

ANNUAL FINANCIAL REPORT

MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY
December 31, 2016

Audited for:

Board of Directors and Members
MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY

Audited By:
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Middletown Community Development Agency

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LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Members
Middletown Community Development Agency
16 James Street
Middletown, New York 10940

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Middletown Community Development Agency (the "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 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.

Auditor's 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. 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 business-type activities of the Middletown Community Development Agency as of December 31, 2016, and the respective changes in its financial position and its cash flows for the year 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 the management's discussion and analysis, on pages 3-4, 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, on our consideration of the Middletown Community Development Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Middletown Community Development Agency's internal control over financial reporting and compliance.

RBT CPAs, LLP

Poughkeepsie, New York
March 16, 2017

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED
DECEMBER 31, 2016**

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 Middletown Community Development Agency (“Agency”) for the year ended December 31, 2016, as mandated by GASB 34. This information should be reviewed in conjunction with the Agency’s audited financial statements.

The Agency was established in 2002 and its purpose is to plan and implement programs involving the rehabilitation and revitalization of both the residential and commercial sectors of the City of Middletown, eliminate blight, foster economic growth, and provide other benefits to the City of Middletown.

FINANCIAL OPERATIONS HIGHLIGHTS

There was an increase in net position of \$62,664 in 2016.

Renovated property sales increased \$111,440 in 2016. This was the result of the sale of the 53 Prospect Street property sold by the Agency during the year.

A summary of operations is as follows:

As of December 31	2016		2015	
Current Assets	\$	187,984	\$	68,420
Non-Current Assets		287,215		-
TOTAL ASSETS	\$	475,199	\$	68,420
LIABILITIES AND NET POSITION				
Liabilities	\$	186,900	\$	130,000
Non-Current Liabilities		287,215		-
Net Position:				
Unrestricted		1,084		(61,580)
Total Net Position		1,084		(61,580)
TOTAL LIABILITIES AND NET POSITION	\$	475,199	\$	68,420

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
 DECEMBER 31, 2016**

FINANCIAL POSITION SUMMARY

Net position may serve as an indicator of the Agency's financial position. The Agency's net position was \$1,084 and \$(61,580) at December 31, 2016 and 2015, respectively. The increase in net position of \$62,664 reflects the Agency's "gain" for 2016.

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

For the year ended December 31	2016	2015
Operating Revenues	\$ 111,440	\$ -
Operating Expenses	48,811	5,172
Operating Gain/(Loss)	62,629	(5,172)
Non-Operating Revenues (Expenses):		
Interest Income	35	37
Net Non-Operating Revenues	35	37
Change in Net Position	\$ 62,664	\$ (5,135)

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). The Agency is structured as a proprietary fund. The City Council is the Agency's ten-member board. See the accompanying Notes to the Financial Statements.

MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY

STATEMENT OF NET POSITION	
As of December 31	2016
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 64,056
Construction in Process	123,928
Total Current Assets	187,984
Non-Current Assets:	
Properties Held by Agency (Note 2)	287,215
Total Non-Current Assets:	287,215
Total Assets	\$ 475,199
LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts Payable	\$ 11,900
Operating Loan (Note 2)	50,000
Loans Payable (Note 2)	125,000
Total Current Liabilities	186,900
Non-Current Liabilities:	
Properties Held by Agency (Note 2)	287,215
Total Non-Current Liabilities	287,215
Net Position:	
Unrestricted	1,084
Total Net Position	1,084
Total Liabilities and Net Position	\$ 475,199

See Notes to the Financial Statements

MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	
For the year ended December 31	2016
Operating Revenues:	
Renovated Property Sales	\$ 111,440
Total Operating Revenues	111,440
Operating Expenses:	
Advertising	198
Miscellaneous	50
Office Expense	375
Professional Fees	7,863
Project Costs	40,325
Total Operating Expenses	48,811
Operating Gain	62,629
Non-Operating Revenues:	
Interest Income	35
Net Non-Operating Revenues	35
Change in Net Position	62,664
Net Position - Beginning	(61,580)
Net Position - Ending	\$ 1,084

See Notes to the Financial Statements

MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY

STATEMENT OF CASH FLOWS

For the year ended December 31	2016
Cash Flows from Operating Activities	
Receipts from renovated property sales	\$ 111,440
Administrative and project expense	(36,911)
Net cash provided by operating activities	74,529
Cash Flows from Capital and Related Financing Activities:	
Construction in progress costs	(123,128)
Loan Proceeds	125,000
Loans Payable Payments	(80,000)
Net cash (used) by capital and related financing activities	(78,128)
Cash Flows from Investing Activities	
Interest income	35
Net cash provided by investing activities	35
Net (decrease) in cash and cash equivalents	(3,564)
Cash and cash equivalents, beginning of year	67,620
Cash and cash equivalents, end of year	\$ 64,056
Reconciliation of change in net position to net cash (used) by operating activities	
Operating Gain	\$ 62,629
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Decrease) Increase in Accounts Payable	11,900
Net cash provided by operating activities	\$ 74,529

See Notes to the Financial Statements

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Organization and Summary of Significant Accounting Policies

Organization and Purpose

The City of Middletown Community Development Agency (the "Agency") was re-established by NYS legislation on July 18, 2002 at the request of the City of Middletown. It functions as an "Urban Renewal Agency" under Articles 15, IS-A, and Section 633 of Article 15-B of the General Municipal Laws of the State of New York. The mission of the Corporation is to plan and implement programs involving the rehabilitation and revitalization of both the residential and commercial sectors of the City of Middletown, eliminate blight, foster economic growth, and provide other benefits to the City of Middletown.

The Agency is comprised of ten board members, a chairman, vice chairman, secretary, treasurer and executive director.

The Reporting Entity

The Agency is an independent entity from the City of Middletown government, but pursuant to Section 601-a of the New York General Municipal Law, the City of Middletown Common Council and Mayor are members of the Agency Board of Directors.

Basis of Accounting

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. Under standards set by GASB, the Agency is considered a proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects of transactions and other events when these transactions and events occur. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The measurement focus is the flow of economic resources.

Cash and Cash Equivalents

For the purpose of presenting the Statements 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 or cash equivalents.

Agency monies are deposited in FDIC insured commercial banks or trust companies located within the State. The Agency is authorized to use demand deposit, time and money market savings accounts, and certificates of deposit. Governmental Accounting Standards Board Statement No. 40 *Deposits and Investment Risk Disclosure*, directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, or collateralized by securities held by the Agency or its agent in the Agency's name. The Agency's cash balances were fully insured by the FDIC.

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Organization and Summary of Significant Accounting Policies (Continued)

Advertising and Marketing Costs

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the 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. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Agency evaluated subsequent events for disclosure and/or recognition in the financial statements from December 31, 2016, and through March 16, 2017, the date on which the financial statements were approved for issuance.

2. Commitments and Contingencies

The City of Middletown transferred several properties to the Agency. The value of these properties is equal to the outstanding property tax due the City at time of transfer. This amount totals to \$287,215. In 2016, work began at 20 Amchir Avenue, 6 Harrison Street, and 182 Cottage Street to be renovated and developed as single family homes. 53 Prospect Avenue was completed and sold in July 2016.

The Agency has a loan from the City of Middletown totaling \$50,000, as of December 31, 2016. The Agency also has a loan totaling \$125,000 from Community Capital of New York (“CCNY”). These loans will assist the Agency with the renovation and redevelopment of 20 Amchir Avenue, 6 Harrison Street, and 182 Cottage Street, and assist with the implementation of the Urban Renewal Plan. The CCNY note is due in full April 17, 2017, or upon sale of the property, and includes interest at a rate of 6%. The City of Middletown note is non-interest bearing and callable at any time.

3. New Reporting Standards

GASB has issued Statements 69-75, none of which are expected to have any substantive effects on the Agency’s net position.

OTHER REPORTING REQUIRED
by GOVERNMENT AUDITING STANDARDS



LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

**INDEPENDENT AUDITOR'S 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**

The Board of Directors and Members
Middletown Community Development Agency
16 James Street
Middletown, New York 10940

We have audited, 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, the financial statements of the business-type activities of the Middletown Community Development Agency (the "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 basic financial statements, and have issued our report thereon dated March 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Middletown Community 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 opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Middletown Community Development 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 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.

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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 Middletown Community 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 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 Middletown Community Development 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 Middletown Community Development Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RBT CPAs, LLP

Poughkeepsie, New York
March 16, 2017