 2019, there were two series of Revenue Bonds and Notes outstanding, with an aggregate principal amount payable of \$18,905,000 and \$19,865,000, respectively.

11. Lease Commitments

The Corporation leases a board room from the counselor of the Corporation for the purposes of meetings and conducting business. The Lease Agreement expired in August 31, 2020 and was extended for one year through August 31, 2021. During the years ended December 31, 2020 and 2019, rent expense was \$1,000.

The Corporation leases the first and second floor of a property from a third-party for the purposes of furthering the economic inclusion of the Town of Babylon residents and encourage entrepreneurship in the Town of Babylon. The Lease Agreement commenced December 1, 2020 and expires November 30, 2022, annual rent of \$48,000, to be paid in equal monthly payments of \$4,000 on the first day of each month renewable at end of current term for one year term at tenant's option. During the years ended December 31, 2020 and 2019, rent expense was \$4,000 and \$-0-, respectively. Rent expense has been reported as non-operating revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position. Future minimum rental commitment under the aforementioned lease agreement for the years ended December 31, 2021 and 2022 are \$48,000 and \$44,000, respectively.

The Corporation leases a property from a third-party for the purposes of furthering the economic inclusion of the Town of Babylon residents and encourage entrepreneurship in the Town of Babylon. The Lease Agreement commenced October 15, 2020 and expires October 14, 2021, to be paid in equal monthly payments of \$1,700, renewable at end of current term for three year term at tenant's option. During the years ended December 31, 2020 and 2019, rent expense was \$5,100 and \$-0-, respectively. Rent expense has been reported as non-operating revenues and expenses in the Statements of Revenues, Expenses and Changes in Net Position. Future minimum rental commitment under the aforementioned lease agreement for the year ended December 31, 2021 is \$17,000.

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

12. Sub-Lessor Agreement

The Corporation sub-leases space on the first and second floor of a property that rents to a third-party for the purposes of furthering the economic inclusion of the Town of Babylon residents and encourage entrepreneurship in the Town of Babylon. The Lease Agreement commenced December 1, 2020 and expires November 30, 2021, renewable at end of current term for one year at sub-lessee's option. During the years ended December 31, 2020 and 2019, rent income was \$2,000 and \$-0-, respectively. Future revenue to be received for the year ended December 31, 2021 is \$22,000.

13. Litigation

The Corporation is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have a material adverse effect on the financial condition of the Corporation.

14. Subsequent Events

In January 2021, the Corporation entered into a loan agreement with a third-party for \$20,000 to be paid back to the Corporation within one year. Loan is related to the Babylon is Back Emergency Assistance Program to assist businesses in the Town of Babylon negatively impacted by COVID-19 Pandemic.

15. New Pronouncements

The following statements have been issued by the GASB and are to be implemented in future years, as applicable:

Statement No. 87, "*Leases*", establishes accounting and financial reporting of leases. It requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. For leases with terms in-excess of 12 months, the Statement requires the leases to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (as extended by Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*").

Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*" requires that interest costs incurred before the end of a construction period be recognized as an expense. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset recorded in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (as extended by Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*").

Statement No. 91, "*Conduit Debt Obligations*" clarifies the existing definition of conduit debt obligations, establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations and also improves required not disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (as extended by Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*").

TOWN OF BABYLON L.D. CORPORATION II
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

15. New Pronouncements (continued)

Statement No. 92, "*Omnibus 2020*" has been issued to provide guidance in leases, pension plans and a wide range of other accounting and financial reporting issues that were identified during the implementation and application of some earlier pronouncements. The requirements of this Statement are effective as follows: (a) paragraphs 6 and 7, fiscal years beginning after June 15, 2021, and (b) paragraphs 8, 9, 10 and 12, reporting beginning after June 15, 2021.

Statement No. 93, "*Replacement of Interbank Offered Rates*" amends certain provisions of GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*" as amended and No. 87, "*Leases*". It has been issued to address the various accounting and reporting implications that will result from the replacement of LIBOR, as LIBOR will cease to exist in 2021. Among other provisions, this Statement provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when LIBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, clarifies the hedge accounting termination provisions when a hedge item is amended to replace the reference rate, clarifies the GASB Statement No. 53 definition of a *reference rate*, and identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap. The requirements of this Statement are effective for years beginning after June 15, 2021 (as extended by Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*"), except for the provisions that LIBOR is not an appropriate benchmark interest rate for a derivative instrument that hedges the interest rate of taxable debt, which is effective for years ending after December 31, 2021.

Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*", this Statement has been issued to improve financial reporting related to public-private and public-public partnership arrangements, in which one a government (transferor) contracts with an operator (governmental or nongovernmental entity) to provide public services by conveying the right to operate or use a nonfinancial assets. The requirements of this Statement are effective for years beginning after June 15, 2022.

Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB Statement No. 32*", this Statement has been issued to (1) increase consistency in reporting of fiduciary component units in instances where the potential component unit does not have a governing board and the primary government performs the duties of a governing board (effective upon issuance); (2) mitigate costs associated with the reporting of certain defined contribution plans and employee benefits plans other than pension plans or OPEB plans as fiduciary component units (effective upon issuance), and (3) enhances relevance and consistency of accounting and financial reporting for Internal Revenue Service Section 457 deferred compensation plans that meet the definition of a pension plan for benefits provided through those plans. The requirements of this Statement are effective as follows:

- Paragraphs 4 and 5, effective upon issuance.
- Paragraphs 6 to 9, effective years beginning after June 15, 2021.
- All other requirements, effective reporting periods beginning after June 15, 2021.

The Corporation is currently evaluating the impact of the above pronouncements.

OTHER REPORTS

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based upon an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Independent Auditors' Report

Honorable Board of Directors
Town of Babylon L.D. Corporation II
North Babylon, 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 Town of Babylon L.D. Corporation II (the "Corporation"), as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated May 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Hauppauge, New York
May 19, 2021