

**CITY OF NEWBURGH INDUSTRIAL
DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)**

**AUDITED COMPONENT UNIT
FINANCIAL STATEMENTS
DECEMBER 31, 2005**

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Audited Component Unit Financial Statements
December 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Audited Component Unit Financial Statements	
Balance Sheet	3-4
Statement of Revenues, Expenses and Changes in Net Assets	5
Statement of Cash Flows	6-7
Notes to the Financial Statements	8-14
Supplemental Financial Information	
Schedule of Industrial Development Bonds	15

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August 30, 2006

To the Board of Directors
City of Newburgh Industrial Development Agency
83 Broadway
Newburgh, New York 12550

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Newburgh Industrial Development Agency, a component unit of the City of Newburgh, as of and for the year ended December 31, 2005, as listed in the table of contents. 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 the *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 City of Newburgh Industrial Development Agency as of December 31, 2005, and the 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006, on our consideration of the City of Newburgh Industrial Development Agency's internal control over financial reporting and on our tests of its compliance with certain provision 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.

The City of Newburgh Industrial Development Agency has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information presented on page 15 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 12 to the financial statements, the City of Newburgh Industrial Development Agency (IDA) has expended certain funds under a federal grant related project. Reimbursement requests have yet to be processed in order to determine the amount of grant funds to be received. In addition, certain compliance requirements have to be completed. The outcome of this matter is uncertain at this time.

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CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Balance Sheet
December 31, 2005

ASSETS

Current Assets:

Cash	\$ 332,344
Grant Receivable (net of \$265,894 Allowance for Disallowed Items)	960,400
Notes Receivable	124,778
Capital Lease Receivable	9,554
Interest Receivable (Net of \$29,275 Allowance for Doubtful Accounts)	19,785
Real Property Held for Sale or Development	<u>118,400</u>

Total Current Assets 1,565,261

Fixed Assets:

Land	12,460
Building & Improvements	335,000
Furniture & Equipment	<u>43,954</u>
Total	391,414
Less: Accumulated Depreciation	<u>(222,108)</u>

Net Fixed Assets 169,306

Other Assets:

Notes Receivable (Net of \$155,246 Allowance for Doubtful Accounts)	347,870
Capital Lease Receivable	115,203
Due from City of Newburgh Local Development Corporation (Net of \$750,740 Allowance for Doubtful Accounts)	<u>0</u>

Total Other Assets 463,073

Total Assets \$ 2,197,640

The accompanying notes are an integral part of the financial statements.

See Independent Auditors' Report.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Balance Sheet
December 31, 2005

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 229,164
Due to City of Newburgh	1,695,179
Current Portion of Long-Term Debt	9,554
Security Deposits Payable	6,000
Deferred Revenue	<u>10,495</u>
Total Current Liabilities	1,950,392
Long-Term Liabilities:	
Long-Term Debt	115,203
Deferred Revenue	<u>426,008</u>
Total Long-Term Liabilities	<u>541,211</u>
Total Liabilities	2,491,603
Net Assets:	
Invested in Capital Assets, Net of Related Debt	169,306
Unrestricted	<u>(463,269)</u>
Total Net Assets	<u>(293,963)</u>
Total Liabilities and Net Assets	<u><u>\$ 2,197,640</u></u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditors' Report.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Statement of Revenues, Expenses and Changes in Net Assets
For the year ended December 31, 2005

Operating Revenues:	
Bond Administrative Fee Income	\$ 158,225
Lease Income	66,207
Grant Income	912,533
Other Revenue	<u>4,606</u>
Total Operating Revenues	1,141,571
Operating Expenses:	
Personnel	82,420
Employee Benefits	36,779
Office & Operations	208,936
Project Expenses	1,844,607
Depreciation	12,236
Bad Debts	<u>2,915</u>
Total Operating Expenses	<u>2,187,893</u>
Operating Loss	(1,046,322)
Non-Operating Revenues (Expenses):	
Transfers from City Government	138,200
Net Valuation Adjustment - Receivables	115,815
Interest Income	27,748
Property Taxes	(9,708)
Loss on Sale of Real Estate	<u>(8,933)</u>
Total Non-Operating Revenues (Expenses)	<u>263,122</u>
Net Loss	(783,200)
Net Assets - Beginning of Year	<u>489,237</u>
Net Assets - End of Year	<u><u>\$ (293,963)</u></u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditors' Report.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Statement of Cash Flows
For the year ended December 31, 2005

Cash Flows from Operating Activities:	
Cash Received from Tenants	\$ 55,712
Cash Received for Services	162,832
Cash Payments to Employees and for Benefits	(127,390)
Cash Paid to Contractors and other Suppliers for Goods & Services	<u>(350,514)</u>
Net Cash Used in Operating Activities	(259,360)
Cash Flows from Non-Capital and Financing Activities:	
Cash Paid for Real Property Taxes	(9,708)
Cash Flows Provided by Capital and Related Financing Activities:	
Net Proceeds on Sale of Property	79,467
Principal Payments on Long-Term Debt	<u>(1,799)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>77,668</u>
Cash Flows from Investing Activities:	
Principal Payments Received on Notes	\$ 72,735
Interest Received	10,750
Payment of Expenses on Behalf of City of Newburgh Local Development Company	(1,600)
Principal Payments Received Under Capital Leases	<u>1,799</u>
Net Cash Provided by Investing Activities	<u>83,684</u>
Net Decrease in Cash	(107,716)
Cash - Beginning of Year	<u>440,060</u>
Cash- End of Year	<u><u>\$ 332,344</u></u>

The accompanying notes are an integral part of the financial statements.

See Independent Auditors' Report.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Statement of Cash Flows - Continued
For the year ended December 31, 2005

Reconciliation of Operating Loss to Net Cash Used in Operating Activities:

Operating Loss		\$ (1,046,322)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	\$ 12,236	
Bad Debts	2,915	
Changes in Operating Assets and Liabilities:		
Increase in Grant Receivable	(912,533)	
Increase in Accounts Payable	169,027	
Increase in Due to City of Newburgh (Payroll & Miscellaneous Items)	1,525,812	
Decrease in Deferred Revenue	<u>(10,495)</u>	
Total Adjustments		<u>786,962</u>
Net Cash Used in Operating Activities		<u>\$ (259,360)</u>

Supplemental Schedule of Noncash Operating Activities:

The Agency received real property from the City of Newburgh valued at \$138,200. This real property was held for sale or development by the agency.

The accompanying notes are an integral part of the financial statements.

See Independent Auditors' Report.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to Financial Statements
For the year ended December 31, 2005

Note 1 Summary of Significant Accounting Policies

Reporting Entity

The City of Newburgh Industrial Development Agency (the Agency) was established on July 22, 1982. The Agency provides industrial loans to developers for the purpose of creating jobs and economic development for the residents of the City of Newburgh. Additionally, it provides building facilities to companies through long-term leases, assists in structuring real property acquisition and development transactions and serves as a conduit for issuing Industrial Revenue Bonds. The Agency is included as a component unit in the reporting entity of the City of Newburgh.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as applicable to governmental units as well as the Uniform System of Accounts for Industrial Development Agencies as prescribed by the Office of the State Comptroller.

Basis of Accounting

As a proprietary entity, the Agency's financial statements are prepared under the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents

Cash and Investment Policies - The Agency administers a separate cash and investment pool. Funds are invested in accordance with an established investment policy. All deposits are carried at cost plus accrued interest. The City of Newburgh requires collateral for demand deposits and certificates of deposit equal to 105% of all deposits in excess of federal deposit insurance coverage. For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to the Financial Statements - Continued
For the year ended December 31, 2005

Note 1 Summary of Significant Accounting Policies - Continued

Fair Value Disclosures

The Agency believes that estimating the fair value of its notes receivable and general obligation debt pursuant to FASB No. 107, "Fair Value Disclosures About Financial Instruments" will be difficult because of the lack of quoted market prices. Further, to make such estimates may require the Agency to incur excessive costs. As such the Agency has not estimated the fair value of its notes receivable and general obligation debt pursuant to FASB No. 107.

Fixed Assets

Fixed Assets are stated at historical cost. Depreciation is computed using the straight-line basis over the estimated useful lives as follows:

<u>Description</u>	<u>Useful Lives</u>
Building & Improvements	20-40 Years
Furniture & Equipment	5-10 Years

Note 2 Grant Receivable

Included in Grant Receivable is \$1,226,295 of expenditures made during the years 2004 and 2005, to be reimbursed under the grant agreement with the United States Department of Commerce. A reserve for potential disallowances under the grant has been recorded in the amount of \$265,895. (See Note 12 for further details.)

Note 3 Notes Receivable

Notes receivable consist of the following at December 31, 2005:

Real Estate Venture Notes Receivable	\$ 467,894
Notes Receivable - Other	160,000
	<hr/>
Total Notes Receivable	627,894
Allowance for Doubtful Accounts	(155,246)
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Carrying Value of Notes Receivable	472,648
Less: Current Portion	124,778
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Other Assets - Notes Receivable	\$ 347,870
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CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to the Financial Statements - Continued
For the year ended December 31, 2005

Note 3 Notes Receivable – Continued

In February 1998, the City of Newburgh Local Development Corporation (LDC) assigned notes receivable of one of the LDC's real estate venture investees to the Agency in exchange for a reduction in LDC amounts due the Agency. Effective July 2003 the notes were consolidated into one note bearing interest at 5 percent and requiring monthly payments of \$7,945 inclusive of principal and interest. The note matures in December 2010.

Note 4 Real Property Held for Sale or Development

Real property held for sale or development includes various real estate parcels in the City of Newburgh carried at the estimated market value of the property at the time of transfer to the Agency. These properties are typically transferred to the Agency by the City of Newburgh.

Note 5 Investments

At December 31, 2005, there were no investments held by the Agency. There were also no investments held at any time during the year.

Note 6 Fixed Assets

There were no changes in fixed assets during the year other than depreciation of \$12,236.

Note 7 Deferred Revenue

Deferred rental revenue at December 31, 2005 consists of two long-term leases. The first lease term is for 60 years, where the last 40 years are payable at \$100 per year. As such, the rental receipts to be received for the first 20 years, totaling \$663,599, are deferred and recognized as income over the 60-year lease term. The second lease has a term of 48 years, with total rents received in advance of \$51,000, which are being recognized over the 48 year term of the lease.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to the Financial Statements - Continued
For the year ended December 31, 2005

Note 8 Long-Term Debt Payable

The following is a summary of general obligation debt, transactions and balances outstanding as of December 31, 2005.

Mortgage Payable

Payable at January 1, 2005	\$ 126,556
Obligation Payments	<u>(1,799)</u>
Payable at December 31, 2005	<u><u>\$ 124,757</u></u>

General obligation debt payable at December 31, 2005 is comprised of the following individual issues:

Mortgage Payable To	Interest Rate	Original Borrowing Amount	Fiscal Year of Final Maturity	Outstanding Principal at 12/31/2005
City of Newburgh (Note 9)	6.00%	\$180,000	2019	\$ 124,757

The above mortgage is secured by real property.

Schedule of mortgage payable maturities for the years ending December 31:

2006	\$ 9,554
2007	6,208
2008	6,590
2009	6,997
2010	7,428
2011 and thereafter	<u>87,980</u>
Total	<u><u>\$ 124,757</u></u>

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to the Financial Statements - Continued
For the year ended December 31, 2005

Note 9 Related Party Transactions and Balance Due to City of Newburgh

As of December 31, 2005, the Agency owes the City of Newburgh \$1,695,179, which is included in current liabilities. This liability was made up of the following components.

	Project Expenditures paid on behalf of the Agency	Payroll & Miscellaneous	Total
Payable at January 1, 2005	\$ 0	\$ 169,367	\$ 169,367
Charges for Project Expenditures	1,534,477	0	1,534,477
Charges for Payroll & Miscellaneous Items	0	137,465	137,465
Obligation Payments	<u>0</u>	<u>(146,130)</u>	<u>(146,130)</u>
Payable at December 31, 2005	<u>\$ 1,534,477</u>	<u>\$ 160,702</u>	<u>\$ 1,695,179</u>

As of December 31, 2005, the Agency is due \$750,740 from the City of Newburgh Local Development Corporation (LDC). This receivable has been reserved in the amount of \$750,740 since the ability of the LDC to pay back this loan is directly contingent upon receiving cash flow from a certain real estate partnership. The partnership does not currently have sufficient working capital to be able to make payments to the LDC.

The Agency is the obligor under a mortgage due to the City of Newburgh for the purchase of certain property. The property was subsequently leased under a capital lease to a partnership in which the LDC is a general partner.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to the Financial Statements - Continued
For the year ended December 31, 2005

Note 9 Related Party Transactions and Balance Due to City of Newburgh - Continued

Minimum future lease payments receivable under capital leases with a partnership in which the LDC is a general partner as of December 31, 2005 are as follows:

2006	\$ 21,585
2007	12,951
2008	12,951
2009	12,951
2010	12,951
2011 and Thereafter	113,314
 Total Minimum Future Lease Payments Receivable	 \$ 186,703
Less: Amounts Representing Interest	(61,946)
 Capital Lease Receivable, Net	 \$ 124,757
 Less: Current Portion	 9,554
 Other Assets - Capital Lease Receivable	 \$ 115,203

Note 10 Operating Leases

The following schedule provides an analysis of the Agency's investment in property held under operating leases and property held for lease by major classes as of December 31, 2005:

Land	\$ 12,460
Buildings & Improvements	335,000
	347,460
Less: Accumulated Depreciation	180,760
 Net Property Held for Lease	 \$ 166,700

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)

Notes to the Financial Statements - Continued
For the year ended December 31, 2005

Note 10 Operating Leases – Continued

The following is a five-year schedule of minimum future rentals on non-cancelable operating leases including anticipated renewal periods as of December 31, 2005:

2006	\$	42,672
2007	\$	43,634
2008	\$	36,279
2009	\$	28,702
2010	\$	29,244

Note 11 Pension Plan and Post Employment Benefits

Persons who work on or behalf of the Agency have their salaries allocated to the Agency by the City of Newburgh (and its component entities) on a functional basis. All pension and post employment benefits are covered under plans of the City of Newburgh. The Agency has no obligation to fund these liabilities.

Note 12 Grant

The Agency has incurred expenditures under a U.S. Department of Commerce (EDA) grant related project. The grant has budget category and matching funds requirements. Project expenditures have exceeded budget categories outlined in the grant. The Agency has yet to apply for reimbursement of grant related expenditures totaling \$1,226,295. (Total expenditures of \$1,787,602 times federal share percentage of 68.6%). As such a determination by the EDA of total costs to be reimbursed is yet to be determined.

In addition to the above, the Agency also needs to apply for an extension under the grant agreements as well as submit certain contractual documents to fully comply with grant requirements and be eligible for reimbursement.

Given the above uncertainties an estimated reserve for \$265,895 has been recorded to reflect possible reimbursement shortages.

City of Newburgh Industrial Development Agency
 Supplemental Financial Information
 Schedule of Industrial Development Bonds
 December 31, 2005

Description	Principal Outstanding at Beginning of Year	Debt Issued During Year	Debt Paid During Year	Principal Outstanding at End of Year
Mt. St. Mary	\$ 1,552,500	0	\$ 1,552,500	\$ 0
GEMMA	4,676,081	0	166,962	4,509,119
Atlas Textile	7,121,500	0	0	7,121,500
Bourne & Kenney	8,438,083	0	4,438,083	4,000,000
Belvedere Housing, LP	17,500,000	0	345,403	17,154,597
St. Lukes Hospital Parking Garage	<u>0</u>	<u>21,355,000</u>	<u>0</u>	<u>21,355,000</u>
	<u>\$ 39,288,164</u>	<u>\$ 21,355,000</u>	<u>\$ 6,502,948</u>	<u>\$ 54,140,216</u>

Note: Above bonds are not obligations of the City of Newburgh Industrial Development Agency.

See Independent Auditors' Report