LLOYD COMMUNITY DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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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 (LCDC), a nonprofit organization which is a component unit of the Town of Lloyd, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the LCDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on 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

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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, 2015, 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 30, 2016 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.

Patterson, Koskey, Howe & Bucci, CPAs, PC

Kingston, NY
March 30, 2016

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF NET POSITION
December 31, 2015

ASSETS

ASSETS	
Cash	$ 146,874
Notes receivable	449,304
TOTAL ASSETS	$ 596,178

LIABILITIES AND NET POSITION

LIABILITIES	
Accounts payable	$ 350
NET POSITION	
Unrestricted	$ 595,828
TOTAL LIABILITIES AND NET POSITION	$ 596,178

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, 2015

OPERATING REVENUES	
Revenue from lending activities	$ 11,797
OPERATING EXPENSES	
Professional fees	(3,850)
OPERATING INCOME	7,947
NONOPERATING REVENUES	
Interest income	70
Change in net position	8,017
Net position - beginning of year	587,811
Net position - end of year	$ 595,828

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from lending activities	$ 108,737
Payments to vendors	(3,500)
Loans granted	(40,185)
Net cash provided (used) by operating activities	65,052
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on cash investments held by Town	70
NET INCREASE (DECREASE) IN CASH	65,122
CASH - BEGINNING OF YEAR	81,752
CASH - END OF YEAR	$ 146,874
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	7,947
Changes in assets and liabilitites:	
Notes receivable	56,755
Accounts payable	350
Net cash provided (used) by operating activities	$ 65,052

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

TOWN OF LLOYD COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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. 62, *Codification of Accounting and Financial Reporting Guidance.*

- 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, 2015 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.

NOTE 3 - CASH

Lloyd Community Development Corporation's (LCDC) cash accounts are maintained at a financial institution located in Ulster County. Accounts 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 entirely 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 12/31/14	Loans Granted	Loan Payments	Balance 12/31/15
Summary of activity	$ 506,059	40,185	96,940	$ 449,304

The principal portion of the loans is repayable as follows:

2016	$ 89,801
2017	83,344
2018	79,237
2019	68,329
2020	53,697
2021-2023	74,896
	$ 449,304

NOTE 5 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 30, 2016, 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), which comprise the statement of financial position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2016.

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. 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 2015-1 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.

Pattison, Koshey, Howe & Bucci, CPAs, PC.

Kingston, NY
March 30, 2016

LLOYD COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015

SECTION I – SUMMARY OF AUDITORS' RESULTS

	Response
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

2015-1: 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 improved its compliance with the PAAA; however, there are still several requirements of the Act that have not been implemented.

Effect –LCDC is still not totally 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 had 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 continue to implement the requirements of the Act including the following: Public access to meeting information and other required organization documents and establishment of certain required policies and procedures.

Management's Response – The board of the LCDC took additional steps during 2015 to become more compliant with the Act. All of the board members of the LCDC but one have taken the state-approved training. Some LCDC information is posted on the Town's website; however, additional information will be posted to enhance the LCDC's transparency. Finally, we will review the remaining policies and procedures and document those that are appropriate for the LCDC and note those that are not applicable due to our limited activity. The intention of the board is to be in compliance with the Act by December 31, 2016.

LLOYD COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015

2015-2: 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 2015 would be approximately $1,200.

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 application for exemption is almost complete and will be submitted as soon as possible. Due to the board's 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

Both of the above findings were noted during the audit of the 2015 financial statements. Improvements were made in compliance with the requirements of the PAAA; however, there are still some significant steps to be taken. In addition, there has not been any change in the finding regarding tax exemption.