

**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, 2016 And 2015

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

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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 financial statements 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, 2016 and 2015 and the related notes to the financial statements which collectively comprise the Agency's 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 financial position of the Agency, as of December 31, 2016 and 2015, and the changes in net position and cash flows 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 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.

Supplementary Information

Our audits was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Payments in Lieu of Taxes and Full-Time Equivalents (FTE) Jobs Created and Retained, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the 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 24, 2017 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.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
March 24, 2017

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, 2016

Compliance and Accountability

The City of Middletown Industrial Development Agency ("Agency") was formed in 1982. The Agency's management is 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, New York. To ensure continuity and 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 (\$21,275) for fiscal year 2016 is an increase of \$3,527 over the fiscal year 2015 change in net position of (\$17,748). This \$3,527 increase is primarily due to a decrease in administrative fee revenue in 2016. In 2015, the Agency collected additional administrative fee revenue due to the issuance of new payments in lieu of taxes (PILOT) agreements. No new PILOT agreements were issued in 2016.

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

Comparative Statement of Net Position
December 31,

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and equivalents	<u>\$ 95,430</u>	<u>\$ 116,705</u>
 NET POSITION		
Unrestricted	<u>\$ 95,430</u>	<u>\$ 116,705</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,

	2016	2015
OPERATING REVENUES		
Fees	\$ 8,419	\$ 11,394
OPERATING EXPENSES		
Bank service charges	-	27
Postage and delivery	26	170
Professional fees	26,980	2,500
Economic development project	-	24,000
Office supplies	430	127
Insurance	2,407	2,404
Advertising	-	96
Total Operating Expenses	29,843	29,324
Loss from Operations	(21,424)	(17,930)
NON-OPERATING REVENUES		
Interest income	149	182
Change in Net Position	(21,275)	(17,748)
NET POSITION		
Beginning of Year	116,705	134,453
End of Year	\$ 95,430	\$ 116,705

See notes to financial statements.

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>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from fees	\$ 8,419	\$ 11,394
Cash paid for administrative and other costs	<u>(29,843)</u>	<u>(29,324)</u>
Net Cash from Operating Activities	<u>(21,424)</u>	<u>(17,930)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest income	<u>149</u>	<u>182</u>
Net Change in Cash and Equivalents	(21,275)	(17,748)
CASH AND EQUIVALENTS		
Beginning of Year	<u>116,705</u>	<u>134,453</u>
End of Year	<u><u>\$ 95,430</u></u>	<u><u>\$ 116,705</u></u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Loss from operations	<u><u>\$ (21,424)</u></u>	<u><u>\$ (17,930)</u></u>

See notes to financial statements.

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

Notes to Financial Statements
December 31, 2016

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 assists 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 by the Governmental Accounting Standards Board Statement No. 61, the Agency's financial statements have been discretely presented in the City's financial statements.

Basis of Accounting

The accounting policies of the Agency conform to generally accepted accounting principles as applicable to governmental units. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Agency reports its operations on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

City of Middletown Industrial Development Agency
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Notes to Financial Statements (Concluded)
December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015.

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

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 24, 2017.

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, City 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.

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Supplementary Information
Payments in Lieu of Taxes
December 31, 2016

<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>\$ 854</u>	<u>\$ 3,273</u>	<u>\$ 5,873</u>	<u>\$ 10,000</u>
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	\$ 43,075	<u>\$ 1,269</u>	<u>\$ 4,862</u>	<u>\$ 8,752</u>	<u>\$ 14,883</u>
Carsar Realty Corp. 64 Genung Street Middletown, NY 10940	\$ 220,000	<u>\$ 4,666</u>	<u>\$ 17,875</u>	<u>\$ 32,179</u>	<u>\$ 54,720</u>
Southeast Housing Corp. 55 Fulton Street Middletown, NY 10940	\$ 915,944	<u>\$ 6,614</u>	<u>\$ 27,513</u>	<u>\$ 45,463</u>	<u>\$ 79,590</u>
Danza Leser Group, LLC 52-70 Prospect Avenue Middletown, NY 10940	\$ 360,000	<u>\$ 2,519</u>	<u>\$ 9,649</u>	<u>\$ 17,370</u>	<u>\$ 29,538</u>
Heritage Restoration Properties, LLC 14-22 Cottage Street Middletown, NY 10940	(1) \$ 73,600	<u>\$ 1,024</u>	<u>\$ 3,919</u>	<u>\$ 7,057</u>	<u>\$ 12,000</u>
Equilibrium Brewery, LLC and 22 Henry Street, LLC 22-28 Henry Street Middletown, NY 10940	(2) \$ 52,000	<u>\$ 511</u>	<u>\$ 1,960</u>	<u>\$ 3,529</u>	<u>\$ 6,000</u>

(1) PILOT payments for Heritage Restoration Properties, LLC begin in year 2016.

(2) PILOT payments for Equilibrium Brewery, LLC and 22 Henry Street, LLC begin in year 2016.

City of Middletown Industrial Development Agency
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Supplementary Information
Full Time Equivalent (FTE) Jobs Created and Retained
December 31, 2016

<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	-	-	-	32	-	32
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	-	-	-	-	-	-
Carsar Realty Corp. 64 Genung Street Middletown, NY 10940	-	23	12	61	10	61
Southeast Housing Corp. 55 Fulton Street Middletown, NY 10940	-	-	-	2	-	2
Danza Leser Group, LLC 52-70 Prospect Avenue Middletown, NY 10940	5	-	-	122	24	98
Heritage Restoration Properties, LLC 14-22 Cottage Street Middletown, NY 10940	-	20	20	21	-	21
Equilibrium Brewery, LLC and 22 Henry Street, LLC 22-28 Henry Street Middletown, NY 10940	-	3	-	3	84	3

**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 Development Agency ("Agency") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's financial statements, and have issued our report thereon dated March 24, 2017.

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 Agency'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.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Harrison, New York

March 24, 2017