

CITY OF KINGSTON
LOCAL DEVELOPMENT CORPORATION

AUDITED FINANCIAL STATEMENTS

Year ended December 31, 2014

CITY OF KINGSTON
LOCAL DEVELOPMENT CORPORATION

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
City of Kingston Local Development Corporation
Kingston, New York

Report on the Financial Statements

We have audited the accompanying statement of net position of the City of Kingston Local Development Corporation (the "LDC") (a component unit of the City of Kingston), as of December 31, 2014, and the related statement of revenues, expenses and changes in net position and statement of cash flows and the related notes for the year then ended.

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.

Auditors' 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 audits 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 LDC'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 LDC'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.

MEMBERS: American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants National Conference of CPA Practitioners

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kingston Local Development Corporation as of December 31, 2014, 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis on Pages 3 - 6 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, and 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 method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2015 on our consideration of the LDC'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 LDC's internal control over financial reporting and compliance.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 13, 2015

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2014

As financial management of the City of Kingston Local Development Corporation ("LDC"), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the LDC for the fiscal year ended December 31, 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Budget

The LDC depends on grants, with a minimal amount of operating income, to extend its programs. The LDC files for various grants and loans to provide economic development assistance in City of Kingston. However, the funding of these grants is not assured at the beginning of the year. Because the LDC does not know how much funding will be received during any year, how many loan applications will be approved, or what programs can be made available, the LDC cannot project the amount that it can use for its programs to project an accurate budget. The LDC strictly adheres to financial procedures and requirements of New York State General Municipal Law, Article 18A, and its own bylaws, as audited by our accountants at Mostert, Manzanero & Scott, LLP.

Overview of the Financial Statements

This discussion and analysis accompanies the LDC's financial statements, notes to the financial statements and the reports on compliance and internal control to help the reader better understand the financials.

Financial Statements

The LDC's financial statements provide readers with a comprehensive reporting of the LDC's 2014 transactions and balances. The difference between the assets and liabilities are reported as the net position. Increases or decreases in the net position are an indicator of strengthened or weakened financial position.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The LDC's net position decreased by \$230,081 in 2014. Operating revenues decreased to \$164,542, operating expenses decrease to \$402,871 for the year. Non-operating revenues amounted to \$8,248 for the year, compared to a \$412,969 in the in the prior year. The difference between years is due mainly to the donation of a building in 2013.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2014

The LDC's prime objective is administration of certain loan programs, economic development, technical assistance and training, operation of the Business Park of the City of Kingston, and infrastructure improvement aimed at fostering new job creation which are business-type activities. Since the LDC conducts only business-type activities, this annual report consists of only the statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows, which provide information about the activities of the LDC.

The statements report the LDC's net position and changes in net position. The LDC's net position changed from a year ago, from \$7,733,055 to \$7,502,974. The following is a 2014-2013 comparative summary of the LDC's financial statements showing the change in net position:

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION'S NET POSITION

	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,138,952	\$ 2,237,359
Non-current assets	<u>6,756,579</u>	<u>7,030,232</u>
Total assets	<u>8,895,531</u>	<u>9,267,591</u>
Long-term debt	1,387,290	1,527,290
Other current liabilities	<u>5,267</u>	<u>7,246</u>
Total liabilities	<u>1,392,557</u>	<u>1,534,536</u>
Net position:		
Invested in capital assets, net	5,041,883	5,140,433
Unrestricted	<u>2,461,091</u>	<u>2,592,622</u>
Total net position	<u>\$ 7,502,974</u>	<u>\$ 7,733,055</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2014

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION'S CHANGES IN NET POSITION

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Lending activities	\$ 68,747	\$ 89,160
Business Park	72,000	151,000
Miscellaneous	2,288	1,370
CDBG Grant	21,507	-
Total operating revenues	<u>164,542</u>	<u>241,530</u>
Non-operating revenues:		
Interest and investments	8,248	7,769
Project donations	-	405,200
Total non-operating revenues	<u>8,248</u>	<u>412,969</u>
Total revenues	<u>172,790</u>	<u>654,499</u>
Operating expenses:		
Lending activities	190,904	356,803
Business Park	211,967	137,558
Total operating expenses	<u>402,871</u>	<u>494,361</u>
Non-operating expenses:		
Grants	-	61,832
Total expenses	<u>402,871</u>	<u>556,193</u>
Increase (decrease) in net position	<u>\$ (230,081)</u>	<u>\$ 98,306</u>

The LDC's revenues decreased \$481,709 from the prior year. The major reason for this decrease in revenue was due the donation of a building and the eviction of a major rental client. The LDC's expenses decreased \$153,322 in 2014. The major factor in this decrease was a large write off of bad debt in the prior year.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2014

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION'S CAPITAL ASSETS

	<u>2014</u>	<u>2013</u>
Land, temporarily held for resale, and construction	\$ 3,247,917	\$ 3,247,918
Other capital assets, net of depreciation	<u>1,951,256</u>	<u>2,080,043</u>
Total capital assets	<u>\$ 5,199,173</u>	<u>\$ 5,327,961</u>

In July 2008, The LDC completed construction of a 10,000 square foot building for a total cost of \$1,854,782. The LDC received a grant in the amount of \$1,000,000 from the NYS Dormitory to help with the construction costs. This building was recently vacated but is currently being considered for purchase by a manufacturing company

In 2013, the LDC took possession of the former Bank of America (BOA) building on Broadway St., Kingston, NY. This parcel was appraised at \$400,000 and was donated by the Bank of America. Management intends to sell the building.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION'S OUTSTANDING DEBT

	<u>2014</u>	<u>2013</u>
DOT (business park)	\$ 157,290	\$ 157,290
HUD Loans	<u>1,230,000</u>	<u>1,370,000</u>
Total outstanding debt	<u>\$ 1,387,290</u>	<u>\$ 1,527,290</u>

Economic Factors

The management of the LDC is not aware of any changes in economic factors or conditions since December 31, 2014 that will have any significant effect on the LDC into the future.

Requests for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Amanda L. Bruck-Little, Executive Director, City of Kingston Local Development Corporation, 420 Broadway, Kingston, New York 12401.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF NET POSITION

December 31, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,563,625
Restricted cash	281,538
Grants receivable	19,661
Other receivables	47,667
Current portion of loans receivable	215,687
Prepaid expenses	10,774
Total current assets	<u>2,138,952</u>

Non-Current Assets:

Long-term portion of loans receivable, net of allowance	1,557,406
Land, property and construction	3,247,917
Other capital assets	1,951,256
Total non-current assets	<u>6,756,579</u>

Total assets	<u>8,895,531</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	2,637
Accrued liabilities	2,630
Current portion of debt	155,733
Total current liabilities	<u>161,000</u>

Long-term liabilities:

Long-term debt	<u>1,231,557</u>
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Total liabilities	<u>1,392,557</u>
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Net position:

Invested in capital assets, net related debt	5,041,883
Unrestricted	<u>2,461,091</u>

Total net position	<u>\$ 7,502,974</u>
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See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Year ended December 31, 2014

Operating revenues:	
Lending activities	\$ 68,747
Rental activities	72,000
Grants received	21,507
Miscellaneous	2,288
Total operating revenues	<u>164,542</u>
Operating expenses:	
Bad debt	66,958
Professional fees	45,115
Depreciation	128,783
Façade payments	16,747
Forgiveness of debt	750
Insurance	12,222
Interest	11,411
Other	1,861
Repairs and maintenance	-
Personal services and benefits	33,077
Property taxes	71,190
Utilities	14,757
Total operating expenses	<u>402,871</u>
Operating loss	(238,329)
Non-operating revenues (expenses):	
Interest	8,248
Total non-operating revenues (expenses)	<u>8,248</u>
Change in net position	(230,081)
Net position - Beginning of year	<u>7,733,055</u>
NET POSITION - END OF YEAR	<u>\$ 7,502,974</u>

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2014

Cash flows from operating activities:	
Cash received from lending activities	\$ 266,015
Cash received from rental activities	72,000
Grants received	21,507
Miscellaneous revenues	2,288
Loans granted	(50,000)
Payment of operating expenses	(213,956)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>97,854</u>
Cash flows from non-capital activities:	
Principal paid on non-capital debt	(140,000)
Interest paid on non-capital debt	(13,320)
NET CASH USED IN NON-CAPITAL ACTIVITIES	<u>(153,320)</u>
Cash flows from capital and related activities:	
Acquisition of capital assets	-
NET CASH USED IN CAPITAL AND RELATED ACTIVITIES	<u>-</u>
Cash flows from investing activities:	
Interest on cash investments	8,248
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,248</u>
NET INCREASE (DECREASE) IN CASH	(47,218)
Cash - Beginning of year	<u>1,892,381</u>
CASH - END OF YEAR	<u><u>\$ 1,845,163</u></u>
Cash Summary:	
Cash	\$ 1,563,625
Restricted cash	<u>281,538</u>
Total	<u><u>\$ 1,845,163</u></u>

See accompanying notes.

Reconciliation of operating income to net cash

provided by operating activities:

Operating income (loss) \$ (238,329)

Adjustments to reconcile operating income to net cash
provided by operating activities:

Depreciation 128,783

Bad debt expense 66,958

Forgiveness of debt 750

Interest paid on noncapital debt 13,320

Changes in assets and liabilities:

Notes receivable, net 132,039

Accounts payable and accrued liabilities (1,979)

Prepaid expenses (3,688)

NET CASH PROVIDED BY OPERATING ACTIVITIES

\$ 97,854

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2014

NOTE 1 ORGANIZATION

The City of Kingston Local Development Corporation (the "LDC"), in Kingston, New York, was incorporated in 1994, under Not-For-Profit Corporation Law and is exempt from Federal income tax as an Organization described in Section 501(c)(3) of the Internal Revenue Code.

The LDC 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 promote 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 City of Kingston.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting and Financial Reporting

For purposes of applying accounting and financial reporting standards, the LDC is considered a governmental entity and a component unit of the City of Kingston since all board members are appointed by the Mayor.

As such, the LDC 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 U.S. generally accepted accounting principles (U.S. 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 Management's Discussion and Analysis (MD&A) section is management's analysis of the LDC's overall financial position and results of operations.
- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing lending services and also operation of a business park.

Allowance for Uncollectible Amounts

Notes receivable are recorded at full value. Uncollectible accounts are charged to expenditures using the reserve method. The allowance for uncollectible accounts was \$163,140 as of December 31, 2014.

Capital Assets

Capital assets are stated at cost including interest capitalized during the construction period on the Business Park. The improvements are being depreciated using the straight-line method over their estimated useful lives of 15 to 20 years. See Notes 7 and 8 for additional information on the Park.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and liabilities in the statement of net position. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are external restrictions by creditors, grantors, laws or regulations of other governments.

Federal Income Taxes

The LDC is a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and similar New York State laws and, as such, is not subject to Federal or State income taxes. In addition, the LDC qualifies for the charitable contribution deduction under Section 170(b)(a)(2) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The LDC reviews the components of revenues, gains, and other support and analyzes whether the position that the organization takes with regard to a particular item of income would meet the definition of an uncertain tax position under U.S. GAAP.

The LDC files information tax returns in the U.S. federal jurisdiction and New York State jurisdiction. The tax years that remain subject to examination by authorities are generally the previous three years.

Events Occurring After Reporting Date

Subsequent events were evaluated through March 13, 2015, which is the date the financial statements were available to be issued.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2014

NOTE 3 CASH AND CASH EQUIVALENTS

The LDC maintains its cash balances at several financial institutions located in Kingston. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 each for interest and non-interest bearing accounts. Deposits at year-end were covered by the FDIC or by collateral held by a custodial bank in the LDC's name. The deposits consisted of the following:

	<u>Bank balance</u>	<u>Insured by FDIC</u>	<u>Collateralized Custodial Bank</u>	<u>No collateral</u>
Catskill Hudson Bank	\$ 1,860,613	\$ 250,000	\$ 1,610,613	-
Senate Securities	25	25	-	-

NOTE 4 RESTRICTED CASH

Payments received on 108 loans are restricted to paying the LDC's debt service on its outstanding 108 loans from HUD.

NOTE 5 FEDERAL AND STATE AID CONTINGENCIES

The LDC has received Federal and State Aid and Grants that are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. The LDC believes disallowances, if any, will be immaterial.

NOTE 6 LOANS RECEIVABLE

As of December 31, 2007, the Kingston Business Park (KBP) had borrowed \$412,000 from the Economic Development Initiative (EDI). There were no repayments made to the EDI loan in 2014. These loans are for construction costs and are non-interest bearing. They will be repaid after other outside loans have been repaid.

In addition, the KBP borrowed \$100,000 from the Section 108 Loan Guarantee Program at an interest rate of 6.8117% to be repaid over 20 years in varying monthly installments with the final balance due August 2015. The remaining balance was paid off in 2014.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2014

NOTE 6 LOANS RECEIVABLE (Cont'd.)Loans Receivable-Revolving Loan Funds (RLF)

The LDC grants loans to business through the Community Development Loan Fund (CDRLF), KRLF, the Section 108 Loan Guarantee Program, the EDI, the KNEC and the Micro Enterprise Program (Micro). These loan funds allow the LDC to offer low interest loans to area businesses creating jobs in the City of Kingston. The proceeds of the loans are used to offer new loans once the loans have been paid in full. The activity for the year ended December 31, 2014 is as follows:

<u>Borrower</u>	<u>01/01/2014 Balance</u>	<u>Loans Granted</u>	<u>Loan Payments</u>	<u>Loans Write-offs</u>	<u>12/31/2014 Balance</u>
KRLF	\$ 260,746	\$ 50,000	\$ 35,482	\$ -	\$ 275,264
CDRLF	393,032	-	26,974	-	366,058
Section 108	1,325,839	-	122,109	-	1,203,730
EDI	58,125	-	7,500	-	50,625
KNEC	56,103	-	20,330	-	35,773
Micro	-	-	-	-	-
Noah Hotel	-	-	-	-	-
Façade Improvement	5,533	-	-	750	4,783
	<u>\$ 2,099,378</u>	<u>\$ 50,000</u>	<u>\$ 212,395</u>	<u>\$ 750</u>	<u>1,936,233</u>
Allowance for est. losses	(163,140)				(163,140)
Interfund loan to KBP	<u>(30,236)</u>				<u>-</u>
Net	<u>\$ 1,906,002</u>				<u>\$1,773,093</u>
Current portion	\$ 203,731				215,687
Non-current portion, net	<u>1,702,271</u>				<u>1,557,406</u>
Net	<u>\$ 1,906,002</u>				<u>\$1,765,593</u>

NOTE 7 KINGSTON BUSINESS PARK

The LDC owns and operates the KBP. Phase 1 of the Park was substantially completed during 1997. The first tenant, Huck International, moved into its facility in May 1997. The lease is for 20 years with additional options to extend for a total of 99 years.

The second tenant, Armor Dynamics, Inc. was added to the site in 2007. The LDC negotiated a lease agreement with Armor Dynamics for a period of 20 years with an option to purchase prior to the end of the lease. During 2013 Armor Dynamics began to fall behind in its lease payments and was evicted in 2014, this resulted in a write off of \$65,833 receivable relating to lease payments due from 2013.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2014

NOTE 8 CAPITAL ASSETS

Activity related to capital assets, as of December 31, 2014 consisted of the following:

	01/01/14 Balance	Additions	Deletions	12/31/14 Balance
<u>Kingston Business Park (KBP)</u>				
Land	\$2,784,953	\$ -	\$ -	\$2,784,953
Construction in progress	10,372	-	-	10,372
Depreciated Assets:				
Improvements	1,595,932	-	-	1,595,932
Buildings	1,854,782	-	-	1,854,782
Total	6,246,039	-	-	6,246,039
Less: Accum. depreciation:				
Improvements	(1,137,519)	(80,047)	-	(1,217,566)
Buildings	(235,715)	(46,369)	-	(282,084)
Total	(1,373,234)	(126,416)	-	(1,499,650)
Total KBP	4,872,805	(126,416)	-	4,746,389
<u>Other</u>				
Equipment	32,599	-	-	32,599
Less: Accum. depreciation	(30,040)	(2,367)	-	(32,407)
Temporary idle property	452,592	-	-	452,592
Net other	455,151	(2,367)	-	452,784
Total capital assets	\$5,327,956	\$ (128,783)	\$ -	\$5,199,173

The LDC received a donation from Bank of America of their former building at 635 Broadway, in 2013. The value of the building was recorded at \$400,000 based on an appraisal. Plans for the building have not been finalized; therefore it is idle property at the current time.

NOTE 9 LOANS PAYABLE

The LDC previously entered into an agreement with the U.S. Department of Housing and Urban Development (HUD) for loan guarantee assistance total \$3,420,000 under Section 108. After loans to local businesses were approved by the LDC, funds are drawn down against this authorization. Permanent financing was received in October 1997, April 1999, and August 2001 when trust certificates guaranteed by HUD were sold in public offering. All notes were subsequently refinanced to take advantage of lower interest rates.

Principal on the notes is due in carrying amounts through August 2017. The interest rates vary between .29% and 5% depending on when the notes were refinanced: \$140,000 was paid on these loans during 2014. A total of \$300,000 remains outstanding as of December 31, 2014. These loans are secured by Section 108 income and CDBG funds.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2014

NOTE 9 LOANS PAYABLE (Cont'd.)

During 2005, the LDC drew down an additional \$5,359,000 under the Section 108 loan guarantee program. The first principal payment on this loan was paid in August 2008 with varying amounts due through 2025. Interest is payable based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points and was .45% at December 31, 2014. A total of \$930,000 is outstanding as of December 31, 2014. The LDC is working with borrowers and HUD to obtain permanent financing on the remaining balance.

The LDC has drawn down \$157,290 from DOT as part of the financing Phase 1A of the Park. The loan is interest-free and will be repaid in varying amounts over 5 years, beginning in 2014. Repayment has been held off for several years but is currently expected to start in 2015.

These loans can be summarized as follows:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 155,733	\$ 8,970
2016	121,457	5,241
2017	101,457	4,204
2018	131,457	3,126
2019	147,186	2,367
2020-2024	500,000	11,165
2025-2030	<u>230,000</u>	<u>1,340</u>
Loans payable, long-term	<u>\$ 1,387,290</u>	<u>\$ 36,413</u>

NOTE 10 TRANSACTIONS WITH THE CITY OF KINGSTON

The LDC's staff members are actually employees of the City of Kingston's Community Development Office (CD). All of the LDC's activities are conducted out of the CD office. 50% of the staff's salary is allocated by the City to the LDC based on estimated time spent on the LDC's activities.

In 2007, the Kingston Business Park's road and utility systems were transferred to the City of Kingston. The costs of maintaining this should have transferred to the City at this time, but the LDC continued to pay these costs. The LDC management is requesting payment of these prior costs which, at December 31, 2014, were \$136,287. The LDC is still paying these costs. Additionally the City owes the LDC for repairs of the City Hall sidewalk totaling 50,975. The City has not paid any of these costs and management conservatively believes that repayment may come down to a negotiation with the City. Because of this, these amounts are not reflected in the financial statements of the LDC for 2014.

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**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
City of Kingston Local Development Corporation
Kingston, New York

We have audited in accordance with the 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 City of Kingston Local Development Corporation (the "LDC"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LDC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the LDC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LDC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

MEMBERS: American Institute of Certified Public Accountants,
New York State Society of Certified Public Accountants, National Conference of CPA Practitioners

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LDC'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*.

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 LDC'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 LDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the City of Kingston Local Development Corporation audit committee, management, the State of New York, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oneonta, New York
March 13, 2015

Mostert, Manzanero & Scott, LLP