

**City of Middletown  
Industrial Development Agency**

(A Component Unit of the  
City of Middletown, New York)

Financial Statements and Supplementary Information

Years Ended December 31, 2013 And 2012

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Table of Contents

---

Page No.

Independent Auditors' Report

Management's Discussion and Analysis

Comparative Statement of Net Position

Comparative Statement of Activities

Comparative Statement of Cash Flows

Notes to Financial Statements

Required Supplementary Information

    Statement of Indebtedness

    Payments in Lieu of Taxes

    Full Time Equivalent (FTE) Jobs Created and Retained

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

Independent Accountants' Report on Compliance with Section 2925(3)(1)  
of the New York State Public Authorities Law

## Independent Auditors' Report

**The Board of Trustees of the  
City of Middletown Industrial Development Agency:  
(a component unit of the City of Middletown, New York)**

### **Report on the Financial Statements**

We have audited the accompanying statement of net position of the City of Middletown Industrial Development Agency ("Agency") (a component unit of the City of Middletown, New York) as of and for the years ended December 31, 2013 and 2012, and the statements of activities and cash flows for the years then ended, 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.

### ***Auditors' 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 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years 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 Management's Discussion and Analysis and the Required Supplementary Information, Statement of Indebtedness, Payment in Lieu of Taxes and the Full Time Equivalents (FTE) jobs created and retained be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 March 17, 2014 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.

## **Report on Other Legal and Regulatory Requirements**

We have also issued our report dated March 17, 2014 on our consideration of the Agency's compliance with Section 2925(3)(1) of the New York State Public Authorities Law ("Law"). The purpose of that report is to describe the scope and results of our tests of compliance with the Law.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**

Harrison, New York

March 17, 2014

**City of Middletown**  
**Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Management's Discussion and Analysis  
Year Ended December 31, 2013

Compliance and Accountability

Since the City of Middletown Industrial Development Agency ("Agency") formed in 1982, the Agency's management was under the direction of the appointed members of the Board.

The Agency has established its own financial systems separate from those of the City of Middletown. To ensure continuity in consistency with municipal best practices, the by-laws establishes the position of Comptroller as its chief financial officer responsible for financial management, compliance and good practices establishing internal controls, as well as investment of Agency funds consistent with its investment policy; and reporting to the Treasurer (an elected board member) and Agency.

Financial Highlights

Change in net position.

The change in net position of \$76,550 for 2013 is an increase of \$74,587 over the 2012 change in net position of \$1,963. This \$74,587 increase is primarily due to the professional fees of \$102,482 generated from bond transactions.

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Comparative Statement of Net Position  
December 31,

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	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and equivalents	<u>\$ 121,673</u>	<u>\$ 45,123</u>
<b>NET POSITION</b>		
Unrestricted	<u>\$ 121,673</u>	<u>\$ 45,123</u>

See notes to financial statements.

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Comparative Statement of Activities  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Fees	\$ 102,482	\$ 4,874
<b>OPERATING EXPENSES</b>		
Bank service charges	125	125
Bond issuance charges	15,456	-
Celebrations	5,000	-
Postage and delivery	78	-
Dues and subscriptions	750	-
Office supplies	-	335
Insurance	4,611	2,248
Advertising	180	126
Depreciation	-	142
Total Operating Expenses	<u>26,200</u>	<u>2,976</u>
Income from Operations	76,282	1,898
<b>NON-OPERATING REVENUES</b>		
Interest income	<u>268</u>	<u>65</u>
Change in Net Position	76,550	1,963
<b>NET POSITION</b>		
Beginning of Year	<u>45,123</u>	<u>43,160</u>
End of Year	<u>\$ 121,673</u>	<u>\$ 45,123</u>

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Comparative Statement of Cash Flows  
Years Ended December 31,

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received/from fees	\$ 102,482	\$ 4,874
Cash paid for administrative and other costs	<u>(21,200)</u>	<u>(2,834)</u>
Net Cash from Operating Activities	<u>81,282</u>	<u>2,040</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Cash paid for payments in lieu of taxes	<u>-</u>	<u>(70,058)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Interest income	<u>268</u>	<u>65</u>
Net Change in Cash and Equivalents	102,750	(65,119)
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>45,123</u>	<u>113,076</u>
End of Year	<u><u>\$ 147,873</u></u>	<u><u>\$ 47,957</u></u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Income from operations	\$ 81,282	\$ 1,898
Depreciation	<u>-</u>	<u>142</u>
Net Cash from Operating Activities	<u><u>\$ 81,282</u></u>	<u><u>\$ 2,040</u></u>

See notes to financial statements.

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Notes to Financial Statements  
December 31, 2013

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**Note 1 - Organization**

The City of Middletown Industrial Development Agency ("Agency") was created in 1982 by the New York State Legislature under the provisions of Chapter 632 of the Laws of New York State. The Agency was established for the purpose of encouraging economic growth in the City of Middletown, New York ("City"). The Agency helps with financing arrangements, and has the authority to grant mortgage and sales tax exemptions. The Agency is exempt from Federal, State and local income taxes. Members of the governing board of the Agency are appointed by the City Council of the City

**Note 2 - Summary of Significant Accounting Policies**

**Financial Reporting Entity**

The Agency has been identified as a component unit of the City. In accordance with the criteria enumerated in Governmental Accounting Standards Board ("GASB") Statement No. 14, the Agency's financial statements have been discretely presented in the City's financial statements.

**Deposits and Risk Disclosure**

Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of less than three months.

The Agency's investment policies are governed by State statutes. The Agency has adopted its own written investment policy which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The Agency is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, repurchase agreements and obligations of New York State or its political subdivisions.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Agency's name. The Agency's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2013 and 2012.

The Agency was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate or credit risk.

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Notes to Financial Statements (Concluded)  
December 31, 2013

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Net Position**

Net position represents the difference between assets and liabilities. Net position is reported as restricted only when there are limitations imposed on its use. The net position of the Agency is classified as unrestricted.

**Use of Estimates**

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

**Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 17, 2014.

**Note 3 - Industrial Revenue Bond and Note Transactions**

Certain industrial development revenue bonds and notes are secured by property which is leased to companies and the bonds are retired by lease payments. The bonds and notes are not obligations of the Agency or the State of New York. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. The fee received by the Agency is one-half of one percent on the first \$10 million of loans and one-eighth of one percent for any amount of borrowing in excess of \$10 million. Such administrative fee income is recognized immediately upon the issuance of bonds and/or notes.

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Required Supplementary Information  
Statement of Indebtedness  
December 31, 2013

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<u>Project Name/Owner/Address</u>	<u>Purpose</u>	<u>Date of Issue</u>	<u>Maturity</u>	<u>Interest Rate</u>
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	Construction	06/2005	06/2015	- %
Southeast Housing Corp. 55 Fulton Street Middletown, NY 10940	Construction	01/2013	07/2015	0.5
Total				

<u>Original Issue Value</u>	<u>Outstanding Balance at January 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding Balance at December 31, 2013</u>
\$ 1,560,000	\$ 860,000	\$ -	\$ 55,000	\$ 805,000
<u>4,600,000</u>	<u>-</u>	<u>4,600,000</u>	<u>-</u>	<u>4,600,000</u>
<u>\$ 6,160,000</u>	<u>\$ 860,000</u>	<u>\$ 4,600,000</u>	<u>\$ 55,000</u>	<u>\$ 5,405,000</u>

**City of Middletown Industrial Development Agency**  
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Required Supplementary Information  
Payments in Lieu of Taxes  
December 31, 2013

<u>Project Owner</u>	<u>Assessed Valuation Exemption</u>	<u>County</u>	<u>City</u>	<u>School</u>	<u>Total</u>
SML Group Enterprises 60-78 Fulton Street Middletown, NY 10940	\$ 1,131,900	<u>\$ 852</u>	<u>\$ 3,492</u>	<u>\$ 5,656</u>	<u>\$ 10,000</u>
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	\$ 71,500	<u>\$ 1,850</u>	<u>\$ 7,582</u>	<u>\$ 12,280</u>	<u>\$ 21,712</u>
Carsar Realty Corp. 64 Genung Street Middletown, NY 10940	\$ 220,000	<u>\$ 5,060</u>	<u>\$ 19,048</u>	<u>\$ 33,594</u>	<u>\$ 57,702</u>
Acme Bus Corp. 21 Fulton Street Middletown, NY 10940	\$ 127,310	<u>\$ 2,661</u>	<u>\$ 10,908</u>	<u>\$ 17,665</u>	<u>\$ 31,234</u>
Southeast Housing Corp. 55 Fulton Street Middletown, NY 10940	\$ 915,944	<u>\$ 6,330</u>	<u>\$ 25,951</u>	<u>\$ 42,719</u>	<u>\$ 75,000</u>
Danza Leser Group, LLC 52-70 Prospect Avenue Middletown, NY 10940	(1) \$ 360,000	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) PILOT payments for Danza Lesser Group, LLC begin in year 2015.

**City of Middletown Industrial Development Agency**  
(A Component Unit of the City of Middletown, New York)

Supplementary Information  
Full Time Equivalent (FTE) Jobs Created and Retained  
December 31, 2013

<u>Project Name/Owner/Address</u>	<u>No. of FTE Employees at Location Before IDA Status</u>	<u>Original Estimate of Jobs to be Created</u>	<u>Original Estimate of Jobs to be Retained</u>	<u>No. of Current FTE Employees</u>	<u>No. of FTE Jobs Created During Fiscal Year</u>	<u>No. of FTE Jobs Retained During Fiscal Year</u>
SML Group Enterprises 60-78 Fulton Street Middletown, NY 10940	-	-	-	41	-	-
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	-	-	-	1	-	-
Carsar Realty Corp. 64 Genung Street Middletown, NY 10940	-	15	25	73	-	15
Acme Bus Corp. 21 Fulton Street Middletown, NY 10940	-	125	-	-	-	-
Southeast Housing Corp. 55 Fulton Street Middletown, NY 10940	-	-	-	2	-	-
Danza Leser Group, LLC 52-70 Prospect Avenue Middletown, NY 10940	5	150	-	14	135	-

**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**

**Independent Auditors' Report**

**The Board of Trustees of the  
City of Middletown Industrial Development Agency:  
(a component unit of the City of Middletown, 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 City of Middletown Industrial Agency ("Agency") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated March 17, 2014.

**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 opinions 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency'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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**

Harrison, New York

March 17, 2014

**Independent Accountants' Report on Compliance with Section 2925(3)(1)  
of the New York State Public Authorities Law**

**The Board of Trustees of the  
City of Middletown Industrial Development Agency:  
(a component unit of the City of Middletown, New York)**

We have examined the City of Middletown Industrial Development Agency's ("Agency") compliance with Section 2925(3)(1) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended December 31, 2013. Management is responsible for the Agency's compliance with those requirements. Our responsibility is to express an opinion on the Agency's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Agency's compliance with specified requirements.

In our opinion, the Agency complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2013.

This report is intended solely for the information and use of management, the Board of Trustees, officials of the City of Middletown and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**  
Harrison, New York  
March 17, 2014