

CITY OF KINGSTON
LOCAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

Year ended December 31, 2017

CITY OF KINGSTON
LOCAL DEVELOPMENT CORPORATION

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Certified Public Accountants

Deborah L. Mostert, CPA
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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, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 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 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, 2017, 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 – 5 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 29, 2018 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.

Oneonta, New York
March 29, 2018

Mistert, Manzanero & Scott, LLP

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2017

As financial management of the City of Kingston Local Development Corporation (the "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, 2017. 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 herein 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 the 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 management's 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 2017 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 \$604,977 in 2017. This was due to a loss on the sale of part of the Kingston Business Park (KBP) property. Operating revenues decreased by \$563,239 and operating expenses decrease by \$73,314 for the year. Non-operating activities decreased by \$2,680. The LDC's prime objective is administration of certain loan programs, economic development, technical assistance and training, operation of the KBP 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 only of the statements of net position, revenues, expenses and changes in net position and cash flows, which provide information about the activities of the LDC.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2017

The following is a 2017 – 2016 comparative summary of the LDC's financial statements showing the change in net position:

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NET POSITION

	<u>2017</u>	<u>2016</u>
Current assets	\$ 3,456,534	\$ 2,453,730
Non-current assets	<u>3,924,782</u>	<u>5,615,952</u>
Total assets	<u>7,381,316</u>	<u>8,069,682</u>
Long-term debt	841,561	927,290
Other current liabilities	<u>10,167</u>	<u>7,828</u>
Total liabilities	<u>851,728</u>	<u>935,118</u>
Net position:		
Invested in capital assets, net	2,824,656	4,338,035
Unrestricted	<u>3,704,932</u>	<u>2,796,530</u>
Total net position	<u>\$ 6,529,588</u>	<u>\$ 7,134,565</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Lending activities	\$ 80,019	\$ 67,064
Kingston Business Park	90,952	90,560
Bad debt recovery	130,189	-
Loss on sale of real property	<u>(706,775)</u>	<u>-</u>
Total operating revenues	<u>(405,615)</u>	<u>157,624</u>
Non-operating revenues:		
Interest and investments	<u>5,055</u>	<u>7,735</u>
Total non-operating revenues	<u>5,055</u>	<u>7,735</u>
Total revenues	<u>(400,560)</u>	<u>165,359</u>
Operating expenses:		
Lending activities	104,415	132,364
Kingston Business Park	<u>100,002</u>	<u>145,367</u>
Total operating expenses	<u>204,417</u>	<u>277,731</u>
Decrease in net position	<u>\$ (604,977)</u>	<u>\$ (112,372)</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2017

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
CAPITAL ASSETS

	<u>2017</u>	<u>2016</u>
Capital assets:		
Land, property and construction, net of depreciation	\$ 2,966,217	\$ 4,495,325
Total capital assets	<u>\$ 2,966,217</u>	<u>\$ 4,495,325</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. The LDC sold this building in 2017 for \$750,000, which the LDC believes will increase employment and business activity in Kingston. The LDC continues to actively market the remainder of the park.

The LDC has a tenant occupying another building for more than 20 years.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
OUTSTANDING DEBT

	<u>2017</u>	<u>2015</u>
Outstanding debt:		
DOT (Kingston Business Park)	\$ 141,561	\$ 157,290
HUD Loans	<u>700,000</u>	<u>770,000</u>
Total outstanding debt	<u>\$ 841,561</u>	<u>\$ 927,290</u>

Economic Factors

The management of the LDC is not aware of any changes in economic factors or conditions since December 31, 2017 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, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,004,821
Restricted cash	289,922
Accounts receivable	1,460
Grants receivable	19,661
Current portion of loans receivable	140,198
Prepaid expenses	472
Total current assets	<u>3,456,534</u>

Non-current assets:

Long-term portion of loans receivable, net of allowance	958,565
Land, property and construction	<u>2,966,217</u>
Total non-current assets	<u>3,924,782</u>

Total assets	<u>7,381,316</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	4,414
Accrued liabilities	5,753
Current portion of debt	<u>31,457</u>
Total current liabilities	<u>41,624</u>

Long-term liabilities:

Long-term debt	<u>810,104</u>
Total liabilities	<u>851,728</u>

Net position:

Invested in capital assets, net related debt	2,824,656
Unrestricted	<u>3,704,932</u>
Total net position	<u>\$ 6,529,588</u>

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Year ended December 31, 2017

Operating revenues:	
Lending activities	\$ 80,019
Rental activities	90,952
Bad debt recovery	130,189
Loss on sale of real property	(706,775)
Total operating revenues	<u>(405,615)</u>
Operating expenses:	
Professional fees	29,026
Depreciation	72,334
Forgiveness of debt	750
Bad debt	1,345
Insurance	8,188
Interest	17,633
Office expenses	1,438
Other	114
Repairs and maintenance	2,840
Personal services and benefits	37,333
Façade payments	17,724
Utilities	15,692
Total operating expenses	<u>204,417</u>
Operating loss	<u>(610,032)</u>
Non-operating revenues:	
Interest	<u>5,055</u>
Total non-operating revenues	<u>5,055</u>
Change in net position	(604,977)
Net position - Beginning of year	<u>7,134,565</u>
NET POSITION - END OF YEAR	<u><u>\$ 6,529,588</u></u>

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year ended December 31, 2017

Cash flows from operating activities:	
Cash received from lending activities	\$ 442,555
Cash received from rental activities	90,952
Cash received from sale of property	750,000
Payment of operating expenses	(101,584)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,181,923</u>
Cash flows from capital and financing activities:	
Principal paid on debt	(85,729)
Interest paid on debt	(17,633)
NET CASH USED IN CAPITAL AND FINANCING ACTIVITIES	<u>(103,362)</u>
Cash flows from investing activities:	
Interest on cash investments	5,055
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>5,055</u>
NET INCREASE IN CASH	1,083,616
Cash - Beginning of year	<u>2,211,127</u>
CASH - END OF YEAR	<u>\$ 3,294,743</u>
Cash summary:	
Cash	\$ 3,004,821
Restricted cash	289,922
Total	<u>\$ 3,294,743</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (610,032)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	72,334
Forgiveness of debt	750
Bad debt	1,345
Interest paid on debt	17,633
Proceeds from sale of property	750,000
Loss on sale of real property	706,775
Changes in assets and liabilities:	
Accounts receivable	(1,460)
Notes receivable, net	233,807
Accounts payable and accrued liabilities	2,339
Prepaid expenses	8,432
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,181,923</u>

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2017

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 or retention of, business and industry within the City of Kingston.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

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 accounting principles generally accepted in the United States of America (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 \$32,952 as of December 31, 2017.

Capital Assets

Capital assets are stated at cost including interest capitalized during the construction period on the Kingston Business Park (KBP). The improvements are being depreciated using the straight-line method over their estimated useful lives of 15 to 20 years. See Notes 6 and 7 for additional information on the KBP.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2017

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 borrowings 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.

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 LDC 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 and New York State jurisdictions. 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 29, 2018, which is the date the financial statements were available to be issued.

NOTE 3 CASH AND CASH EQUIVALENTS

The LDC maintains its cash balances at several financial institutions located in Kingston, New York. 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>Uncovered</u>
Catskill Hudson Bank	\$ 3,044,437	\$ 250,000	\$ 3,105,072	\$ -

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2017

NOTE 4 RESTRICTED CASH

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

NOTE 5 LOANS RECEIVABLEKingston Business Park (KBP)

Economic Development Initiative (EDI) loaned the Kingston Business Park (KBP) \$412,000. This loan was paid off as a result of the sale of 44 Corporate Drive in 2017. Since this is an internal loan, the asset and liability had been netted and were not reflected in the financial statements.

Revolving Loan Funds (RLF)

The LDC grants loans to businesses through the Community Development Revolving Loan Fund (CDRLF), Kingston Revolving Loan Fund (KRLF), Section 108 Loan Guarantee Program (Section 108), Kingston Newburgh Enterprise Corp. (KNEC), EDI 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 these loans are used to offer new loans once the previous loans have been paid in full. The activity for the year ended December 31, 2017 is as follows:

<u>Borrower</u>	<u>01/01/2017 Balance</u>	<u>Loans Granted</u>	<u>Loan Payments</u>	<u>Loans Write-Offs</u>	<u>12/31/2017 Balance</u>
CDRLF	\$ 317,248	\$ -	\$ 86,651	\$ -	\$ 230,597
KRLF	158,963	6,800	56,993	493	108,277
Section 108	967,720	-	211,522	-	756,198
KNEC	7,466	-	6,614	852	-
EDI	35,625	-	7,500	-	28,125
Micro	7,500	-	1,515	-	5,985
Facade improvement	<u>3,283</u>	<u>-</u>	<u>-</u>	<u>750</u>	<u>2,533</u>
	1,497,805	<u>\$ 6,800</u>	<u>\$ 370,795</u>	<u>\$ 2,095</u>	1,131,715
Allowance for estimated losses	<u>(163,140)</u>				<u>(32,952)</u>
Net	<u>\$ 1,334,665</u>				<u>\$ 1,098,763</u>
Current portion	\$ 214,038				\$ 140,198
Non-current portion, net	<u>1,120,627</u>				<u>958,565</u>
Net	<u>\$ 1,334,665</u>				<u>\$ 1,098,763</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2017

NOTE 6 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 was for 20 years and has been extended for 10 years.

NOTE 7 CAPITAL ASSETS

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

	01/01/2017 Balance	Additions	Deletions	12/31/2017 Balance
<u>Kingston Business Park (KBP)</u>				
Land	\$ 2,784,953	\$ -	\$ -	\$ 2,784,953
Depreciated assets:				
Improvements	1,606,304	-	(12,677)	1,593,627
Buildings	<u>1,854,782</u>	<u>-</u>	<u>(1,854,782)</u>	<u>-</u>
Total	<u>6,246,039</u>	<u>-</u>	<u>(1,867,459)</u>	<u>4,378,580</u>
Less: Accumulated depreciation:				
Improvements	(1,375,892)	(49,148)	12,677	(1,412,363)
Buildings	<u>(374,822)</u>	<u>(23,185)</u>	<u>398,007</u>	<u>-</u>
Total	<u>(1,750,714)</u>	<u>(72,333)</u>	<u>410,684</u>	<u>(1,412,363)</u>
Total KBP	<u>4,495,325</u>	<u>(72,333)</u>	<u>(1,456,775)</u>	<u>2,966,217</u>
<u>Other</u>				
Equipment	32,599	-	(32,599)	-
Less: Accumulated depreciation	<u>(32,599)</u>	<u>-</u>	<u>32,599</u>	<u>-</u>
Net other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets	<u>\$ 4,495,325</u>	<u>\$ (72,333)</u>	<u>\$ (1,456,775)</u>	<u>\$ 2,966,217</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2017

NOTE 8 LOANS PAYABLE

During 2005, the LDC drew down \$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. A total of \$700,000 is outstanding as of December 31, 2017. 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 1 of the KBP. The loan is interest-free and was expected to be paid in varying amounts over 5 years. Repayment had been deferred several years but started in 2017. At December 31, 2017 the outstanding balance was \$141,561.

These loans can be summarized as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 31,458	\$ 8,630
2019	131,458	8,630
2020	131,458	7,690
2021	147,187	6,700
2022	100,000	5,525
2023 – 2025	<u>300,000</u>	<u>8,675</u>
Loans payable, long-term	<u>\$ 841,561</u>	<u>\$ 45,850</u>

NOTE 9 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 of Kingston to the LDC based on estimated time spent on the LDC's activities.

NOTE 10 FEDERAL AND STATE AID

The LDC has received federal and state aid and grants that are subject to audits 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.

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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"), which comprise the statement of net position as of and for the year ended December 31, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 29, 2018.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control that we consider to be a significant deficiency and is described in the accompanying schedule of findings and responses, as item 2017 – 1.

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 29, 2018

Mostert, Manzanero & Scott, LLP

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2017

FINDINGS:

2017 – 1: Reconciliation of Balance Sheet Items

Condition: Adjusting journal entries had to be made to adjust and record accounts receivable, loans receivable, accounts payable, and prepaid items at year-end.

Criteria: On an accrual basis of accounting at year-end, outstanding receivables, payables and prepaid items need to be analyzed and recorded to prevent misstatement of financial reports.

Effect: Lack of controls over balance sheet items can lead to inaccurate reporting of income, expenses, assets and liabilities in the financial statements.

Recommendation: In order to make the financial reports generated by the accounting system as meaningful as possible, we recommend that an individual periodically review the balance sheet accounts, along with other supporting records, and appropriately adjust the respecting accounts to actual amounts.

Management Response: Management agrees with the need to address this issue and will seek assistance in creating a process to do so.