

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

**AUDITED COMPONENT UNIT
FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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

Audited Component Unit Financial Statements
December 31, 2006

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September 10, 2007

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, 2006, 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, 2006, 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 September 10, 2007, 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 14 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 13 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, 2006

ASSETS

Current Assets:	
Cash	\$ 124,409
Grant Receivable	1,232,688
Real Property Held for Sale or Development	62,200
Other Receivable	<u>10,000</u>
Total Current Assets	1,429,297
Fixed Assets:	
Land	258,630
Building and Improvements	335,000
Furniture and Equipment	<u>43,954</u>
Total	637,584
Less: Accumulated Depreciation	<u>(232,751)</u>
Net Fixed Assets	404,833
Other Assets:	
Notes Receivable (Net of \$184,521 Allowance for Doubtful Accounts)	516,456
Due from City of Newburgh Local Development Corporation (Net of \$752,540 Allowance for Doubtful Accounts)	<u>0</u>
Total Other Assets	<u>516,456</u>
Total Assets	<u><u>\$ 2,350,586</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)

Balance Sheet
December 31, 2006

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 22,837
Due to City of Newburgh	1,855,242
Security Deposits Payable	6,000
Deferred Revenue	<u>20,855</u>
Total Current Liabilities	1,904,934
Long-Term Liabilities:	
Deferred Revenue	<u>506,497</u>
Total Liabilities	2,411,431
Net Assets:	
Invested in Capital Assets, Net of Related Debt	404,833
Unrestricted	<u>(465,678)</u>
Total Net Assets	<u>(60,845)</u>
Total Liabilities and Net Assets	<u>\$ 2,350,586</u>

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

See Independent Auditors' Report.

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

Statement of Revenues, Expenses and Changes in Net Assets
For the year ended December 31, 2006

Operating Revenues:	
Lease Income	\$ 53,655
Grant Income	6,393
Other Revenue	<u>3,497</u>
 Total Operating Revenues	 63,545
 Operating Expenses:	
Personnel	178,043
Employee Benefits	63,163
Office and Operations	191,641
Project Expenses	13,107
Depreciation	<u>10,643</u>
 Total Operating Expenses	 <u>456,597</u>
 Operating Loss	 (393,052)
 Non-Operating Revenues (Expenses):	
Net Valuation Adjustment - Grant Receivables	265,895
Interest Income	26,626
Property Taxes	(6,322)
Gain on Sale of Real Estate	<u>87,551</u>
 Total Non-Operating Revenues (Expenses)	 <u>373,750</u>
 Net Loss	 (19,302)
 Net Assets - Beginning of Year as Restated (Note 13)	 <u>(41,543)</u>
 Net Assets - End of Year	 <u>\$ (60,845)</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
December 31, 2006

Cash Flows from Operating Activities:	
Cash Received from Tenants	\$ 144,504
Cash Received for Services	3,497
Cash Payments to Employees and for Benefits	(82,901)
Cash Paid to Contractors and other Suppliers for Goods & Services	<u>(419,318)</u>
Net Cash Used in Operating Activities	(354,218)
Cash Flows from Non-Capital and Financing Activities:	
Cash Paid for Real Property Taxes	(6,322)
Cash Flows Provided by Capital and Related Financing Activities:	
Net Proceeds on Sale of Property	150,001
Cash Flows from Investing Activities:	
Interest Received	<u>2,604</u>
Net Decrease in Cash	(207,935)
Cash - Beginning of Year	<u>332,344</u>
Cash- End of Year	<u><u>\$ 124,409</u></u>

Supplemental Schedule of Investing and Financing Activities:

Long-term Debt of \$124,757 was paid off by application of \$124,757 due under a capital lease.

In addition to above, a note of \$493,528 due to the Agency from a certain real estate venture was assumed by the City of Newburgh as part of their purchase of property from the real estate venture. (Note 3).

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, 2006

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

Operating Loss	\$	(393,052)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	\$	10,643
Net Valuation Adjustment - Grant Receivables		265,895
Changes in Operating Assets and Liabilities:		
Increase in Grant Receivable		(272,288)
Increase in Other Receivable		(10,000)
Decrease in Accounts Payable		(206,328)
Increase in Due to City of Newburgh (Payroll & Miscellaneous Items)		160,063
Increase in Deferred Revenue		<u>90,849</u>
Total Adjustments		<u>38,834</u>
Net Cash Used in Operating Activities	\$	<u><u>(354,218)</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)

Notes to Financial Statements
For the year ended December 31, 2006

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 Financial Statements - Continued
For the year ended December 31, 2006

Note 1 Summary of Significant Accounting Policies - Continued

Fair Value Disclosures

The Agency believes that estimating the fair value of its notes receivable 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 \$1,232,688 of expenditures made during the years 2004 to 2006 which is expected to be reimbursed under the grant agreement with the United States Department of Commerce (See Note 13).

Note 3 Notes Receivable

Notes receivable consist of the following at December 31, 2006:

Notes Receivable due from City of Newburgh including accruing interest of \$18,174.	\$ 511,702
Notes Receivable - Other	<u>160,000</u>
Total Notes Receivable	671,702
Allowance for Doubtful Accounts on on Notes Receivable - Other	<u>(155,246)</u>
Carrying Value of Notes Receivable	\$ 516,456
Less: Current Portion	<u>0</u>
Other Assets - Notes Receivable	<u><u>\$ 516,456</u></u>

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
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Notes to Financial Statements - Continued
For the year ended December 31, 2006

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 maturing December 2010. In April of 2006 this note obligation to the Agency was assumed by the City of Newburgh when the City purchased certain real estate from the LDC's real estate venture. No payments to date have been made on this obligation by the City of Newburgh.

Note 4 Due from City of Newburgh Local Development Corporation

As of December 31, 2006, the Agency is due \$752,540 from the City of Newburgh Local Development Corporation (LDC). This receivable has been reserved in the amount of \$752,540 since the LDC does not currently have sufficient working capital to be able to make payments to the Agency.

Note 5 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 6 Investments

At December 31, 2006, there were no investments held by the Agency. There were also no investments held at any time during the year.

Note 7 Fixed Assets

There were no changes in fixed assets during the year other than depreciation of \$10,643.

Note 8 Deferred Revenue

Deferred rental revenue at December 31, 2006 consists of three 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. The third lease term is for 10 years, with total rents received in advance of \$118,300, which are being recognized over the 10 year term of the lease.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
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Notes to Financial Statements - Continued
For the year ended December 31, 2006

Note 9 Long-Term Debt Payable

The following is a summary of general obligation debt, transactions and balances outstanding as of December 31, 2006.

Mortgage Payable

Payable at January 1, 2006	\$ 124,757
Obligation Payments	<u>(124,757)</u>
Payable at December 31, 2006	<u><u>\$ 0</u></u>

There was no general obligation debt payable at December 31, 2006.

Note 10 Balance Due to City of Newburgh

As of December 31, 2006, the Agency owes the City of Newburgh \$1,855,242, 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, 2006	\$ 1,534,477	\$ 160,702	\$ 1,695,179
Charges for Project Expenditures	1,758	0	1,758
Charges for Payroll & Miscellaneous Items	0	264,944	264,944
Obligation Payments	<u>0</u>	<u>(106,639)</u>	<u>(106,639)</u>
Payable at December 31, 2006	<u><u>\$ 1,536,235</u></u>	<u><u>\$ 319,007</u></u>	<u><u>\$ 1,855,242</u></u>

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
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Notes to Financial Statements - Continued
For the year ended December 31, 2006

Note 11 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, 2006:

Land	\$ 258,630
Buildings and Improvements	335,000
	<u>593,630</u>
Less: Accumulated Depreciation	<u>189,135</u>
Net Property Held for Lease	<u><u>\$ 404,495</u></u>

The following is a five-year schedule of minimum future rentals on non-cancelable operating leases including anticipated renewal periods as of December 31, 2006:

2007	\$ 53,984
2008	\$ 46,629
2009	\$ 39,052
2010	\$ 39,594
2011	<u>\$ 40,153</u>

Note 12 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 13 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. The Agency has yet to apply for reimbursement of grant related expenditures totaling \$1,232,688. (Total expenditures of \$1,796,203 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, the Agency also needs to submit certain contractual documents to fully comply with grant requirements and be eligible for reimbursement. The Agency believes all the

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
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Notes to Financial Statements - Continued
For the year ended December 31, 2006

Note 13 Grant – Continued

above amounts will be received now that an extension under the grant agreement has been approved and certain budget categories have been revised. Based on this extension and budget revision the agency has reversed to other income \$265,895 previously reserved for in the 2005 year.

Potential disallowances under this grant and their effect on the Agency's 2006 financial statements are undeterminable at this time.

Note 14 Net Asset Restatement

The Agency's net assets as of December 31, 2005 were restated to correct for real property held for sale or development and land that was previously omitted from the Agency's assets. The restatement effect was as follows:

Net Assets - Beginning of Year before restatement	\$ (293,963)
Increase in Real propety held for sale or development	6,250
Increase in Land	<u>246,170</u>
Total restatement increase	252,420
Net Assets - Beginning of Year after restatement	<u><u>\$ (41,543)</u></u>

City of Newburgh Industrial Development Agency
 Supplemental Financial Information
 Schedule of Industrial Development Bonds
 December 31, 2006

Description	Principal Outstanding at Beginning of Year	Debt Issued During Year	Debt Paid During Year	Principal Outstanding at End of Year
GEMMA	\$ 4,509,119	0	\$ 218,706	4,290,413
Atlas Textile	7,121,500	0	0	7,121,500
Bourne & Kenney	4,000,000	0	0	4,000,000
Belvedere Housing, LP	17,154,597	0	372,939	16,781,658
St. Lukes Hospital Parking Garage	21,355,000	0	0	21,355,000
	<u>\$ 54,140,216</u>	<u>\$ -</u>	<u>\$ 591,645</u>	<u>\$ 53,548,571</u>

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

See Independent Auditors' Report