

FINANCIAL REPORT
Audited
CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Middletown, New York)
December 31, 2017

Audited for:

Chairman and Members of the Board of Directors
City of Middletown Industrial Development Agency

Audited by:

RBT CPAs, LLP
11 Racquet Road
Newburgh, NY 12550
(845) 567-9000

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY

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LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS BUSINESS DEVELOPMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board of Directors
City of Middletown Industrial 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 City of Middletown Industrial Development Agency (the "Agency"), a component unit of the City of Middletown, New York, as of and for the year ended December 31, 2017, 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 the 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 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 respective financial position of the business-type activities of the City of Middletown Industrial Development Agency, a component unit of the City of Middletown, New York, as of December 31, 2017, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Restatement

A prior period adjustment was made to the beginning net position to reflect payments received in the current year for PILOT payments that were in arrears. The beginning net position has been restated accordingly. See Note 3 of the notes to the financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4-5, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Middletown Industrial Development Agency, a component unit of the City of Middletown, New York's basic financial statements. The Schedule of Indebtedness and Schedule of Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Indebtedness and Schedule of Supplementary Information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. As of December 31, 2017, there was no indebtedness related to the Agency. Such information, except for the number of current full time employees, information upon which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the City of Middletown Industrial Development Agency, a component unit of the City of Middletown, New York'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 City of Middletown Industrial Development Agency's internal control over financial reporting and compliance.

RBT CPAs, LLP

Newburgh, New York
March 26, 2018

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

The following "Management's Discussion and Analysis" report ("MD&A") provides the reader with an introduction to and overview of the financial activities and performance of the City of Middletown Industrial Development Agency ("Agency") for the years ended December 31, 2017 and 2016, as mandated by GASB #34. This information should be reviewed in conjunction with the Agency's audited financial statements.

FINANCIAL OPERATIONS HIGHLIGHTS

There was an increase in net position in 2017 of \$632, and a decrease in net position in 2016 of \$21,275, resulting in a positive change of \$21,907. This change is primarily due to a decrease in professional fees for consulting services.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

<u>REVENUES</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>
Fees	\$ 11,458	\$ 8,419	\$ 3,039
Interest earnings	105	149	(44)
Total Revenues	<u>11,563</u>	<u>8,568</u>	<u>2,995</u>
<u>EXPENSES</u>			
Professional fees	6,900	26,980	(20,080)
Postage and delivery	27	26	1
Insurance	2,407	2,407	-
Office supplies	1,597	430	1,167
Total Expenses	<u>10,931</u>	<u>29,843</u>	<u>(18,912)</u>
Change in Net Position	<u>\$ 632</u>	<u>\$ (21,275)</u>	<u>\$ 21,907</u>

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2017**

FINANCIAL POSITION SUMMARY

Net position serves as an indicator of the Agency's financial position. The Agency's net position was \$101,882 and \$101,250 at December 31, 2017 and 2016, respectively. The increase in net position of \$632 is primarily due to a prior period adjustment and operating revenues increasing from prior year.

SUMMARY OF NET POSITION

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current Assets	<u>\$ 101,882</u>	<u>\$ 101,250</u>	<u>\$ 632</u>
Total Assets	<u>\$ 101,882</u>	<u>\$ 101,250</u>	<u>\$ 632</u>
<u>NET POSITION</u>			
Unrestricted	<u>\$ 101,882</u>	<u>\$ 101,250</u>	<u>\$ 632</u>
Total Net Position	<u>\$ 101,882</u>	<u>\$ 101,250</u>	<u>\$ 632</u>

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). The Agency is structured as a proprietary fund. It is a component unit of the City of Middletown, New York because the City Council appoints the Agency's board. Bonds issued by the Agency are not a liability of the City or the Agency, but remain the sole responsibility of the project developer. See the accompanying Notes to the Financial Statements.

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
MIDDLETOWN, NEW YORK
STATEMENT OF NET POSITION
As of December 31**

2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 101,882
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Total Current Assets	101,882
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TOTAL ASSETS	\$ 101,882
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NET POSITION

Net Position:

Unrestricted	\$ 101,882
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TOTAL NET POSITION	\$ 101,882
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See Notes to the Financial Statements

CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
MIDDLETOWN, NEW YORK
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31 **2017**

Operating revenues:

Fees	\$	11,458
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Total Operating Revenues		11,458
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Operating Expenses:

Professional fees		6,900
Postage and delivery		27
Insurance		2,407
Office supplies		1,597

Total Operating Expenses		10,931
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Operating Income		527
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Non-Operating Revenues:

Interest Income		105
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Net Non-Operating Revenues		105
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Change in Net Position		632
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Net Position, Beginning, Before Restatement		95,430
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Prior Period Adjustment (Note 3)		5,820
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Net Position, Beginning, Restated		101,250
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Net Position, Ending	\$	101,882
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See Notes to the Financial Statements

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
MIDDLETOWN, NEW YORK
STATEMENT OF CASH FLOWS
For the Year Ended December 31**

2017

Cash Flows From Operating Activities:	
Receipts from providing services	\$ 17,278
Payments to vendors	(10,931)
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Net cash provided by operating activities	6,347
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Cash Flows From Investing Activities:	
Interest income	105
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Net cash provided by investing activities	105
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Net Increase in Cash and Cash Equivalents	6,452
Cash and Cash Equivalents - Beginning	95,430
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Cash and Cash Equivalents - Ending	\$ 101,882

**Reconciliation of operating income to net cash
provided by operating activities**

Operating Income	\$ 527
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	5,820
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Net Cash Provided by Operating Activities	\$ 6,347

See Notes to the Financial Statements

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. Organization and Summary of Significant Accounting Policies

Organization and Purpose

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.

The 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. 14, as amended, 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 Disclosures

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.

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017**

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

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, 2017.

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

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, 2017, and through March 26, 2018, the date on which the financial statements were approved for issuance.

2. 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.

3. Prior Period Adjustment

Beginning net position was restated in the current year in the amount of \$5,820 for PILOT payments that were in arrears. The amount in arrears should have been recorded as a receivable to the Agency as the Agency had previously made the required remittances to the various taxing jurisdictions.

4. New Reporting Standards

GASB has issued Statements 68-87, none of which are expected to have any substantive effects on the Agency's net position.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
 SCHEDULE OF INDEBTEDNESS
 DECEMBER 31, 2017**

Project Name	Original Issue Amount	Original Issue Date	Interest Rate	Outstanding Balance December 31, 2016	New Issue 2017	Principal Payments 2017	Outstanding Balance December 31, 2017	Final Maturity Date
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THERE IS NO RELATED DEBT

Totals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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**CITY OF MIDDLETOWN INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017**

	PROJECTS				
	SML Group Enterprises	Southeast Housing Corp.	Danza Leser Group LLC	Heritage Restoration	Equilibrium Brewery, LLC and 22 Henry Street, LLC
Real Property Tax Exemptions*:					
Sales Tax	\$ 16,336	\$ -	\$ 116,350	\$ 16,458	\$ -
Mortgage Tax	-	-	-	-	-
Real Property Taxes	288,385	239,616	183,238	50,268	20,179
TOTALS	\$ 304,721	\$ 239,616	\$ 299,588	\$ 66,726	\$ 20,179
Payments in Lieu of Taxes (PILOTS):					
County	\$ 882	\$ 6,977	\$ 4,076	\$ 1,070	\$ 551
City	3,142	26,989	14,518	3,812	1,963
School	5,904	47,572	35,722	7,117	3,665
TOTALS	\$ 9,928	\$ 81,538	\$ 54,316	\$ 11,999	\$ 6,179
CREATED AND RETAINED**:					
# FTEs before IDA status	0	0	5	0	0
Original Estimate of Jobs to be Created				20	3
Original Estimate of Jobs to be Retained				20	
Current # of FTEs	44	3	99	21	6
# of FTE Jobs Created During Fiscal Year	0	0	9	0	2
Net Employment Change	44	3	94	21	6

* Real Property Tax Exemptions indicate the total amount for which a project would have been liable if the project occurred but the IDA was not involved.

**PARIS amounts may differ due to software constraints.

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

Chairman and Members of the Board of Directors
City of Middletown Industrial Development Agency
16 James Street
Middletown, NY 10940

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 Middletown Industrial Development Agency (“Agency”), a component unit of the City of Middletown, New York, as of and for the year ended December 31, 2017, 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 26, 2018.

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 opinion 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 deficiency, or 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 preceding paragraph 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.

RBT CPAs, LLP

Newburgh, New York
March 26, 2018