

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2013**

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
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DECEMBER 31, 2013**

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INDEPENDENT AUDITORS' REPORT

John Tkazyik, Chairman
City of Poughkeepsie Industrial Development Agency
Municipal Building
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Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City of Poughkeepsie, New York Industrial Development Agency ("Agency"), a component unit of the City of Poughkeepsie, New York, as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Poughkeepsie, New York Industrial Development Agency, as of December 31, 2013, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 and 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic and historic 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the City of Poughkeepsie, New York Industrial Development Agency's financial statements as a whole. The Schedule of Indebtedness and Schedule of Supplemental Information on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the financial statements.

These Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements, as a whole. The Schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2014 on our consideration of the City of Poughkeepsie, New York Industrial Development Agency's internal control over financial reporting and 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.

The report on internal control over financial reporting and on compliance and other matters is an integral part of an audit performed in accordance with *Government Auditing Standards* and, should be considered in assessing the results of our audit.


Poughkeepsie, New York
March 21, 2014

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2013**

The following "Management's Discussion and Analysis" report (MD&A) provides the reader with an introduction and overview to the financial activities and performance of the City of Poughkeepsie, New York Industrial Development Agency ("Agency") for the year ended December 31, 2013, as mandated by GASB #34. This information should be reviewed in conjunction with the audited financial statements of the Agency.

FINANCIAL OPERATIONS HIGHLIGHTS

Total Revenues and Expenses have did not change significantly between 2012 and 2013.

SUMMARY OF OPERATIONS

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>\$ Change</u>
Total Revenues	\$ 38	\$ 43	\$ (5)
Total Expenses	<u>(12,990)</u>	<u>(14,203)</u>	<u>1,213</u>
Change in Net Position	<u>\$ (12,952)</u>	<u>\$ (14,160)</u>	<u>\$ 1,208</u>

FINANCIAL POSITION SUMMARY

Net Position serves as an indicator of the Agency's financial position. At December 31, 2013 and 2012, Net Position was a deficit of \$(380,058) and \$(367,106) respectively, because project costs, mainly contract services, exceeded revenues.

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total Assets	<u>\$ 73,347</u>	<u>\$ 84,312</u>
Total Liabilities	<u>\$ 453,405</u>	<u>\$ 451,418</u>
Net Position (deficit)	<u>\$ (380,058)</u>	<u>\$ (367,106)</u>

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D.)
DECEMBER 31, 2013**

For details of the Agency's finances, see the accompanying financial statements and notes thereof.

FINANCIAL STATEMENTS

The Agency's financial statements are prepared in accordance with generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB).

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

ASSETS

Cash and Cash Equivalents	\$ 73,347
	<u> </u>
Total Assets	\$ 73,347
	<u> </u>

LIABILITIES AND NET POSITION

Accounts Payable and Liabilities	\$ 8,154
Due to Community Development	<u>445,251</u>
	<u> </u>
Total Liabilities	453,405
	<u> </u>
Unrestricted Net Position (Deficit)	<u>(380,058)</u>
	<u> </u>
Total Net Position	(380,058)
	<u> </u>
Total Liabilities and Net Position	\$ 73,347
	<u> </u>

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2013**

REVENUES

Investment Earnings	<u>\$ 38</u>
Total Revenues	<u>38</u>

EXPENSES

Contract Services	<u>12,990</u>
Total Expenses	<u>(12,990)</u>
Excess of Revenues or (Expenses)	(12,952)
Net Position, January 1, 2013	<u>(367,106)</u>
Net Position December 31, 2013	<u><u>\$ (380,058)</u></u>

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Cash Flows from Operating Activities:

Excess of (Expenses Over Revenues)	\$ (12,952)
Increase in Accounts Payable	<u>1,987</u>
Net Cash Used by Operating Activities	<u>(10,965)</u>
Net Decrease in Cash and Cash Equivalents	(10,965)
Cash and Cash Equivalents, January 1, 2013	<u>84,312</u>
Cash and Cash Equivalents, December 31, 2013	<u><u>\$ 73,347</u></u>

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. Organization and Summary of Significant Accounting Policies

Organization and Purpose:

The City of Poughkeepsie, New York Industrial Development Agency (the "Agency") is a public benefit corporation established under Section 856 of the New York State Industrial Development Agency Act of the State of New York and Chapter 73 of the Laws of 1970 of the State. The Agency was established to encourage economic growth within the City of Poughkeepsie, New York.

The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, some of which are as follows:

The Reporting Entity

The Agency is considered a component unit of the financial reporting entity known as the City of Poughkeepsie, New York. Inclusion in the financial reporting entity, the City of Poughkeepsie, is determined based on financial accountability as defined by GASB Statement No. 14, "The Financial Reporting Entity". The City of Poughkeepsie Common Council appoints all of the Agency's Board Members. This level of control meets the criteria for financial accountability as defined by GASB statement No. 14.

Proprietary Fund Accounting

Basis of Accounting and Measurement Focus

The Agency helps to facilitate economic development in the City of Poughkeepsie, primarily by issuing tax-exempt debt. Its operations are financed primarily by the City of Poughkeepsie by providing use of City staff and facilities. Under standards set by the GASB, the Agency is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources. This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013**

1. Organization and Summary of Significant Accounting Policies (Cont'd.)

The Agency's policy is to apply, all GASB pronouncements; with the implementation of GASB 62, applicable Financial Accounting Standards Board standards are included.

In June 1999, the GASB approved Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant policies in the Statement, which affect the financial statements of the Agency include the following:

The financial statements include a Management Discussion and Analysis (MD&A) section providing an analysis of the Agency's overall financial position and results of operations. The Agency's basis of accounting has not changed, but financial statement titles have changed to focus on "Net Position"

Income Taxes

The Agency is exempt from federal, state and local income taxes.

Cash, Cash Equivalents and Investments

State statutes govern the Agency's investment policies. Agency monies must be deposited in Federal Deposit Insurance Corporation insured commercial banks or trust companies located within the State of New York. The Agency is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and obligations of New York State and its localities.

Collateral is required for demand 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. The Agency's cash was covered in full by a combination of FDIC insurance and collateral pledged by a third party custodian.

For purposes of the Statement of Cash Flows, the Agency considers all demand deposits, time and savings accounts, and certificates of deposit with an original maturity of three months or less to be cash equivalents.

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013**

1. Organization and Summary of Significant Accounting Policies (Cont'd.)

Risk Management

Risk management activities are limited to being listed as an additional insured on properties covered by payment in lieu of tax (PILOT) agreements. The Agency's management believes it has limited exposure for loss as its sole asset is cash and it has no employees. Tax assessment disputes are litigated by the taxing authorities with no financial effect on the Agency.

Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Industrial Revenue Bonds

Bonds authorized by the Agency and issued through various lending institutions are designated as special obligations of the Agency and payable solely from the revenues and other assets pledged as collateral against the bonds. While in most instances, the Agency is the holder of legal title to properties acquired with industrial revenue bond financing until such point in time as the construction of property improvements has been completed or satisfaction of the obligation has been effected in full, the Agency does not act as a guarantor in the event of default. Accordingly, recourse on the part of the lending institution against the Agency is limited to collateralization properties and revenues as specified in the body of the applicable financing agreement. Additionally, in each of these financings, the Agency has assigned all rights to receive certain revenues derived with respect to the facilities it has financed to the holders of the industrial revenue bonds. As a consequence, the Agency does not reflect such bonds or related properties on its financial statements. Industrial revenue bonds authorized by the Agency and outstanding at December 31, 2013, total \$3,679,074. See Other Supplemental Information on page 13 of this report for additional information on the Industrial Revenue Bonds.

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013**

3. Commitments

On January 10, 2011, the Agency, along with the City of Poughkeepsie ("City"), entered into a memorandum of understanding with Hudson River Housing, Inc. ("HRH"), a not-for-profit organization based in Poughkeepsie, NY. The Agency has been designated as the local re-development authority responsible for the re-development of the 2nd Lt. Glen Carpenter Army Reserve Center ("Center"). This agreement provided for the release of certain rights to the Center so that the re-development process could continue. In connection with that release the Agency and the City agreed to certain transfers and payments, including the transfers of certain properties to HRH in furtherance of its homeless assistance program, payments to HRH as rental support, at a minimum of \$6,300 per year, payment of \$50,000 to HRH for capital improvements, waiving City planning and building fees and providing bus passes to HRH at discounted rates. Payments made by the IDA under this agreement for 2013 amounted to \$5,820.

4. Assignment Consent

In 2013, the Agency consented to the assignment of an installment sale agreement between the former and current owner of The Manor at Woodside, an independent living facility for seniors located in the City of Poughkeepsie. This consent allowed the new owner to retain the property tax exemptions and payments in lieu of taxes (PILOT) benefits afforded the prior owner. The industrial revenue bonds issued for the benefit of the prior owner were paid as a consequence of the project facility transfer.

5. New Reporting Standards

In March 2012, GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. This Statement required the re-consideration of reporting of assets and liabilities. The Agency implemented this standard for the year ended December 31, 2013. The implementation of GASB Statement 65 did not have a substantive effect on the Agency's net position.

GASB has also issued Statements 68-71, none of which are expected to have any substantive effects on the Agency's net position.

OTHER SUPPLEMENTAL INFORMATION

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>PROJECT NAME</u>	<u>PROJECT PURPOSE</u>	<u>ORIGINAL ISSUE AMOUNT</u>	<u>ORIGINAL ISSUE DATE</u>	<u>INTEREST RATE</u>	<u>OUTSTANDING BALANCE 12/31/2013</u>
Eastman & Bixby Redevelopment Company, LLC	Developers	\$ 8,500,000	August-00	Variable	\$ 3,679,074
TOTAL BONDS OUTSTANDING AT DECEMBER 31, 2013					<u>\$ 3,679,074</u>

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

PROJECTS

	NIC 6 Manor at				
	Eastman Bixby, LLC	Woodside Owner LLC	Marshall & Sterling, Inc	Poughkeepsie Landing, LLC	400 Main LLC
Real Property Tax Exemptions:					
Sales Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Real Property Tax	359,590	490,350	199,409	392,280	277,865
Mortgage Recording	-	-	-	-	-
TOTALS	\$ 359,590	\$ 490,350	\$ 199,409	\$ 392,280	\$ 277,865

Payments in Lieu of Taxes (PILOTS):					
County	\$ 15,021	\$ 10,550	\$ 20,072	\$ 21,196	\$ 3,781
Local	55,799	39,190	74,563	78,735	14,046
School	71,560	50,260	95,624	100,975	18,013
TOTALS	\$ 142,380	\$ 100,000	\$ 190,259	\$ 200,906	\$ 35,840

FULL-TIME EQUIVALENT JOBS CREATED AND RETAINED (UNAUDITED)					
# Current FTE employees	8	59	130	200	15
# FTE jobs created during fiscal year	0	0	8	0	0
# Current FTE employees retained during the fiscal year	8	59	122	200	15
# FTE construction jobs created during fiscal year	0	0	0	0	0



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**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 AUDITOR'S REPORT

John Tkazyik, Chairman
City of Poughkeepsie Industrial Development Agency
Municipal Building
62 Civic Center Plaza
Poughkeepsie, New York 12601

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 the City of Poughkeepsie, New York Industrial Development Agency ("Agency"), a component unit of the City of Poughkeepsie, New York as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Poughkeepsie, New York Industrial Development 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 City of Poughkeepsie, New York Industrial Development 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 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of the section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we

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consider to be material weaknesses. However, material weaknesses may exist that have not been identified. 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.

During our audit we identified a deficiency in internal control that we consider to be a significant deficiency (Finding 1, page 17).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Poughkeepsie, New York Industrial Development 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and are described as follows:

1. The Agency continues to operate at a deficit and has an accumulated net position deficit of \$380,058 as of December 31, 2013. Management believes that there are potential development opportunities forthcoming which would allow the Agency to continue fulfilling its intended purpose.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing on 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.



Poughkeepsie, New York
March 27, 2014

**CITY OF POUGHKEEPSIE, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF FINDINGS,
RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

SECTION I: SIGNIFICANT DEFICIENCY:

1. DUE TO CITY OF POUGHKEEPSIE LIABILITY

<u>FINDING:</u>	During 2004, a state funded project was jointly handled by the City of Poughkeepsie Community Development Fund and the Agency. Expenses were funded by the Community Development Fund, anticipating receipt of additional state aid. The Agency currently does not anticipate receiving any additional state aid.
<u>CAUSE:</u>	The project was funded with an inter-municipality loan.
<u>EFFECT:</u>	A deficit was created by incurring expenditures without sufficient revenues.
<u>RECOMMENDATION:</u>	The Agency should establish a plan for clearing this obligation or determine a repayment plan.
<u>RESPONSE:</u>	The Agency will research the details of this issue and identify a resolution.