

ITHACA URBAN RENEWAL AGENCY

Ithaca, New York

FINANCIAL REPORT

December 31, 2012

ITHACA URBAN RENEWAL AGENCY
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FOR THE YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ithaca Urban Renewal Agency
Ithaca, New York

Report on the financial Statements

We have audited the accompanying financial statements of the Ithaca Urban Renewal Agency, a blended component unit of the city of Ithaca, whose activity is reported in the Special Grant Fund, a governmental fund in the City of Ithaca's financial statements as of and for the year ended December 31, 2012, and the related notes to the 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 opinions 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 includes 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 Agency'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 Agency's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Limited Coverage of the Report

As discussed in Note 1, the financial statements of the Ithaca Urban Renewal Agency are intended to present the financial position and the changes in financial position of only the Special Revenue Fund of the City of Ithaca. They do not purport to, and do not, present fairly the financial position of the City of Ithaca as of December 31, 2012, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Revenue Fund, as of December 31, 2012, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, 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 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.

Cinchi, Dickelgren, Little, Mickelson & Co., LLP

February 13, 2013
Ithaca, New York

ITHACA URBAN RENEWAL AGENCY
BALANCE SHEET
SPECIAL GRANT FUND
DECEMBER 31, 2012

	<u>Special Grant Fund</u>
<u>ASSETS</u>	
Assets:	
Cash and cash equivalents - Unrestricted	\$ <u>2,794,633</u>
Other receivables, net	<u>36,896</u>
Loans receivable, net	<u>5,730,808</u>
Total Assets	<u>\$ 8,562,337</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts payable	\$ <u>133,554</u>
Accrued liabilities	<u>5,073</u>
Bond Anticipation Notes payable	<u>840,000</u>
Deferred revenues	<u>5,730,808</u>
Total Liabilities	<u>6,709,435</u>
Fund Balance:	
Assigned	<u>1,852,902</u>
Total Fund Balance	<u>1,852,902</u>
Total Liabilities and Fund Balance	<u>\$ 8,562,337</u>

See Independent Auditor's Report and Notes to Financial Statements

ITHACA URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
SPECIAL GRANT FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Special Grant Fund</u>
<u>REVENUES</u>	
Use of money and property	\$ <u>3,560</u>
Miscellaneous local sources	<u>1,087,103</u>
Federal sources	<u>1,789,699</u>
Total Revenues	<u>2,880,362</u>
<u>EXPENDITURES</u>	
Current:	
Home and community services	<u>2,831,369</u>
Total Expenditures	<u>2,831,369</u>
Excess of Revenues	<u>48,993</u>
<u>OTHER FINANCING SOURCES (USES)</u>	
BANs redeemed from appropriations	<u>30,000</u>
Total Other Financing Sources	<u>30,000</u>
Net Change in Fund Balance	<u>78,993</u>
Fund Balance, Beginning	<u>1,773,909</u>
Fund Balance, Ending	<u>\$ <u>1,852,902</u></u>

See Independent Auditor's Report and Notes to Financial Statements

ITHACA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Ithaca Urban Renewal Agency (the Agency), a blended component unit of the city of Ithaca (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

A. Financial Reporting Entity

The Ithaca Urban Renewal Agency is a public benefit corporation established in 1965 as an urban renewal agency. The Agency has a corporate identity separate from the City and is independently funded, but works in close conjunction with the City to revitalize urban neighborhoods and strengthen the local economy. The Agency is composed of the Mayor and four members appointed by the Mayor with the concurring approval of the Common Council. The Director of Planning and Development for the City of Ithaca serves as the Executive Director of the Agency.

Through a variety of means, including site acquisition and disposition, the Agency works to implement the Urban Renewal Plan that seeks to stabilize neighborhoods and enhance the vitality of the downtown and community. On behalf of the city, the Agency applies for and receives various grants to address community development needs. On an annual basis, the Agency manages the City's HUD Entitlement Grant award of Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) funds to undertake activities in the areas of housing, community facilities, public services, and economic development that benefit Ithaca's low- and moderate-income neighborhoods and households, or eliminate blighting conditions. In addition, the Agency administers various economic development loan programs, the Cherry Street Industrial Park, and leases to facilitate private/public real estate projects.

The City is ultimately responsible for the proper disposition of grant funds and any debt incurred by the Agency. Because of the close governing, administrative, and financial relationship with the City, the Agency is considered to be a component unit of the City for financial reporting purposes, and the Agency's financial information presented here is to be presented within the City's financial statements as the Special Grant Fund as of December 31, 2012 and for the year then ended.

B. Basic Financial Statements

The Agency's basic financial statements include governmental fund financial statements. The financial transactions of the Agency are reported in the Special Revenue Fund in the governmental fund financial statements of the City. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses. The Agency reports on the modified accrual basis of accounting.

ITHACA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Modified Accrual Basis - Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include state and federal aid. Revenues deemed collectible within one year after year end are recognized as revenues in the current year. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made.

Expenditures are recorded when incurred. The cost of capital assets is recognized as an expenditure when received. Exceptions to this general rule are that 1) principal and interest on indebtedness are not recognized as an expenditure until due, and 2) compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

D. Deferred Revenues

The Agency reports deferred revenues on its balance sheet. Deferred revenue arises when resources are received by the City before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the Agency has legal claim to resources, the liability for deferred revenue is removed and revenue is recognized. Deferred revenue arises when potential revenue does not also meet the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the liability for deferred revenue is removed and revenue is recognized in the governmental fund financial statements.

E. Loans Receivable

Loans receivable represent amounts owed to the Agency for rehabilitation and economic development loans. Loans receivable are offset by deferred revenue in the same amount. Because the loans are offset by deferred revenue, no provision has been made for uncollectible accounts reported as loans receivables.

F. Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments with initial maturities of three months or less are considered cash equivalents.

G. Insurance

The City assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

H. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

ITHACA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

I. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the IURA's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

J. Equity Classifications

In the year ending December 31, 2011, the Agency implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- Nonspendable: Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowments principal.
- Restricted: Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation.
- Committed: Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority prior to the end of the fiscal year, which requires the same level of formal action to remove said constraint.
- Assigned: Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- Unassigned: Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

The Agency has not adopted any resolutions to commit fund balance. The Agency's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, and assigned fund balance. Because the Agency's activities are reported as a Special Revenue Fund, the remaining fund balance is reported as assigned. The Agency would only report an unassigned fund balance if there was a fund deficit.

ITHACA URBAN RENEWAL AGENCY
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 2 - Detailed Notes

A. Assets

1. Cash and Investments

The Agency's investment policies are governed by state statutes. In addition, the Agency has its own written investment policy. Agency monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks, trust companies, or credit unions located within the state, preferably located within the City of Ithaca and the urban renewal project boundary area. The Agency is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury.

Collateral is required for demand and time deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

Deposits and investments are valued at cost or cost plus interest. Total financial institution (bank) balances at December 31, 2012, per the banks, were \$2,781,336, which were insured, and collateral, where required, was held by the Agency's agent in the Agency's name.

2. Other Receivables

Other receivables at December 31, 2012 are as follows:

Special Grant Funds:	
Reimbursement from the City of Ithaca	\$ 30,000
Other reimbursements	<u>6,896</u>
Total Special Grant Fund	<u>\$ 36,896</u>

B. Short-term Debt

State law requires BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided stipulated annual reductions of principal are made.

The Agency issued a Neighborhood Housing Initiative Program BAN in the amount of \$840,000 on April 20, 2012 at an interest rate of 2.00% per annum, with a maturity date of April 20, 2013. The BAN is issued to provide funding for the Agency's Neighborhood Housing Initiative Program. The liability is recorded in the IURA's financial statements. The City has guaranteed the payment of the note's principal and interest.

The principal and interest payments are reflected in the City's financial statements. Under Article XVIII Section 4 of the State Constitution, the City is permitted to guarantee principal of and interest on the City Urban Renewal Agency's bonds. The bonds do not count toward the City's debt limit.

ITHACA URBAN RENEWAL AGENCY
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Because the City recognizes the principal and interest payments on the BAN, the Agency has not reported those expenditures. As the City makes BAN payments, the Agency recognizes the reduction of the BAN payable as proceeds of BANs redeemed, an other financing source.

The following is a summary of changes in the Agency's indebtedness for the period ended December 31, 2012:

<u>Description</u>	<u>Balance 12/31/11</u>	<u>New Issues/ Additions</u>	<u>Maturities/ Payments</u>	<u>Balance 12/31/12</u>
BANs	\$ <u>870,000</u>	\$ <u>-0-</u>	\$ <u>(30,000)</u>	\$ <u>840,000</u>

Note 3 - Simplified Employee Pension Plan

The Agency sponsors a Simplified Employee Pension Plan which covers all full-time and part-time employees. Contributions to the Plan are determined annually by the Board of Directors. For the year ended December 31, 2012, the amount of pension expense was \$17,682, or 8% of total gross payroll.

Note 4 - Concentrations - Significant Sources of Revenues

During the year ended December 31, 2012, the Agency received \$1,789,699; or 62% of total revenue from U. S. Department of Housing and Urban Development grants.

Note 5 - Summary of Significant Commitments and Contingencies

A. General Information

The Agency is exposed to various risks of loss related to, but not limited to, torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

B. State and Federally Assisted Programs

On behalf of the City, the Agency receives state and federal grants. These grants are generally conditioned on compliance with certain statutory, regulatory and/or contractual requirements. The Agency makes every effort to comply with all applicable requirements. However, because these grants are audited from time to time, it is possible that the Agency or the City will be required, upon audit, to repay portions of the grant monies received and recorded as revenue in a prior year. Agency and City officials do not anticipate material grant-in-aid disallowances, and no provision, therefore, is reflected in the basic financial statements.

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ithaca Urban Renewal Agency
Ithaca, 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 Ithaca Urban Renewal Agency (the Agency), a blended component unit of the City of Ithaca, whose activity is reported in the Special Grant Fund, a governmental fund in the City of Ithaca's financial statements and related notes to the financial statements as of and for the year ended December 31, 2012 and have issued our report thereon dated February 13, 2013.

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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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.

Cinchi, Dittulyn, Little, Mickelson & Co., LLP

February 13, 2013
Ithaca, New York