

**Suffolk County
Judicial Facilities Agency**

ANNUAL FINANCIAL REPORT

December 31, 2017

MANAGEMENT'S DISCUSSION
AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Suffolk County Judicial Facilities Agency's (the Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended December 31, 2017. Please read this in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights:

- At December 31, 2017, the total assets of the Agency were \$62,505,869, the total liabilities were \$61,000,469 and the Agency's net position was \$1,505,400.
- The Agency's total assets decreased by \$1,670,142 in 2017. The decrease in total assets is primarily due to the increase in accumulated depreciation of the building due to annual depreciation expense. The Agency's total liabilities decreased by \$2,588,968, principally due to the repayment of bonds.
- The Agency's net position increased by \$918,826 from \$586,574 at December 31, 2016 to \$1,505,400 at December 31, 2017.

Basic Financial Statements:

- The financial statements presented herein include all of the activities of the Agency.
- The financial statements present the financial picture of the Agency, which is an enterprise type fund and, accordingly, reflects business-type activities. These statements include all assets and liabilities of the Agency.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the financial statements.
- The Statement of Net Position (Deficit) and Statement of Revenues, Expenses and Changes in Net Position report information about the Agency as a whole and about its activities. These statements include all assets, deferred outflows, liabilities and deferred inflows of the Agency using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net position and changes in net position. Net position represents the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, which is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating.

Condensed Comparative Financial Statements:

Condensed Statements of Net Position (Deficit) at December 31,

	<u>2017</u>	<u>2016</u>
Current assets	\$ 144,944	\$ 116,335
Non-current assets, other	705,955	734,335
Capital assets, net	<u>61,654,970</u>	<u>63,325,341</u>
Total assets	<u>62,505,869</u>	<u>64,176,011</u>
Current liabilities	3,194,271	3,097,433
Non-current liabilities	<u>57,806,198</u>	<u>60,492,004</u>
Total liabilities	<u>61,000,469</u>	<u>63,589,437</u>
Net position (deficit):		
Net investment in capital assets	1,162,966	272,531
Restricted	705,955	734,335
Unrestricted	<u>(363,521)</u>	<u>(420,292)</u>
Total net position (deficit)	<u>\$ 1,505,400</u>	<u>\$ 586,574</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position for the Year Ended December 31,

	<u>2017</u>	<u>2016</u>
Total operating revenue	\$ 5,497,926	\$ 5,494,971
Total operating expenses	<u>(1,720,613)</u>	<u>(1,723,204)</u>
Operating income	3,777,313	3,771,767
Non-operating revenues (expenses), net	<u>(2,858,487)</u>	<u>(3,030,975)</u>
Change in net position	<u>\$ 918,826</u>	<u>\$ 740,792</u>

Analysis of Net Position (Deficit) and Results of Operations:

The Agency's 2017 net position increased by \$918,826, from \$586,574 at December 31, 2016 to \$1,505,400 at December 31, 2017. This change is due to the operating revenue, which consists of rental income, exceeding the operating expenses and non-operating expenses of the Agency.

Analysis of Balances and Transactions:

As mentioned on page i, the Agency's assets and liabilities decreased in 2017. Key components of these changes are as follows:

- The Agency recorded additional accumulated depreciation in 2017 of \$1,670,371.
- The Agency paid principal of \$2,515,000 towards the bonds payable.

Budgetary Analysis:

The Agency is required to adopt a budget in accordance with the Public Authorities Accountability Act.

The Agency's budgeted revenues of \$5,497,926 were in line with actual revenues of \$5,497,926. The Agency's actual operating expenses of \$1,720,613 were under budget of \$1,755,371 by \$34,758, largely a result of lower than budgeted insurance expense.

Capital Asset and Long-Term Debt Activity:

Capital Assets

The Agency did not acquire any capital assets during the year ended December 31, 2017. Depreciation charged to expense in 2017 totaled \$1,670,371.

Long-Term Debt

During 2017, the Agency made principal payments of \$2,515,000 on the outstanding bonds payable.

**Suffolk County
Judicial Facilities Agency**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

December 31, 2017

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437 Madison Avenue, 23rd Floor
New York, NY 10022 • 212.962.4470

165 Orinoco Drive, Brightwaters, NY 11718
631.665.7040 • Fax: 631.665.7014

15 South Bayles Avenue, Port Washington, NY 11050
516.883.5510 • Fax: 516.767.7438

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors
Suffolk County Judicial Facilities Agency

Report on the Financial Statements

We have audited the accompanying financial statements of Suffolk County Judicial Facilities Agency (the Agency), a New York State Public Benefit Corporation, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial position of the Agency as of December 31, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages i through iii and Page 18 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 February 24, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Sheehan & Company CPA, P.C.

Brightwaters, New York
February 24, 2018

Suffolk County Judicial Facilities Agency

STATEMENT OF NET POSITION (DEFICIT)

December 31, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 144,944
Total current assets	<u>144,944</u>

Non-current assets:

Restricted assets:	
Cash and cash equivalents	<u>705,955</u>
Capital assets:	
Land	1,800,000
Building, net of accumulated depreciation	<u>59,854,970</u>
Total capital assets, net	<u>61,654,970</u>
Total non-current assets	<u>62,360,925</u>
Total assets	<u>62,505,869</u>

LIABILITIES

Current liabilities:

Accrued interest on bonds	461,978
Bonds payable - due within one year	2,685,806
Payable to Suffolk County	<u>46,487</u>
Total current liabilities	<u>3,194,271</u>

Non-current liabilities:

Bonds payable - due in more than one year	<u>57,806,198</u>
Total non-current liabilities	<u>57,806,198</u>
Total liabilities	<u>61,000,469</u>

NET POSITION (DEFICIT)

Net investment in capital assets	1,162,966
Restricted	705,955
Unrestricted	<u>(363,521)</u>
Total net position (deficit)	<u>\$ 1,505,400</u>

See notes to financial statements

Suffolk County Judicial Facilities Agency

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

Operating revenues	<u>\$ 5,497,926</u>
Operating expenses:	
Insurance	14,497
Legal fees	8,185
Audit fees	15,000
Administration fees	5,500
Other professional fees	6,000
Bank service charges	310
Miscellaneous	750
Depreciation	<u>1,670,371</u>
Total operating expenses	<u>1,720,613</u>
Operating income	<u>3,777,313</u>
Non-operating revenues (expenses):	
Interest income	187
Dividend income	13,525
Interest expense	(2,823,222)
Return of funds in excess	<u>(48,977)</u>
Total non-operating revenues (expenses), net	<u>(2,858,487)</u>
Change in net position	918,826
Total net position, January 1	<u>586,574</u>
Total net position, December 31	<u>\$ 1,505,400</u>

See notes to financial statements

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Suffolk County Judicial Facilities Agency

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

Cash flows from operating activities:	
Received from providing services	\$ 5,497,926
Paid to suppliers for goods and services	<u>(50,242)</u>
Net cash flows from operating activities	<u>5,447,684</u>
Cash flows used in capital and related financing activities:	
Bonds payable - principal payments	(2,560,806)
Interest expense	(2,844,238)
Return of funds in excess	<u>(56,123)</u>
Net cash flows used in capital and related financing activities	<u>(5,461,167)</u>
Cash flows from investing activities:	
Interest received	187
Dividends received	<u>13,525</u>
Net cash flows from investing activities	<u>13,712</u>
Net change in cash and cash equivalents	229
Cash and cash equivalents, January 1	<u>850,670</u>
Cash and cash equivalents, December 31	<u><u>\$ 850,899</u></u>

See notes to financial statements

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Suffolk County Judicial Facilities Agency

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 3,777,313
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation expense	<u>1,670,371</u>
Net cash flows from operating activities	<u>\$ 5,447,684</u>

Reconciliation of cash and cash equivalents to statement of net position (deficit):

Cash and cash equivalents - unrestricted	\$ 144,944
Cash and cash equivalents - restricted	<u>705,955</u>
Cash and cash equivalents	<u>\$ 850,899</u>

See notes to financial statements

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

The general purpose financial statements of the Suffolk County Judicial Facilities Agency (the Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Financial reporting entity:

The Agency was originally created by Chapter 200 of the Laws of New York, 1999, as a corporate governmental agency and public benefit corporation of the State of New York, authorized to acquire, erect, build, alter, improve, extend, renovate, rehabilitate or relocate the John P. Cohalan Court Complex or any part thereof for among other uses, lease to the County for use by the County and the State for judicial purposes. The laws of New York, 2013, Chapter 351, an act to amend the public authorities' law, extended the Agency's authority to acquire the H. Lee Dennison Building from Suffolk County and enter into a lease agreement with Suffolk County.

The Agency raises funds to accomplish its purposes by issuing its special obligation bonds. The Agency is perpetual in duration and its corporate existence shall continue until terminated by law, provided that so long as bonds of the Agency are outstanding, provision must be made for their payment.

The Agency is governed by a six member Board of Directors whose members are appointed by the Suffolk County Legislature and the Suffolk County Executive and is considered a separate entity from Suffolk County.

All governmental activities and functions performed for the Agency are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity includes functions and activities over which appointed Agency directors exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designations of management and ability to significantly influence operations and accountability for fiscal matters.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued):

Basis of accounting:

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises and revenues are recorded when earned and expenses are recorded when incurred.

The Agency's financial statements are presented in accordance with GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Uses of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of the Statement of Cash Flows, investments with maturities of three months or less when purchased are considered cash equivalents.

Capital assets:

Capital assets are stated at cost. The Agency's policy is to capitalize assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation has been provided using the straight-line method over the useful lives of the assets. Management has estimated the useful life of the building to be forty years.

Restricted assets:

Certain proceeds of the lease revenue bonds, as well as certain resources set aside for their repayment, and other funds provided for Agency operations and contingencies, are classified as restricted in the Statement of Net Position (Deficit), because their use is limited for the purposes and under the terms and conditions set forth in the Lease Revenue Bond Resolution adopted September 10, 2013.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued):

Advertising costs:

Advertising costs are charged to operations when incurred.

Long-term debt:

The Agency has issued lease revenue bonds to pay for the cost of acquiring the H. Lee Dennison Building from Suffolk County, to fund certain reserves and to pay costs related to the issuance of the Series 2013 bonds. The bonds are secured by a Mortgage, Assignment of Rents and Security Agreement. The acquired building has been leased back to Suffolk County under a lease agreement, which provides for a base rent equal to the annual debt service on the bonds. The Agency is fully obligated to repay the bonds. Accordingly, the bonds are reported as a liability in the accompanying financial statements.

Bond premium:

The original issue premium on bonds is being amortized using the straight-line method over the life of the bonds.

Budget policies:

An annual budget is prepared and adopted by the Agency's Board of Directors.

2. Cash and cash equivalents:

The Agency's investment policies are governed by its enabling statute and the Lease Revenue Bond Resolution adopted September 10, 2013. The Agency's monies held in accounts under the provisions of the Lease Revenue Bond Resolution are to be invested in government obligations or non-AMT, tax-exempt obligations; provided, however, that each such investment shall permit the monies so deposited or invested to be available for use at the times at which the Agency reasonably believes such monies will be required for its various purposes.

All cash held in accounts under the provisions of the Lease Revenue Bond Resolution shall be continuously and fully secured, for the benefit of the Agency and the holders of the bonds, by U.S. government obligations having a market value equal at all times to the amount of the deposits held in such accounts.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

2. Cash and cash equivalents (continued):

GASB Statement 40 requires that deposits and investment securities 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 in the Agency's name, or
- Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Agency's name.

The Agency's cash accounts at December 31, 2017 were entirely covered by the Federal Deposit Insurance Corporation (FDIC). The Agency's cash equivalents were not secured by collateral.

The following are the components of the Agency's cash and cash equivalents at December 31, 2017:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash	\$144,944	\$ -	\$144,944
Cash equivalents	<u>-</u>	<u>705,955</u>	<u>705,955</u>
Total	<u>\$144,944</u>	<u>\$705,955</u>	<u>\$850,899</u>

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

3. Capital assets:

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,800,000	\$ -	\$ -	\$ 1,800,000
Total capital assets not being depreciated	<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>1,800,000</u>
Capital assets being depreciated:				
Building	66,814,850	-	-	66,814,850
Total capital assets being depreciated	<u>66,814,850</u>	<u>-</u>	<u>-</u>	<u>66,814,850</u>
Less accumulated depreciation for:				
Building	5,289,509	1,670,371	-	6,959,880
Total accumulated depreciation	<u>5,289,509</u>	<u>1,670,371</u>	<u>-</u>	<u>6,959,880</u>
Net capital assets being depreciated	<u>61,525,341</u>	<u>1,670,371</u>	<u>-</u>	<u>59,854,970</u>
Total net capital assets	<u>\$63,325,341</u>	<u>\$1,670,371</u>	<u>\$ -</u>	<u>\$61,654,970</u>

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt:

Long-term debt at December 31, 2017 consists of the following:

Lease Revenue Serial Bonds, Series 2013. Bond principal is payable annually on November 1. Interest is payable semi-annually on May 1 and November 1 of each year. The amounts of principal payments and interest rates vary by year. \$32,320,000

Lease Revenue Term Bonds, Series 2013. Bond principal is payable annually on November 1. Interest is payable semi-annually on May 1 and November 1 of each year. The amounts of principal payments and interest rates vary by year. 27,445,000

Outstanding principal	59,765,000
Add unamortized bond premium	<u>727,004</u>
Sub-total	60,492,004
Less amount due within one year	<u>2,685,806</u>

Long-term debt	<u>\$57,806,198</u>
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Pledge of net revenues:

The proceeds from the sale of the bonds, the net revenues (defined as revenues other than the Administrative Rent and Supplemental Rent paid by Suffolk County pursuant to Section 3.3 of the lease agreement with Suffolk County) and, except as otherwise provided in Section 5.02 of the Lease Revenue Bond Agreement, all funds and accounts established, other than the Operating Fund, the Contingency Fund and the Arbitrage Rebate Fund, are pledged to the Trustee (the bank or trust company appointed as trustee for the bonds) as security for the payment of the principal and redemption price of and interest on the bonds and as security for the performance of any other obligation of the Agency in accordance with the provisions of the Lease Revenue Bond Agreement.

Return of funds in excess:

In accordance with Sections 5.06, 5.07 and 5.08 of the Lease Revenue Bond Resolution, monies in excess of requirements in the Debt Service Fund, Operating Fund and Contingency Fund are to be returned to Suffolk County. A total of \$56,124 was returned to Suffolk County pursuant to the Lease Revenue Bond Resolution during 2017. As of

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt (continued):

December 31, 2017, \$46,487 is due to Suffolk County, of this amount \$43,258 is due to Suffolk County as monies in excess of requirements from the Operating Fund and \$3,229 is due to Suffolk County as monies in excess of requirements from the Contingency Fund.

Long-term debt activity for the year ended December 31, 2017 is as follows:

	<u>Balance</u> <u>January 1, 2017</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31, 2017</u>	<u>Due Within</u> <u>One Year</u>
Lease revenue bonds	\$62,280,000	\$ -	\$2,515,000	\$59,765,000	\$2,640,000
Unamortized bond premium	<u>772,810</u>	<u>-</u>	<u>45,806</u>	<u>727,004</u>	<u>45,806</u>
Total long-term debt	<u>\$63,052,810</u>	<u>\$ -</u>	<u>\$2,560,806</u>	<u>\$60,492,004</u>	<u>\$2,685,806</u>

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

4. Long-term debt (continued):

A summary of the Agency's debt service requirements for bonds payable at December 31, 2017 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 2,640,000	5.000%	\$ 2,764,294	\$ 5,404,294
2019	2,775,000	5.000%	2,632,294	5,407,294
2020	2,915,000	5.000%	2,493,544	5,408,544
2021	3,060,000	3.375%	2,347,794	5,407,794
2022	3,160,000	3.500%	2,244,518	5,404,518
2023-2027	17,770,000	3.750 to 5.000%	9,260,481	27,030,481
2028-2032	22,295,000	5.000%	4,740,500	27,035,500
2033	<u>5,150,000</u>	5.000%	<u>257,500</u>	<u>5,407,500</u>
	<u>\$59,765,000</u>		<u>\$26,740,925</u>	<u>\$86,505,925</u>

The Series 2013 bonds maturing prior to November 1, 2024 are not subject to redemption prior to maturity. The Series 2013 bonds maturing on or after November 1, 2024 are subject to redemption prior to maturity on or after November 1, 2023, in any order at the option of the Agency, as a whole or in part at any time, at the redemption price equal to 100% of the principal amount of Series 2013 bonds to be redeemed, plus accrued interest, if any, to the redemption date.

The Series 2013 bonds maturing on November 1, 2033 are subject to mandatory redemption prior to maturity, in part, on each November 1 of the years and in the respective principal amounts set forth below, at the redemption price equal to 100% of the principal amount thereof being redeemed plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on November 1 of each year the principal amount of such Series 2013 bonds for each of the years shown below:

<u>Year</u>	<u>Amount</u>
2028	\$4,035,000
2029	4,235,000
2030	4,450,000
2031	4,670,000
2032	4,905,000
2033	5,150,000

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

5. Mortgage:

The Agency has entered into two mortgage agreements. One mortgage secures up to \$24,000,000 of the principal amount of the lease revenue bonds, which will be covered by title insurance. The other mortgage secures up to \$45,080,000 of the principal amount of the lease revenue bonds, which will not be covered by title insurance.

6. Economic dependency:

The Agency receives a majority of its revenue from Suffolk County in the form of rent income. A significant reduction in the level of this support, if it were to occur, may have an effect on the Agency's purpose. During the year ended December 31, 2017, the Agency received rent of \$5,497,926.

7. Lease:

The Agency, under a long-term lease agreement dated November 14, 2013, leases the H. Lee Dennison Building to Suffolk County for use by the County. The lease will terminate on the earlier to occur of (a) December 31, 2033 or (b) the discharge or defeasance of all of the Lease Revenue Bonds, Series 2013 and the discharge of all of the Agency's obligations under the bond resolution, unless terminated earlier in accordance with the terms of the lease.

Under the terms of the lease agreement, there are three elements to the rent: Basic Rent, Administrative Rent and Supplemental Rent. Basic Rent is a fixed amount payable on March 2 and September 2 of each year of the lease agreement in accordance with the Basic Rent Schedule. Lease revenues are classified as operating on the Statement of Revenues, Expenses and Changes in Net Position (Deficit).

In addition to Basic Rent, the County covenants to pay as Administrative Rent on or before January 1 of each year, an amount equal to the "Operating Cap" (Operating Cap means \$85,000, inflated in each subsequent calendar year after 2014 by the greater of 3% or the CPI Increase, which inflated amount shall be included in the Administrative Rent payable during each calendar year that commences after December 31, 2014).

In the event that, in any Bond Year (a period of 12 consecutive months beginning November 2 in any calendar year and ending on the succeeding November 1), the Agency shall incur operating expenses in amounts that would cause the amount in the Contingency Fund to be less than the Contingency Fund Requirement then, within 30 days after notice thereof, the County covenants to pay to the Agency as supplemental rent an amount sufficient to (i) cover the difference between the amount of

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

7. Lease (continued):

such operating expenses and the amounts then available under the Lease Revenue Bond Resolution for payment thereof and (ii) cause the amount in the Contingency Fund under the Resolution, after payment of such operating expenses, to equal the Contingency Fund Requirement.

The future minimum Basic Rent revenues under the lease agreement are as follows:

<u>Year</u>	<u>Basic Rent</u>	<u>Administrative Rent*</u>
2018	\$5,404,294	\$ 95,668
2019	5,407,294	98,538
2020	5,408,544	101,494
2021	5,407,794	104,539
2022	5,404,518	107,675
2023	5,408,919	110,906
2024	5,406,106	114,233
2025	5,405,306	117,660
2026	5,403,806	121,190
2027	5,406,344	124,825
2028	5,407,250	128,570
2029	5,405,500	132,427
2030	5,408,750	136,400
2031	5,406,250	140,492
2032	5,407,750	144,707
2033	5,407,500	149,048

* Administrative Rent represents the \$85,000 annual operating cap increased by 3% each year.

8. Net position (deficit):

The Agency's net position (deficit) has three components, 1) net investment in capital assets, 2) restricted and 3) unrestricted.

Net position classified as net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

Suffolk County Judicial Facilities Agency

NOTES TO FINANCIAL STATEMENTS

8. Net position (deficit) (continued):

Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through State statute.

The Agency's restricted net position represents certain proceeds of the lease revenue bonds, as well as certain resources set aside for their repayment and other funds provided for Agency operations and contingencies by Suffolk County, which are limited for the purposes and under the terms and conditions set forth in the Lease Revenue Bond Resolution, adopted September 10, 2013.

Unrestricted net deficit consists of net deficit that does not meet the definition of "restricted" or "net investment in capital assets."

9. Related party transactions:

On November 14, 2013, the Agency purchased the H. Lee Dennison Building from Suffolk County for \$68,528,875. On November 14, 2013, the Agency entered into a lease agreement with Suffolk County whereby Suffolk County leased back the H. Lee Dennison Building for a 20-year term with rent payable in accordance with the schedule presented in Note 7. In 2017, Suffolk County paid rent of \$5,497,926 to the Agency. Also during 2017, a total of \$56,124 was returned to Suffolk County. As of December 31, 2017, \$46,487 is due to Suffolk County; of this \$43,258 is due to Suffolk County as monies in excess of requirements from the Operating Fund and \$3,229 is due to Suffolk County as monies in excess of requirements from the Contingency Fund.

Suffolk County Judicial Facilities Agency

BUDGETARY COMPARISON SCHEDULE

For the Year Ended December 31, 2017

	<u>Budgetary Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)	Budget to GAAP Differences	Actual Amounts GAAP Basis
	<u>Original</u>	<u>Final</u>				
Operating revenues	\$ 5,497,926	\$ 5,497,926	\$ 5,497,926	\$ -	\$ -	\$ 5,497,926
	<u>5,497,926</u>	<u>5,497,926</u>	<u>5,497,926</u>	<u>-</u>	<u>-</u>	<u>5,497,926</u>
Operating expenses:						
Insurance	41,400	41,400	14,497	26,903	-	14,497
Legal fees	7,650	7,650	8,185	(535)	-	8,185
Audit fees	15,500	15,500	15,000	500	-	15,000
Meetings	350	350	-	350	-	-
Administration fees	5,500	5,500	5,500	-	-	5,500
Other professional fees	12,650	12,650	6,000	6,650	-	6,000
Bank service charges	950	950	310	640	-	310
Miscellaneous	1,000	1,000	750	250	-	750
Depreciation	<u>1,670,371</u>	<u>1,670,371</u>	<u>1,670,371</u>	<u>-</u>	<u>-</u>	<u>1,670,371</u>
Total operating expenses	<u>1,755,371</u>	<u>1,755,371</u>	<u>1,720,613</u>	<u>34,758</u>	<u>-</u>	<u>1,720,613</u>
Non-operating revenues (expenses):						
Interest income	375	375	187	(188)	-	187
Dividend income	130	130	13,525	13,395	-	13,525
Interest expense	(2,890,044)	(2,890,044)	(2,890,044)	-	66,822	(2,823,222)
Principal payments	(2,515,000)	(2,515,000)	(2,515,000)	-	2,515,000	-
Return of funds in excess	<u>-</u>	<u>-</u>	<u>(48,977)</u>	<u>(48,977)</u>	<u>-</u>	<u>(48,977)</u>
Total non-operating revenues (expenses)	<u>(5,404,539)</u>	<u>(5,404,539)</u>	<u>(5,440,309)</u>	<u>(35,770)</u>	<u>2,581,822</u>	<u>(2,858,487)</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (1,661,984)</u>	<u>\$ (1,661,984)</u>	<u>\$ (1,662,996)</u>	<u>\$ (1,012)</u>	<u>\$ 2,581,822</u>	918,826
Net position, beginning of year						<u>586,574</u>
Net position, end of year						<u>\$ 1,505,400</u>

Explanation of Differences:

(1) The Agency budgets for interest to the extent it is expected to be repaid, rather than on the accrual basis of accounting.	\$ 21,016
The Agency does not budget for amortization expense related to its bond premium.	45,806
Principal payments are reflected as a reduction of the outstanding liability on the Statement of Net Position (Deficit).	<u>2,515,000</u>
Net budget to GAAP difference	<u>\$ 2,581,822</u>