

FINANCIAL REPORT  
Audited  
**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY**  
MIDDLETOWN, NEW YORK  
December 31, 2019

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*Audited for:*

Board of Directors  
Middletown Community Development Agency

*Audited By:*  
RBT CPAs, LLP  
11 Racquet Road  
Newburgh, NY 12550  
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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

Board of Directors  
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 Middletown Community Development Agency (the "Agency") a component unit of the City of Middletown, New York as of and for the years ended December 31, 2019 and 2018, 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 audits. We conducted our audits 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 Agency'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 Middletown Community Development Agency as of December 31, 2019 and 2018, and the respective changes in its financial position and its cash flows for the years 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 3, 2020, 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*

Newburgh, New York  
March 3, 2020

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
REQUIRED SUPPLEMENTARY INFORMATION  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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 (the “Agency”) for the years ended December 31, 2019 and 2018. 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 POSITION SUMMARY**

Net position may serve as an indicator of the Agency’s financial position. The Agency’s net position was \$35,824 and \$(14,855) at December 31, 2019 and 2018, respectively. The increase in net position of \$50,679 reflects the Agency’s “profit” for 2019.

**SUMMARY OF NET POSITION**

<b><u>ASSETS</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
Current Assets	\$ 181,098	\$ 25,725	\$ 155,373	603.98%
Capital Assets	336,942	521,566	(184,624)	-35.40%
<b>Total Assets</b>	<b>518,040</b>	<b>547,291</b>	<b>(29,251)</b>	<b>(0)</b>
<b><u>LIABILITIES</u></b>				
Current Liabilities	156,033	224,931	(68,898)	(0)
Non-Current Liabilities	223,283	337,215	(113,932)	-33.79%
<b>Total Liabilities</b>	<b>379,316</b>	<b>562,146</b>	<b>(182,830)</b>	<b>-32.52%</b>
<b>Deferred Inflows of Resources</b>	<b>102,900</b>	<b>-</b>	<b>102,900</b>	<b>N/A</b>
<b><u>NET POSITION</u></b>				
Unrestricted	35,824	(14,855)	50,679	-341.16%
<b>Total Net Position</b>	<b>35,824</b>	<b>(14,855)</b>	<b>50,679</b>	<b>-341.16%</b>
<b>NET POSITION</b>	<b>\$ 518,040</b>	<b>\$ 547,291</b>	<b>\$ (29,251)</b>	<b>-5.34%</b>

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
REQUIRED SUPPLEMENTARY INFORMATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL OPERATIONS HIGHLIGHTS**

There was an increase in net position in 2019 of \$50,679. The increase was the result of the sale of three projects in 2019; 182 Cottage, 13 Bridge, and 70 Beattie, with 70 Beattie being sold as is with no renovation costs.

Interest expense increased \$6,841 because there were three active project loans throughout the year as opposed to only two in the prior year.

Renovated property sales increased by \$232,531 in 2019. This was the result of the sale of three properties in 2019 as opposed to just the 20 Amchir Avenue property in 2018.

A summary of operations is as follows:

**SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

<b><u>REVENUES</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
Renovated property sales	\$ 363,923	\$ 131,392	\$ 232,531	176.98%
Interest income	29	40	(11)	-27.50%
<b>Total Revenues</b>	<b>363,952</b>	<b>131,432</b>	<b>232,520</b>	<b>176.91%</b>
<b><u>EXPENSES</u></b>				
Advertising	52	73	(21)	-28.77%
Office expense	381	61	320	524.59%
Professional fees	4,280	4,055	225	5.55%
Bank Charges	940	1,924	(984)	-51.14%
Project costs	289,406	112,417	176,989	157.44%
Interest expense and financing charges	18,214	11,373	6,841	60.15%
<b>Total Expenses</b>	<b>313,273</b>	<b>129,903</b>	<b>183,370</b>	<b>141.16%</b>
<b>Change in Net Position</b>	<b>\$ 50,679</b>	<b>\$ 1,529</b>	<b>\$ 49,150</b>	<b>3214.52%</b>

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. The City Council serves as the Agency's ten-member board. See the accompanying Notes to the Financial Statements.

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
STATEMENTS OF NET POSITION**

<b>As of December 31</b>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 88,198	\$ 25,725
Mortgage Receivable (Note II)	92,900	-
<b>Total Current Assets</b>	<b>181,098</b>	<b>25,725</b>
Construction in Progress	153,659	234,351
Grant Receivable (Note V)	10,000	-
Properties held by Agency (Note III)	173,283	287,215
<b>Total Capital Assets</b>	<b>336,942</b>	<b>521,566</b>
<b>TOTAL ASSETS</b>	<b>518,040</b>	<b>547,291</b>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses Due and Payable Within One Year:	3,033	32,477
Loans Payable (Note IV)	153,000	192,454
<b>Total Current Liabilities</b>	<b>156,033</b>	<b>224,931</b>
Non-Current Liabilities:		
Due to Related Party (Note V)	50,000	50,000
Properties held by Agency (Note III)	173,283	287,215
<b>Total Non-Current Liabilities</b>	<b>223,283</b>	<b>337,215</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Mortgage Receivable (Note II)	92,900	-
Grant Receivable (Note V)	10,000	-
<b>Total Deferred Inflows Of Resources</b>	<b>102,900</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>482,216</b>	<b>562,146</b>
<b>NET POSITION</b>		
Unrestricted	35,824	(14,855)
<b>TOTAL NET POSITION</b>	<b>\$ 35,824</b>	<b>\$ (14,855)</b>

See Notes to Financial Statements



**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

<b>For the years ended December 31</b>	<b>2019</b>	<b>2018</b>
Operating Revenues:		
Renovated Property Sales	\$ 363,923	\$ 131,392
Total Operating Revenues	<u>363,923</u>	<u>131,392</u>
Operating Expenses:		
Advertising	52	73
Office Expense	381	61
Bank Charges	940	1,924
Professional Fees	4,280	4,055
Project Costs	<u>289,406</u>	<u>112,417</u>
Total Operating Expenses	<u>295,059</u>	<u>118,530</u>
Operating Income	<u>68,864</u>	<u>12,862</u>
Non-Operating Revenues:		
Interest Income	<u>29</u>	<u>40</u>
Net Non-Operating Revenues	<u>29</u>	<u>40</u>
Non-Operating Expenses:		
Interest Expense and Financing Charges	<u>18,214</u>	<u>11,373</u>
Net Non-Operating Expenses	<u>18,214</u>	<u>11,373</u>
Change in Net Position	50,679	1,529
Net Position, Beginning	<u>(14,855)</u>	<u>(16,384)</u>
Net Position, Ending	<u>\$ 35,824</u>	<u>\$ (14,855)</u>

See Notes to Financial Statements



**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
STATEMENTS OF CASH FLOWS**

<b>For the years ended December 31</b>	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities:</b>		
Receipts from Renovated Property Sales	\$ 363,923	\$ 300,632
Administrative and Project Expense	(225,600)	(94,924)
Payments for Professional Services	(11,540)	(7,145)
<b>Net Cash Provided by/(Used in) Operating Activities</b>	<b>126,783</b>	<b>198,563</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Loan Proceeds	217,306	80,000
Loan Principal Payments	(257,525)	(250,455)
Payments for Financing Services	(918)	(1,195)
Interest Expense	(23,202)	(6,480)
<b>Net Cash Provided by/(Used in) Capital and Related Financing Activities</b>	<b>(64,339)</b>	<b>(178,130)</b>
<b>Cash Flows from Investing Activities:</b>		
Interest Income	29	40
<b>Net Cash Provided by/ (Used in) Investing Activities</b>	<b>29</b>	<b>40</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>62,473</b>	<b>20,473</b>
<b>Cash and Cash Equivalents, Beginning</b>	<b>25,725</b>	<b>5,252</b>
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 88,198</b>	<b>\$ 25,725</b>
<b>Reconciliation of Operating Income to Net Cash Provided by/(Used in) Operating Activities:</b>		
Operating Income	\$ 68,864	\$ 12,862
<b>Changes in Assets and Liabilities:</b>		
Accounts Receivable	-	169,240
Mortgage Receivable	(92,900)	-
Grant Receivable	(10,000)	-
Construction in Progress	87,363	(5,649)
Accounts Payable and Accrued Expenses	(29,444)	22,110
Deferred Inflows of Resources	102,900	-
<b>Net Cash Provided by/(Used in) Operating Activities</b>	<b>\$ 126,783</b>	<b>\$ 198,563</b>

See Notes to Financial Statements

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
NOTES TO THE FINANCIAL STATEMENTS**

**I. Organization and Summary of Significant Accounting Policies**

**A. Organization and Purpose**

The Middletown Community Development Agency (the “Agency”) was 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-A, and Section 601-a of Article 15-B of the General Municipal Laws of the State of New York. The mission of the Agency 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.

**B. The Reporting Entity**

The Agency is considered a component unit of the financial reporting entity known as the City of Middletown, New York. Inclusion in the financial reporting entity, the City of Middletown, is determined based on financial accountability as defined by GASB Statement No. 14, “The Financial Reporting Entity”, as amended. Pursuant to Section 601-a of the New York General Municipal Law, members of the City of Middletown Common Council and Mayor are the members of the Agency Board of Directors. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14, as amended.

**C. 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.

**D. 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.

**E. Advertising and Marketing Costs**

Advertising costs are expensed as incurred.

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
NOTES TO THE FINANCIAL STATEMENTS**

**I. Organization and Summary of Significant Accounting Policies (Continued)**

**F. 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.

**G. Subsequent Events**

The Agency evaluated subsequent events for disclosure and/or recognition in the financial statements from December 31, 2019, and through March 3, 2020, the date on which the financial statements were approved for issuance.

**II. Mortgage Receivable**

In December 2019 the Agency sold the property at 70 Beattie Avenue. As part of the sale the Agency transferred the property subject to a mortgage for \$92,900 that included a performance clause outlining certain improvements to be made by the purchaser to the property within 180 days of closing. Subject to these improvements being made as outlined, the Agency would issue a full release and satisfaction of the mortgage.

**III. Properties Held by the Agency**

In 2014 the City of Middletown transferred several properties to the Agency without any payment of consideration by the Agency. The value of these properties was equal to the outstanding property tax due to the City at the time of transfer and the Agency recorded a corresponding liability. The Agency has reduced the value of the properties held, along with reducing the liability as properties are renovated and sold. The City has not required any payments of consideration when the properties were sold. As of December 31, 2019 the Agency held six properties with a value of \$173,283. They represent open projects at various stages of planning or construction.

**IV. Loan Payable**

The Agency has obtained loans from Community Capital of New York (“CCNY”) for the purpose of financing renovations to specific properties located in the City of Middletown. The CCNY loans generally become due after one year or upon the sale of properties, whichever comes first, and include interest at a rate of 6%. The City of Middletown has executed a guaranty of these loans on behalf of the Agency. The Agency obtained a loan in 2016 for \$364,000 which was paid off in 2019 upon closing of 182 Cottage Street. The Agency acquired a new loan from CCNY for \$145,800 in 2018, which was paid off in 2019 upon the closing of 13 Ridge Street. The Agency acquired a new loan from CCNY for \$153,000 in 2019, currently outstanding as of December 31, 2019, for renovation of 49 Prince Street.

**V. Related Party Transactions**

The Agency received a loan from the City of Middletown, considered a related party, in 2014 in the amount of \$50,000 for the purpose renovating of a specific property and assist with the implementation of the City’s Urban Renewal Plan. The loan is non-interest bearing and callable at any time. The amount outstanding at December 31, 2019 and December 31, 2018 was \$50,000.

On October 2019 the Agency sold the property at 13 Ridge Street which included a grant of \$10,000, secured by a mortgage with the City of Middletown. Upon meeting certain conditions, including maintaining the property as a personal residence for ten years, the mortgage could be forgiven and the grant need not be repaid.

**VI. Reclassification**

Certain items for the year ended December 31, 2018 have been reclassified to conform with the presentation for the year ended December 31, 2019. There is no effect on the 2018 results from operations.

**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
NOTES TO THE FINANCIAL STATEMENTS**

**VII. New Reporting Standards**

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The Statement established accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that such interest costs be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Agency is required to implement this standard for the year ending December 31, 2020. The Agency has elected early adoption of this standard and implemented this standard for the years ended December 31, 2019 and 2018.

GASB has issued Statements 75-88 and 90-92, none of which are expected to have any substantive effects on the Agency's net position.



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**

Board of Directors  
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 Middletown Community Development Agency (the “Agency”) a component unit of the City of Middletown, New York as of and for the years ended December 31, 2019 and 2018, 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 3, 2020.

**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 opinion 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 Agency’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.

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*

Newburgh, New York  
March 3, 2020



**MIDDLETOWN COMMUNITY DEVELOPMENT AGENCY  
MIDDLETOWN, NEW YORK  
SCHEDULE OF FINDINGS**

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A. Internal Control Findings

No internal control findings noted.

B. Compliance Findings

No compliance findings noted.