

CITY OF MIDDLETOWN
INDUSTRIAL DEVELOPMENT AGENCY

(A COMPONENT UNIT OF THE
CITY OF MIDDLETOWN, NEW YORK)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

WITH INDEPENDENT AUDITORS' REPORT

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MIDDLETOWN, NEW YORK)

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INDEPENDENT AUDITORS' REPORT

To 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 the accompanying statement of net assets 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, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the other required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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.

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O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2012 on our consideration of the 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 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 and should be considered in assessing the results of our audit.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
March 3, 2012

**City of Middletown
Industrial Development Agency
(A Component Unit of the City of Middletown, New York)
Management's Discussion and Analysis
For Year Ended December 31, 2011**

Compliance and Accountability

Since the City of Middletown Industrial Development 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 insure 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 assets

The change in net assets of (\$11,627) for 2011 is a decrease of \$14,625 over the 2010 change in net assets of (\$25,892). This \$14,625 decrease is primarily due to the professional fees decrease of \$17,017 from 2010.

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
 (A COMPONENT UNIT OF THE CITY OF MIDDLETOWN, NEW YORK)

COMPARATIVE STATEMENT OF NET ASSETS
 DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and equivalents	\$ 113,076	\$ 54,401
Payments in lieu of taxes receivable	9,290	28,501
Prepaid expenses	-	46,933
Capital assets (net of accumulated depreciation) - Equipment	<u>142</u>	<u>386</u>
Total Assets	<u>\$ 122,508</u>	<u>\$ 130,221</u>
LIABILITIES AND NET ASSETS		
Liabilities - Payments in lieu of taxes payable	<u>\$ 79,348</u>	<u>\$ 75,434</u>
Net assets - Unrestricted	<u>43,160</u>	<u>54,787</u>
Total Liabilities and Net Assets	<u>\$ 122,508</u>	<u>\$ 130,221</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues	<u>\$ -</u>	<u>\$ -</u>
Operating Expenses:		
Professional fees	8,685	25,702
Bank service charges	87	111
Office supplies	468	142
Insurance	2,249	42
Depreciation	<u>244</u>	<u>244</u>
Total Operating Expenses	<u>11,733</u>	<u>26,241</u>
Loss from Operations	(11,733)	(26,241)
Non-Operating Revenues - Interest income	<u>106</u>	<u>349</u>
Change in Net Assets	(11,627)	(25,892)
Net Assets - Beginning of Year	<u>54,787</u>	<u>80,679</u>
Net Assets - End of Year	<u><u>\$ 43,160</u></u>	<u><u>\$ 54,787</u></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 CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities -		
Cash paid for administrative and other costs	\$ (11,489)	\$ (25,997)
Cash flows From Non-Capital Financing Activities -		
Cash received for payments in lieu of taxes	<u>70,058</u>	<u>-</u>
Cash Flows From Investing Activities -		
Interest income	<u>106</u>	<u>349</u>
Net Change in Cash and Equivalents	58,675	(25,648)
Cash and Equivalents - Beginning of Year	<u>54,401</u>	<u>80,049</u>
Cash and Equivalents - End of Year	<u>\$ 113,076</u>	<u>\$ 54,401</u>
Reconciliation of Loss from Operations to Net Cash from Operating Activities:		
Loss from operations	\$ (11,733)	\$ (26,241)
Depreciation	244	244
Changes in operating assets and liabilities:		
Payments in lieu of taxes receivable	(19,211)	28,501
Prepaid expenses	(46,933)	46,933
Payments in lieu of taxes payable	<u>66,144</u>	<u>(75,434)</u>
Net Cash from Operating Activities	<u>\$ (11,489)</u>	<u>\$ (25,997)</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

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, 2011.

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 (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Other Receivables - Other receivables include amounts due from other governments and individuals for services provided by the Authority. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

Prepaid Expenses - Prepaid expenses consist of costs which have been satisfied prior to the end of the fiscal year, but represent items will benefit subsequent periods.

Equipment

Equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over an estimated useful life of five years.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted only when there are limitations imposed on their use. The net assets of the Agency are 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 3, 2012.

Note 3 - Equipment

Equipment at December 31, consisted of the following:

	<u>2011</u>	<u>2010</u>
Computers	\$ 1,219	\$ 1,219
Accumulated depreciation	(1,077)	(833)
	<u>\$ 142</u>	<u>\$ 386</u>

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MIDDLETOWN, NEW YORK)

NOTES TO FINANCIAL STATEMENTS (Concluded)

Note 4 - 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)

SUPPLEMENTARY INFORMATION
 STATEMENT OF INDEBTEDNESS
 DECEMBER 31, 2011

<u>Project Name/Owner/Address</u>	<u>Purpose</u>	<u>Date of Issue</u>	<u>Maturity</u>	<u>Interest Rate</u>
Southwinds 70 Fulton Street Middletown, NY 10940	Non Profit	03/1993	03/2018	Variable %
YMCA 81 Highland Avenue Middletown, NY 10940	Non Profit	02/1999	11/2019	7.00
Southwinds 70 Fulton Street Middletown, NY 10940	Non Profit	03/2000	03/2018	Variable
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	Construction	06/2005	06/2015	Variable
Total				

<u>Original Issue Value</u>	<u>Outstanding Balance at January 1, 2011</u>	<u>Payments</u>	<u>Outstanding Balance at December 31, 2011</u>
\$ 4,785,000	\$ 2,690,000	\$ 205,000	\$ 2,485,000
1,915,000	1,165,000	100,000	1,065,000
5,510,000	3,230,000	275,000	2,955,000
<u>1,560,000</u>	<u>960,000</u>	<u>50,000</u>	<u>910,000</u>
<u>\$ 13,770,000</u>	<u>\$ 8,045,000</u>	<u>\$ 630,000</u>	<u>\$ 7,415,000</u>

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
 (A COMPONENT UNIT OF THE CITY OF MIDDLETOWN, NEW YORK)

REQUIRED SUPPLEMENTARY INFORMATION
 PAYMENTS IN LIEU OF TAXES
 DECEMBER 31, 2011

<u>Project Owner</u>	<u>Assessed Valuation Exemption</u>	<u>County</u>	<u>City</u>	<u>School</u>	<u>Total</u>
Southwinds 70 Fulton Street Middletown, NY 10940	Tax Exempt	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>
YMCA 81 Highland Avenue Middletown, NY 10940	Tax Exempt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	\$ 90,450	<u>\$ 2,283</u>	<u>\$ 9,050</u>	<u>\$ 13,767</u>	<u>\$ 25,100</u>
Carsar Realty Corp. 64 Genung Street Middletown, NY 10940	Tax Exempt	<u>\$ 5,412</u>	<u>\$ 19,422</u>	<u>\$ 33,587</u>	<u>\$ 58,421</u>
Acme Bus Corp. 3555 Veterans Memorial Highway Ronkonkoma, NY 11179	\$ 121,570	<u>\$ 2,556</u>	<u>\$ 10,025</u>	<u>\$ 15,126</u>	<u>\$ 27,707</u>

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
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SUPPLEMENTARY INFORMATION
 FULL TIME EQUIVALENT (FTE) JOBS CREATED AND RETAINED
 DECEMBER 31, 2011

<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>
Southwinds 70 Fulton Street Middletown, NY 10940	-	-	-	-	-	-
YMCA 81 Highland Avenue Middletown, NY 10940	25	-	17	17	-	17
R&B Associates, LLC 26-23 South Street Middletown, NY 10940	-	-	-	-	-	-
Carsar Realty Corp. 64 Genung Street Middletown, NY 10940	38	10	10	66	10	66
Acme Bus Corp. 3555 Veterans Memorial Highway Ronkonkoma, NY 11179	-	-	-	-	-	-

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

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

We have audited the financial statements of City of Middletown Industrial Development Agency ("Agency") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 3, 2012. 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, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Trustees and the New York State Office of the Comptroller and 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 3, 2012

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

To 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, 2011. 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, 2011.

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 3, 2012