URBAN RENEWAL AGENCY OF THE CITY OF MOUNT VERNON, NEW YORK

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, RENTAL REHABILITATION PROGRAM, EMERGENCY SHELTER GRANT PROGRAM AND HOME INVESTMENT PARTNERSHIP ACT PROGRAM

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

WITH INDEPENDENT AUDITORS' REPORT

URBAN RENEWAL AGENCY OF THE
CITY OF MOUNT VERNON, NEW YORK

TABLE OF CONTENTS

O'CONNOR DAVIES

PKF

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Chairman of the
Mount Vernon Urban Renewal Agency
of the City of Mount Vernon, New York:

We have audited the financial statements of the Community Development Block Grant Program, Rental Rehabilitation Program, Emergency Shelter Grant Program and Home Investment Partnership Act Program ("Selected Funds") of the Urban Renewal Agency of the City of Mount Vernon, New York (the "Agency") for the year ended December 31, 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

As discussed in Note 1, the financial statements present only the Selected Funds of the Agency and do not purport to, and do not, present fairly the financial position of the City of Mount Vernon, New York as of December 31, 2011 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements for the Selected Funds of the Agency referred to above present fairly, in all material respects, the financial position of the Selected Funds of the Agency at December 31, 2011 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statement in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 9, 2012 on our consideration of the Agency's internal control over financial reporting and 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 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.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
October 9, 2012

O'CONNOR
DAVIES

PKF

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*

To the Honorable Mayor and Chairman of the
Mount Vernon Urban Renewal Agency
of the City of Mount Vernon, New York:

We have audited the financial statements of the Community Development Block Grant Program, Rental Rehabilitation Program, Emergency Shelter Grant Program and Home Investment Partnership Act Program ("Selected Funds") of the Urban Renewal Agency of the City of Mount Vernon, New York (the "Agency") as of and for the year ended December 31, 2011, and have issued our report thereon dated October 9, 2012. 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.

<u>Internal Control Over Financial Reporting</u>

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees of the Agency, 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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | www.odpkf.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to the management of the Agency in a separate letter.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

O'Connor Davies, LLP

O'Connor Davies, LLP
Harrison, New York
October 9, 2012

URBAN RENEWAL AGENCY OF THE CITY OF MOUNT VERNON, NEW YORK
SELECTED PROGRAMS

BALANCE SHEET
DECEMBER 31, 2011

ASSETS

Cash:	
Demand deposits	$ 462,529
Time deposits	356,807
Petty cash	75
	819,411
Receivables:	
Accounts	1,403
State and Federal aid	443,943
Mortgages	1,217,478
	1,662,824
Prepaid Expenditures	37,387
Total Assets	$ 2,519,622

LIABILITIES AND FUND BALANCE (DEFICIT)

Liabilities:	
Accounts payable	$ 1,166,305
Due to the City of Mount Vernon	529,291
Advances from the City of Mount Vernon	959,152
Deferred revenues - Mortgages	1,217,478
Deferred revenues - Other	77,716
Total Liabilities	3,949,942
Fund Balance (Deficit):	
Nonspendable	37,387
Unassigned	(1,467,707)
Total Fund Deficit	(1,430,320)
Total Liabilities and Fund Deficit	$ 2,519,622

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

URBAN RENEWAL AGENCY OF THE CITY OF MOUNT VERNON, NEW YORK
SELECTED PROGRAMS

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2011

Revenues:	
Departmental income	$ 19,687
Use of money and property	25
Federal aid	3,151,510
Total Revenues	3,171,222
Expenditures -	
Current - Home and community services:	
Administration	221,464
Rehabilitation loans and grants	894,244
Provision for public services	176,966
Shelter grants	49,785
Homeless prevention	362,625
Continuum of care	624,653
HOME program	903,918
Total Expenditures	3,233,655
Deficiency of Revenues Over Expenditures	(62,433)
Other Financing Uses -	
Transfers out - City of Mount Vernon	(45,000)
Net Change in Fund Balance	(107,433)
Fund Deficit - Beginning of Year	(1,322,887)
Fund Deficit - End of Year	$ (1,430,320)

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

Note 1 - Summary of Significant Accounting Policies

The Community Development Block Grant Program was created by Title I of the Housing and Community Development Act of 1974 which became effective January 1, 1975. The primary objective of Title I was "the development of viable urban communities by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income."

Additional programs administered include the Rental Rehabilitation Program, Emergency Shelter Grant Program and the Home Investment Partnership Act Program.

The Urban Renewal Agency of the City of Mount Vernon, New York ("Agency") administers various Federal grant programs, principal of which are programs funded by the U.S. Department of Housing and Urban Development ("HUD") which provides grant assistance for locally determined activities.

The Agency obtains funds under a HUD entitlement grant. Entitlement grants are allocated to communities which qualify for such grants on the basis of the application of a formula which considers the community's population, extent of poverty and housing overcrowding. Entitlement grants are contingent only upon the submission of an acceptable annual application and the implementation of an acceptable program.

In addition to the above programs, the Agency operates a Housing Opportunities for Persons with AIDS Program. The financial statements of this program are being issued under separate cover.

The accounting policies of the Agency conform to generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Agency's more significant accounting policies:

A. Basis of Presentation

A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, liabilities, fund balances, revenues and expenditures. The Selected Funds of the Agency are treated as a governmental fund.

The accompanying financial statements present only the activities of the Selected Funds of the Agency and do not purport to, and do not, present fairly the financial position of the City of Mount Vernon, New York as of December 31, 2011 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheets. Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The reported unassigned fund balance is a measure of "available spendable resources".

Note 1 - Summary of Significant Accounting Policies (Continued)

The modified accrual basis of accounting is followed in the Agency's governmental fund type. Under the modified accrual basis of accounting, revenues are recorded in the accounting period in which they are "measurable" and "available" to finance current operations. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A ninety day availability period is used for revenue recognition for all governmental fund revenues. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made.

Expenditures, under the modified accrual basis, are generally recognized when the related fund liability is incurred.

C. Assets, Liabilities and Fund Balance

Deposits and Risk Disclosure

Cash and Equivalents - 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 deposit and 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, and accordingly, the Agency's policy provides for no credit risk on investments.

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. The Agency has entered into custodial agreements with the various banks which hold their deposits. 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.

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, 2011.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables - Receivables include amounts due from other governments and individuals for services provided by the Agency. Receivables are recorded and revenues recognized as earned or as specific program expenditures are incurred.

Mortgages Receivable - The Agency has outstanding mortgages receivable of $1,217,478 at December 31, 2011. Mortgages are issued to qualifying small and minority businesses for housing rehabilitation projects at or below market interest rates.

Prepaid Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method. Prepaid expenditures consist of costs which have been satisfied prior to the end of the fiscal year, but represent amounts for subsequent years that will benefit such periods. Reported amounts are equally offset by nonspendable fund balance which indicates that these amounts do not constitute "available spendable resources", even though they are a component of current assets.

Due To the City of Mount Vernon - During the course of its operations, the Agency has numerous transactions with the City of Mount Vernon, New York to finance operations, provide services and construct assets. To the extent that certain transactions between the Agency and the City of Mount Vernon, New York had not been paid or received as of December 31, 2011, balances of interfund amounts receivable or payable have been recorded.

Advances From the City of Mount Vernon - Advances from the City of Mount Vernon, New York represent loans to the Agency which are not expected to be repaid within the subsequent annual operating cycle. The advances are offset by nonspendable fund balance in the City of Mount Vernon, New York's General Fund, which indicates that the funds are not "available" for appropriation and are not expendable available financial resources.

Deferred Revenues - Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. The Agency has reported deferred revenues for Selected Funds of $1,217,478 for mortgages receivable and $77,716 for revenues received in excess of certain expenditures. Such amounts have been deemed to be measurable but not "available" pursuant to generally accepted accounting principles.

Compensated Absences - The Agency provides for the payment of accumulated vacation and sick leave upon an employee's separation from service. The liability for such accumulated leave is reflected in the City of Mount Vernon, New York's government-wide and proprietary fund financial statements to which the Agency contributes its respective share. The liability for compensated absences includes salary related payments, where applicable.

Fund Balance - Generally, fund balance represents the difference between current assets and current liabilities. In the financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts can be spent. Under this standard, the fund balance classifications are as follows:

Nonspendable fund balance, if any, would include amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted fund balance, if any, would be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation.

Committed fund balance, if any, would be reported for amounts that can only be used for specific purposes pursuant to formal action of the entity's highest level of decision making authority. These funds may only be used for the purpose specified unless the entity removes or changes the purpose by taking the same action that was used to establish the commitment.

Assigned fund balance, if any, would represent amounts constrained either by the entity's highest level of decision making authority or a person with delegated authority from the governing board to assign amounts for a specific intended purpose. An assignment cannot result in a deficit in the unassigned fund balance.

Unassigned fund balance represents amounts not classified as nonspendable, restricted, committed or assigned.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Agency's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Agency's policy to use fund balance in the following order: committed, assigned, and unassigned.

D. Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

E. Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 9, 2012.

Note 2 - Stewardship, Compliance and Accountability

A. Fund Deficit

The Selected Funds reflect an unassigned deficit of $1,467,707 at December 31, 2011.

Note 3 - Detailed Notes on Governmental Fund

A. Pension Plan

The Agency participates in the New York State and Local Employees' Retirement System ("ERS"). This System is a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12224.

Funding Policy - The System is non-contributory except for employees in tiers 3 and 4 that have less than ten years of service, who contribute 3% of their salary, employees in tier 5 who contribute 3% of their salary without regard to their years of service and employees in tier 6 who contribute between 3% and 6% depending on salary levels and also without regard to years of service. Contributions are certified by the State Comptroller and expressed as a percentage of members' salary. Contribution rates are actuarially determined and based upon membership tier and plan. Contributions consist of a life insurance portion and regular pension contributions. Contribution rates for the plan year ended March 31, 2012 are as follows:

Tier/Plan	Rate
2 75I	19.7%
3 A14	15.8
4 A15	15.8

Contributions made or accrued to the System and charged to the Agency's programs for the current and two preceding years were as follows:

2011	$ 87,992
2010	84,113
2009	61,738

These contributions were equal to 100% of the actuarially required contributions for each respective fiscal year.

B. Compensated Absences

Vacation time is generally taken in the year earned but can be carried over to succeeding years, subject to limitations as provided in the respective collective bargaining agreements. The Agency's total liability for compensated absences at December 31, 2011 was $38,151, and this amount has been reflected in the City of Mount Vernon, New York's Compensated Absences - Internal Service Fund. Of this amount, $29,555 represents the liability for the Selected Funds of the Agency.

Note 3 - Detailed Notes on Governmental Fund (Continued)

C. Post-Employment Health Care Benefits

In addition to providing pension benefits, the Agency provides certain health care benefits for retired employees though a single employer defined benefit plan. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the Agency may vary according to length of service. The cost of providing post employment health care benefits is shared between the Agency and the retired employee. Substantially all of the Agency's employee's may become eligible for those benefits if they reach normal retirement age while working for the Agency. The cost of retiree health care benefits is recognized as an expenditure as claims are paid. During the year, $72,667 was paid on behalf of 8 retirees and this amount was recorded as an expenditure.

The Agency's other post employment benefit obligation ("OPEB"), calculated in accordance with GASB Statement No. 45, including the unfunded actuarial accrued liability, the annual required contribution and the net OPEB obligation at the end of the year is reflected within the amounts reported in the City of Mount Vernon, New York's government-wide financial statements.

D. Fund Balance

Prepaid expenditures has been provided to account for retirement payments made in advance. The amount is classified as nonspendable to indicate that funds are not "available" for appropriation or expenditure even though they are a component of current assets.

Unassigned fund balance represents amounts not classified as nonspendable, restricted, committed or assigned.

Note 4 - Summary Disclosure of Significant Contingencies

The Agency participates in various Federal grant programs, principal of which are programs of the U.S. Department of Housing and Urban Development. These programs are subject to program compliance audits pursuant to the Single Audit Act. Accordingly, the Agency's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Agency anticipates such amounts, if any, to be immaterial.