

**PITTSFIELD ECONOMIC
DEVELOPMENT AUTHORITY**

**Financial Statements and
Supplementary Information**

December 31, 2014

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Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY
 81 Kellogg St.
 Pittsfield, MA 01201

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pittsfield Economic Development Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Pittsfield Economic Development Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pittsfield Economic Development Authority as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 and the budgetary comparison information on page 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited the Pittsfield Economic Development Authority's 2013 financial statements, and our report dated March 18, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2015, on our consideration of Pittsfield Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pittsfield Economic Development Authority's internal control over financial reporting and compliance.

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March 20, 2015

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

December 31, 2014

The Pittsfield Economic Development Authority (the Authority) was created by the Massachusetts Legislature in 1998 for the purpose of redeveloping brownfields properties and promoting economic development in the City of Pittsfield. The Authority is governed by a Board of Directors.

As financial management of the Authority, we offer readers of these financial statements, an overview and analysis of the financial activities of the Authority. This narrative is designed to assist the reader in focusing on significant financial issues, identify changes in the Authority's financial position, identify any material deviations from the approved budget, and identify individual issues or concerns.

The Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts. It should be read in conjunction with the financial statements that follow.

Financial Highlights

The assets of the Authority exceeded its liabilities at the close of the current fiscal year resulting in a net position of \$3,705,620. This includes \$484,691 in unrestricted net position available to meet the ongoing operations of the Authority, a restricted deficit of (\$4,000,000) recorded for the Natural Resources Damages obligation (consent decree) and \$7,220,929 invested in capital assets, net of related debt.

	2014	Comparative 2013
	<u> </u>	<u> </u>
Net position, beginning	\$ 3,826,316	\$ 3,945,988
Operating income (loss)	(141,946)	(141,947)
Non-operating revenue	15,750	22,275
Income (loss) before in-kind contribution of property	<u>(126,196)</u>	<u>(119,672)</u>
Property transferred from General Electric Company	5,500	---
Change in net position	<u>(120,696)</u>	<u>(119,672)</u>
Net position, ending	<u>\$ 3,705,620</u>	<u>\$ 3,826,316</u>

Overview of the Financial Statements

Proprietary Fund

Proprietary funds report the enterprise, or business-type activities of the Authority. The intent of the Pittsfield Economic Development Authority is that all costs associated with providing facilities and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Authority's financial statements consist of three main statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows. Notes and supplementary information that disclose information about the nature of the Authority's business, accounting policies and additional information about specific statement amounts follow these statements.

The Authority's net position consists of its net investment in capital assets (e.g. land, infrastructure and office equipment), less any debt used to acquire those assets, and a restricted deficit set aside to meet the obligations for the Natural Resources Damages obligation (consent decree). Although the Authority's capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Authority currently has no capital lease obligations.

The Statement of Revenues, Expenses and Changes in Fund Net Position report the results of both operating and non-operating activities. Increases or decreases in the Authority's net position indicate whether the financial health is improving or deteriorating.

The Statement of Cash Flows, which is presented using the direct method, accounts for the change in the cash and equivalents balance between January 1 and December 31. The cash flows statement provides the detail on the cash the Authority received from and paid for operating and non-operating, investing, and financing activities.

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY Statement of Net Position December 31,

	2014	Comparative 2013
Assets		
Cash and equivalents	\$ 4,423,868	\$ 4,799,701
Receivables	3,321	394
Due from City of Pittsfield	79,500	---
Prepaid expenses	177,120	204,666
Forgivable note receivable	62,500	---
Capital assets, net	7,345,146	7,481,592
Total assets	12,091,455	12,486,353
Liabilities		
Accounts payables	15,515	1,866
Deferred revenue	4,246,103	4,533,954
Long-term liabilities	4,124,217	4,124,217
Total liabilities	8,385,835	8,660,037
Net position		
Invested in capital assets, net of related debt	7,220,929	7,357,375
Restricted for natural resource obligation (deficit)	(4,000,000)	(4,000,000)
Unrestricted	484,691	468,941
Total net position	\$ 3,705,620	\$ 3,826,316

The table below provides a summary of the changes in net position for the year ended December 31:

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY		
Changes in Net Position		
December 31,		
	2014	Comparative 2013
	<u>2014</u>	<u>2013</u>
Operating revenues		
General Electric Company	\$ 287,851	\$ 374,061
Ground lease income	15,413	13,798
Grant income	2,086	114,048
Maintenance fee income	13,944	14,428
Rental income	22,107	9,893
In-kind rent	18,000	18,000
Total operating revenues	<u>359,401</u>	<u>544,228</u>
Operating expenses		
Management and general	197,305	204,659
Project development	304,042	481,516
Total operating expenses	<u>501,347</u>	<u>686,175</u>
Operating loss	(141,946)	(141,947)
Nonoperating revenue - interest income	<u>15,750</u>	<u>22,275</u>
Loss before in-kind contribution of property	(126,196)	(119,672)
Property transferred from General Electric Company	<u>5,500</u>	<u>---</u>
Change in net position	<u>\$ (120,696)</u>	<u>\$ (119,672)</u>

The Authority incurred an operating loss in fiscal year 2014 of \$(141,946). This operating loss is the result of the Authority recording depreciation expense of \$141,946, which is incurred on fixed assets received from General Electric Company (GE) or purchased with GE funds. Accordingly, this depreciation is not allowed to be charged against current year funding received from GE.

Budgetary Highlights

The original budget approved for fiscal year 2014 was not amended. Explanation of significant budget vs actual variances are as follows:

	2014		
	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
General Electric Company revenue	\$ 385,365	\$ 287,851	\$ (97,514)
Advertising and marketing	\$ 81,000	\$ 21,200	\$ 59,800
Maintenance and repairs	\$ 40,470	\$ 20,267	\$ 20,203
Contract costs	\$ 122,848	\$ 103,083	\$ 19,765

General Electric Company

The Authority utilizes General Electric Company funds for capital and operating costs. After applying other sources of operating revenues, such as lease income, maintenance fee income, and grants, the GE funds are used to subsidize the operations. For fiscal year 2014, the Authority utilized \$287,851 of GE funds to subsidize its operating costs. Unused GE funds, which are reported on the Statement of Net Position as deferred revenue, are carried forward to be utilized in next year's operations.

Maintenance and repairs

Budget variances came from two primary areas; *building maintenance*, where the planned repair of an old HVAC unit was deferred and *grounds maintenance*, where a major repair that was contemplated for the storm water quality basin and the spillway of the north fore bay, was deferred pending environmental review. We also had some safety and security upgrades in the teens and forty's areas of the William Stanley Business Park delayed due to early snow and freezing temperatures. Most of these deferred projects will be addressed in 2015.

Marketing expense

As in the prior year, our anticipation of administrative costs, especially marketing expense was linked to proposed projects. The 2014 budget had set aside additional support for the MBTA railcar initiative, the Berkshire Innovation Center and our permit renewal with the EPA. None of these items required the additional support we had contemplated.

Contract costs

The *contract items* included costs for a number of specific projects and their associated professional services. One was related to restricting storm water flow from the lower section of the teens parcel along the CSX rail line and another was a redesign of our north fore bay off Silver Lake Boulevard. Ultimately, these two anticipated projects were dropped from the list and indefinitely deferred. This work will most likely occur in late 2015 or early 2016 once the Authority's discharge permit has been clearly defined and our storm water management plan is approved.

Capital Projects

As disclosed in Note 3, the Authority received approximately 1.34 acres of land that adjoins Silver Lake valued at \$5,500 from General Electric Company. The Authority also recorded current year depreciation expense of \$141,946 on existing infrastructure and office equipment. Additional information on the Authority's capital assets can be found on page 10 of this report.

Long-term Debt

The Authority's long-term debt consists of \$124,217 owed to the Massachusetts Development Finance Agency, which was received for the purpose of covering a portion of a 10 year environmental insurance policy that expired in August 2012. The Authority agrees to repay this loan within 30 days of the first land sale without interest. As of December 31, 2014 the Authority has not made any land sales, and accordingly, no payments on this note are due. Additional information on the Authority's note payable can be found on page 13 of this report.

Natural Resource Obligation

The Authority was joined as a necessary party to a Consent Decree which placed certain obligations on the Authority with respect to payment of natural resource damages. The Authority is required to pay \$4,000,000 consisting of in-kind services and/or a percentage of its net revenues to the federal government and the states of Connecticut and Massachusetts in accordance with the terms and conditions set forth in the Consent Decree. Additional information on the Natural Resource Obligation can be found on page 13 of this report.

Economic Factors

The Authority is heavily dependent on the \$15.3 million of funds provided by General Electric under the Definitive Economic Development Agreement (DEDA) between General Electric and the City of Pittsfield and the Authority. As of December 31, 2014, there is \$2,862,090 in deferred revenue which is available for future spending. Additional information can be found on page 12 of this report.

Berkshire Innovation Center Project

The City of Pittsfield has received \$9.67 million dollars in funding from the Massachusetts Life Science Center for the capital costs to build the Berkshire Innovation Center (BIC) at the William Stanley Business Park. The BIC is proposed as a 20,000 square foot accelerator facility allowing small and medium sized manufactures access to advanced research and development capabilities to enable them to accelerate new product development and innovation.

The facility will include \$2 million in state of the art equipment, a video conferencing/ training room, clean rooms, wet lab space, and flexible space for startup companies to commercialize projects. Workforce development will be supported by the educational partnerships, mentor companies and leading research institutions.

The facility will be owned by the City of Pittsfield and constructed on the Authority's property in the William Stanley Business Park along East Street.

Request for Information

This financial report is designed to provide a general overview of the Pittsfield Economic Development Authority for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, 81 Kellogg St., Pittsfield, MA 01201.

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

December 31,

ASSETS	2014	Comparative 2013
Current assets		
Cash and equivalents	\$ 4,423,868	\$ 4,799,701
Rent receivable	1,235	394
Grant receivable	2,086	---
Due from City of Pittsfield	79,500	---
Prepaid expenses	177,120	204,666
Total current assets	4,683,809	5,004,761
Forgivable note receivable	62,500	---
Capital assets, net	7,345,146	7,481,592
TOTAL ASSETS	12,091,455	12,486,353
LIABILITIES		
Accounts payable	15,515	1,866
Deferred General Electric Company revenue	4,246,103	4,533,954
Long-term debt	124,217	124,217
Natural resource obligation	4,000,000	4,000,000
TOTAL LIABILITIES	8,385,835	8,660,037
NET POSITION		
Invested in capital assets, net of related debt	7,220,929	7,357,375
Restricted for natural resource obligation (deficit)	(4,000,000)	(4,000,000)
Unrestricted	484,691	468,941
TOTAL NET POSITION	\$ 3,705,620	\$ 3,826,316

See notes to financial statements.

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2014

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)	Comparative 2013 Actual
Operating revenues				
General Electric Company	\$ 385,365	\$ 287,851	\$ (97,514)	\$ 374,061
Ground lease income	10,360	15,413	5,053	13,798
Grant income	---	2,086	2,086	114,048
Maintenance fee income	14,592	13,944	(648)	14,428
Rental income	26,360	22,107	(4,253)	9,893
In-kind rent	18,000	18,000	---	18,000
Total operating revenues	<u>454,677</u>	<u>359,401</u>	<u>(95,276)</u>	<u>544,228</u>
Operating expenses				
Management and General				
Payroll	88,380	87,280	1,100	88,380
Payroll taxes and fringe benefits	14,275	13,649	626	12,856
Administrative expenses	29,240	29,868	(628)	25,926
Advertising and marketing	81,000	21,200	59,800	20,294
Insurance	6,368	6,789	(421)	7,112
Maintenance and repairs	40,470	20,267	20,203	30,071
Professional fees	12,000	14,035	(2,035)	15,667
Telephone and utilities	3,396	4,217	(821)	4,353
Total management and general	<u>275,129</u>	<u>197,305</u>	<u>77,824</u>	<u>204,659</u>
Project Development				
Insurance	38,700	41,013	(2,313)	174,066
Contract costs	122,848	103,083	19,765	147,503
In-kind rent expense	18,000	18,000	---	18,000
Depreciation	141,946	141,946	---	141,947
Total project development costs	<u>321,494</u>	<u>304,042</u>	<u>17,452</u>	<u>481,516</u>
Total operating expenses	<u>596,623</u>	<u>501,347</u>	<u>95,276</u>	<u>686,175</u>
OPERATING LOSS	(141,946)	(141,946)	---	(141,947)
Non-operating revenue				
Interest income	9,000	15,750	6,750	22,275
LOSS BEFORE IN-KIND CONTRIBUTION OF PROPERTY	<u>(132,946)</u>	(126,196)	<u>6,750</u>	(119,672)
Property transferred from General Electric Company		5,500		---
CHANGE IN NET POSITION		(120,696)		(119,672)
Net position, beginning		3,826,316		3,945,988
NET POSITION, ENDING		<u>\$ 3,705,620</u>		<u>\$ 3,826,316</u>

See notes to financial statements.

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended December 31,

	2014	Comparative 2013
Cash flows from operating activities:		
Receipts from General Electric Company	\$ ---	\$ 340,632
Receipts from rental and leasing activities	50,621	38,940
Receipts from grant	---	114,048
Payments for goods and services	(199,275)	(495,093)
Payments to employees	(100,929)	(101,236)
Net cash provided (used) by operating activities	<u>(249,583)</u>	<u>(102,709)</u>
Cash flows from investing activities:		
Decrease in short-term investments	---	1,048,365
Advance to City of Pittsfield	(79,500)	---
Issuance of forgivable note receivable	(62,500)	---
Interest income	15,750	22,275
Net cash provided (used) by investing activities	<u>(126,250)</u>	<u>1,070,640</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(375,833)	967,931
Cash and equivalents, beginning	<u>4,799,701</u>	<u>3,831,770</u>
CASH AND EQUIVALENTS, ENDING	<u>\$ 4,423,868</u>	<u>\$ 4,799,701</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating loss	\$ (141,946)	\$ (141,947)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	141,946	141,947
Change in operating assets and liabilities:		
(Increase) decrease in rent receivable	(841)	821
(Increase) decrease in grant receivable	(2,086)	---
(Increase) decrease in prepaid expenses	27,546	(69,946)
Increase (decrease) in accounts payable	13,649	(156)
Increase (decrease) in deferred revenue	(287,851)	(33,428)
Net cash provided (used) by operating activities	<u>\$ (249,583)</u>	<u>\$ (102,709)</u>
SUPPLEMENTAL DATA		
Noncash transactions:		
Property transferred from General Electric Company	<u>\$ 5,500</u>	<u>\$ ---</u>

See notes to financial statements.

PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY**NOTES TO FINANCIAL STATEMENTS****December 31, 2014****NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Activities of the Authority**

The Pittsfield Economic Development Authority (the "Authority") was created by the Massachusetts Legislature in 1998 (St. 1998, c.194, Section 268, as amended by St. 1998, c.486, Section 2 "Enabling Legislation") for the purpose of redeveloping brownfields properties and promoting economic development in the City of Pittsfield. The Authority is the owner of certain industrial real property formerly owned by the General Electric Company ("GE"). This acquisition of land was the result of a settlement embodied in a consent decree that was approved by the United States District Court, Western District of Massachusetts in October of 2000. The specific terms of the land transfer are set forth in a separate Definitive Economic Development Agreement (the "DEDA") between the Authority, GE, and the City of Pittsfield. Under the DEDA, as amended, GE transferred approximately 55 acres of land to the Authority, which it intends to develop for commercial/industrial space.

Economic Dependency

GE provided \$15.3 million to the Authority to support redevelopment efforts on the transferred property (see Note 7). Additional committed funding from GE totaling \$3,750,000 is outlined in Note 11. The Authority has also received, and expects to rely in the future upon, grants, loans, and other funding from the U.S. Environmental Protection Agency and the Commonwealth of Massachusetts.

Reporting Entity and Basis of Presentation

The accounts of the Authority are presented on the basis considered to be a separate accounting and legal entity. The Authority does not have any component units as defined by the Governmental Accounting Standards Board (GASB) to include in its financial statements. The operations of each fund are accounted for in a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, expenditures or expenses and other financing sources and uses.

Basis of Accounting

An enterprise fund, which is a type of propriety fund, is used to account for the Authority's business-type operations. An enterprise fund is used when legal requirements, or management's policy requires, that the cost of providing services be recovered at least in part through fees or charges. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. The accrual basis of accounting is used by proprietary funds whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing activities. The principal operating revenues of the Authority's enterprise fund are charges to customers for rental and related activities and GE operating support. Operating expenses of the Authority's enterprise fund include the cost of services, maintenance and administrative expenses, and depreciation expense on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1 - (Continued)**Grants and Entitlement Revenue**

Operating assistance and capital assistance are recorded at the time eligible expenditures under the terms of the grants are incurred.

Budgetary Data

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Executive Director presents to the Authority's Board a draft budget for approval by January 1, each year, for the fiscal year commencing. The budget includes proposed expenditures and the means of financing them.
2. The budget may be amended during the year. There were no amendments to the original budget in fiscal year 2014.

Cash and Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment acquired are recorded at acquisition cost and depreciated using the straight-line method over three to forty year lives. In-kind contribution of property is recorded at fair market value at the date of the donation.

Accounting 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 certain 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 period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through March 20, 2015, the date the financial statements were available for issue, and has determined that there are no additional adjustments or disclosures required.

NOTE 2 - DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Authority. Deposits including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, banker's acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT).

Custodial Credit Risk Related To Deposits

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority carries deposits and short-term investments that are fully insured by FDIC insurance, collateralized, and deposits that are not collateralized and are uninsured. Bank deposits, as of December 31, 2014, were \$4,424,305, of which \$2,496,477 was insured and collateralized and \$1,927,828 was uninsured.

NOTE 2 - (Continued)**Concentration Risk**

The Authority adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the Authority may deposit its funds. Pursuant to M.G.L. c. 44, sec. 55, cities, towns, and authorities in the Commonwealth may deposit available fund balances in banks, trust companies, or banking companies, provided that the amounts deposited do not exceed 60% of the capital and surplus of an institution unless satisfactory security for the amount in excess of 60% is provided by the depository.

NOTE 3 - CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,410,329	\$ 5,500	\$ ---	\$ 2,415,829
Infrastructure in process	25,530	---	---	25,530
Total capital assets, not being depreciated	<u>2,435,859</u>	<u>5,500</u>	<u>---</u>	<u>2,441,359</u>
Capital assets, being depreciated:				
Infrastructure	5,655,663	---	---	5,655,663
Office furniture and equipment	5,361	---	(1,478)	3,883
Total capital, assets being depreciated	<u>5,661,024</u>	<u>---</u>	<u>(1,478)</u>	<u>5,659,546</u>
Less accumulated depreciation for :				
Infrastructure	(611,873)	(141,391)	---	(753,264)
Office furniture and equipment	(3,418)	(555)	1,478	(2,495)
Total accumulated depreciation	<u>(615,291)</u>	<u>(141,946)</u>	<u>1,478</u>	<u>(755,759)</u>
Capital assets, net	<u>\$ 7,481,592</u>	<u>\$ (136,446)</u>	<u>\$ ---</u>	<u>\$ 7,345,146</u>

The Authority's capital assets, including land and infrastructure, are acquired through transfers from the General Electric Company (GE), transfers from Eversource (formerly the Western Massachusetts Electric Company), acquisitions by eminent domain, or by purchase with the use of GE funds. Depreciation expense incurred on assets received by GE or purchased with GE funds is not charged against the funding received from GE.

NOTE 4 - RETIREMENT PLAN**Plan Description**

The Authority is a member of the City of Pittsfield's Contributory Retirement System which is a cost-sharing multiple-employer defined benefit public employee retirement system (PERS) as established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. Eligible employees of the Authority may participate in the plan which is funded on a "pay-as-you-go" basis. Annual contributions by the Authority are determined by the City of Pittsfield based upon the ratio that the Authority's payroll bears to the total payroll of all participants in the plan. The City bills the Authority in July or August of each year.

NOTE 4 - (Continued)**Benefits**

The City of Pittsfield PERS provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after reaching the age of 55 and accumulating 10 years of service, or after accumulating 20 years of service regardless of age, with the Authority or for another entity covered by the City's PERS. Benefits vest after 10 years of service. Pension payments are determined by a calculation that considers the age, time of service and average salary of the three consecutive years with the highest earnings, not to exceed 80% of the average salary. Pension provisions include death and disability benefits, whereby the disabled employee or surviving spouse is entitled to receive an annual amount with several options available.

Plan Contributions

The contribution is calculated as the amount necessary to provide for the following year's retirement benefit. Active employees in the City's plan contribute 5%, 7%, 8% or 9% (depending upon date of employment) of their regular compensation. Additionally, some individuals hired after January 1 of 1979 pay an additional 2% if their annual income exceeds \$30,000. The Authority contributed \$7,679 in fiscal year 2014.

Under the accounting standards established by GASB 27, no pension liability was recorded for the Authority since its pension expenditure met the employer's contractually required contribution for the year.

Three Year Trend Information:

Fiscal Year <u>End</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2012	\$12,986	100%	\$0
2013	\$13,668	100%	\$0
2014	\$ 7,679	100%	\$0

Additional pension disclosures, required by U.S. generally accepted accounting principles, were not available for presentation. Such information, if available would not have a material effect on the financial statements. The City of Pittsfield Contributory Retirement System does not issue separate financial statements. Actuarial valuation information is only performed every third year which is available through the Massachusetts Division of Public Employee Retirement Administration.

The Governmental Accounting Standards Board has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will not have a significant impact on the Authority's basic financial statements but will require the Authority to recognize a liability, if any, for their portion of the Retirement System's actuarially accrued liability.

NOTE 5 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. As of the date of the financial statements, the Authority is not aware of any expenditure that may be disallowed by a grantor.

NOTE 6 - FORGIVABLE NOTE RECEIVABLE

In 2014, the Authority entered into an Economic Development Grant Agreement with the Berkshire Innovation Center, Inc. (BIC), a Massachusetts not-for-profit corporation, to provide up to a maximum amount of \$250,000 of grant assistance in the form of a forgivable note receivable. The term of the note shall be ten years with no repayment under the note required. Twenty percent of the outstanding note receivable shall be forgiven by the Authority on the one-year anniversary date of the note and on each anniversary date thereafter until the outstanding principal amount is zero. BIC is to establish the operation of the Berkshire Innovation Center in a facility to be constructed and owned by the City of Pittsfield on land to be leased from the Authority at the corner of Woodlawn Avenue and East Street.

The Authority's disbursement of these funds are subject to certain benchmarks and matching requirements. Total funding disbursed and reported as a forgivable note receivable on the Statement of Net Position as of December 31, 2014 was \$62,500.

The following future maximum funds are expected to be disbursed in the following years in accordance with the terms of the agreement subject to conditional requirements:

2015	\$	125,000
2016		<u>62,500</u>
Total	\$	<u>187,500</u>

NOTE 7 - DEFERRED REVENUE

General Electric Company agreed to make fifteen million three hundred thousand dollars (\$15,300,000) available to the Authority for economic redevelopment as stated in the Definitive Economic Development Agreement. The amount drawn down, utilized and available is as follows:

Settlement amount	\$	15,300,000
Funds drawn down in 2013 and prior years		<u>15,300,000</u>
Balance available to draw	\$	<u>---</u>
Total funds drawn down	\$	15,300,000
Revenue earned / utilized on operations		(6,778,364)
Revenue expended on capital projects		(2,919,740)
Deferred revenue applied to capital loan repayment		<u>(2,739,806)</u>
Deferred settlement revenue		2,862,090
Other deferred revenue (see Note 11):		
Landscaping fund		634,013
Foundations fund		<u>750,000</u>
Total deferred revenue	\$	<u>4,246,103</u>

NOTE 8 - NATURAL RESOURCE OBLIGATION/ RESTRICTED DEFICIT

The Authority was joined as a necessary party to a Consent Decree entered by the United States District Court for the District of Massachusetts on October 27, 2000 in United States of America, et. al. vs. General Electric Company, civil Action No. 99-30225 MAP (D.Mass) and entered into by the United States, the Commonwealth of Massachusetts, the State of Connecticut, the General Electric Company, the Authority, and the City of Pittsfield (the "Consent Decree"). Under the Consent Decree, the Authority has certain obligations with respect to the payment of natural resource damages. The Authority is required to pay a total of \$4,000,000 consisting of in-kind services and/or a percentage of its net revenues to the federal government and the states of Connecticut and Massachusetts, subject to the terms and conditions set forth in the Consent Decree. This resulted in a deficit restricted for the natural resources obligation of \$4,000,000 which the Authority plans to raise through future development of the property. The key provision of the Consent Decree dealing with the Authority's natural resource damages obligations is paragraph 124 of this three hundred page document.

NOTE 9 - OPERATING LEASES

During 2013, the Authority entered into a 3 year operating lease for a photocopier. Annual lease expense was \$2,484 for the year ended December 31, 2014.

During 2002, the Authority entered into an agreement with General Electric Company to lease office space located at 81 Kellogg Street in Pittsfield, Massachusetts at no charge in accordance with the Definitive Economic Development Agreement. During 2012, the Authority extended the lease for an additional 5 years. The Authority recorded \$18,000 of in kind rental income and expense on its books for the year ended December 31, 2014. During fiscal year 2012, the Authority entered into a sub-lease agreement to rent a portion of this facility to a third party (see Note 13).

During 2012, the Authority entered into a 25 year agreement to lease a parking lot from General Electric Company at the corner of Woodlawn Avenue and Kellogg Street at no charge. The Authority is responsible for all maintenance, repaving and lighting. During 2013, the Authority entered into a sub-lease agreement to rent a portion of the parking lot to a third party (see Note 13).

NOTE 10 - LONG-TERM DEBT

The Authority entered into a loan agreement on November 4, 2002 with the Massachusetts Development Finance Agency and received uncollateralized loan proceeds of \$124,217 to cover the Authority's 10% share of a 10 year environmental insurance policy premium of \$1,243,710 which expired on August 21, 2012. The Authority agrees to repay the loan within 30 days of the first land sale without interest. As of December 31, 2014, the Authority has not made any land sales, and accordingly, no payments on this note are due.

	Serial Maturity Through	Interest Rates %	Outstanding December 31, 2013	Additions	Reductions	Outstanding December 31, 2014
Massachusetts Development Finance Agency	NA	None	\$ 124,217	\$ ---	\$ ---	\$ 124,217
Total			\$ 124,217	\$ ---	\$ ---	\$ 124,217

NOTE 11 - LANDSCAPING AND FOUNDATION FUND*Landscaping Fund*

General Electric Company (GE) agreed to make three million dollars available for landscaping as stated in the Definitive Economic Development agreement. The landscaping fund can be utilized by GE as well as the Authority. As of December 31, 2014, the Authority has drawn down \$1,392,815 and GE has used \$-0-. The details of the amount drawn down, utilized and available is shown below.

Foundation Fund

During 2011, the Authority entered into an agreement regarding foundations with GE, whereby GE made additional funds available in consideration of the Authority's future need to develop certain property (19's Complex) without being unreasonably constrained by the configuration of existing building foundations. The additional funds are available to the Authority for the same purposes and subject to the same terms and conditions as specified in the DEDA. In exchange for the funds, the Authority agreed that GE has fully satisfied their obligations under Section II.F of the DEDA, including but not limited to GE's obligation to provide the Authority at least 350,000 square feet of existing building foundations or appropriate sites for new foundations. The details of the amount drawn down, utilized and available is shown below.

	<u>Landscaping Fund</u>	<u>Foundations Fund</u>	<u>Total</u>
Settlement amount	\$ 3,000,000	\$ 750,000	\$ 3,750,000
Funds drawn down in prior years	1,392,815	750,000	2,142,815
Funds drawn down in 2014	<u>---</u>	<u>---</u>	<u>---</u>
Total funds drawn down	<u>1,392,815</u>	<u>750,000</u>	<u>2,142,815</u>
Balance available to draw	<u>\$ 1,607,185</u>	<u>\$ ---</u>	<u>\$ 1,607,185</u>
Total funds drawn down	\$ 1,392,815	\$ 750,000	\$ 2,142,815
Revenue earned / utilized on operations	<u>(758,802)</u>	<u>---</u>	<u>(758,802)</u>
Deferred revenue	<u>\$ 634,013</u>	<u>\$ 750,000</u>	<u>\$ 1,384,013</u>

NOTE 12 - LEASE AGREEMENTS

During 2011, the Authority entered into a lease agreement with the Pittsfield Stanley Works, LLC to lease a parcel of land, designated as Parcel 2 at the William Stanley Business Park which is redeveloped land owned by the Authority. The initial term of the lease is fifty-one (51) years. The lease term may be extended for two additional periods of twenty-four years each. The Lessee shall pay \$905 per month, adjusted for inflation in years 6-51, in accordance with the lease agreement. The Lessee is also responsible for its share of Common Area Maintenance costs as described in the lease agreement. Total lease income was \$10,860 and common area maintenance income was \$9,453 for the year ended December 31, 2014.

The future minimum lease income expected to be received over the next five years are as follows:

2015	\$	10,860
2016	\$	10,860
2017	\$	10,860
2018	\$	10,860
2019	\$	10,860

NOTE 12 - (Continued)

In January 2014, the Authority entered into a one-year agreement to lease a parcel of land (the 40's Complex) to Eversource, formerly the Western Massachusetts Electric Company, for temporary vehicle parking, and storage of utility poles and non-hazardous construction materials. The lessee shall pay \$1,000 per month. Total lease income was \$12,000 for the year ended December 31, 2014.

NOTE 13 - SUBLEASE AGREEMENTS*Office space*

In 2012, the Authority entered into an agreement to sublease a portion of its office space at 81 Kellogg Street to a third party. In October 2014, the sublease was extended for two additional years. Under the terms of the extension, the Lessee shall pay rent of \$855 per month for the first 12 months, adjusted for inflation to \$872 per month beginning with the 13th month of the extension. The Lessee is also responsible for its share of Common Area Maintenance costs as described in the lease agreement. Total sublease income was \$10,107 and common area maintenance income was \$4,491 for the year ended December 31, 2014.

Parking space

In June 2013, the Authority entered into an agreement to sublease a portion of its parking lot at the corner of Woodlawn Avenue and Kellogg Street. The initial term of the sublease is two years. The Lessee shall pay rent of \$375 per month for the first 12 months, increasing to \$383 beginning with the 13th month of the agreement. Total sublease income was \$4,553 for the year ended December 31, 2014.

The future minimum sublease income expected to be received over the next two years are as follows:

	Office	Parking	Total
2015	\$ 10,311	\$ 1,915	\$ 12,226
2016	<u>7,848</u>	<u>---</u>	<u>7,848</u>
Total	<u>\$ 18,159</u>	<u>\$ 1,915</u>	<u>\$ 20,074</u>

NOTE 14 - OTHER INFORMATION**Risk Management****Risks transferred to third parties**

The Authority is exposed to various risks of loss relating to torts; theft or damage of, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority has obtained a variety of commercial and environmental liability insurance policies, which pass the risks of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial or environmental insurance coverage in any of the past three fiscal years.



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CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

Richard F. LaFleche, CPA
 Vincent T. Viscuso, CPA
 Gary J. Moynihan, CPA
 Carol Leibinger-Healey, CPA
 David M. Irwin, Jr., CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
PITTSFIELD ECONOMIC DEVELOPMENT AUTHORITY
 81 Kellogg St.
 Pittsfield, MA 01201

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 Pittsfield Economic Development Authority, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Pittsfield Economic Development Authority's basic financial statements, and have issued our report thereon dated March 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pittsfield Economic Development Authority'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 Pittsfield Economic Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pittsfield Economic Development Authority'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pittsfield Economic Development Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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March 20, 2015