

**LLOYD COMMUNITY
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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KIMBALL & O'BRIEN PC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lloyd Community Development Corporation
Highland, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Lloyd Community Development Corporation (a nonprofit organization which is a component unit of the Town of Lloyd) which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lloyd Community Development Corporation as of December 31, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014 on our consideration of the Lloyd Community Development Corporation'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 Lloyd Community Development Corporation's internal control over financial reporting and compliance.

KIMBALL & O'BRIEN PC

By  _____

March 28, 2014

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF NET POSITION
December 31, 2013

ASSETS

Due from Town of Lloyd	\$ 332,399
Notes receivable	<u>251,151</u>

TOTAL ASSETS \$ 583,550

LIABILITIES

TOTAL LIABILITIES \$ -

NET POSITION

Unrestricted	<u>583,550</u>
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TOTAL NET POSITION \$ 583,550

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

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2013

OPERATING REVENUES	
Revenue from lending activities	\$ 6,072
OPERATING EXPENSES	<u>-</u>
OPERATING INCOME	6,072
NONOPERATING REVENUES	
Interest income	<u>577</u>
Change in net position	6,649
Net position - beginning of year	<u>576,901</u>
Net position - end of year	<u><u>\$ 583,550</u></u>

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

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF CASH FLOWS
Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from lending activities	\$ 42,260
Transfers from accounts held by Town	7,163
Loans granted	<u>(50,000)</u>

Net cash used by operating activities (577)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on cash investments held by Town	<u>577</u>
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NET INCREASE (DECREASE) IN CASH -

CASH - BEGINNING OF YEAR -

CASH - END OF YEAR \$ -

Reconciliation of operating income to net cash used by operating activities:

Operating income	6,072
Changes in assets and liabilities:	
Notes receivable	(13,812)
Due from Town of Lloyd	<u>7,163</u>

Net cash used by operating activities \$ (577)

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

TOWN OF LLOYD COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Lloyd Community Development Corporation (LCDC) was organized in 1996 under Not-For-Profit Corporation Law and is operated exclusively for the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, promoting instruction or training of individuals to improve or develop their capabilities for such jobs, aiding in attracting new business and industry, or by encouraging the development of, or retention of, business and industry within the Town of Lloyd.

The Organization is not exempt from Federal income tax as an Organization described in Sec. 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting and Financial Reporting

For purposes of applying accounting and financial reporting standards, LCDC is considered a governmental entity and a component unit of the Town of Lloyd since all the board members are appointed by the Town Board.

As such, LCDC has implemented the requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

- The financial statements are 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.
- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing lending services.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts. Interest income on loans is recognized using the accrual method. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. Loans receivable are charged against the allowance account when they are deemed uncollectible. As of December 31, 2013 no allowance for doubtful accounts was deemed necessary.

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.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position.

TOWN OF LLOYD COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - CASH

Lloyd Community Development Corporation's (LCDC) cash accounts are actually held in the name of the Town of Lloyd for the LCDC. The accounts are maintained at a couple financial institutions located in Ulster County. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 each for interest and non-interest bearing accounts. Deposits at year-end were covered by federal depository insurance

NOTE 4 - LOAN PROGRAMS

The Organization grants loans to businesses through the Town of Lloyd Revolving Loan Fund. The primary objective of the loan program is to enhance job retention and creation in the Town of Lloyd. Interest rates vary but currently range from 3-4%. Loans are generally secured by liens on real property and security interests in other business assets. Activity is summarized as follows:

	Balance 12/31/12	Loans Granted	Loan Payments	Balance 12/31/13
Summary of activity	\$ 237,309	50,000	36,158	\$ 251,151

The principal portion of the loans
is repayable as follows:

2014	\$ 38,995
2015	39,223
2016	30,424
2017	28,864
2018	29,721
2019-2023	83,924
	\$ 251,151

NOTE 5 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 28, 2014, the date which the financial statements were available to be issued.

**INDEPENDENT AUDITORS' 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 Board of Directors
Lloyd Community Development Corporation
Highland, New York

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Lloyd Community Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lloyd Community Development Corporation'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 Lloyd Community Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lloyd Community Development Corporation'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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Lloyd Community Development Corporation'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-1 and 2.

Lloyd Community Development Corporation's Response to Findings

The Lloyd Community Development Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KIMBALL & O'BRIEN PC

By 

March 28, 2014

**LLOYD COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

	<u>Response</u>
Financial Statements	
Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not material weaknesses?	No
Noncompliance material to the financial statements noted?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

2013-1: PAAA COMPLIANCE

Criteria – Per the Public Authority Accountability Act (PAAA) of 2005, the Lloyd Community Development Corporation (LCDC) is considered a “local authority” and must comply with the requirements of this act.

Condition – LCDC has not implemented any of the requirements of the Act other than the current audit.

Effect – LCDC is not in compliance with the Act.

Cause – There has been much discussion since the passage of this legislation whether the Act actually applied to local development corporations in general. In addition, LCDC has been trying to get an exemption from the requirements due to the extremely limited amount of activity that actually takes place in the entity. The LCDC has been informed by the NYS Authorities Budget Office (ABO) that the organization must meet the requirements of the Act as there are no exemptions.

Recommendation – LCDC must implement the requirements of the Act immediately. The requirements relate to the following: 1) Governance and Oversight by the Board including establishment of audit and governance committees and board training, 2) Management Practices which include assessment of internal control, 3) Procurement policies, 4) Public Access, 5) Annual reporting using the public authorities system, and 6) Submission of annual budget to the ABO 90 days prior to the start of the following year.

Management’s Response – The board of LCDC has taken the first steps in becoming compliant with the Act by having this audit and filing their annual report with the Authorities Budget Office. In addition, a mission statement has been developed and a report on operations and accomplishments has been prepared. Many of the requirements of the Act do not apply to the LCDC due to its extremely limited activity; however, the board will implement as many as are deemed appropriate for their circumstances. In addition, they will formally document the fact that they follow the Town of Lloyd’s policies for ethics, harassment, procurement and audit of bills. The intention of the board is to be fully in compliance with the Act by December 31, 2014.

LLOYD COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-2: TAX COMPLIANCE

Criteria – Corporations must file Federal and State income tax returns even if incorporated as Not-For-Profit entities. Not-For-Profit corporations may file Exempt Organization returns if an application for recognition of exemption has been approved by IRS

Condition – The Lloyd Community Development Corporation (LCDC) has not filed any tax returns since it was incorporated in 1996. In addition, an application for exemption has never been filed.

Effect – The LCDC is not in compliance with the income tax laws of the United States and the State of New York. The estimated tax due for 2013 would be approximately \$1,500.

Cause – The responsibility for the LCDC has gone through many different hands including the Ulster County Development Corporation at one time. Currently the LCDC activity is treated as a fund of the Town of Lloyd; therefore, it would appear that it is not subject to taxation. However, per review of all available documentation, the LCDC is in fact the entity that is issuing loans and collecting the related interest income. Therefore, it should be preparing tax returns and paying income taxes.

Recommendation – Even though the filing of an application for recognition of exemption with IRS does involve some cost, that cost would soon be offset by the tax savings each year. Therefore, we encourage the LCDC to file the application as soon as possible to help get in compliance with taxing authorities.

Management's Response – The board of the LCDC has taken the first step in addressing their tax issues by contacting the auditor about filing the application for exemption. In addition due to the misunderstanding regarding the exact status of the organization and its activities, the LCDC will seek a settlement with taxing authorities to try to avoid any back taxes and penalties that may be levied.

STATUS OF PRIOR FINDINGS

The Organization has never been audited before; therefore, no prior findings.