

ULSTER COUNTY DEVELOPMENT CORPORATION  
(A Blended Component Unit of Ulster County, New York)  
FINANCIAL STATEMENTS

December 31, 2013

Ulster County Development Corporation  
(A Blended Component Unit of Ulster County, New York)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Ulster County Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Ulster County Development Corporation, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Ulster County Development Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Ulster County Development Corporation's 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 from 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 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.

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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 respective financial position of Ulster County Development Corporation, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 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 Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ulster County Development Corporation's basic financial statements. The Statement of Revenues and Expenses- Budget and Actual and USDA Intermediary Relending Program Loan Fund Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Revenues and Expenses - Budget and Actual and USDA Intermediary Relending Program Loan Fund Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues and Expenses - Budget and Actual and USDA Intermediary Relending Program Loan Fund Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Emphasis of Matter***

As discussed in Note 2 of the financial statements, as of January 1, 2013 the Corporation changed its basis of accounting from non-governmental (FASB) to governmental (GASB). Our opinion is not modified with respect to this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014 on our consideration of Ulster County 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 Ulster County Development Corporation's internal control over financial reporting and compliance.

*Pattison, Kuskey, Howe & Bucci, CPAs, P.C.*

Valatie, New York  
March 31, 2014

ULSTER COUNTY DEVELOPMENT CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS

**Introduction**

Management's Discussion and Analysis of the Ulster County Development Corporation's (UCDC or the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended December 31, 2013. Please read this report in conjunction with the Corporation's 2013 financial statements. UCDC is a Local Development corporation which operates in Ulster County, New York and is classified by the New York State Authority Budget Office as a public authority. This summary discussion and analysis includes only the financial and general business of the Corporation.

**Financial Highlights**

The Corporation's net position has decreased by \$130,050 (or 8.0%) as a result of operations in 2013.

In 2013, revenues decreased \$697,090 compared to 2012, or 85.9%.

In 2013, expenses decreased \$508,840 compared to 2012, or 67.5%.

**Corporation Highlights**

2013 UCDC highlights include:

- In 2013, UCDC, through significant efforts, assisted in the retention of jobs in Ulster County. All involved the Revolving Loan Funds or other types of financing, or incentives given or offered to companies in niche manufacturing.
- In 2013, the Ulster County Office of Business Services assumed the administration of the Corporation, and the Ulster County Department of Finance has assumed the accounting responsibilities of the Corporation. The Corporation's employees were assumed by Ulster County.

**Using This Annual Report**

This Annual Report consists primarily of the Statement of Net Position, Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows, which provide information about the activities of the Corporation only.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statements report the Corporation's net position and changes in net position. One way to measure the Corporation's financial position is to look at the net position - the difference between assets and liabilities.

See independent auditors' report.

ULSTER COUNTY DEVELOPMENT CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Condensed Comparative Financial Statements and Analysis**

The Corporation's net position at the end of the 2013 was \$1,488,913, a decrease of \$130,050 over 2012, adjusted net position of \$1,618,963.

Our analysis below focuses on net position (Table 1) and the changes in net position (Table 2) at December 31, 2013.

**Table 1 – Statement of Net Position**

<b>Assets</b>	
Current assets	\$1,176,996
Other assets	<u>695,351</u>
Total Assets	<u>\$1,872,357</u>
 <b>Liabilities</b>	
Current liabilities	\$ 13,027
Long-term liabilities	<u>370,417</u>
Total Liabilities	<u>\$ 383,444</u>
 <b>Net Position</b>	
Unrestricted	\$1,292,845
Restricted	194,180
Invested in Capital Assets	<u>1,888</u>
Total Net Position	<u>\$1,488,913</u>

**Assets:**

Cash totaled \$902,607 at the end 2013 versus \$1,082,308 at the end of 2012. The decrease in cash was a direct result of a short term/temporary infusion of cash from the IDA of \$126,015 in 2012. The Loans Receivable totaled \$829,044 at the end of 2013 versus \$732,552 at the end of 2012.

**Liabilities:**

Liabilities at the end of 2013 were \$383,444 versus \$1,026,313 at the end of 2012.

See independent auditors' report.

ULSTER COUNTY DEVELOPMENT CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

**Table 2 – Change in Net Position**

<b>Revenues:</b>	
Professional Services	\$ 75,000
Interest on Loans	24,097
Other Income	<u>15,297</u>
Total Revenues	<u>114,394</u>
<b>Expenses:</b>	
Operating Expenses	240,627
Non-operating Expenses	<u>3,817</u>
Total Expenses	<u>244,444</u>
<b>Change in Net Position</b>	<b><u>\$130,050</u></b>

The Corporation's revenues in 2013 were \$114,394 versus \$811,484 in 2012. Expenses in 2013 were \$244,444 versus \$753,284 in 2012. The revenue decrease in 2013 compared to 2012 was primarily caused by the Ulster County Industrial Development Agency and the Ulster County Capital Resource Corporation no longer contracting with the Corporation for administrative services in 2013. The expenses decreased in 2013 predominantly due to the Corporation no longer having payroll expenses in 2013. UCDC's employees became Ulster County employees in the Office of Business Services as of January 1, 2013.

**Capital Assets and Long-Term Debt**

The Corporation did not take on any long-term debt in 2013. There were no capital asset additions in 2013.

**Budget**

In January 2013, the Corporation adopted a 2013 budget projecting revenues to be \$10,000 and expenses to be \$113,358. Actual 2013 revenues totaled \$114,394 and actual 2013 expenses totaled \$244,444. Much of the increase in actual revenues and expenses was due to the receipt of a professional services grant from Ulster County of \$75,000 subsequently awarded to the Solar Energy Consortium during the year ended 2013.

**Contacting UCDC Financial Administrator**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ulster County Development Corporation, P.O. Box 4265, Kingston, New York 12402-4265.

See independent auditors' report.

ULSTER COUNTY DEVELOPMENT CORPORATION  
STATEMENT OF NET POSITION  
December 31, 2013

ASSETS

Current assets:	
Cash and cash equivalents	\$ 902,607
Accounts receivable	10,065
Loans receivable, current portion	135,571
Due from Ulster County	125,000
Due from UCIDA and UCCRC	1,926
Prepaid Expenses	1,827
Total current assets	1,176,996
Other assets:	
Property and equipment, net \$409,622 of accumulated depreciation	1,888
Loans receivable, less current portion, net of an allowance of \$34,543	693,473
Total other assets	695,361
Total assets	\$ 1,872,357

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	\$ 27
Due to Ulster County, current portion	13,000
Total current liabilities	13,027
Long term liabilities:	
Long-term debt	119,000
Due to Ulster County, long-term portion	52,000
Unearned revenue	199,417
Total long-term liabilities	370,417
Total liabilities	383,444
Net position:	
Unrestricted	1,292,845
Invested in capital assets	1,888
Restricted	194,180
Total net position	1,488,913
Total liabilities and net position	\$ 1,872,357

See independent auditors' report and notes to financial statements.

ULSTER COUNTY DEVELOPMENT CORPORATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
Year ended December 31, 2013

Operating Revenues:	
Professional services revenue- The Solar Energy Consortium	\$ 75,000
Application fees	400
Contract and administrative fees	5,466
Interest on loans	24,097
Late fees collected	863
Contributions	5,800
Miscellaneous income	881
Total revenues	<u>112,507</u>
Operating Expenses:	
Professional services expense- The Solar Energy Consortium	75,000
Contractual expense	48,807
Professional fees	55,857
Occupancy expenses - rent	13,479
Dues and subscriptions	10,054
Salaries	4,525
Fringe benefits and payroll taxes	3,624
Insurance	4,162
Marketing and advertising	3,181
Miscellaneous expenses	3,676
Office expense	4,826
Rental and maintenance of equipment	3,609
Telephone	2,170
Provision for loan losses	6,155
Depreciation	1,502
Total operating expenses	<u>240,627</u>
Operating loss	<u>(128,120)</u>
Non-operating revenues (expenses)	
Interest on deposits	1,887
Interest expense	(3,817)
Total non-operating expenses	<u>(1,930)</u>
Change in net position	<u>(130,050)</u>
Net position, beginning, as adjusted	<u>1,618,963</u>
Net position, ending	<u>\$ 1,488,913</u>

See independent auditors' report and notes to financial statements.

ULSTER COUNTY DEVELOPMENT CORPORATION  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2013

Cash flows from operating activities	
Professional services revenue	\$ 75,000
Administrative fees	271,160
Interest on loans	24,097
Contribution revenue	5,800
Miscellaneous revenue	881
Loans disbursed	(300,000)
Loans paid back	197,353
Payments to vendors	(229,898)
Professional services grant expense	(75,000)
Payments to employees	(8,149)
	<u>(38,756)</u>
Net cash used for operating activities	<u>(38,756)</u>
Cash flows from investing activities	
Interest received	1,887
Net cash provided by investing activities	<u>1,887</u>
Cash flows from financing activities	
Certificate of deposit- transferred to UCIDA	(126,015)
Interest expense	(3,817)
Payments on long-term debt	(13,000)
Net cash used for financing activities	<u>(142,832)</u>
Net decrease in cash	(179,701)
Cash and cash equivalents, beginning of year	1,082,308
Cash and cash equivalents, end of year	<u>\$ 902,607</u>
Cash flows from operating activities	
Operating loss	\$ (128,120)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,502
Provision for loan losses	6,155
Changes in operating assets and liabilities	
Decrease in accounts receivable	1,997
Increase in loans receivable	(102,647)
Decrease in due from Ulster County	264,360
Increase in due from UCIDA and UCCRC	(1,926)
Decrease in prepaid expenses	777
Decrease in accounts payable	(80,854)
Net cash used for operating activities	<u>\$ (38,756)</u>

See independent auditors' report and notes to financial statements.

ULSTER COUNTY DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS

**1. Nature of Organization:**

Financial Reporting Entity:

The Ulster County Development Corporation (“the Corporation” or “UCDC”) promotes job growth, economic development and community revitalization for Ulster County by unified regional and national marketing and provides business financing through a variety of countywide and municipal revolving loan funds.

Governance/Accountability:

The Corporation’s sole Member is the County of Ulster, New York (the “County”) acting by and through the County Executive, ex officio. The number of Directors of the Corporation shall be seven as established by resolution adopted by the Member.

Programs of the Corporation:

CDBG

Includes the activities of Community Development Block Grants revolving loan fund which provides loans below \$75,000 to businesses to create and retain jobs in Ulster County. Loans can be issued in excess of \$75,000 with a super-majority of committee approval.

Section 108

Includes the HUD Section 108 Loan Guarantee Program activities administered through Ulster County, New York, which provide loans within the range of \$75,000 to \$750,000 to businesses for development and job creation in Ulster County.

Ready2Go Fund

UCDC is the fiscal agent for the Ulster Ready2Go Program, a joint activity of UCDC with the County, Central Hudson and the Ulster County Industrial Development Agency (UCIDA). The program is a revolving loan fund with a lien taken on the subject property and at the sale of the property the lien is removed upon repayment of funds. These funds are then available for other Ready2Go projects. The Program seeks site plan approval on several sites throughout Ulster County for industrial buildings. Up to one half of the engineering and planning costs of these approvals will be offset through the Program with funding contributed by Central Hudson and the UCIDA. Preferred sites will have appropriate zoning (industrial or commercial) or a comprehensive plan that identifies it as in a priority growth zone, acreage sufficient to accommodate a high bay structure of at least 40,000 square feet, water and sewer to site or at least within ¼ mile, and supportive host municipalities.

Telecommunications Fund

Provides matching loan funds under the USDA Intermediary Relending Program Loan Fund.

USDA Intermediary Relending Program Loan Fund

Provides loans to small business at low rates of interest for part of their financing needs. The program will lend up to 16% of a total project cost and another 14% in matching loan funds from the Revolving Loan Funds in conjunction with conventional lending sources for eligible projects. Of the amount loaned by UCDC to cover the cost of the project, 85% may be lent from USDA borrowings and 15% must be matched by UCDC from funds raised from other unrestricted sources. At least 50% of the project must come from either the applicant or a conventional lending source.

Other activities include business retention, expansion, recruitment, and incubation, site searches, marketing, and other sector initiatives.

## 2. Summary of Significant Accounting Policies:

### Basis of Accounting:

The financial statements of the Corporation have been prepared on the accrual basis of accounting and reflect all significant receivables, payables, and other liabilities. Revenues are recorded when earned and expenses are recorded when incurred. In accordance with accounting principles generally accepted in the United States of America, the Corporation applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. The Corporation applies GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", which was issued by the GASB on December 30, 2010. The Corporation has chosen to only apply GASB pronouncements. The Corporation does not apply any FASB or AICPA pronouncements post November 30, 1989, as clarified by GASB No. 62. The government-wide financial statements include the Corporation's only governmental fund (single enterprise fund).

### *Change in Basis of Accounting*

On January 1, 2013, the Corporation changed its basis of accounting from non-governmental (FASB) to governmental (GASB). There was no change in the opening balance net position as a result of that change. In addition, the net position as of January 1, 2013 was adjusted by \$35,107 for an amount due from the County of Ulster related to overpayment of interest on the HUD loan.

### Deferred outflows/inflows of resources:

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," defined and classified deferred outflows of resources and deferred inflows of resources. A deferred outflow of resources is a consumption of net assets that applies to future period(s), and as such, will not be recognized as an outflow of resources (expense/expenditure) until that time. A deferred inflow of resources is an acquisition of net assets that applies to future period(s), and as such, will not be recognized as an inflow of resources (revenue) until that time. GASB Statement No. 65 was effective for the first time in 2013.

Statement 63 changes how governments organize their statements of financial position (such as the current government-wide statement of net assets and the governmental funds balance sheet).

As a result of Statement 63, financial statements will include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and will report net position instead of net assets.

The Corporation's implementation of GASB Statement No. 65 had no material impact of the Corporation's 2013 financial statements.

### Budgetary Data:

The budget policies are as follows:

In October of each year the finance committee submits a tentative budget to the Board of Directors for the next fiscal year which begins the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing.

ULSTER COUNTY DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**2. Summary of Significant Accounting Policies (Continued):**

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America require 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 and reported amounts of revenues and expenses during the reporting period. The application of these accounting principles involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Corporation periodically evaluates estimates and assumptions used in the preparation of the financial statements and makes changes on a prospective basis when adjustments are necessary.

The most significant estimate of the Corporation is the allowance for loan losses.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

In connection with the determination of the estimated losses on loans, management may obtain independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Corporation has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in Ulster County, New York.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term.

Revenue Recognition:

Contributions are recognized when received or in the period of intended use as specified by the donor. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Administrative revenue is recognized in the period services are provided. Grant revenue is recognized on cost reimbursable contracts in the period the costs are incurred. Advances on grants prior to costs being incurred in accordance with the terms of the grant agreement are deferred until the period costs are incurred.

Interest on loans is recognized in the period earned over the life of the related loans receivable.

Operating revenues include revenue generated from ongoing operating activities. Non-operating revenues include investing, financing and other non-recurring activities.

Income Taxes:

A provision for income tax has not been provided for in these financial statements, as the Corporation is a not-for-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization has evaluated any uncertain tax positions and related income tax contingencies and determined uncertain positions, if any, are not material to the financial statements, according to FASB ASC 740-10. Penalties and interest assessed by income taxing authorities are included in operating expenses, if incurred. The Organization is no longer subject to examination by federal and state taxing authorities for years prior to fiscal year ended December 31, 2010.

**2. Summary of Significant Accounting Policies (Continued):**

Cash and Cash Equivalents:

The Corporation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Property and Equipment:

The cost of property and equipment is depreciated over the useful lives of the related assets using the straight-line method. The Corporation capitalizes fixed assets with an estimated useful life of greater than one year and a cost of greater than \$500.

Concentration of Credit and Market Risk:

Financial instruments that potentially expose the Corporation to concentrations of credit and market risk consist primarily of cash and cash equivalents and loans receivable. Cash and cash equivalents are maintained at Federal Deposit Insurance Corporation insured financial institutions and credit exposure is limited to any one institution. To the extent FDIC insurance is not sufficient, the Corporation requires its bank to maintain pledged collateral.

Concentrations of credit risk with respect to notes receivables are limited due to the diverse industry backgrounds of its borrowers. Furthermore, management feels its borrower approval processes and regular review of provisions for loan losses, adequately provides for any material credit risks. Generally, sufficient collateral or a personal guarantee is obtained for all loans at the time of disbursement. Collateral is generally in the form of a mortgage on real property or a chattel lien on equipment title.

Loans and Allowance for Loan Losses:

Loans are stated at their recorded investment, which is the amount of unpaid principal, reduced by an allowance for loan losses. Interest is calculated by using the simple interest method. Interest rates on loans range from 0% to 5.92%.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Corporation uses a disciplined process and methodology to establish the allowance for loan losses. To determine the total allowance for loan losses, management estimates the reserves needed for each loan outstanding.

To determine the balance of the allowance account, loans are evaluated case by case, by portfolio segment and future losses are projected using historical experience adjusted for current economic and industry conditions. Management exercises significant judgment in determining the estimation method that fits the credit risk rating characteristics of each case. Management must use judgment in establishing additional input factors for estimating purposes. The assumptions used to determine the allowance are periodically reviewed by management to ensure that their theoretical foundation, assumptions, data integrity, computational processes, and reporting practices are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires management review and judgment and responds to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to, or release balances from, the allowance for loan losses.

ULSTER COUNTY DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**2. Summary of Significant Accounting Policies (Continued):**

Loans and Allowance for Loan Losses (Continued):

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the assumptions used to estimate incurred losses in these portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Interest Income on Loans:

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in accordance with adopted policies, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Subsequent Events:

Subsequent events have been evaluated through March 31, 2014, which is the date the financial statements were available to be issued.

**3. Cash and Cash Equivalents:**

The following is a summary of cash and cash equivalents as included in the statement of net position at December 31, 2013:

Bank	Book Balance	Bank Balance	FDIC Coverage	Pledged Collateral
M&T	\$ 902,602	\$ 902,331	\$ 250,000	\$ 665,021
Mid-Hudson Valley Federal Credit Union	5	5	250,000	-
	<u>\$ 902,607</u>	<u>\$ 902,336</u>		<u>\$ 665,021</u>

At December 31, 2013, deposits of the Corporation were covered by federal depository insurance (FDIC) and by collateral held by the Bank in the Corporation's name.

ULSTER COUNTY DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**3. Cash and Cash Equivalents (Continued):**

The following represents the cash balances at December 31, 2013 by fund:

Fund:	
Operating Fund	\$ 97,036
CDBG Fund	352,060
Ready3Go Fund	200,014
USDA Intermediary Relending Program Loan Fund	83,847
Telecommunications Fund	144,150
Section 108	23,669
Revolving Loan Fund	1,831
Total	<u>\$ 902,607</u>

**4. Property and Equipment:**

A summary of property and equipment is as follows as of December 31, 2013:

Equipment- grant related	\$ 352,485
Vehicle and office equipment	59,025
	<u>411,510</u>
Accumulated depreciation	409,622
Total property and equipment	<u>\$ 1,888</u>

Depreciation expense was \$1,502 during the year ended December 31, 2013.

**5. Loans:**

During the year ended December 31, 2013, the Corporation loaned \$300,000 to a wholesale/retail food company headquartered in Ulster County. The funds lent included \$150,000 from the CDBG fund, \$30,000 from the Telecommunications fund, and \$120,000 from the USDA Intermediary Relending Program Fund.

The total loan balance at December 31, 2013 is comprised of 13 loans totaling \$863,587. The loan balance is comprised of 4 loans making up 71%.

The allowance for loan losses activity during the year ended December 31, 2013 was as follows:

Balance, beginning of year	\$ 30,500
Provision	6,155
Write-offs	(2,112)
Recoveries	-
Balance, end of year	<u>\$ 34,543</u>

ULSTER COUNTY DEVELOPMENT CORPORATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**6. Long-Term Debt:**

The Corporation grants loans to businesses which are funded through Community Development Block Grants and the HUD Section 108 Loan Guarantee Program. The primary objective of the programs is to encourage business expansion and create employment within the County. Interest rates vary but are always below the prime lending rate. Loans are generally secured by liens on real property and security interests in other business assets:

Long term debt at December 31, 2013 consists of:

The Corporation administers through Ulster County loan guarantee assistance involving permanent and interim loans from the United States Department of Housing and Urban Development (HUD) under the Section 108 program. The Corporation pays Ulster County annual payments of \$13,000 plus interest based on the three month London Interbank Offered Rate (LIBOR) plus 20 basis points. The original loan dated August 1, 2008 was for \$130,000.

\$ 65,000

The Corporation administers loans from the USDA Intermediary Relending Program. The Corporation has been approved for a loan in the principal sum of \$600,000. The Corporation pays interest only at 1% as funds are advanced until 2015. Principal and interest will be paid in 27 equal annual installments beginning in February 2015. Annual installments of \$25,470, including principal and interest, beginning in February 2015 assume the Corporation has drawn \$600,000. It is unlikely that the Corporation will drawn down additional funds before February 2015, when the first principal payment is due, and has the ability to refinance the loan at the current amount drawn of \$119,000 which will result in annual payments over 27 years of \$5,051, including principal and interest. The payout schedule below assumes the loan will be refinanced to a principal balance of \$119,000 during the coming year.

119,000

Total: 184,000

Less current portion: 13,000

Long-Term Portion: \$ 171,000

Maturities of long-term debt are as follows:

2014	\$	13,000
2015		16,961
2016		16,900
2017		16,939
2018		16,978
Thereafter		<u>103,222</u>
		<u><u>\$ 184,000</u></u>

ULSTER COUNTY DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**7. Unearned Revenue:**

Unearned revenue represents contributions received for the Ready2Go Fund during the year ended December 31, 2012 that have not yet been applied to shared costs or existing projects as of December 31, 2013. The Ready2Go program will take as many as five development sites in Ulster County through site plan approval to get them permit ready. Property owners may use the program's funds to offset the costs of obtaining site plan approval through the program, but will be required to reimburse the funds upon sale or upon refusal to sell to a buyer offering at least 90% of the permitted property's appraised value. A committee of representatives from Central Hudson, the Ulster County Industrial Development Agency, the Ulster County Legislature, the Ulster County Planning Department, the Ulster County Executive's Office, and Ulster County Development Corporation are responsible for reviewing the applications submitted by private owners and municipalities and overseeing the program. Ulster County Development Corporation acts as a fiscal agent for the project, including receiving, holding, and expending funds as well as generally administering the program in accordance with the program purpose. The unearned revenue represents \$148,000 received from Central Hudson and \$50,000 in matching funds received from the Ulster County Industrial Development Agency. The Ulster County Development Agency has also committed to an additional \$50,000 of matching funds. Costs shall be shared between private developers and funding provided by the Ready2Go Committee. Developers must contribute at least 50% of the project costs. Central Hudson's contributions to each project shall not be more than 33.33% of the total project cost up to a maximum of \$30,000 per project. There was no activity in the Ready2Go Fund during the year ended December 31, 2013.

**8. Related Parties:**

During the year ended December 31, 2013, the Corporation's employees were assumed by Ulster County. Ulster County Development Corporation no longer has its own employees and recognizes no payroll expenses. Ulster County's finance department has assumed the accounting responsibilities and the County's Office of Business Services has assumed the administration of the Corporation. Donated services have not been reflected in these financial statements.

The Corporation has a due from Ulster County at December 31, 2013 for \$125,000. The due from of \$125,000 is from a 2012 performance based contract. During the year ended December 31, 2013, Ulster County contributed \$75,000 of professional services revenue to the Corporation which was subsequently granted to the Solar Energy Consortium during 2013. During the year ended December 31, 2013, the Corporation paid rent of \$3,363 to Ulster County.

During the year ended December 31, 2013, the Corporation paid Ulster County Community College (a discretely presented component unit of Ulster County) \$10,116 for rent at their previous office location.

Prior to the year ended December 31, 2013, the Corporation had administered the Ulster County Industrial Development Agency (UCIDA) and Ulster County Capital Resource Corporation (UCCRC). As of January 1, 2013, Ulster County's Office of Business Services took over administering the UCIDA and UCCRC. There were no administrative fees recognized from UCIDA or UCCRC during the year ended December 31, 2013. At December 31, 2013, the unearned revenue balance includes \$50,000 from UCIDA and the Corporation has a receivable of \$1,817 from UCIDA. The Corporation had a receivable from the Ulster County Capital Resource Corporation (UCCRC) of \$109 at December 31, 2013.

ULSTER COUNTY DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**9. Restricted Net Position:**

Restricted net position consists of the following at December 31, 2013:

Telecommunications Fund	\$	193,582
Ready2Go Fund		598
Total Restricted Net Position	\$	<u>194,180</u>

**10. Commitments and Contingencies:**

Government grants received are subject to audit and adjustment by the funding agency or its representatives. If grant revenues are received for expenditures which are subsequently disallowed, Ulster County Development Corporation may be required to repay the revenues to the funding agency. During 2005, it became apparent that certain terms of an agreement between the New York State Department of Economic Development and Ulster County Development Corporation for the purchase of equipment to benefit a local manufacturing corporation were not being entirely met. Under the terms of the agreement, the State has ceased advancing additional payments of this grant until all terms and conditions are satisfied. As of December 31, 2006, \$352,485 was advanced for the purchase of equipment against a total grant, not to exceed \$500,000. Per a letter from Empire State Development, dated January 16, 2007, the State had decided to cease the advance of further funds due to terms that were not being met in the contract. Ulster County Development Corporation must still maintain title of the equipment until the end of the term (March 15, 2014), but there is no current requirement to return any of the funds advanced for this project back to the State.



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**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**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Ulster County Development Corporation

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 Ulster County Development Corporation as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Ulster County Development Corporation's basic financial statements, and have issued our report thereon dated March 31, 2014.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Ulster County 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 Ulster County Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Ulster County 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 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.

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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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Ulster County Development Corporation's financial statements are free from 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 have reported to management of Ulster County Development Corporation in a separate letter dated March 31, 2014.

### **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 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.

*Pattison, Koskey, Howe & Bucci, CPAs, P.C.*

Valatie, New York  
March 31, 2014

SUPPLEMENTARY INFORMATION

ULSTER COUNTY DEVELOPMENT CORPORATION  
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
 Year ended December 31, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Revenues:			
Contract and fees	\$ -	106,707	\$ 106,707
Contributions	10,000	5,800	(4,200)
Interest on deposits	-	1,887	1,887
Total revenue	<u>10,000</u>	<u>114,394</u>	<u>104,394</u>
Expenditures:			
Professional services expense-			
The Solar Energy Consortium	-	75,000	(75,000)
Contractual expense	-	48,807	(48,807)
Professional Fees	36,500	55,857	(19,357)
Occupancy - rent	5,058	13,479	(8,421)
Dues and subscriptions	-	10,054	(10,054)
Salaries	55,400	4,525	50,875
Fringe benefits and payroll taxes	5,900	3,624	2,276
Insurance	3,600	4,162	(562)
Marketing and advertising	-	3,181	(3,181)
Miscellaneous expenses	-	3,676	(3,676)
Office expense	2,500	4,826	(2,326)
Rental and maintenance of equipment	3,410	3,609	(199)
Telephone	990	2,170	(1,180)
Bad debt expense	-	6,155	(6,155)
Depreciation	-	1,502	(1,502)
Interest expense	-	3,817	(3,817)
Total expenses	<u>113,358</u>	<u>244,444</u>	<u>(131,086)</u>
Total revenue in excess of expenses	<u>\$ (103,358)</u>	<u>\$ (130,050)</u>	<u>\$ (26,692)</u>

See independent auditors' report and notes to financial statements.

ULSTER COUNTY DEVELOPMENT CORPORATION  
 USDA Intermediary Relending Program Loan Fund  
 December 31, 2013

STATEMENT OF NET POSITION

ASSETS

Current assets:	
Cash and cash equivalents	\$ 83,847
Loans receivable, current portion	7,147
Total current assets	<u>90,994</u>
Loans receivable, less current portion, net of an allowance of \$5,327	<u>120,711</u>
Total assets	<u><u>\$ 211,705</u></u>

LIABILITIES AND NET POSITION

Current liabilities:	
Due to CDBG fund	\$ 1,534
Long-term debt	<u>119,000</u>
Total liabilities	<u>120,534</u>
Net position:	
Unrestricted	<u>91,171</u>
Total liabilities and net position	<u><u>\$ 211,705</u></u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

For the year ended December 31, 2013

Operating revenues:	
Interest on loans	<u>\$ 1,821</u>
Operating expenses:	
Bad debt expense	<u>5,327</u>
Operating loss	(3,506)
Non-operating revenues (expenses):	
Interest on deposits	66
Interest expense	<u>(376)</u>
Total non-operating loss	(310)
Change in net position	(3,816)
Net position, beginning	<u>94,987</u>
Net position, ending	<u><u>\$ 91,171</u></u>

See independent auditors' report and notes to financial statements.